

VISUAL 1

BUSINESS FINANCING OPTIONS

While many entrepreneurs use their **personal savings** to fund new business start-ups, **debt financing** and **equity financing** are two ways to obtain external funding for a new business.

	DEBT FINANCING <i>Samantha Option #1 and #2</i>	EQUITY FINANCING <i>Samantha Option #3</i>
Definition	Borrowing money from a person or institution and signing a promissory note that you will repay the debt	Trading a percentage of ownership for money
Benefits	<ul style="list-style-type: none"> • Predictable payment plan • You don't give up business ownership • The lender has no say in the future and direction of the business as long as payments are made 	<ul style="list-style-type: none"> • Money doesn't have to be paid back unless the business is successful • You can generate significant interest in and funding for your business • Others' opinions and expertise may be valuable to your business
Costs	<ul style="list-style-type: none"> • If you can't make payments on the loan, the can force the business into bankruptcy • Most lenders charge interest • Takes time to pay debt back and some business earnings must go towards debt repayment 	<ul style="list-style-type: none"> • If you can't make payments on the loan, the lender can force the business into bankruptcy • Most lenders charge interest • Takes time to pay debt back and some business earnings must go towards debt repayment
Requirements	<p>Whether using debt financing or equity financing, entrepreneurs must meet certain requirements that lending agencies and equity investors set to ensure that they don't lose money. Lending agencies and equity investors may require:</p> <ul style="list-style-type: none"> • Collateral: Something of value (often a house or a car) may be pledged by a borrower as security for a loan. If the borrower fails to make payments on the loan, the collateral may be sold; proceeds from the sale may then be used to pay down the unpaid debt. • Personal Savings and Credit History: Investors look at an entrepreneur's use of personal savings and credit history for evidence that they can manage money. • Contracts and Reporting: The business owner will often need to submit detailed progress reports and/or be legally responsible for the success or failure of their business. 	

VISUAL 2

BUSINESS FINANCING SOURCES

DEBT FINANCING	EQUITY FINANCING
<p>Family and Friends</p> <p>Traditional Loans (Bank or Credit Union): require that the entrepreneur provide a source of collateral in exchange for money and pay interest on the amount of the loan.</p> <p>Government-Guaranteed Loans: Established in 1935, the Small Business Administration assists entrepreneurs who lack sufficient capital in procuring loans by guaranteeing lenders that they will be repaid.</p> <p>Microfinance: provides small amounts of funding to entrepreneurs that lack the personal savings and credit history and/or collateral to procure a traditional loan; one of the main sources of external funding for entrepreneurs in developing countries.</p>	<p>Family and Friends</p> <p>Angel Investors: wealthy individuals whose net worth is certified by the Securities and Exchange Commission; provide significant funding to high risk entrepreneurs in the very early stages of their business development and usually require a large portion of ownership in exchange for funding; expect a large return on their investment in a short period of time.</p> <p>Venture Capital: also provide significant funding to companies, exchanging money for ownership in the company; differ from angel investors in that they are interested in well-developed, high growth companies that lack sufficient capital to expand their existing businesses; often look to fund companies with innovative technologies.</p>

VISUAL 3

START-UP SCENARIOS

Note to teacher: Prepare for this activity by making copies of the visual and cutting each case into pieces of paper that you can hand out to students.

CASE #1:

My name is Ana, and I recently started a company with three other partners called SmartTech. SmartTech is a very young company, as we have a new technology product in development that is not yet available to the market. My partners and I have contributed about \$300,000 of our personal savings to the company, but we still need over \$800,000 to complete product development. We expect that the product will sell very well once it hits the market.

CASE #2

My name is Mitch, and I started a baked goods and catering company out my kitchen about two years ago. I've been fortunate enough to keep down the costs of running the business, and I've saved over \$300,000 from business earnings in the past two years. However, I'm ready to move this business out of my kitchen. I've found a storefront space with kitchen facilities that I can rent for \$5,000/month. I also want to purchase some larger industrial equipment. The equipment is pretty expensive—costing around \$150,000—but it will allow me to sell more goods and make more money.

CASE #3

My name is Sarah, and I want to open a small comic book store in my neighborhood. I've been saving for the past year, but I haven't been able to get together all of the money it will take to buy the space for the store. I pay all my credit card bills on time, so I have good credit, but I don't own a house or a car and so I don't meet the collateral requirements of the banks in my area. I have approached my friends and family about borrowing money. While everyone's enthusiastic about my business plan, nobody can spare me the cash.

CASE #4

My name is Ben, and I'm a teenager in high school. I'm a talented artist, and I charge my friends \$10 to customize their skateboards with spray paint and sticker art. Everyone in my school loves the work I do, but a few friends have approached me recently about carving designs into their skateboards for a more permanent effect. I recently saw an engraving tool in a magazine that costs about \$100, but I haven't saved up any of the money I've earned through my business.

VISUAL 3, CONTINUED

START-UP SCENARIOS

CASE #5

My name is Mike and my best friend, Paul, and I have a snowboarding product called FreshWax. We started making the wax out of my parents's basement in Park City, Utah, but we've grown enormously in the past four years. We currently have our own production plant and over 100 employees—and FreshWax now makes snowboard accessories in addition to the wax. Our line of products is available in most mountain sports stores in the United States. Our company is growing quickly, but we need more cash to keep up with this rapid growth. We're hoping we can pull big investors into our business to help us grow internationally.

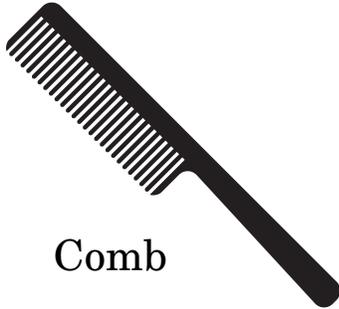
CASE #6

My name is Maria. I live in Peru, and I want to start a business selling alpaca clothing. I haven't established any credit, and I don't have much in personal savings. I also don't own any property. I only need about \$5,000 to start my business, and I'm willing to pay back any money I borrow in a short amount of time based on the clothing I sell.

CASE #7

My name is Karen, and I've been in business for three years as a florist. I run the only flower shop in town, and I have been successful in growing my client base. I currently only sell fresh flowers, but I would like to expand my business to sell artificial flowers too. I have excellent credit, and I own the store space. I've saved up enough money to pay for about a third of the cost of expansion, but I'm not interested in bringing on any additional owners to secure the rest of the funding, and I would feel uncomfortable asking my friends and family for a loan.

VISUAL 4
BOOTSTRAPPING OBJECTS



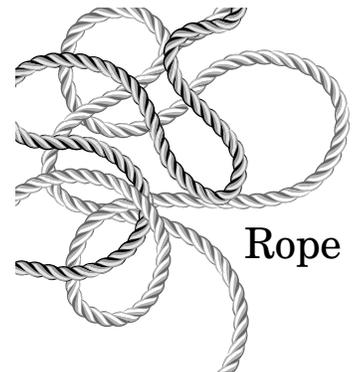
Comb



Ribbon



Face paint



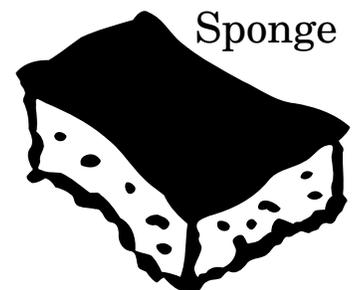
Rope



Scissors



Sneakers



Sponge

