How to Find & Raise Business Capital

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

The catch-phrase “Show me the money!” was immortalized in the movie Jerry Maguire when the title character and his client, pro football player Rod Tidwell, scream the line back and forth at each other over the phone. Tidwell, of course, was telling his agent Maguire to negotiate a big NFL contract for him.

While they aren’t sports agents or NFL football players, many middle-market business owners and CEOs can probably relate to Maguire and Tidwell when it comes to their need to raise capital for their companies. More than one owner or CEO has probably wanted to scream, “Show me the money!” when faced with a business challenge that requires raising capital.

Why Do You Need Capital?
There are many potential reasons why middle-market companies might need to raise capital. For example, they may need a capital infusion to purchase more inventory, expand operations or hire additional employees to support growth. Or maybe they simply need additional working capital to cover monthly cash flow shortfalls.

When it comes to types of business capital, owners and CEOs have two main options: debt and equity. Debt usually takes the form of traditional loans, mortgages and lines of credit, but equity is very different. Here, outside investors provide capital in exchange for ownership shares in the business. While equity doesn’t have to be paid back, this doesn’t mean there’s no cost. Quite the opposite: The shares divested to equity investors dilute current owners’ interest in the business.

So now that you understand possible reasons why you might need to borrow money for your business and the main types of business capital that are available, how exactly do you go about the process of finding and raising business capital? The first step is to determine which type of capital you are going to pursue, because this will have a large impact on your capital acquisition strategies.

How to Borrow Money
If you want to borrow money, a bank should probably be at or near the top of your list of places to check first. Banks offer just about every type of business loan imaginable, including term loans, SBA loans, commercial mortgages and lines of credit. But all banks aren’t the same. There are large super regional banks — think Bank of America and Wells Fargo — mid-sized banks and small community banks. Each of these different types of banks offers advantages and drawbacks when it comes to borrowing capital.

Large and mid-sized banks may offer a wider selection of different types of loans and other financial products and services as well. However, community banks are often known for providing a higher level of personalized service — they are often the bank where when you walk in and “everybody knows your name.” It usually makes sense to start with the bank where you maintain your business checking and savings accounts, since they already know your business and may offer a lower rate based on your existing relationship.

In addition to traditional banks, there are now many ways to borrow business capital online via what are sometimes referred to as marketplace lenders. These online lenders, such as OnDeck and Kabbage, are known for making fast approvals (often in as little as a few minutes) and requiring minimal financial information to make a loan decision. The tradeoff is that the cost of capital is usually higher and the loan amounts may be smaller than what a bank is willing to loan, based on a more extensive review of your company's financial statements, tax returns and other documentation.

How to Raise Equity

If you want to raise equity capital, your strategy will be very different from borrowing from a bank or a marketplace lender. Instead of visiting a bank or looking for a marketplace lender online, you will search for an investor (or investors) in your business. There are three main types of equity investors:

1. **Venture capitalists** — Venture capitalists (VCs) are professional investors in search of opportunities to earn significant returns on their capital. They are looking for companies with high growth potential that will enable them to double or even triple their investment. They usually want to have an "end game" or "exit strategy" for the companies they invest in. In other words, they will want to sell their stakes within a targeted period to gain their ROI objective.

2. **Angel investors** — These are typically wealthy individuals looking for start-up businesses or entrepreneurs they have a personal connection with, or that are in industries they want to support (think green energy, for example). Like VCs, angels want to earn high returns on their capital, but angel investments are generally not as large as VC investments — for example, from $25,000 to $35,000 per company. Angels often form groups, which allows the group to invest larger amounts.

3. **Family and friends** — Often, family members and friends are willing to invest equity capital in a business if they see potential for growth and a solid return on their capital. It's important to formalize any such arrangements with the proper legal documentation so there aren't any misunderstandings later should the business perform exceptionally poorly or well.

Concluding Thoughts

The first step in raising business capital is to determine which type of capital you are going to pursue. If you want to borrow money, a bank should probably be one of places you check first. Online marketplace lenders may also be a source of business loans. If you want to raise equity capital, your main options are venture capitalists, angel investors and family and friends. An outsourced CFO services provider can help you determine the best strategies for finding and raising capital for your business.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.