CPA Info #114 **September 2005**

AN OVERVIEW OF OBTAINING FINANCING FOR MEAT GOAT OPERATIONS

The central economic issue for the manager of a meat goat enterprise is to produce products at a cost low enough and sell products at prices high enough to generate a profit. A key issue with this equation is for managers to know their cost of production and fully understand their market opportunities. Success will involve appropriate business planning, record keeping and analysis, enterprise budgeting and financial management.

This fact sheet provides a broad overview of obtaining financing for meat goat operations.

Insufficient planning and lack of capital are the most-frequently cited reasons that businesses fail. Whether you are starting or expanding a goat enterprise, sufficient capital is essential. However, it is not enough to simply have sufficient capital -- knowledge and planning are required to manage it well. These qualities ensure that entrepreneurs avoid common mistakes like securing the wrong type of financing, miscalculating the amount required, or underestimating the cost of borrowing money.

Before inquiring about financing, ask yourself the following:

- Do you need more capital or can you manage existing cash flow more effectively?
- How do you define your need? Do you need money to expand or as a cushion against risk?
- How urgent is your need? You can obtain the best terms when you anticipate your needs rather than looking for money under pressure.
- How great are your risks? All business enterprises encounter risks, and the degree of risk will affect the cost and availability of financing alternatives.
- In what stage of development is the enterprise? Financing needs are often most critical during start-up and transitional stages.
- For what purposes will the capital be used? Most lenders require that capital be requested for very specific needs.
- What is the general status of the overall industry for your enterprise? Depressed, stable, or growth conditions require different approaches to financial needs and sources. Businesses that prosper while others are in decline will often receive better funding terms.
- Is your financial need seasonal or cyclical? Seasonal needs for financing generally are short term. Loans for cyclical industries are designed to support a business through depressed periods.
- How strong is your management team? Management is one of the most important elements assessed by financial sources.

- Perhaps most important, how does your need for financing mesh with your business plan? Most lending sources will use your business plan to see how the enterprise will function in the start-up and growth stages.

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

Funding for an enterprise 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 enterprise. Equity is the money that stays in the business and does not have a definite repayment schedule. Equity is a critical component of an enterprise that is in need of additional funds.

Debt funding (or a loan) is critical for enterprises that do not have sufficient equity to finance the business needs. 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.

Funding for enterprises most often comes from personal investments, lending institutions, friends and relatives, outside investors, government agencies and other sources. As the following table shows, the money to start a new enterprise most often comes from personal resources, commercial lending institutions and friends and relatives.

Sources of Start-Up Capital for Entrepreneurs Starting a New Business Venture		
Source of Capital		**Start New Business**
Personal resources		*60%*
Commercial lending institutions		*23%*
Friends & relatives		*9%*
Other sources		*4%*
Outside investors		*3%*
Government agencies		*1%*

Personal investment is the most-often used source of capital for new enterprises. It is estimated that personal resources are responsible for 60% of the capital for new business ventures.

Commercial lenders generally offer two types of loans for new enterprises – term loans and line-of-credit. Term loans are generally for fixed asset loans; that is, they are used to purchase real estate and equipment. The loans are collateralized with the assets purchased. As such, lenders generally extend a loan for a percentage of the value rather than full value for the goods. Such loans usually take the form of installment loans with regularly payments over a fixed period of time. A line of credit is often used to satisfy the working capital needs of an enterprise. Funds from a line of credit may be used to purchase inventory, take purchase discounts, make payroll and purchase required inputs. While some lenders may take accounts receivable and inventory as collateral, be prepared to use additional assets to secure these loans. Borrowers are expected to pay off seasonal lines of credit at least once a year. Small business borrowers generally draw down and pay off seasonal lines of credit several times a year.

It is often difficult to borrow money from friends and relatives. However, friends and relatives represent source of 9 percent of start-up funds for new business enterprises.

Outside investors that contribute funds to fledgling businesses are often considered venture capitalists that have financial resources to invest. These folks stand to make a significant return on their investment if the enterprise takes off. Outside investors are often interested in new ventures that stand to pay a significant return if successful or they are just interested in investing in certain types of enterprises that interest them.

Government agencies tend to represent a rather small part of start-up funds for new ventures. However, funds are available from various state and federal agencies in the form of low-interest loans and grants. The exact planned use of the funds will significantly influence whether government funding is a reasonable source or not. The Small Business Administration and US Department of Agriculture may be the best sources of possible funding for meat goat enterprises. In recent years grants have become an important part of the evaluation phase of alternative and value-added agriculture enterprises. Grants are often used to fund the development of feasibility studies and business plans and may also be available to provide some start-up expenses. Grants are most often available from a variety of government agencies, but private foundations and other sources also make grant funds available for some enterprises.

Other sources of financing include credit cards, foundation funding and community development funding.

The Five Cs of Credit are factors that lenders use to evaluate a loan request. Be sure to think about each of these from a lender's point of view.

Character	You are important to the lender. Are you honest, a good manager and experienced in business? Will you make every possible effort to repay the loan? Also, what is your previous history regarding loans? Have you been late on payments in the past? Have you ever filed for bankruptcy? If you can answer yes to one or both of the last two questions, you will have to convince your lender that you will repay this loan in a timely and efficient manner.
Capacity	Will your business generate enough revenues to repay the loan(s)? If the business fails, do you have the personal capacity to repay the loan?
Collateral	What collateral will you pledge? If the business fails, will the value of the collateral cover the loan? How easily could it be sold? Some lenders accept co-signers as collateral; in this case, the co-signer's character and capacity is important. However, some lending institutions may be reluctant to accept co-signers. In this case, you may think about using personal assets such as your home, vehicle or stock shares as collateral for the business loan. Before you pledge these assets, think carefully about losing them if the business fails.
Conditions	Market conditions and trends are of utmost importance to a lender. The projected changes in your target market, trends (both economic and social) of your community and market, and the seasonality of your business will be considered. The lender will also look at your competition and your plans to deal with them. Also, the lenders' experiences with similar businesses will help to influence their decisions.
Capital	The size of your commitment to the business is critical. Lenders will hesitate to risk their funds if you are not risking a substantial amount yourself. Lenders will rarely invest more than 60 percent of the total amount needed for a new small business. You should be prepared to invest as much capital in your idea as you can "reasonably" risk.

SOURCES

Barefield, Alan, George Smith, et al., "Exploring Entrepreneurship." UT Extension, PB 1630, 2000.

Holland, Rob, "Information on Obtaining Investors & Credit," UT Extension, ADC Info 38, July 1999.