Finding the money you need to grow your company

It's almost impossible to grow without investing in some aspect of your business! Here are five ways – from the easiest to most difficult – to get the money needed for growth.

1. Borrow: debt financing for growth

- **Yourself:** Tap your personal savings, borrow on your credit cards or insurance policies, sell property, stocks, bonds, automobiles, holiday homes and put all that money into the company.
- **Friends and family:** Agree on the amount, the interest rate, draw up the loan documents, have them witnessed, and secure the money.
- **Bank or fiduciary institution:** Banks will lend money for growth, but usually require collateral. Banks can also provide loans for equipment and even a revolving line of credit tied to receivables.
- **Vendors:** Check out vendor financing, e.g., the lease purchase of equipment from the dealer or a third party.

- **Factoring:** You could sell your invoices to another company at a discount. They then collect the accounts receivable from your customers. Although they pay you less than you had invoiced, you get your money right away, that helps your cash flow – and you don't have to worry about when or whether your clients pay.
- **States/Territories:** Some states and territories provide loans to companies for major expansion.

Most companies in Australia fund their growth by reinvesting profits and borrowing money. But don't forget to explore government grants or consider partnering. And, if you have an exciting business opportunity and are growing very quickly, sharing the risk by selling equity may be the only way to grow fast enough to capture the opportunity.

2. Reinvesting Profits

In order to reinvest profits, it goes without saying that you need to be profitable!

Here are a few ideas about how you can reduce the cost of making, delivering, and selling your products and services, hence be more profitable:

- Reduce the steps in the development/production of your product or service: simplify.
- Negotiate with your suppliers or find other suppliers.
- Install cloud-based systems that enable employees to work from anywhere.
- Automate some of the communications with your customers.
- Look for efficiencies – but don't sacrifice effectiveness.

Here are some ways to reduce your company's general, administrative and marketing costs:

- Send electronic invoices to customers; receive electronic payments.
- Print less; use electronic signatures and e-mailboxes.
- Be vigilant about cyber security.
- Investigate less expensive channels for reaching your customers.
- Measure response to various marketing messages and channels.
- Install sales systems for easier management of leads and prospects.
- Provide more sales training; focus on the best prospects.

Collecting your money faster and managing cash flow should reduce the amount of money you need to borrow; paying less interest has a positive impact on profitability:

- Submit your invoices a day early.
- Use electronic payments and on-line transfers to move money quickly.
- Structure your contracts to get more money sooner.
- Figure out how to generate recurring revenue every month.

3. Government Grants

Grants require a lot of paperwork and yearly updates, but they don't need to be repaid. City, state, and federal government grant programs expect "payback" in the form of additional jobs, increased tax revenue, and more self-sufficient people in healthier communities.

Some grants are only available to companies in specific industry sectors, e.g., advanced manufacturing, energy, tourism, health, or companies of a certain size, or those who are willing to hire an apprentice, or want to export goods and services, or locate in a specific region. Take time to review your State or Territory's and the Commonwealth's grant and loan programs, and sign up on their websites to get information about the latest programs of support for small and medium businesses.

4. Partnerships or Joint Ventures

Sometimes it's worth entering into a partnership or joint venture with a large company that can manufacture your product, market it, or be a channel for getting your product to market. Before entering into any of these joint arrangements, specify who owns what intellectual property, who is bringing what resources to the joint venture or partnership, and what are the options for one partner if the other fails to perform as specified in the contract. Work with a good lawyer to develop a contract specifying who does what, by when, who's paid what, by when, and how your intellectual property will be protected.

5. Selling Equity

Less than 1% of the companies in America get venture capital funding and only 12%-15% get angel investment. In short, equity funding is only an option for a few companies.

Angels: Individuals who invest between $5,000 and $100,000 (on average $25,000) and receive shares in the company.

Venture Fund: A venture capitalist might invest one to several million dollars in a company and expect to have a seat on the board. The right venture capitalists can open doors, make introductions to new customers as well as additional funders, and provide incredibly valuable mentoring and coaching.

Corporate Venture Funds: Corporate venture funds look for companies that are potential acquisitions or invest to keep a company away from a competitor.

Australian Business Growth Fund: This $540M fund has just begun making equity investments in companies.

There is no “perfect source” of funds. Each has advantages and disadvantages, so you need to make a list of the positives and negatives of each, given your company’s needs and the level of risk you are willing to take. Then talk with other successful business owners about how they funded their company’s growth, talk with your business banker, and consult your accountant and lawyer, as appropriate.

Next topic: Understanding the difference between marketing and sales