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Funding Options Overview

Friends & Family

Friends and family can sometimes serve as a source of funding needed to grow a company. There are a number of factors that should be taken into account as that issue is approached. Many of those factors can be viewed in the 'friends & family outline' on the Singleton Law Firm website.

Bootstrapping

Bootstrapping is the method of growing the business through current company revenues. It is the 'old fashioned way' way of growing a business and in many respects a good one. It mitigates the downside loss because, if the business fails, you have not lost an investor's money and will not be left with a personal loan that has to be paid back. The drawbacks include possibly not having sufficient capital to bring a product or service to market in time to be successful.

Government funding resources

Grants are not widely available for just any type of business. However, companies based upon certain technologies are sometimes founded based on the ability to obtain government funding through the Small Business Innovation Research (SBIR) program. The SBIR program requires that there be a principal investigator, typically but not always a PhD, who will dedicate at least 50% of his or her professional time to the company. Mr. Singleton has worked with a number of SBIR funded companies as well as participating in the drafting of an SBIR application.

SBIR links
SBIR gateway *provided by zyn.com* www.zyn.com/sbir
Small Business Administration (SBA) SBIR site www.sba.gov/sbir
SBIRworld.com
Garton Consulting Services www.garcoserv.com
Roland Garton is a local consultant who provides SBIR assistance.

Joint Development Agreements

A joint development agreement is a mechanism for financing the joint development of a technology. Frequently a smaller technology company will possess certain intellectual property and certain abilities to innovate that are attractive to a larger more established company. The two companies will enter into a joint development agreement that may

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provide that each company retains its own intellectual property (IP) but that IP that is developed jointly will be shared in a certain fashion. The larger company will fund the smaller company in an amount from tens of thousands to several million dollars in return for establishing the relationship. A great deal of care should be taken by the smaller company as the joint development agreement is entered into.

Traditional Bank Loans

Traditional banks offer loans at competitive rates in situations where the banks minimize the risk so as to justify the lower rate of return. Frequently, but not always, the loans will involve a personal guarantee by persons in the business. Banks typically like to have some type of asset in which they are able to obtain security (such as real estate) in order to make the loan. It is always helpful to establish a relationship with a banker prior to needing the loan. If you communicate openly with the banker over time, you and the banker will hopefully develop a level of trust and understanding so that there is a greater likelihood that you will be able to obtain financing. In any case, if you are seeking financing, call ahead to schedule an appointment when you need it with the loan officer and be organized and professional in your approach. A banker will likely want to see a business plan and current financial information. If you are able to have those at an initial scheduled conference, it may increase the chances for you successfully obtaining a bank loan.

Champaign County Community Development Corporation (CDC) www.ccrpc.org/econdev/cdc.htm is a program within the Champaign County Regional Planning Commission (RPC) www.ccrpc.org. It is a multi-bank group set up to provide debt and equity financing to qualifying small businesses.

Angel Investors

Angel Investors are individuals or groups of individuals who are interested in providing funds to start or grow a company. They may be individuals who have accumulated a certain amount of wealth through the practice of a profession or the sale of a business which they previously started and grew and made successful. There are three types of Angel Investors.

“Smart money”
is money that is invested by someone who has experience in your company’s industry. The investor adds value to the company through management expertise, technical expertise, knowledge of channels of distribution, contacts in the industry, or in other ways. The investor may or may not want to have the ability to have direct input into the company through a board seat or other position.

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"Passive money"
is money that comes from individuals who do not have the industry contacts or industry experience described above for 'smart money'. Typically these investors will not seek direct input into the company.

"Painful money"
is money that comes from investors who want to have significant input into the company but do not have any business expertise or contacts in the industry to add value to the company.

Angel investors can be found through your knowledge of the industry, personal contacts, or referrals from your attorney or others.

There are many legal requirements that structure an angel investment properly so as to avoid personal liability on the part of the company owners.

Venture Capital

Venture Capital funding may be available for companies that have the potential for growing very large. Venture capitalists will seek a very high return on their investment which will reward them for the greater risks they are taking. The level of investment will typically be fairly significant. The venture capital firm will often want significant input into the company, including making sure that there is professional management in place. Venture capital investment can be a good way to grow a company quickly.

Venture capital firms with a presence in the Champaign Urbana area include:
IllinoisVENTURES www.illinoisventures.com
Open Prairie Ventures www.openprairie.com
InDecatur Ventures, LLC (*in the Decatur area*) www.indecatureventures.com

Other sources of funding

Other sources of funding include factoring (selling your accounts receivable), credit cards (most will involve personal liability even if they purport to be a company credit card), and having your customers pay in advance, thereby allowing you to finance the company.