



INVENTORY CAPITAL GROUP, INC.
12424 Wilshire Blvd. Suite 1430
Los Angeles, CA 90025
Ph. (310) 945-5790
Fax (310) 979 8644
www.icg.us

TEN SIMPLE (BUT OFTEN IGNORED) RULES FOR ENSURING THAT YOUR GROWING BUSINESS IS FINANCED

1. Map the Market

Understand traditional and non-traditional financing sources in your industry's marketplace. All financing sources have comfort zones derived from such key criteria as credit characteristics, industry, size, use of proceeds, etc. It's OK to "interview" a prospective source long before you make your sales pitch so that you get a feel for the environment. Find out who has financed your competitors. Create networks of knowledgeable industry insiders that can point you in the right direction. Use your network to get personal contacts for those sources you think best. If you don't have a network, get to work building one!

There are hundreds of thousands of potential funding sources. You can't get to them all – so you must be selective.

2. Know your Nodes

Business is a series of choices and changes, which at each juncture can be said to represent a 'node' of the business. Each of these nodes presents different potential risks or rewards for all the parties involved. Each node can be a decision point at which you determine how much risk is warranted in order to grow beyond the current node. Some potential funding sources will work out very well if you find yourself at one node, but be completely unavailable at another. Your total capital picture will change in predictable patterns as you grow, so do not waste time pursuing avenues that are not feasible for your current node.

Understand what you need to do in order to get from one node to another. Each financing source has an optimal time.

3. Get Rid of Bad Customers

Bad accounts receivable hurt you in many ways. Not only do they cost you money and reduce your overall profits, they may deceive you into thinking your business is growing when in fact it is not. In addition, bad accounts receivable diminish the value that a financier will put on your assets, because

they actually diminish the value of all of your 'good' assets. Bad accounts receivable can thus be a 'red flag' that may well deter a potential source of finance from providing you with the funds you are seeking.

It is essential to have a process to weed out those customers who do not pay on a timely basis — no matter how painful it may seem to your top-line revenue numbers.

4. Move in a Timely Manner

As the CEO of Inventory Capital Group, I have received a great many phone calls in which a small business owner has asked me the following question: "I have this big order and I need \$2,000,000. Can you finance it by the end of the week?" My answer is almost always "Sorry. No." Short time frames reduce your business credibility, and burn funding sources that might otherwise be promising. While raising money can sometimes be quick, more often than not it is a process of several months. Lenders, by definition, must be risk averse and cautious; quick time frames make investors worry about the ability of management to plan for the continued success of the business.

It is better to approach lenders with time frames that you know are reasonable for their system, even if it seems tediously slow to you.

5. Feel Free to Talk

Many small businessmen are reluctant to talk to others about their need for money. Any such reticence should be discarded. I have had deals financed at cocktail parties, bars, picnics, music events, on planes and golf courses, and even at your children's soccer games. You never know if someone might be willing and able source of finance. Feel free to wax on about your business's need for capital, but be mindful of numbers 6 & 7 below.

6. Always Demand Proof of Bona-Fides

Real people can produce real recommendations and evidence of past successes, real bank accounts, etc; they will not get insulted when you ask them why you should trust them. You are in a race against time and you cannot afford to waste any effort. You do not have the luxury of dealing with "wanna-be's," middlemen just looking for a "score", con artists, etc.

The greatest danger is that these types will often have you execute documents that make future financings impossible.

7. Be Truthful, and Be Prepared

An entrepreneur chooses to get involved in a venture because he/she believes in its potential. Along the way there are a lot of challenges and it is easy to get discouraged and lose confidence. Unfortunately, potential financing sources can pick up on this. You should have a 'war plan' that deals with the five or so worst-case scenario questions you really don't want to be asked. Do not try to 'wing' responses to those questions, and do not rely on saying: "Trust me, it won't happen", or "I am sure that we can reach these goals". In order to convince the prospective financier to lend or invest money,

you must present logical arguments as to why your view of the potential of your business is likely to be correct. If you fail to disclose the ‘warts’ or fail even to recognize them, but the financier sees them, he will probably turn you down.

Remember that before providing funding to an entrepreneur, a financier will do a rational assessment of the risks involved.

8. Overkill Your Preparation and Insure a Rapid Response

There are two key elements to any fund raising effort: a) the package, and b) the pitch. The goal with both is that within fifteen minutes your prospective financier should say—“I get it. I see why this company is special and is going to be successful, and I see that the management is really on top of things”. This is hard to accomplish with just a business card and a smile. You and your team should have a well-rehearsed pitch that shows that you work together seamlessly. Your goal is to sell your idea to your source of financing by impressing him. Most small business financings start with the financier having a good “gut feeling” about the client – and this is driven by the human factor. I always recommend “burning” a few presentations to long-shots before pitching to a likely prospect.

Furthermore, almost all lenders, venture capitalists, private equity investors, etc, will want virtually the same sets of documents. Spend time in advance preparing a funding proposal that contains key corporate documents, historical information, forecasts, asset analysis, etc. That will increase the chance that your prospective funding source will think you are on top of things, and it may curtail what is oftentimes a long time period between contact and application that kills so many deals.

Providing a funding proposal to a targeted prospect before a meeting is almost always a good idea.

9. Make Their Greed Work in Your Favor

Your business plan needs to take into account from day one the fact that sources of finance for small businesses cover their risk by demanding a high rate of return. Do not begrudge the lender a high rate of interest, or the private investor, a high yield. In order to achieve what is important to you: a) you should expect the financier to be greedy, b) you should not hesitate to go to a greedy financier, c) you should be prepared to grant the financier a high rate of return. Keep in mind that there is a trade-off between paying a high cost, and not getting the deal at all. If you are not prepared to pay the cost of financing (especially high-risk early-stage financing) you should get into another type of business. The cost of not getting financed is as important or possibly more important than the cost of the financing. Know the maximum yield you can afford to pay, and don't be afraid to pay it for a short period of time. If you've done the homework in Rule #2, you will know when the financing costs should drop.

In the short term, your opportunity costs can be significantly higher than a lender's expected return, but in the medium-to-long term it will be worth it.

10. Be Profitable as Soon as Possible

That sounds obvious – but entrepreneurs are often so busy trying to figure out the road map that they end up stranded simply because they forgot to check the gas gauge. Profitability puts time on your side and ensures that you can stay the course, no matter how long it takes you to find your expansion financing. Profitability is also an excellent source of growth capital, and ultimately provides a strong qualifier for financing.

In most circumstances it pays to sacrifice short-term growth for early profitability.