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SHOW ME THE MONEY! UNDERSTANDING FUNDING OPTIONS FOR START UPS



BY DANIEL JACOBS / FEATURED, RAISING CAPITAL, START-UP / 31 JUL 2015

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Entrepreneurs are famous for developing new ways to do old tasks. As surely as a person's greatest strength will also be their greatest weakness, so too are entrepreneurs often poor at doing old tasks the new way. Business plans are one such "old task" that supports the new way to understand what the start-up is all about and is an important tool to help raise capital. There are a range of funding options available, such as:

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Your bank

Banks have entire departments happy to review your business plan and give constructive criticism in return for the opportunity to lend you money – usually being a loan against an asset such as your house. This may concern some entrepreneurs but allow the thought that if you can persuade a bank to review your business plan and provide feedback then that’s a service at a good cost. Should they approve your application then you have the capital to invest in your business. If the bank declines due to your business plan then you have learnt what needs to be improved for your next source of investment.

Another Bank

Armed with the enhanced version of your business plan your approach will be more targeted to a banker’s thinking. Your presentation skills and confidence will also be improving. The bank most likely advised that you will need positive cash flow in year one. Not every business plan template addresses that issue. The business plan now is starting to morph from a stylish document to a clunky version with cash flow charts being given more dominance and much briefer discussion on the style of the business. Substance is taking over from form. You may also have noticed that just increasing the income to force a positive cash flow strains all credibility. Not to worry we are now on the pathway to a believable business plan. Cost reduction is now the new you. Work smart. Flash offices or fit outs are gone. Buy smart which means cheap. All cash is now gold.

Venture Capitalist

A Google search for “venture capital” would lead you to the Australian Private Equity and Venture Capital Association Limited. There you will find a wealth of details as to what a venture capitalist will

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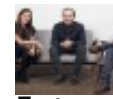
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contribute to your business. But be warned, your business will need to show a positive cash flow most likely at the end of year one. Venture capitalists are not charities. They invest on behalf of other investors who in turn require a return on their investment. Business is business with Venture Capitalist. A venture capitalist may require payment to review your business plan. This is another investment in your business plan.

The Three Fs

Family, Friends and Fools. These folks often don't read business plans and are able to be persuaded based on a form of obligation to you as a member of their family, a friend or maybe they are simply fools. This source of funding can often come with foolish innocence that tests friendship and may destroy families. But don't be put off. There are cases where it has been very successful if managed professionally via a business plan and the funders have sought professional advice. Get every facet signed off in writing. Remember if it's not in writing it didn't happen.

Win, lose or draw, as the journey for funds continues a rational idea may be to really work out your costs so that you can reduce the amount of funding you need. Cut establishment and running costs. It is easier to reduce costs than raise funds. Review the structure of the business model. Any model with cash payments on as short a time as possible is great for a start-up. Consider all avenues for getting paid as fast as possible for your goods or services.

If you have hawked your business plan around and no one is in love with it, then welcome to being an entrepreneur! At worst you have a tested business plan and gained professional opinions. If you are lucky the collective opinions will say "with a lot of work and a bit of luck...it could work". You are now in a better position than many who tried



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and failed and many who have succeeded. Dare I say you are just where many entrepreneurs survive and thrive...all on your own, backing yourself.



About the author:

Alan Manly is an entrepreneur with extensive experience owning and managing SMEs. He is also the author of *When There Are Too Many Lawyers*.

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Dynamic Business is Australia's best-loved small business resource dedicated to providing entrepreneurs, start-ups and business owners with the very latest information and advice on how to start, manage and grow a business.

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