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Funding Sources for Your New Business Venture – Understanding the Landscape



It is exciting to start a new business venture. It is every entrepreneur's dream to go out on their own and earn an income that can be used to finance their personal expenses and investments. But where does one begin? It can be challenging to navigate the financial capital landscape, especially if it is one's first venture. Fortunately, we live in an entrepreneurial society where sources of funding are available around every corner. The following are some useful tips for how to structure the capital acquisition phase of your new business venture.

Sources of Financing

Government Grants and Financing

Governments have departments specifically for the use of small business investors such as the Canada Small Business Financing Program. Check to see if your government has available sources such as grants, contributions, subsidies, and loan guarantees. Generally speaking, this should be your first avenue for investment since governments want to help out industry and finance new venture capital.

Private Sector Financing

Private sector financing is usually the next place a small venture owner should look. Since there are many skilled investors who are experts in this field, there are diverse options when seeking out private sector financing including venture capitalists. An understanding of debt and equity is important but it is up to the venture capitalist to weigh the risks and rewards of investing in your business. The number one criteria that these types of investors use is whether or not they will get paid back at some point in the future. Be prepared with a good sales pitch.



Financing from Non-Government Organizations

There are many not-for-profit organizations that can support you in getting financing for your new venture such as ACCESS Community Capital Fund, Black Creek Micro-Credit Program, and Futurpreneur Canada Start-up Program. When choosing a program, make sure that it operates in your particular region, as some of these programs are geographically specific. Community-based organizations can offer guidance and support in this critical stage of capital growth.

Crowdfunding

Crowdfunding is collecting funds from a variety of business contacts not specifically associated with the financial sector. Equity crowdfunding is a new area and is being considered for legislation by provincial and territorial regulators. It is a good idea to stay informed regarding these developments. Because this is a burgeoning trend, governments are currently looking for ways to regulate the process to make it more accessible and accountable. This type of solicitation of investment can be a powerful tool, and is something that is usually overlooked by new business venture owners. The Internet has opened up this type of investment avenue, and there are many sites out there that encourage new venture owners to share their business plan and idea in order to generate investor interest.

Equity Financing

Equity financing can potentially be a huge part of your investment generation. The concept of equity financing is similar to private sector financing only it does not include the idea of “debt”. It is arguably the most common source of funds, and is widely discussed within the financial community. Equity financing is essentially giving up a portion of your business in return for investment capital. It is not a loan, so you are not required to pay any money back by a given time (unless there are specific provisions stating as such). In return for their investment, venture capitalists are entitled to a share of your business’ profits for as long as they hold shares in your company. A controlling interest – meaning 51% of the business’ shares – means that the investor calls the shots.



Typically, venture owners don't like to part with this much of their company so try to negotiate a lower amount.

The key to gaining equity investors is preparation. Prepare a strong business plan that clearly lays out how your business is going to make money and along what timeline. If the numbers and marketing are there, investors may flock to you, and in some cases, a bidding war could ensue. This will put more power into the hands of the venture owner and add negotiating leverage.

Personal Assets

It is important to consider what personal assets you can bring to the table as a new venture owner. There are many reasons why personal assets are important. Primarily, it provides a source of unaccountable income, meaning it is your own money and you don't have to account for it to anyone. Also, having a stake in your own business is an attractive marketing tool to potential investors. Capitalists and other investment sources like to see that as an owner you have backed your business fully. Don't risk all your assets, but make sure that a portion of your net worth is attached to your business to ensure the maximum chance of success.

Other Things To Consider

Business Planning

There is an art form to a skilled business plan. Talk with a coach or invent one on your own in order to structure the financial and marketing details of your venture. Having a solid document to base your business on shows preparation and credibility as well as an enlightened understanding of the industrial landscape, among other pertinent factors. Having a strong business plan will also showcase the financial potential to investors and lend credibility to your venture and investment approach. If you are unable to talk to a business plan coach, know that there are many avenues available to you over the Internet. Marketing and business plans templates can be downloaded from a variety of sources. Also, consider reaching out to business schools that may be willing to offer the aid of students looking to practice their business plan skills.



Start and Grow a Social Enterprise

Having a social component to your enterprise, in today's market, is a valuable option to consider. Your business will be more attractive to investors if it is a social or sustainable enterprise. In today's economy, it is important not to ignore this idea. With almost every company having to consider the element of sustainability, it can be highly useful to incorporate at least some element of social awareness into your new venture. The investment you make now in marketing your venture as sustainable will be relatively less costly than not doing so, and will pay great dividends in the future. It is not just a marketing tool. Social components and sustainability can also generate real income dollars down the road.

Congratulations on your desire to start a business – a choice that will provide much excitement, autonomy, and hopefully financial rewards. Remember that there are many resources out there for you to take advantage of, and as such, there are also many avenues for investment. Our economy works on the principal of capital, and you are a prime target for increasing your wealth. Good luck!