

Small Business Management ^{19e}

LAUNCHING AND GROWING ENTREPRENEURIAL VENTURES

Longenecker · Petty · Palich · Hoy



CHAPTER 12

Financing the
Small Business

Firm Characteristics and Sources of Financing

Factors That Determine Financing (Amount & Type)

Firm's Economic Potential

Growth Prospects & Profitability

Company Size and Maturity

Life-cycle of Business

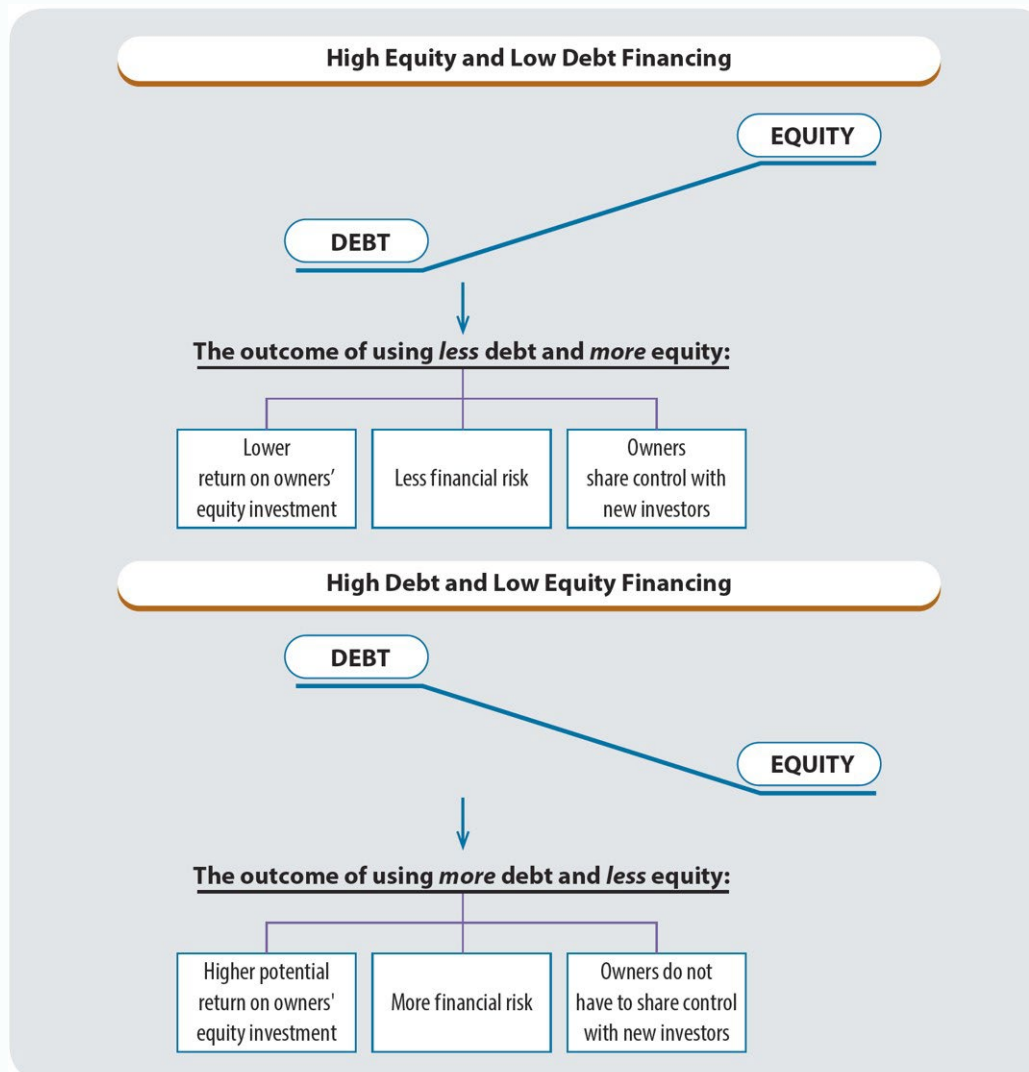
Types of Assets

Tangible (physical) OR Intangible (IP, brand)

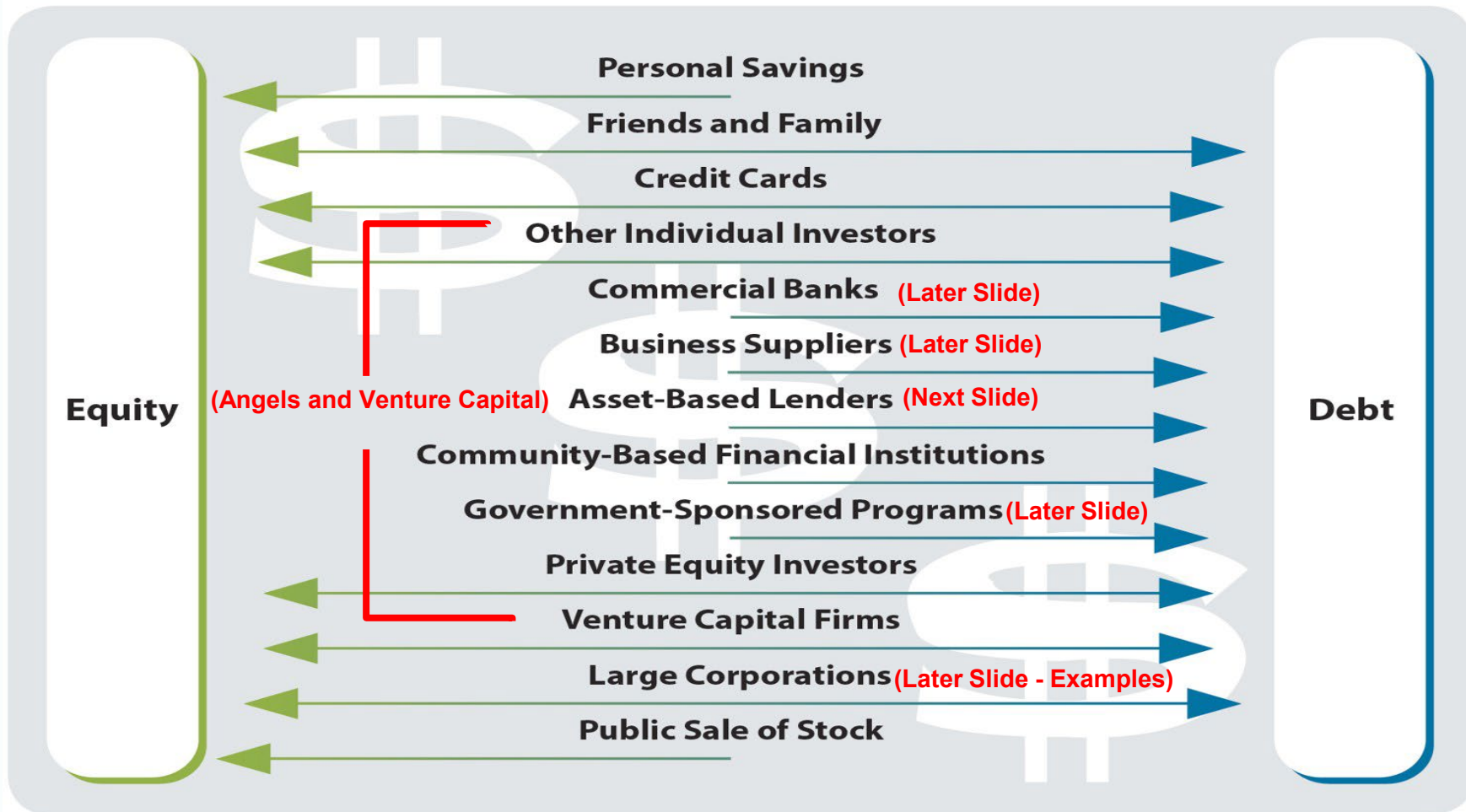
Owner Preferences Debt vs Equity

Tradeoffs

12.3 Trade-Offs Between Debt and Equity



12.4 Sources of Funds



Asset-Based Lenders

Lend to your company using assets as collateral:

- Accounts Receivable
- Inventory
- Marketable Securities
- Property, Plant, and Equipment (PP&E)

$$\text{Loan-to-Value Ratio} = \frac{\text{Loan Amount}}{\text{Asset Value}}$$

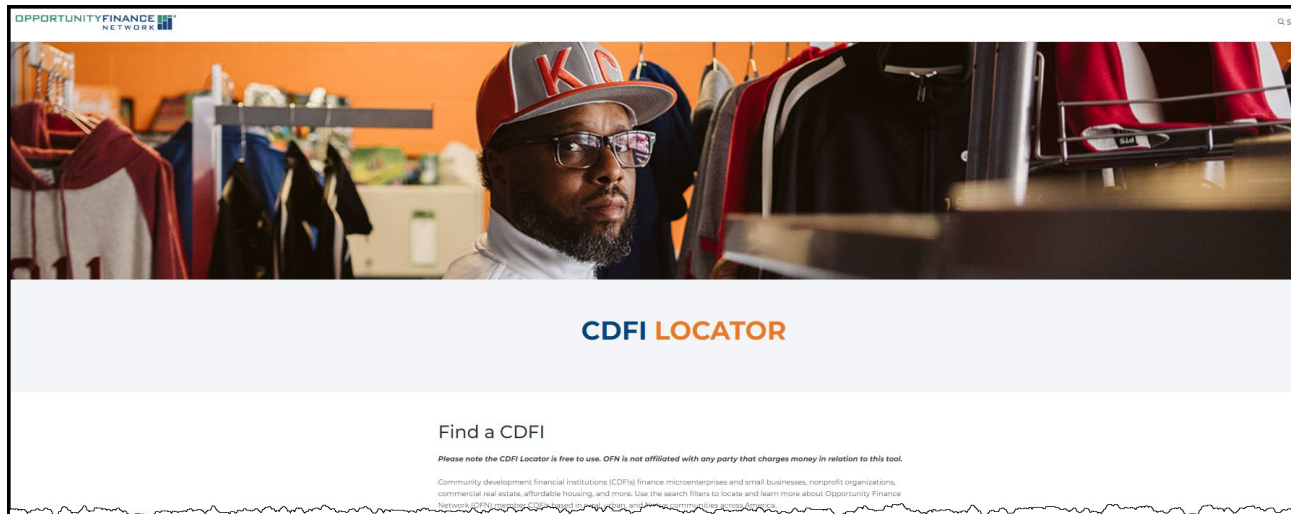
Good LTV should be below 80%

Asset Type	Loan-to-Value Ratio
Marketable Securities	85%
Accounts Receivable	70%
Machinery	40%

Community-Based Financial Institutions

Community development financial institutions (CDFIs) finance:

- microenterprises and small businesses
- nonprofit organizations
- commercial real estate
- affordable housing, and more



Source: <https://www.ofn.org/cdfi-locator/>

Titans of Business Think Small

In this innovate-or-die era, the *Fortune* 500 turn their eyes to startups for inspiration.
 BY VALENTINA ZARYA

A ROBUST startup ecosystem seems to be working for Silicon Valley, so why not the rest of us? Walmart (No. 1 on the 2017 *Fortune* 500 list) launched its first technology incubator in March, becoming the latest company with not just a skunkworks (though it has one of those too), but also a Bay Area-style incuba-

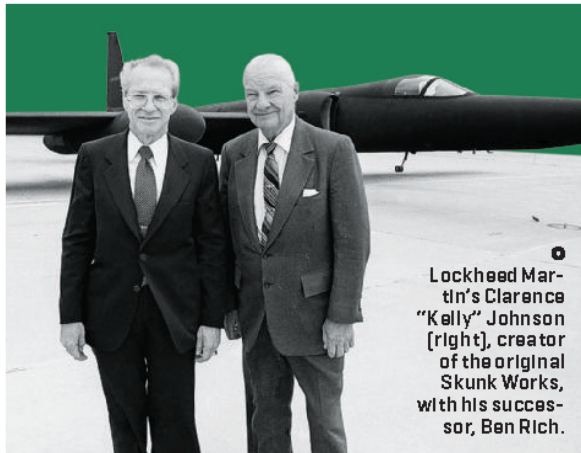
tor, accelerator, or lab.

Since 1943, when Lockheed Martin launched the original corporate Skunk Works (that's still the name of its Advanced Development Programs division), corporations have sought to mimic upstarts' nimbleness with in-house projects that are separated from the bureaucracy of the larger company. Alphabet's Google X may be the buzziest example, but Coca-Cola, Deloitte, Lowe's, and Target are all running their own similarly minded entrepreneurial initiatives.

Several *Fortune* 500 names have also set up independent investing shops to get a piece of early-stage firms on the outside. Intel Capital, Google Ventures, and Salesforce Ventures were the most active corporate VC funds last year by number of deals, according to CB Insights. Startup culture? Not just for startups.

Large Corporations

Source: Fortune Magazine, 6/15/17



Lockheed Martin's Clarence "Kelly" Johnson (right), creator of the original Skunk Works, with his successor, Ben Rich.

BIG BUSINESS TO ENTREPRENEURS: HAVE CASH, WILL TRAVEL

FACEBOOK

The social network's Paris-based accelerator, Facebook Startup Garage, will give employees from a dozen startups office space, technical help, and mentorship for six months. Its September inaugural class will focus on personal-data firms.

ORACLE

In April the software giant began recruiting engineers for an as-yet-unnamed "startup" within its U.S. operations. Employees of the new unit will explore how to use new tech—including much-loved initialisms V.R. and A.I.—to serve existing customers.

WALMART

Store No. 8 (an homage to an early location where Sam Walton experimented with store layouts) is an in-house accelerator focused on Walmart's e-commerce future. Last month the company announced its first portfolio company, Code Eight.

DUPONT

This summer, in partnership with the University of Delaware and the state, DuPont will open its 100,000-square-foot Delaware Innovation Space, housing STEM-focused early-stage startups and helping it build up an acquisition pipeline.

Large Corporations

This way in

Large corporations are eager to tap into the expertise of innovative entrepreneurs. To do so, many have established incubators or funds aimed at start-ups. Here's a quick look at a few of those opportunities.



Nike teamed up with TechStars for a three-month program that mentors 10 start-ups that are building technologies for Nike's activity-tracking devices, like its FuelBand.

WHAT IT OFFERS: Each start-up gets a \$20,000 investment from TechStars and the chance to pitch investors and Nike at the session's end.



Microsoft also joined with TechStars to create a three-month incubator in Seattle for companies that are designing products for Microsoft Kinect and Windows Azure.

WHAT IT OFFERS: Start-ups get mentorship, technical training and support, and the chance to pitch to angel investors and venture capitalists at the end of the program.



Pepsi's PepsiCo10 is a digital incubator program that selects 10 tech start-ups in entertainment, mobile, retail, and sustainability.

WHAT IT OFFERS: In addition to receiving funding, companies are matched with PepsiCo brands, such as Gatorade or Frito-Lay, for mentoring and pilot campaigns.



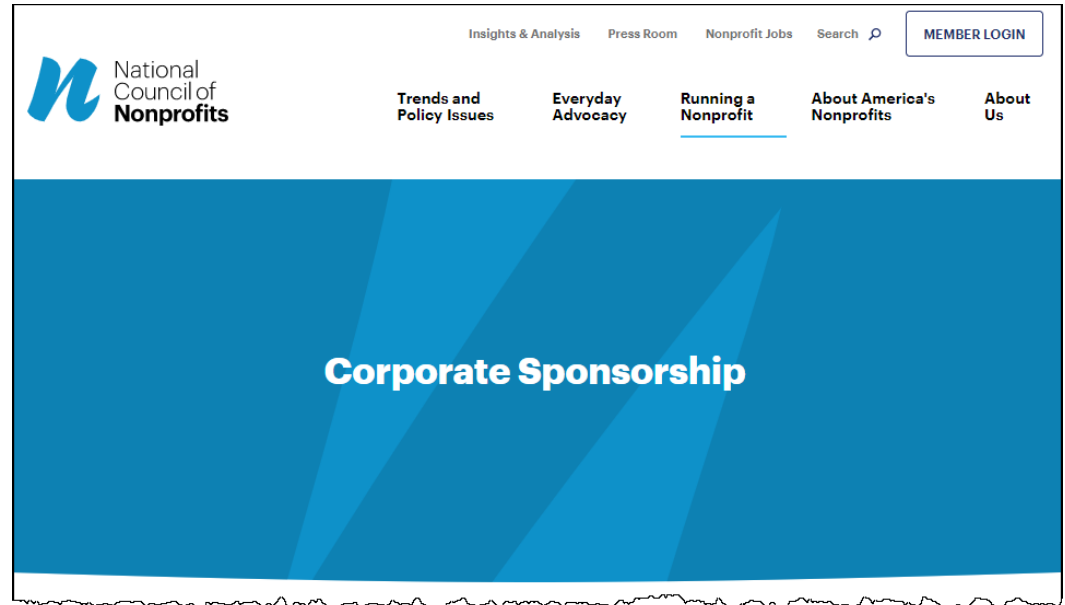
J&J is creating four innovation centers—in Boston, London, Shanghai, and San Francisco—to fund early-stage life-science companies. It also created a biotech incubator in San Diego that houses 18 start-ups.

WHAT IT OFFERS: Companies that rent at the San Diego incubator have access to office space, lab equipment, and mentoring.

Corporate Sponsorship

Typically provide funding for non-profits

- Events
- Projects/ Programs
- Ongoing Operations



Source: <https://www.councilofnonprofits.org/running-nonprofit/fundraising-and-resource-development/corporate-sponsorship>

SBDC can help ...

Target – Helping You Grow ...

<https://targetaccelerators.com/programs/takeoff/>

 Accelerators

about

programs

resources

happenings

I'M INTERESTED



Target Takeoff is the accelerator program for more mature consumer packaged goods companies that want to learn how to scale into mass retail.

2023 applications are now closed.

Don't miss the application period for next year – [subscribe to email alerts now.](#)



2023 Categories:

Baby and Toddler, Food and Beverage, Health and Personal Care, Household Essentials, Pets

Objectives:

Prepare for long-term success on mass retail shelves by:

- Understanding key elements for growth
- Making powerful connections to industry-disrupting founders, peers and Target team members

Outcome:

- Know what steps to take next to scale your business and achieve your goals for growth
- Leave with a stronger retail pitch
- Build sharper skills as a CPG leader

Venture Capital – Founder Replacements

Source:

Founder Replacement and Startup Performance
by Michael Ewens and Matt Marx*

EWING MARION KAUFFMAN FOUNDATION RESEARCH PAPER SERIES

Vol. 10, No. 4: Feb 8, 2016

- Founder replacements **predict better investment outcomes.**
- VCs are more (less) likely to replace founders when non-competes are harder (easier) to enforce, and
- Replacing founders unlocks value by **undoing managerial entrenchment**
- VCs face a tradeoff between short-term portfolio performance and maintaining a “founder-friendly” reputation.

Table 6: Top 40 employers of replacing executives joining entrepreneurial firms

Notes: Table tabulates the count of employers for the executives that join the entrepreneurial firms in our sample where we identify a replacement. Employers are from the short biographical string of the executive available in VentureSource (e.g. “CFO, Microsoft”). “Total acquisitions” counts the number of firms acquiring US-based targets over the 1992-2008 sample period.

	Count	Percent	Cumulative %	Total acquisitions
IBM	59	6.81	6.81	80
Oracle	57	6.57	13.38	44
HP	43	4.96	18.34	60
Cisco	42	4.84	23.18	86
Lucent	39	4.50	27.68	26
AT&T	38	4.38	32.06	31
Microsoft	36	4.15	36.22	87
GE	30	3.46	39.68	197
Intel	29	3.34	43.02	42
Nortel	28	3.23	46.25	8
Motorola	26	3.00	49.25	47
Sun Microsystems	24	2.77	52.02	39
EMC	23	2.65	54.67	32
PeopleSoft	21	2.42	57.09	15
Symantec	21	2.42	59.52	34
Ernst & Young	20	2.31	61.82	34
Price Waterhouse	19	2.19	64.01	1
SAP	19	2.19	66.21	1
Deloitte & Touche	18	2.08	68.28	33
Siebel	18	2.08	70.36	15
Lucent	17	1.96	72.32	26
Dell	17	1.96	74.28	9
3Com	16	1.85	76.12	18
Siemens	16	1.85	77.97	23
McKesson	15	1.73	79.70	25
Novell	14	1.61	81.31	17
Cadence Design Systems	13	1.50	82.81	29
EDS	13	1.50	84.31	29
Yahoo	13	1.50	85.81	26
Ariba	12	1.38	87.20	26
Medtronic	12	1.38	88.58	32
i2	12	1.38	89.97	9
AOL	11	1.27	91.23	15
Accenture	11	1.27	92.50	0
Apple	11	1.27	93.77	13
Computer Associates	11	1.27	95.04	2
FOX	11	1.27	96.31	5
Pfizer	11	1.27	97.58	19
Sony	11	1.27	98.85	4
Merck & Co	10	1.15	100.00	7
Total	867	100.00		

L.A. Venture Association



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Related Topics



Bombd Sets Up Shop In Venice, Aims At Social Networking

socalTECH

APRIL 5, 2016

Bombd , a startup which develops a social networking and messaging app revolving around sharing instant photos with others, has set up shop in **Venice** Beach. The startup--originally started in Australia--said



Amplify Closes \$10M Fund For More Startup Investments

socalTECH

JANUARY 30, 2017

Venice-based Amplify recently close a third, early stage investment **fund** of \$10M, as part of its efforts to accelerate startups in the Los Angeles area. Amplify, which operates its own startup accelerator in

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Trending Sources

Berkonomics
TechCrunch LA

Source: <https://www.socaltechcentral.com/funding/venice/>

Accelerators, Incubators, Angel Investors

Source:

Accelerating Startups: The Seed Accelerator Phenomenon

Susan G. Cohen

University of Richmond

Yael V. Hochberg

Massachusetts Institute of Technology and NBER

March 2014

Summary of the Differences between Incubators, Investors, and Accelerators

	Accelerators	Incubators	Angel Investors
Duration	3 months	1-5 yrs	Ongoing
Cohorts	Yes	No	No
Business model	Investment; non-profit	Rent; non-profit	Investment
Selection frequency	Competitive, cyclical	Non competitive	Competitive, ongoing
Venture stage	Early	Early, or late	Early
Education offered	Seminars	Ad hoc, hr/legal	None
Venture location	Usually on-site	On-site	Off-site
Mentorship	Intense, by self and others	Minimal, tactical	As needed, by investor

Most accelerators provide a stipend or small seed investment, mentoring, and workspace and professional services in exchange for an equity stake in the company. Typically, the equity investment is around \$25,000 and the equity stake is roughly 6 percent, according to Hochberg.

Bank Financing

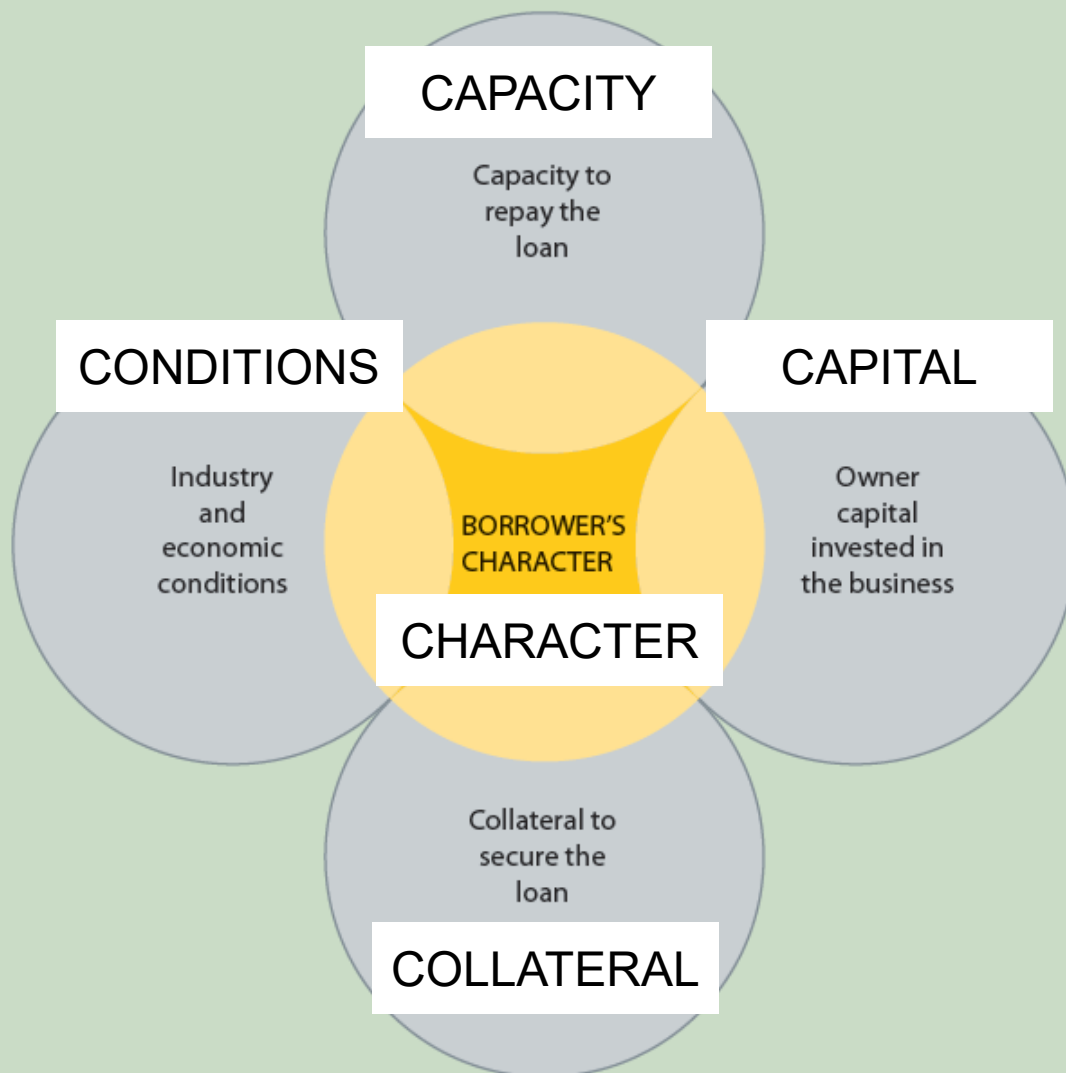
Line of Credit
*Revolving credit
agreement*

Term Loans
*5-10 year
maturities*

**Types of
Loans**

Mortgages
*Chattel
Real estate*

12.5 Five Cs: The Foundation for Getting a Loan



Crowdfunding

- Crowdfunding
 - The process of raising very small investments from a large number of investors through online platforms.
- Approaches to Crowdfunding
 - Nonequity funding: donations, rewards, prepurchases
 - Equity investing by accredited investors
- Crowdfunding Investment Issues
 - Voting rights for initial investors reduces attractiveness to venture capitalists.
 - Revelation of confidential and competitive information to crowdfunding investors

CrowdFunding

Great site for comparisons:



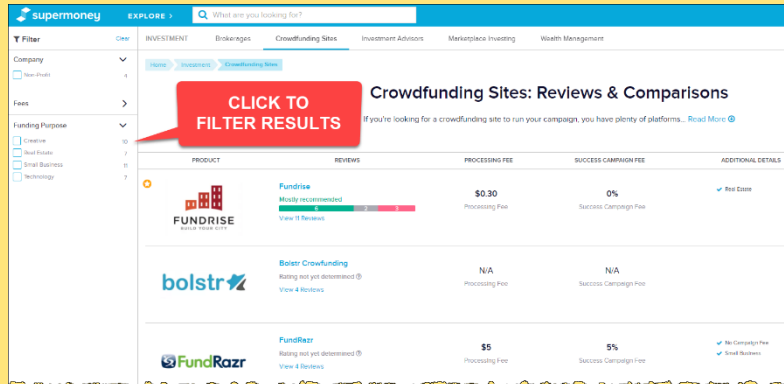
<https://www.supermoney.com/reviews/crowd-funding>

The screenshot shows the SuperMoney website interface. At the top, there is a search bar and navigation tabs for 'INVESTMENT', 'Brokerages', 'Crowdfunding Sites', 'Investment Advisors', 'Marketplace Investing', and 'Wealth Management'. The 'Crowdfunding Sites' tab is selected. On the left, there are filter sections for 'Company' (Non-Profit: 4), 'Fees', and 'Funding Purpose' (Creative: 10, Real Estate: 7, Small Business: 11, Technology: 7). The main content area is titled 'Crowdfunding Sites: Reviews & Comparisons' and includes a sub-header: 'If you're looking for a crowdfunding site to run your campaign, you have plenty of platforms... [Read More](#)'. Below this is a table comparing three crowdfunding sites.

PRODUCT	REVIEWS	PROCESSING FEE	SUCCESS CAMPAIGN FEE	ADDITIONAL DETAILS
	Fundrise Mostly recommended View 11 Reviews	\$0.30 Processing Fee	0% Success Campaign Fee	<input checked="" type="checkbox"/> Real Estate
	Bolstr Crowdfunding Rating not yet determined ⓘ View 4 Reviews	N/A Processing Fee	N/A Success Campaign Fee	
	FundRazr Rating not yet determined ⓘ View 4 Reviews	\$5 Processing Fee	5% Success Campaign Fee	<input checked="" type="checkbox"/> No Campaign Fee <input checked="" type="checkbox"/> Small Business

Let's Find Crowdfunding Platforms

Go: <https://www.supermoney.com/reviews/crowd-funding>



Click on Filter options (left), one at a time, to see various lists

Choose at least two (2) sites to explore from the list on the right



Individual Paper (answer for each of 2 crowdfunding sites):

1. Name of Crowdfunding site
2. Describe what they do.
3. What did you find most interesting about this opportunity?

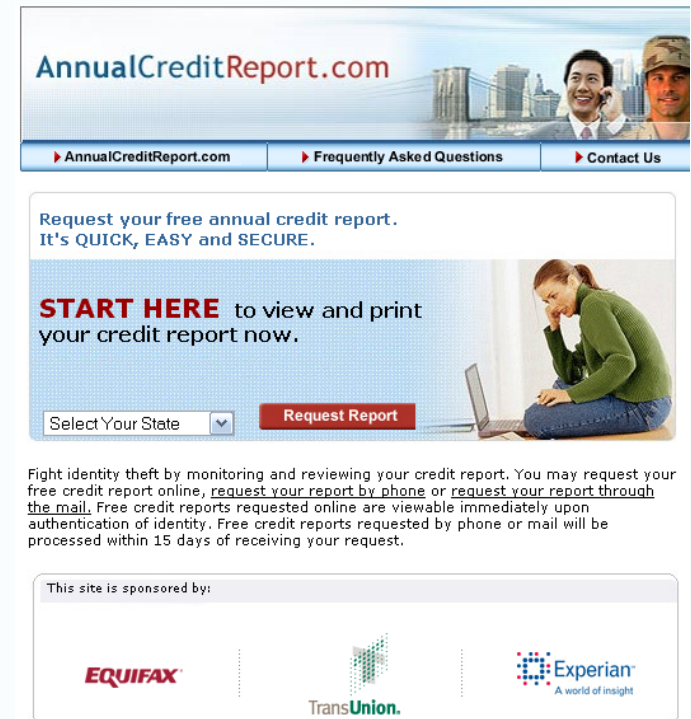
Your Credit Report

Understanding your Credit Report [FILM](#) (4 min)

Get your Credit Reports for FREE at:

<https://www.annualcreditreport.com/cra/index.jsp>

[FILM](#) Credit Report fraud alerts (3 min)



The screenshot shows the homepage of AnnualCreditReport.com. At the top, the website name is displayed in blue and red. Below it is a navigation bar with three links: "AnnualCreditReport.com", "Frequently Asked Questions", and "Contact Us". The main content area features a blue background with the text "Request your free annual credit report. It's QUICK, EASY and SECURE." and a prominent "START HERE" button. Below this is a form with a "Select Your State" dropdown menu and a "Request Report" button. A woman is shown sitting on the floor, looking at a laptop. At the bottom, a section titled "This site is sponsored by:" lists three sponsors: EQUIFAX, TransUnion, and Experian.

AnnualCreditReport.com

▶ AnnualCreditReport.com ▶ Frequently Asked Questions ▶ Contact Us

Request your free annual credit report.
It's QUICK, EASY and SECURE.

START HERE to view and print
your credit report now.

Select Your State

Fight identity theft by monitoring and reviewing your credit report. You may request your free credit report online, request your report by phone or request your report through the mail. Free credit reports requested online are viewable immediately upon authentication of identity. Free credit reports requested by phone or mail will be processed within 15 days of receiving your request.

This site is sponsored by:

EQUIFAX TransUnion Experian
A world of insight

Your FICO Score

Get your FICO score Free:

Discover credit card (on statements)

Bank of America (on-line banking)

[FILM](#) FICO Score (3 min)

Presentations, Presentations . . .

Meeting with your banker (7 min)

1. What tips are offered?
2. Which one tip is most meaningful to you? Why?

Financial Information Required for a Bank Loan

- **Three years** of the firm's historical statements
 - Balance sheets, income statements, and statements of cash flow
- **Pro forma** financial statements
 - The timing and amounts of the debt repayment included as part of the forecasts
- **Personal financial statements**
 - The borrower's personal net worth (assets – debts) and estimated annual income

Business Suppliers and Asset-Based Lenders

- Accounts Payable (Trade Credit)
 - Supplier-provided financing of inventory to a firm, which sets up an account payable for the amount.
 - Short-duration financing (30 days)
 - Amount of credit available depends on type of firm and supplier's willingness to extend credit



The Government

- Small Business Administration (SBA) loans
 - The 7 (a) Guaranty Loan Program
 - [Video](#) (2 min)
 - SBA guarantees repayment of loan to lender
 - The Certified Development Company (CDC) 504 Loan Program
 - The 7(m) Microloan Program
 - Small Business Investment Companies (SBICs)
 - Small Business Innovative Research (SBIR)