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**INFORMATION**

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**&**

**CREDIT**

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## Where Does Start-Up Money Come From?

Significant start-up costs can make the early days (and years) of a new business quiet stressful. It takes time to get a business off the ground. Successful and non-successful businesses often appear to be similar in the early months. Some businesses start making money before others, while some businesses never make money.

Funding for a business comes from either one or a combination of two primary sources, equity and debt. Equity is the owner's contribution to the start up of the business. Equity is the dollars that stay in the business and do not have a definite repayment schedule and equity is a critical part of a business needing to secure additional funds. Debt (or a loan) is the other primary funding source for new businesses. Debt funding is critical to the business with insufficient equity to finance the business' start-up and loans are generally set-up with a fixed payment schedule. As a general rule, lenders may require that equity represent 25% to 50% of the total start-up costs for a new business. The most common source of equity is from the owner, but may also originate from friends and family. Loans are generally obtained from commercial banks, government agencies or some other third party that sets a specific repayment schedule. Loans may be secured or non-secured. Non-secured loans are based entirely on the borrower's financial strength and past performance. Secured loans require that assets be used as collateral to secure the loan <sup>1</sup>.

The money to start a business or to buy an existing business most often comes in the form of equity from personal investments, lending institutions and friends and relatives (see table below) <sup>2</sup>.

<b>Sources of Start-Up Money for Entrepreneurs Starting a new Business and Buying an Existing Business</b>		
<b>Source of Capital</b>	<b>Start New Business</b>	<b>Buy Existing Business</b>
<b>Personal resources</b>	60%	34%
<b>Lending institutes</b>	23%	37%
<b>Friends &amp; relatives</b>	9%	11%
<b>Other</b>	4%	7%
<b>Investors</b>	3%	4%
<b>Government agencies</b>	1%	2%

### Financing Sources to Consider:

- Personal Savings
- Friends & Relatives
- Mortgage Real Estate
- Commercial Banks
- Savings & Loan Associations
- Government Agencies
- Finance Companies
- Credit Cards
- Outside Investors (stock sales)

In a recent study of the banking industry by the Tennessee Small Business Office, the following items were found as the primary reasons banks decline credit to small businesses:

- 1) Lack of Owner's Equity
- 2) Lack of Perceived Business Skills
- 3) Collateral Shortfall
- 4) Previous Credit Experience
- 5) Character

Another study revealed that 92% of all start-up businesses are financed by their own generated capital (primarily personal assets and friends & family).

<sup>1</sup> "Financing Your Business," The Frank L. Roddy Small Business Development Center of South Carolina.

<sup>2</sup> "Exploring Entrepreneurship," Alan Barefield, et. al., Agricultural Economics & Resource Development, The University of Tennessee Agricultural Extension Service.

## Where to Go For Money - Grants

It is a common mis-perception that there is a grant available for everything, you just have to go find it. This statement tends to be misleading for many entrepreneurs. While there are numerous grants available for many different projects, most all grants require a significant amount of investment in a written proposal for very specific projects. While there may be literally thousands of grants available, some are restricted to non-profits, governments, cooperatives, non-food, research, education and the like. Once you take out all the restrictions and focus only on the grants that are aimed at your particular interest, the list becomes quiet short. In fact, only two potential grant opportunities seem to be considerable funding sources for most value-added agricultural projects.

**SBIR** - - One potential grant opportunity for agri-business entrepreneurs to consider is the USDA, Small Business Innovation Research (SBIR) program. For additional information on the SBIR grants, contact the following:

Dr. Charles Cleland  
Director, SBIR Program  
USDA-CSREES-SBIR  
1400 Independence Ave. SW  
Washington, DC 20250-2243  
Phone: (202) 401-1839  
Fax: (202) 401-6070  
Web Site: [www.reeusda.gov/sbir](http://www.reeusda.gov/sbir)

**SARE** - - The other favorable grant opportunity for value-added agricultural enterprises is from the Sustainable Agriculture Research and Education (SARE) program. For additional information on the SARE grants, contact the following:

Dr. John Mayne - Producer Grants Coordinator  
Stucky Building, Room 203  
1109 Experiment Street  
Southern Region SARE  
Griffen, GA 30223  
email: [jmayne@gaes.griffin.peachnet.edu](mailto:jmayne@gaes.griffin.peachnet.edu)  
Phone: (770) 229-3350  
Web Site: [www.griffin.peachnet.edu/sare/](http://www.griffin.peachnet.edu/sare/)

## Where to Go For Money - Loans

According to the Tennessee Small Business Office, grants are not available for starting or expanding small businesses. However, the following financing programs are available:

**Revolving Loan Funds**  
**TVA Special Opportunity Counties**  
**Tennessee Child Care Facilities Program**  
**Rural Economic Development Revolving Loan Program**  
**SBA 504 Loan Program**  
**SBA Guarantee Loan Programs**  
**SBA Defense Adjustment Program (DELTA)Acce\$\$**  
**Small Business Energy Loan Program**  
**Rural Business Cooperative Development Service**  
**Small Business Innovation Research Contracts**  
**Small Business Investment Companies**  
**TN Occupational Safety and Health Grant**

Most of these opportunities have certain requirements. Some are earmarked for industrial manufacturers, some for companies relocating to Tennessee, some for childcare facilities, some for utilities and some for defense-related firms. Additional information regarding these programs may be obtained from the Tennessee Department of Economic & Community Development Web Site for Small Businesses at [www.state.tn.us/ecd/busserv.htm](http://www.state.tn.us/ecd/busserv.htm).

**SBA** - - Most often, one of the best loan programs for small businesses is through the Small Business Administration. Whether or not a business will qualify for a (SBA) loan depends on a number of business-specific items. Broad guidelines established by the SBA identify who may be eligible for SBA loans. The SBA defines a small business as one that:

- ▶ is independently owned and operated
- ▶ is not dominant in its field
- ▶ meets SBA employment and sales standards

According to the SBA, as many as 98% of all U.S. businesses fit this size standard. Information concerning some of SBA's loan programs, forms and fact sheets can be obtained by contacting the state SBA office at:

Small Business Administration  
Philip D. Mahoney, District Director  
50 Vantage Way  
Suite 201  
Nashville, Tennessee 37228-1500  
(615) 736-5881  
FAX (615) 736-7232

The national SBA web site can be found at [www.sbaonline.sba.gov/](http://www.sbaonline.sba.gov/).

**Rural Information Center** - - The Rural Information Center (RIC) is a joint project of the USDA Cooperative State Research, Education & Extension Service and the National Agricultural Library. The RIC provides information and referral services to local government officials, community organizations, health professionals and organizations, cooperatives, libraries, businesses and rural citizens working to maintain the vitality of America's rural areas. Services offered by the RIC include:

- **Providing** customized information products to specific inquiries including assistance in economic revitalization issues; local government planning projects; rural health topics; funding sources; technical assistance programs; research studies; and other related issues.
- **Processing** a broad array of general and funding information requests on such topics as:
  - ✓ Successful strategies, models, and case studies of community development projects
  - ✓ Small business attraction, retention, and expansion
  - ✓ Tourism promotion and development
  - ✓ Recycling programs
  - ✓ Community water quality
  - ✓ Technology transfer to rural areas
  - ✓ Agricultural health and safety
  - ✓ Health programs and services
- **Referring** users to organizations or experts in

the field who can provide additional information.

- **Performing** brief literature searches on computerized databases of requested topics on a complimentary basis or exhaustive searches on a cost recovery basis.
- **Furnishing** bibliographies and Rural Information Center Publication Series titles.
- **Identifying** current USDA research and Cooperative Extension System programs.
- **Assisting** users in accessing the National Agricultural Library's extensive collection.

For more information about the Rural Information Center, write, telephone, fax or e-mail:

Rural Information Center  
National Agricultural Library  
Room 304  
10301 Baltimore Ave.  
Beltsville, MD 20705-2351  
1-800-633-7701  
Web Site: [www.nal.usda.gov/ric/](http://www.nal.usda.gov/ric/)  
Email: [ric@nal.usda.gov](mailto:ric@nal.usda.gov)

**Service Corps of Retired Executives** - - The SCORE Association (Service Corps of Retired Executives) is a nonprofit association dedicated to entrepreneur education and the formation, growth and success of small business nationwide. SCORE is a resource partner with the Small Business Administration (SBA). SCORE Association volunteers serve as "Counselors to America's Small Business." Working and retired executives and business owners donate their time and expertise as volunteer business counselors and provide confidential counseling and mentoring free of charge.

With more than 12,000 volunteer business counselors, SCORE provides small business mentoring and advice on a full range of business topics. You can find SCORE in your local community to meet with a SCORE counselor face-to-face or use Get Email Counseling—to receive free and

confidential business advice. SCORE business counselors are well-versed in how to develop effective business plans and create strategies for business growth—they are here to help you set your course for success.

SCORE counselors allow you to meet face-to-face with a business expert, with experience owning or operating a business. SCORE members may also counsel in teams, with each counselor bringing a specific strength to the table. Counselors may be available to visit you at your place of business, making them better able learn more about your venture and your concerns. The web site for the national SCORE program can be found at: <http://www.score.org/>. There are six SCORE chapters across the state. Contact information for each of the chapters is listed below:

**Memphis SCORE** - Chapter 0068

Federal Building, 167 N. Main Street, Ste. 390  
Memphis, TN 38103  
PHONE: (901) 544-3588

**Jackson SCORE** - Chapter 0456

c/o Chamber of Commerce, 197 Auditorium Street  
Jackson, TN 38301  
PHONE: (901) 423-2200

**Nashville SCORE** - Chapter 0072

50 Vantage Way, Suite 201  
Nashville, TN 37228-1500

**Chattanooga SCORE** - Chapter 0211

Federal Building, 900 Georgia Ave., Rm. 26  
Chattanooga, TN 37402  
PHONE: (423) 752-5190 FAX: (423) 752-5335

**Kingsport SCORE** - Chapter 0545

c/o Chamber of Commerce, 151 East Main Street  
Kingsport, TN 37662  
PHONE: (423) 392-8805

**Greater Knoxville SCORE** - Chapter 0435

530 South Gay Street, Farragot Bldg, Suite 224  
Knoxville, TN 37902  
PHONE: (423) 545-4203

**Tennessee Small Business Development Center** - -  
The Tennessee Small Business Development Center (TSBDC) may be able to provide assistance in

planning for and identifying/obtaining investors. The web site for the TSBDC is: <http://www.tsbdc.memphis.edu/>. Each year more than 4,000 Tennessee business men and women from every industry imaginable put TSBDC counselors on their team. The Service Centers and Affiliate Offices assist business owners and managers provide counseling for management and technical business problems and issue such as:

- ✓ Private Sector and Government Procurement
- ✓ Sales/Marketing/Promotions/Public Relations
- ✓ Business Location Analysis
- ✓ Record keeping/Accounting
- ✓ Work Flow Analysis
- ✓ Business Planning
- ✓ Financial Planning
- ✓ Sources of Capital
- ✓ Market Expansion
- ✓ Tax Planning
- ✓ Plant Layout

The TSBDC is partially funded under Cooperative Agreement No.8-7620-0045-15 by the U.S. Small Business Administration in partnership with The University of Memphis. There are twelve TSBDC service centers across the state. Contact information for each of the service centers is listed below:

Tennessee Small Business Development Center  
320 South Dudley Street  
**Memphis**, TN 38104-3206  
(901) 527-1041

Tennessee Small Business Development Center  
1510 Lake Rd.  
**Dyersburg**, TN 38024  
(901) 286-3201

Tennessee Small Business Development Center  
2046 North Parkway Street  
**Jackson**, TN 38301-3797  
(901) 424-5389

Tennessee Small Business Development Center  
Maury County Chamber of Commerce Building  
106 West Sixth Street  
P.O. Box 8069  
**Columbia**, TN 38402  
(615) 898-2745

Tennessee Small Business Development Center  
College of Business  
330 10th Avenue North  
**Nashville, TN 37203-3401**  
(615) 963-7179

Tennessee Small Business Development Center  
Chamber of Commerce Building  
501 Memorial Blvd.  
**Murfreesboro, TN 37129**  
(615) 898-2745

Tennessee Small Business Development Center  
Four Lakes Regional Industrial  
Development Authority  
P.O. Box 63  
**Hartsville, TN 37074-0063**  
(615) 374-9521

Tennessee Small Business Development Center  
College of Business Administration  
P.O. Box 5023  
**Cookville, TN 37203-3401**  
(931) 372-3648

Tennessee Small Business Development Center  
Affiliate Office of the Chattanooga Area Consortium  
P.O. Box 4757  
**Chattanooga, TN 37405-0757**  
(423) 266-5781

Tennessee Small Business Development Center  
Historic City Hall  
601 West Summit Hill Drive, Suite 300  
**Knoxville, Tennessee 37902-2980**  
(423) 632-2980

Tennessee Small Business Development Center  
Tennessee Valley Programs Division  
Lead Service Center Chattanooga  
Area Consortium  
P.O. Box 3570  
**Cleveland, TN 37320-3570**  
(423) 478-6247

Tennessee Small Business Development Center  
College of Business  
P.O. Box 70698  
**Johnson City, TN 37614-0698**  
(423) 929-5630

**Small Business Investment Corporations** - - Small business investment companies (SBICs) supply equity capital, long-term loans and management assistance to qualifying small businesses. They are privately

owned and operated. These investment businesses use their own capital as well as funds borrowed from the U.S. Small Business Administration. While they are profit-seeking enterprises, SBICs select small businesses to be financed within the rules and regulation set by the SBA. Therefore, only firms defined by the SBA as "small businesses" are eligible for SBIC financing. The SBA recommends that small businesses looking for SBIC financing first identify SBICs that may be interested in their particular company. The following list may be used to find SBICs in Tennessee who invest in your type of business. Once a list of companies that fit the financing needs of your business has been identified and researched, they should be contacted to find out what materials they require regarding your project. Some companies may prefer a full business plan, while others may first want to see an executive summary or your business prospectus. Regardless of the information required, the entrepreneur should be cautious in the amount of information disclosed. Below is a list of SBICs in Tennessee.

**Equitas, L.P.**

2000 Glen Echo Road, Suite 100  
Mail: P.O. Box 158838  
Nashville, TN 37215  
tel.: (615) 383-8673, fax: (615) 383-8693

**International Paper Cap. Formation, Inc.**

International Place II  
6400 Poplar Avenue  
Memphis, TN 38197  
tel.: (901) 763-6282, fax: (901) 763-7278  
Preferred Investment Size: \$40,000 to \$300,000  
Investment Policy: Loans and Equity  
Investment Type: Expansion and Later Stage  
Industry Preference: Diversified  
Geographic Preference: National

**Pacific Capital, L.P.**

109 Westpart Drive, Suite 260  
Brentwood, TN 37027  
tel.: (615) 371-1653, fax: (615) 373-1485

**Sirrom Capital Corp.**

500 Church Street, Suite 200  
Nashville, TN 37219  
tel.: (615) 256-0701, fax: (615) 726-1208  
Preferred Investment Size: \$1 to \$3 Million  
Investment Policy: Senior/Sub Debt  
Investment Type: Expansion - No Start Ups  
Industry Preference: Diversified

Geographic Preference: National

**Valley Capital Corp.**  
Suite 212, Krystal Building  
100 W. Martin Luther King Blvd.  
Chattanooga, TN 37402  
tel.: (615) 265-1557, fax: (615) 265-1588

**West Tennessee Venture Capital Corp.**  
5 North Third Street  
Memphis, TN 38103  
tel.: (901) 522-9237, fax: (901) 527-6091

for which funds are requested. In essence, the prospectus should inform the reader, in brief detail, of the proposed idea, define what is needed and propose a favorable “financial” opportunity. An outline for a business prospectus is given below.

## Seeking Funds

A business plan is a fairly standard document required by lenders when funds for a new business are sought. This is especially true when the funds are requested from commercial lenders (banks). For more informal requests and discussions preliminary to actually applying for a loan, a “business prospectus” may be adequate. A business prospectus should include a resume describing the background, education, training, experience and any other personal qualities of the applicant(s) that can be counted as an asset to potential success. Various loans that the applicant(s) has had in the past, what the loans were for and the payment history should also be listed. The prospectus should also explain how the requested funds will be used and specify arrangements for repayment, normal terms, percent of revenues or partial ownership in the business. Existing businesses should include a brief income statement and cash flow statement each showing the impact of the requested funds on the business. New businesses should include financial projections and evidence of marketing research. The prospectus should also describe the unique aspects of the proposed venture

### Suggested Contents of a Business Prospectus

- ✓ Resume of the applicants and key business personnel
- ✓ Loan history
- ✓ Balance sheet and projected income and cash flow statements
- ✓ Evidence of market research/analysis
- ✓ Specified repayment plans
- ✓ Unique aspects of the project

Once the prospectus accurately and honestly depicts how much money is needed, how it will be used and how it will be repaid, investors should be sought. Advertisements in newspapers or national publications may generate leads to perspective investors. An informal party with specially identified friends has also been mentioned as a way to promote interest in your project. With the assistance of a lawyer, you may consider developing an investment group with members buying shares in the project. Regardless of how traditional or unique the approach, when you are seeking money, it is important to get the word out—and be cautious. Creative marketing



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COOPERATIVE EXTENSION WORK IN AGRICULTURE AND HOME ECONOMICS  
The University of Tennessee Institute of Agriculture, U.S. Department of Agriculture,  
and county governments cooperating in furtherance of Acts of May 8 and June 30, 1914.  
Agricultural Extension Service  
Billy G. Hicks, Dean

can be applied to creative financing. Phone calls, direct mailings, e-mail and networking should be woven into efforts aimed at obtaining business financing. However, a good business idea may easily be stolen and entrepreneurs should be careful disclosing the details of their business. When patented projects are involved, it is often best to have legal protection for your idea before providing private investors too much information.