This article originally published by

INVESTORS'CIRCLE
The oldest, largest, and most successful early-stage impact investing network. www.investorscircle.net

Finding Money for Your Business: Often Overlooked Options

By Drew Tulchin

Social Enterprise ASSOCIATES

Industry reports in impact investing cite lots of capital, with millions of dollars more flowing into this sector each year. For those running social ventures, however, capital is hard won. Raising money can feel like a full time job itself. As you fight and pinch for every dollar, getting the business off the ground and bringing your idea to the world can feel like it takes a back seat.

Think outside the box. There are simple options to access capital can improve your company's prospects and are often overlooked by entrepreneurs. They don't require new technologies or the newest thing on the web. They aren't sexy. Such efforts foster more control over capital, build incrementally, and start improving cash position today.

Steps to Improve Cash Turnover

1. *Delay Making Payments*
2. *Get Paid as Soon as Possible*
3. *Leverage Existing Assets*
4. *Alternatives to Cash*
5. *Make Friends*
6. *Build a Track Record*

Look Inside

While these options can't take the place of equity or significant debt fundraising, they will generate small returns in the short term. Continuing these practices over time generates long-term benefits to accrue.

One of the most overlooked places for capital is *within one's own finances*. Installing a few basic financial systems can improve cash flow. Accounting discipline increases cash turnover and makes it possible to leverage the balance sheet. These changes may positively affect capital position, without the complications of finding investors or borrowing money.

Timely financial statements are valuable in tracking the company's status. Many entities have a bookkeeper and maybe a program, but generate statements months late. This does not allow for management and oversight, or review. Once this work has been done, managers need to look at the data and make needed adjustments. The same is true for inventory in development, costs of goods sold, and stock on hand.

Having a central system is the first step, getting data into it in a timely fashion is next, and having managers look at reports is next. If you, as a manager, are inexperienced in such areas (which is fine), then have your lead staff – accountant, COO, etc.— help you interpret the information. These are also specific areas to seek advisors, technical assistance or a hired professional.

Don't Ignore Cash Turnover

An important place to look in your finances is cash position. The ratio 'cash turnover' compares time between paying bills and collecting payment. The calculation is: sales revenue from the year divided by average cash/cash equivalents divided by 365 days. The shorter this time, the better your cash flow.

Try these easy steps to improve your cash turnover ratio:

1. Delay Making Payments

Spend money as late as possible to keep cash on hand. Is it possible to hold off paying a supplier? Using a credit card to wait until the end of the month gains time (but then ensure you pay it off to avoid high fees and interest).

Perhaps a vendor would wait on partial payment as a mission support or might finance their receivables and charge you a reasonable rate? If that vendor is another 'little guy', it might feel like Peter robbing from Paul, but often it is these institutions that have the leverage. You can always ask upfront. And, seek to extend over time with a track record and built trust.

2. Get Paid as Soon as Possible

The faster you are paid what is owed, the better. Ensure customers understand financial expectations by using invoices and stating terms clearly. Late pays risk becoming losses. Consider providing incentives to motivate on-time payment.

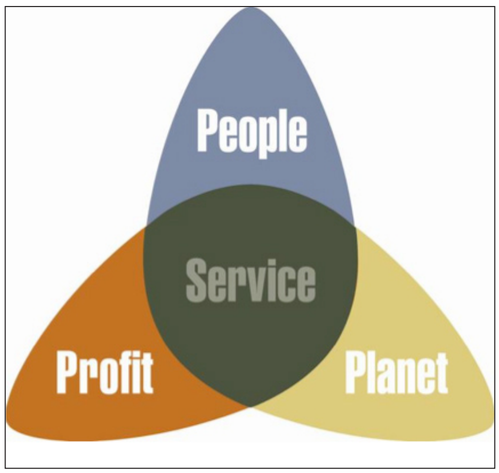
It is possible to use accounts receivable contracts or purchase orders as collateral for financing, called factoring. Factoring can often be arranged quite quickly; there are many institutions that specialize in it. Pay attention to make sure you know the APR ahead of time. Negotiate terms, shop around, get things in writing and carefully review legal documents are all part of this effort.

Can you make things easy for your customers to pay? Do you accept credit cards? What about online services? Good electronic services get you the cash faster than a paper check. Plus, this is more environmentally friendly and often cheaper, to boot.

3. ***Leverage Existing Assets***

Organizations with existing capital should make sure they manage it well. Money earns money. Treasury management oversees an enterprise's holdings, with goal of maximizing liquidity and mitigating risk. If you do receive a large amount of cash at one time, how can you allocate it for best use? Can you place it somewhere, perhaps only short term, to earn interest (even if it's just a little bit in today's economy)? Common efforts include overnight sweeps, short term CDs and other mechanisms. Talk with your bank. If your bank isn't helpful, this could be an opportunity to find a new relationship.

All assets on the balance sheet require financial management. Even if the amounts generated are small or they come and go, treasury management addresses liquidity with an eye to preserve value. Do you have certain expenses, which are costing you more? Limit your risk and exposure by finding cheaper options.



4. ***No Cash, No Problem***

Do you have a great product, all ready to go, but don't have the cash to get your stuff made? There are still options for you. Crowd funding can be a sales channel, whereby customers pre-purchase your product, maybe even for a discount.

Another option is to get the manufacturer involved. Could they be motivated or incentivized for greater upside? Could you enter a joint venture with them, and have them invest in your organization or share risk so they provide their supplies and get paid when the product sells?

Barter or trading goods and services for non-cash is another option, and works better when you want what the other can offer. If a ready solution is not clear, ask. Options might present themselves when explored.

5. ***Make Friends***

Getting products or services directly to people in the marketplace is challenging. Often, early sales are done 'retail', seeking one-to-one options. By definition, this is inefficient. Companies might consider to how reach larger populations: one-to-many opportunities, and/or wholesale batch sales increase volume.

Partner with other entities that already have access to your customers, or at least better access than you. Many folks are willing, if not eager, to leverage their relationships or sales channels – if it helps them, as well. Make sure there is alignment between your needs and theirs to seek win/win/win situations that help your company, their company, and the customer.

Caveat emptor – buyer beware. Do your due diligence. Use good contracts and hire lawyers to sign agreements so that you don't have problems later.

6. ***Build a Track Record***

Young companies will often be told they don't have a track record. Use every payment as a way to build that history. When you make payments, do it through the company in a track-able fashion. Get a corporate credit card, sign up for a vendor's payment system, and register for Dun and Bradstreet. Make sure accounts set up are in the company's name (even if you are likely still going to have to sign your name as well). A cell phone is an easy example, as are internet service and other utilities.

When it's time to get a business loan, advance planning is something bankers value. Set up your personal accounts at institutions able to handle your future needs, so when you are seeking a loan, you aren't forming brand new relationships. Start modestly and small. Even if you don't have much money, see about a corporate credit card, overdraft protection and other basic services. Start with small limits, if you have to, but push to raise them over time.

If you have cash, use it wisely. It is much easier to borrow money when your cash position is strong, even if you don't need it now, then to wait until your balance sheet is weak. Set up a line of credit in advance, even if it costs you something now. Usually, the fee is minimal. Start a debt relationship with a strong institution sooner than later. The cost difference is usually worth having the access.

Have bad credit? Do something about it. Many entrepreneurs 'shoot themselves in the foot' in that they are not attractive to financial institutions. Pay off old debt and build your score NOW. If you still have a low score, get a co-signer to start.

Conclusion

Don't make the mistake made by many TBL businesses of limiting cash flow prospects. Take advantage of all potential sources— capital and non-capital. A surprising amount of money can be accessed through alternative options. Unlike many financing mechanisms, they give you control over the process.

Such solutions address the age-old financing conundrum that 'you need to have money to make money'. Taking advantage of internal cash flows requires structure, planning and systems. It won't be all your capital needs and it won't happen overnight. Start today and develop incrementally. These new approaches can create a defining moment in your business.

Drew Tulchin is Managing Partner of Social Enterprise Associates, www.socialenterprise.net. The Firm, a registered B Corp, provides management consulting and capital raising with focus on the triple bottom line. Business planning, market research, investment support and other services have enabled clients to raise more than $100 million.