

Shaking the Money Tree

There Are Many Options for Finding Cash for Your Strapped Business

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Money. Money. Money. Whether it's start up capital, cash flow injection or purchasing power, every business needs money.

Cash is king. We all have heard the saying, and it is never more true than when dealing with the management of a business. Cash is not the same as cash flow. It is money in the bank or in business accounts. It is not tied up in inventory, accounts receivable, or real estate. Cash is readily available to pay the bills, payroll, and suppliers.

If the flow of cash out of the business is greater than the flow of cash into the business, the signs on the wall show that the business is in poor financial health. Negative cash flow can sink a business, because you need money to operate. When this happens, it is time to shake the money tree.

Think of this tree as a big one with a split in the trunk and lots of branches all around it. One side of your tree deals with equity financing and the other side leads is debt financing. When you are looking for money, your company's debt-to-equity ratio – the relationship between dollars you have borrowed and dollars you have invested in your business – is extremely important. The more money you have invested in your business, the easier it is to attract financing.

A high ratio of equity to debt will send you along the debt financing side of your money tree; likewise, a high debt to equity ratio will send you out seeking sources of equity financing in the other direction. Whether it is for start-up capital or funds needed to keep a business going, getting money costs a business something.

In equity financing, the

investor receives an ownership interest in the business in exchange for an investment of funds. Money may come in the form of private funding through friends, relatives, employees, customers, or colleagues.

The most frequently tapped source of professional equity funding comes from risk-taking institutional venture capitalists,

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i.e. groups of wealthy individuals, government-assisted sources, or major financial institutions looking for start-up businesses in which to invest their money in exchange for an ownership interest in the company. Venture capitalists generally like to leave the oversight of the business to its management but will be sure to interfere in the operation of the business if they feel their investment is being put at risk. These investors can be contacted directly, although they typically find their investments through referrals. The U.S. Small Business Administration (SBA) licenses Small Business Investment Companies and Minority Enterprise Small Business Investment companies to engage in equity financing as well. All are excellent sources of financing.

Investment clubs may also be an excellent source of money. In many local communities, groups of business people form organizations to invest in new and existing businesses in their general local area. These clubs are typically less

formal than a professional organization and can be very supportive of the enterprise. It is also possible to find investors by joining local business organizations and clubs where you may meet individuals with money available to invest.

Private investment partnerships may be a useful tool and are typically arrangements in which

one or more individuals agree to provide funding for another individual's business. The role of the partner(s) providing the funding is limited to supplying capital. Partners are not responsible for any debt your business incurs and will not typically play a role in managing the day-to-day operations of your business. Your banker, attorney, and accountant may be useful sources for referrals.

Don't forget to look inside the business for possible sources of money. If your business has employees, it may be possible for you to sell stock in your business directly to them through Employee Stock Ownership Plans. Cash-surrender value of life insurance of the business owners, home equity lines of credit, and personal savings are also potential sources of funds to be injected in exchange for equity in the business.

Traditionally, with debt financing a business will borrow money and give a promise of repayment with interest to the

lender. The promise to repay is secured by the assets of the business, a personal guarantee of the owner or by a combination of different types of security. Traditionally, banks have been the major source of small business funding, however, they desire to give short-term financing, lines of credit, or specific purpose loans, such as for equipment or machinery. The SBA has developed a lending program that guarantees bank financing and encourages banks and non-bank lenders to make long-term loans to small business by reducing the lender's risk. As a result of SBA financing, thousands of businesses nationally have flourished.

Credit unions are another great source of funds, as their overall goal is service to their members, and they are not for profit. Normally, their interest rates and other terms are more favorable than those offered by a bank. They are regulated by the National Credit Union Administration, and if you meet their membership qualifications, you can join.

Businesses can also borrow small personal loans at high interest rates secured by collateral from consumer finance companies who lend under the jurisdiction of each state's small loan regulations. People with poor credit ratings often avail themselves of consumer finance because they cannot satisfy a bank's credit requirements. Be mindful that you will pay more for a loan with these lenders, but you may have no choice. You can find a listing of consumer finance companies under 'Loans' in the telephone directory.

Insurance companies are another possible source of financing for your business. They make commercial loans, and their terms

and interest rates are similar to those from a bank. Your insurance agent can make recommendations as to which companies are available, and you can also request information packets directly from insurance companies' loan offices.

You can also sell your accounts receivable to a factor company to generate cash. Factor companies purchase your accounts receivable at a discount and free up your cash because you no longer have to wait to collect your receivables to get your money. They often advertise in the business sections of newspapers, but be sure to investigate the company's reputation, as you do not want your customers to be harassed for payments once you

sell off the accounts receivable.

Financing the purchase of equipment, machinery or equipment can be accomplished through a few different methods. Commercial finance companies are available to provide loans to purchase inventory and equipment, but they charge higher interest rates and fees. Other options should also be investigated. For example, you may be able to get a vendor or trade credit for a product that allows you to buy it but delay paying for it. Another option may be the use of a leasing company to rent equipment rather than buying the equipment outright. This avoids a capital expenditure and often gives the business an option to buy in the future. Discuss with suppliers and

vendors opportunities for trade credits, payment terms, what types of items they lease and what terms they offer.

Finally, it is necessary to emphasize the value of the numerous government financing sources that may be available to you and your business. Government agencies may be interested in financing new businesses that will have a direct impact on the agency or the client population it serves. Your business may produce a product or service of interest to a government agency and be eligible for grants and other possible business development resources the agency may control. Businesses are strongly encouraged to investigate some or all of the following general

sources of assistance available through the government: U.S. Small Business Administration, Small Business Investment Companies, Specialized Small Business Investment Companies and The Economic Development Commission.

The Money tree has many branches, so go out and shake it and see what falls your way.

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