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How can I raise capital for my business?

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Question:

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Answer:

The two general categories of financing available for businesses are debt and equity. Debt requires repayment of a loan. Equity involves raising capital by selling parts of the business to investors.

How much money your business needs, what the financing is needed for (start-up, expansion, new development), as well as how your business is organized, its size, and its stage in the business life cycle (start-up, growth phase, mature) are just a few of the things that may influence your efforts to raise capital.

If yours is a new business without a track record, you may have difficulty raising capital from lenders or investors. A first place to look for capital might be your own assets. You may be able to raise money for the business from your savings or borrow against a retirement plan, life insurance policy, credit card, or the equity in your home.

If your business is more established, you may be able to borrow from a number of sources. You can apply to banks or credit unions for loans. You can contact the Small Business Administration for information on the programs it administers to help businesses obtain financing. Your local chamber of commerce may be able to put you in touch with state and local agencies that provide financial assistance to new businesses located within your geographic area. You need to have a detailed business plan to provide to potential lenders or investors.

Your options to raise equity may include wealthy private investors known as angels, venture capital firms, private placement of equity, and investment clubs. Small business investment companies may act as lenders or investors. For some corporations, an initial public offering is used to generate large sums of cash through the sale of company stock. A potential drawback of equity financing is that investors may expect to exercise some control in the running of the business.

There are also internal business sources for raising business capital. Consider offering incentives to your customers for early cash payment (such as a discount) to accelerate your collections and free up operating cash. You may choose to lease company assets rather than buy them. Finally, your company may be able to negotiate special delayed-payment terms with suppliers or factor accounts receivable, which entails getting an advance on money owed to you.

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