

How to get the money to start your business?

Description

If you have a business idea, in most cases you need to have money to realize it. Most things cost money and they should generate you with a profit for investments. In order to get the **business loan** or capital, you first need to assess how much money you really need to develop your business.

Assess how much you really need

First, you figure out how much you really need for setting up the business, expansion or growth. And then, where to spend it on.

Map your personal expenses

At first you assess your personal income needs, by how much you need to make a living, and then estimate the expense for developing your business, then you have a full financial overview of your expected total expenses.

Start by listing your expenses/cost from 1 month (yes, all of them, look at your bank statements/expenses) then multiply by 12 â?? thatâ??s your yearly personal expenses. You can find more about personal expenses and comparable spending budgets in your area here (Numbeo) which is your cost of living.

Estimate the cost of running the business

Now try, to get an estimate of the cost of running the business with a certain sales revenue. Say, if you sell 100 products with 10$, thatâ??s 1.000$ revenue and you have 800$ cost of doing this (for example the cost is inventory buy, store rent, promotion, labor for selling it, etc.). Maybe you need 800$ in advance to pre-finance your revenue. (Say you need to purchase product in advance).

Now, you have a rough business case from your personal expenses (which is your minimum profit level you need from your business) and your business cost level. This is the **minimal profit total** you need to make.

As costs go: you can write a large capital investment off in 3 years for starters. (for example: if you buy machines, or other equipment, etc.), then after a discussion with your bank/investor/network/accountant, you could make the cost estimate more realistic.

You could benefit from a financial businessplan template to map out your financial needs and list the expenses, and then check if they are done correctly. At first, your financial calculations will be a rough estimate and later after some extra research, real life tests and discussions, it will be more realistic and accurate. Then youâ??ll have a financial plan for getting your investments. Roughly it takes 2-3 times review of your financials plan to make a good one, so prepare. Also get feedback in from your bank contact or accountant, or financial advisor.

Download here a financial businessplan template to start calculating your business loan needs

Be trustworthy and be prepared

If you prepare better by mapping out your business strategy, writing your financial calculations, researching and documenting the market opportunity, etc. when you are doing your homework, youâ??ll become more trustworthy and it increases your chances of success.

That means sometimes making a business case perhaps more than 5 times. Now, you know how much time it really takes. It also good to have some of your own savings put into the business to really show you are serious about this. This is called â??skin in the gameâ??. This is hard, when you donâ??t have any money saved. (so start now by saving a bit).

Did you know 65% of the startup money come from family, friends and fools?

Did you know that **65% of the startups get their money from family and friends**? If you need money for growing your business, first, you could think in your own network and family for getting the money. For most startups, family, friends, relatives are the most common place for to get funding.

However, this can be difficult later, if you canâ??t pay back the loan, which makes problems for your friends and family. Often the bank has increased barriers not to provide you with the loan, and so it is easier for relatives to provide you with capital. But, for this you need to be equally prepared. Read here for how to get a bank loan.

What also helps is going to a bank manager, ask 1. what they need for input, to provide you with the loan. 2. Then do you homework, go bank to the bank again and provide the necessary details and then ask what they think on it (get feedback). And then, 3. if you still

donâ??t get the bankloan, you still have a sound financial plan now, to use for getting a loan from your family network. Or you could try again and go to the next bank.

Ask an experienced entrepreneur in your network

To save you from a bank trip, you could also ask a more experienced entrepreneur to take a direct look at your financial calculations. He or she will certainly have an opinion on this. And even he/she might be enthousiastic and interested in joining your business opportunity, perhaps provide you with a bit of capital to get you started. You might also consider a mentorship in this phase.

How to calculate the value of your business?

Sometimes you need to calculate the value of your business in order to get a business loan (or equity). Multiple ways are available to get an estimate or your potential value of your business. You could start here by using these valuation purposes. Try this for calculate your business value (Equidam). Itâ??s a bit elaborate, but it will help you certainly to get a better feel of your (expected) business value. Be realistic and conservative.

Capital Expenditure (CAPEX) â?? Where will you spend it on?

You first determine how much you need for setting up â?? most of the expense elements are these:

- **Labor:** Staffing for developing the solution (labor, think or number of people, price per hour, how many you need per week/monthly, etc.)
- **Inventory Cost:** cost of buying inventory (tip: decrease the risk by not owning the gear but instead do it on â??consignmentâ?? / loan or try to work with: partners who are willing to provide you with a small batch of product for try out purposes)
- **Technology Development or Product development:** Product development cost (the cost to develop your product/service or business offering â?? list everything from labor, tech, and other resources). This also included platform development (if you have an app), or are developing a online business
- **Marketing & Sales:** Promotion & sales (creating marketing materials, mediabuys, advertisting material, hiring a salesforce, etc.), how much for promotion. How much for hiring extra salesforce. (tip: calculate staff cost per month, plus check how much you would pay a salesrep on sales commission)
- **Location / Rent:** hiring floorspace, or setting up your office, physical buy of location (mortgage). Best not to have a location (or even try to co-rent an office space to save your money at first).
- **Investment on Machines or Production Capacity** (like production machines, etc.)
- **Administrative**: Setting up the business (general, administration, legal fees, infrastructure, office, bookkeeping, etc.)
- **Financial Costs:** capital costs (reserve, risk, bank loan interests repayments, rents from loans)

Use Existing Cashflows to Finance Growth

Can you finance your business from existing (free) cashflows? If you could, you are already making money on the business, you could re- use that free cashflow to finance small investments. Seeing this also give the bank loan manager a trustworthy feel of your business (traction). This way you donâ??t have to go the banks, and donâ??t have all the hassle. You save loads of time.

But the process in getting capital is relevant, the process of getting capital *forces* you to take a good and hard look at your business (opportunity). After calculating multiple business cases and creating a nice powerpoint deck, you could approach several banks or investors. This helps you also getting better control of your business.

Ideas â?? Where to get capital (not from banks)

1. Friends & fools / family â?? most used â?? rich uncles/aunts, also think of pooling resources
2. Micro-Finance Institutions â?? small business loans providers
3. Crowdfunding â?? peer to peer lending networks
4. Government grants & subsidies â?? paperwork / specialized
5. Investors â?? seed capital (angel investors /seed capital)
6. Other enterpreneurs â?? downside â?? losing a bit of control of your business, but often helpful network
7. Your own savings â?? if you put in your own savings, you will be more conscious of spending your money (This is called â??skin in the gameâ??)
8. Try to get excess money (from maybe your current job_ and then save it for starting the business.
9. Existing cashflow to fund growth (small investments)
10. Try to minimize capital needs (working on a shoestring) â?? working with volunteers, use free software, and run the business with low startup capital needs. However, you grow slower, but maybe more stable.

Savings tips and possibilities to get by with less money

Build frugality and run your business and personal expenses with less money. Here are some tips:

1. Not work from a office, but rent first or share with another entrepreneur or try at first with no office. Maybe you could share resources with a partner.
2. Not work with staff, but do it yourself (this is time consuming since you donâ??t delegate, but youâ??ll spend only your own time). Think of using freelancers or volunteers, or interns at first
3. Work with free tools (most business software comes with free versions, start with trying out these), later move to paid tools for upgrades
4. Remove subscriptions you donâ??t use. Check your phone bills, rent levels, etc.
5. Ask potential customers if/when they will buy from you (or even pay-up front)

6. Do you have any ideas ? Leave us a note.

Repayment Capacity

Also, when you have a business loan, you need to pay back a loan. Showing this ability is very important for all providers of capital. It is hugely important to have a good repayment ability in place. If you can show this together with your financials that you can repay the loan with interest, and really stick to it, the risk for the lender will be lower. And this increases the chance that you can get the loan in the first place and even you might have a lower interest rate on your business loan.

Good luck!

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p.s. You can download a financial businessplan template here to start calculating your business loan level

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