Choices for financing your new business

You've decided to take the plunge. You have a great idea for a new product or service and you're going to turn it into a winning business. Or maybe you've seen a "For Rent" sign in a busy location and you'd like to open your own store there. No matter how it happens, over 600,000 new businesses are launched in the United States each year, according to the U.S. Department of Commerce.

To succeed, a new business will need the funding to get started and to keep them running during the early days. That's why **Peter Deng & Associates,** a leading tax, accounting, and business consulting firm in twin cities to serve minority businesses, advises that it's important for every aspiring business owner to understand the ABCs of financing a new business.

Two types of dollars

If you are looking for money to start your new business, you have essentially two choices. One option is to borrow money, known as debt financing. A bank lends you money that you can use to buy or rent a location, purchase inventory and supplies or hire staff. You pay the loan off over time, using the money that your company earns. As long as you feel confident that your company's earnings are or will be enough to cover your monthly loan payments, debt financing is an excellent choice for a new and growing business. Sources of business loans include banks and savings institutions, commercial finance companies and the U.S. Small Business Administration, which oversees many financing programs for new and growing companies. You can learn more at www.sba.gov.

Taking on investors

Another way to raise money is through equity financing, in which you sell partial ownership in your business in exchange for investment dollars. Potential investors can include friends, family, employees and even customers. Venture capitalists are another source of equity funding. They may include wealthy individual investors or financial institutions who take a stake in a small business in the hopes of earning money in the future. They are usually interested in companies that have some proven market success and appear to be on the verge of major growth, with the potential for high profits.

Who's in charge?

In deciding on which type of funding is best for you, remember that equity financing can allow your investors to have a say in the business, because they own a piece of it. Most investors will likely be happy to let you run the show as long as the company is thriving and they are making a profit on their investment. However, it's important to understand that equity financing may require you to give up some control---as well as some of your profits.

Put it in a business plan

Now that you understand your possible sources of cash, you must be prepared for the questions that lenders and investors will ask. For example, you must be prepared to say how much money you need and how you plan to use it. You will also need to detail your companies past earnings and your expectations for future revenues, as well as your company's industry and your competition in it. They will also want details about your management team, and whether they are equipped to manage for future success. This information should be contained in a business plan, a document that includes your financial statements and describes your business and how you expect to compete in the marketplace.

Business owners face many choices about financing their companies. Please consult us with any questions about your company's financial health.