<u>Creative Financing Is Really Just Good Money Sense</u>

How do businesses obtain the financing to get started and to grow? A recent study showed the following not so surprising facts. Of all the money used to finance small businesses, those who obtain financing from only one source showed twenty—three percent carte from personal savings, two percent from friends and relatives, a surprising small seven percent from institutional lenders, and eight percent from other sources. The study also showed where financing was obtained when it came from two sources. Once again, personal savings combined with institutional lenders was the highest at twenty—three percent, followed by personal savings and the help of friends and relatives at eleven percent, the balance of financing cones from many sources such as venture capital, government, and individual investors.

Our observations over the years are supported by this study; the myth of a sugar daddy is exactly that. In fact, individual “outside” investors and venture capital people make up such a small percentage of business investment money, we find it difficult to build this source in a financial plan. What are the real sources of financing small businesses use? Several of the more common ones are discussed in the following paragraphs.

The investment of the owners is the number one source of capital. No other source would be willing to invest unless the owners were willing to risk a sizable portion of their own equity. This equity from the owner usually comes from sources such as savings, cashed out retirement plans, mortgages on residence or inheritance. As a general rule, the owners would need at least twenty percent of the total capital needs to come from their sources.

Probably the most common form of short-term debt is that which is termed “trade credit”. Although it may not total to as much in dollars as other forms of credit, practically every business has some form of credit. As a general rule, small companies make a relatively greater use of trade credit than do large concerns. A study showed companies with less than $ 1,000,000 in assets has 18.9 percent of its assets in trade credits; while companies over $ 100,000,000 in assets had only 7.4 percent of these assets in trade credits. Once a company establishes credit, trade accounts payable is a big source of financing.

Short-term financing is another major source. Short-term financing is obtained through commercial banks as a general rule. This short-term money can come in the form of credit lines to cover seasonal needs, a single loan either secured or unsecured. Short-term credit is often the foot in the door to establish a good banking relationship but is not a source to finance expansion.

Intermediate and long term financing is used for business expansion such as acquiring plant and equipment. Sources of this type of financing are, of course, commercial banks, insurance companies, finance companies and government back programs.

Beyond the sources of capital discussed above are ventures into the capital markets, such as public offerings of stock, venture capital firms, and bond issues. However, until a business has exhausted their sources of capital, discussed previously, these sources are generally not available.

The reality of creative financing is the sources are already at hand for the business to form or grow. The creative function is knowing how to put the plan together and make it work.