

Where's the Money?

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Since the ESU Small Business Development Center started twenty years ago, we have answered many questions and assisted hundreds of small businesses. During this time, the most popular question has been about the issue of money. Not only about how much a potential new business owner should contribute, but also about where the free money is.

Contrary to popular belief, there are not many government grant programs for a business, and even fewer for a start-up with no track record, which are usually the ones asking about grants. Due to no fault of their own, people who ask about free money have heard it from a friend or acquaintance, who probably saw an advertisement on television talking about a book you can buy, which will tell you where all the government grants can be found. There are also some similar sources on the Internet. I know of no one who has gained anything by giving these sources their money.

A person in the pre-venture stage should expect to contribute twenty to thirty percent of the total cost of starting a business. This is a rule of thumb and the amount required by a lender may vary, depending on several factors. The owner contribution does not always have to be entirely in cash. It can also be in the form of tools, equipment, or other assets that are owned free and clear by the borrower and will be used in the proposed business. However, there really is no substitute for a business owner's contribution or equity in the project.

The best small businesses start with a solid business plan, which among many other things, contains a set of financial projections for a three-year period. One of the worst situations can evolve when a business starts with too little operating capital. For instance, a new company, which has been in business for a year or so, may find themselves with a cash shortage. Many times this stems from a lack of planning or a situation where enough start-up capital was not secured. When this is the case, it is nearly always the operating capital that is cut short. At this point, the business owner is forced to seek additional funding. Since most new businesses don't show a profit, the income statement will not impress a lender or investor and the business will not be able to obtain the capital it needs to survive and succeed.

Good planning, realistic financial projections, and adequate capital are vital for a successful business. If the SBDC can help with a new or existing business venture, please call us at 620-341-5308 or e-mail sbdc@emporia.edu.



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