Alternate Sources of Financing

Below are several sources of funds for both start-ups and established companies. The list is not exhaustive but is meant to give a broad perspective of where to obtain funds and the relative merits of those sources.

Source	Primary fit into Typical Financing Strategy	Positives	Negatives	Cost
Self	Initial money to at least document or demonstrate the idea to the point where other investors can understand it	Nobody's permission required	It's your money to lose	However much you are willing to risk
Family and Friends	If more money is needed to get the idea to an invest-able point and the individual's funds are limited	These investors don't ask many tough questions	You could alienate friends an family if the money is lost	Friends and family and their money
Angel investors (ex: informal group of knowledgeable individuals)	Early in the company concept stage	Some coaching and contacts	Some meddling by investors and regular results reporting	5-10% of the company
Venture capital (ex: traditional VCs, the Sandhill Rd. crowd)	Early stage typically before product and team are built	Don't have to pay the money back. VCs can also bring advice and partners	VCs involvement in the company may challenge management	Typically 20-50% ownership of the company
Suppliers and trade credit (ex: parts vendors with net 60 day terms**)**	Available early in product development and pre production period if the vendor believes in the product	Easy source of credit	Few	Bundled in the price paid for the product or service

	and its customers			
Commercial bank (ex: Bank of America)	Available after the company has revenues and profits	Low cost	Money must be paid back in the future	Current market rates for borrowed funds
Institutional investors (ex: Liberty Mutual , AETNA)	Invest just prior to an initial public offering	Typically pay a premium for stock	Few	Equity is sold slightly cheaper than at the time of the IPO
Asset based lenders (ex: GE Credit capital)	Can be early in the life of a company where lender holds title to equipment in the company	Non equity source of additional cash	Requires monthly cash payments and the company risks repossession of equipment if the business does not meet certain financial milestones	Higher than straight bank debt
Public equity (ex: NASDAQ)	Historically has occurred when a company is $10M or greater in revenues and profitable. Some companies today go public on the basis of a hot concept with little revenue and a period of substantial losses ahead.	Access to large amounts of capital. Liquidity for investors	Scrutiny of investors, inability to give employees very low cost options, cost of public accounting and reporting, defocusing of top management away from the customer and toward Wall Street	High in terms of management time and energy