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Top 10 Ways to Secure Money for Your Business

What to do when you need more money to grow your direct sales business or network marketing organization

by **Scott Letourneau**

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Do you need more money to grow your direct sales business or network marketing organization? The first step is to operate as a separate legal entity vs operating as a sole proprietorship (which is how 95% of those in network marketing or direct sales operate their business). Operating as a separate legal entity allows that new entity to build business credit and use OPM (other people's money).

Most business owners will go straight to the banks (natural good first choice) to seek financing to start and grow their business. Unfortunately, after the bailouts back in 2008, banks tightened up even more when it comes to lending to support your business. Recently, the banks that I interviewed told me that they are not really interested in lending (it is too risky) and they are going to focus on raising fees to make profits. As many Americans saw their equity fade in their homes, personal credit card debt rise and credit scores fall, it has become very difficult to receive any support from banks, even if you have a separate legal entity. It still is a main option and needs to be considered.

Over the last 15 years I have seen a majority of business fail, or barely hang on and having access to more money and cash flow is the lifeblood of any business. Here are my top 10 ways to secure more money for your business.

1. **Personal credit cards/loans.** This is how most businesses start out; through self financing. Not a good approach long term. As you form your LLC or corporation for your business, switching from self financing to business financing is very important. Using your personal credit to finance your business can happen in two ways. First, is when you are not able to pay yourself enough from

your business that you need your personal credit to pay bills. Second, using your personal money to loan the business money. After the startup phase, it makes more sense for a small business owner in most cases to loan money to the business. The business now has a note payable to you and would pay that back with interest. I would recommend you model similar guidelines you may receive from a bank for interest. The interest may be prime plus a few points over. Today, prime is 3.25%. Typically, you may see another 4.75% added to that rate. That would equal an overall interest rate of 8% to pay back. The payment back of the loan to you personally is not income; the interest portion is interest income. This means you have to plan in the budget of the business to follow a regular schedule of payments back to you personally. The tendency is to skip monthly payments back to yourself, because it is you, not an outside lender. That is not a good approach. You should draw up basic loan documents in case of an IRS audit for something else down the road to prove that when you paid yourself back that it was a loan repayment to you not personal income. You can go to www.lawdepot.com and download a loan agreement in minutes. This is the overall easiest approach but not the best.

2. **Family and friends.** This is a very common way to secure money especially at startup. It is also the best way to alienate family and friends if your business does not make it. It is very important that a family member or friend that will lend or invest money with you (in either case) should be very clear that if your business does not work out they will not get paid back. If they are lending you the money put it in writing so they are very clear that they do NOT own any portion of your business. This is a must. Make sure you have a loan agreement in place with an agreed upon interest and payment schedule. What happens if you do not have this in place and your business goes up in value and you are looking to sell it for a premium? The friend or family that “loaned” you the money may wrongly believe they “own” a percentage of your business and are just as excited to “cash in” on your big pay day. If you would have had a loan agreement in place and making monthly payments with interest to them, there would not have been any confusion. But with family and friends the tendency is to say, things are tight can I pay you back later or you never clarified in the beginning what was meant by financially supporting your business. You may have loosely said, “do you want to invest in my business”, vs. “do you want to lend money to my business”, and

that is where the confusion started. I see this all the time, especially with partners. Make sure you are clear, especially with family or friends. If they do lend the money they may request some type of collateral attached to the loan. It is recommended to review your documents with an attorney also. If it becomes too difficult with family or friends from the start, don't do it! That is a sign for issues to come in the future. Plus you may not want your family member asking every week, "how is business" especially when you know their intent is…"I hope it is going well, because I am counting on my loan payment with interest this month".

3. **Business Credit Card.** After you open your LLC and open a new checking account in the name of the LLC under the EIN number, you will want to get a debit card in the name of the LLC also. The next step is to ASK the banker first what are their criteria to secure a business credit card in the name of the LLC under the EIN. Is that something you can apply for as a brand new business or do you have to wait for 1-2 years? Three years ago, almost all banks allowed you to apply for a business credit card on day 1 because it was all based upon your personal credit (your personal credit score, your revolving debt ratio and if you had any major derogatories like a bankruptcy or foreclosure. Now, many banks have changed their policies and will not issue a business credit card until you have been in business for a year or longer. That is based upon the incorporation or LLC formation date. That is simply to lower the banks risk. Ask the bank if they know any parts of the criteria that will determine if your business is approved for a personal credit card or not. You will want to know which personal credit bureau they pull your credit from and what is the minimum your personal credit score has to be and revolving debt ratio. If the banks says you have to have a 680 personal credit score and a 50% personal revolving debt ratio and your credit score is 650 and you are maxed out on your personal revolving debt (credit cards, store card and home equity lines of credit) you know you will automatically be rejected so don't apply. Even though a business credit card is in the name of the entity under the EIN you will have to give a personal guarantee to protect the bank. This is not ideal, but the debt associated to the business credit card will NOT show up in your personal credit bureau which will protect your personal credit score over time. That is why you should have formed an LLC right at the start of your business and stop using your personal credit card to fund your business because you jack up your revolving debt and that will lower your

personal credit score. If you default on the business credit card and are late for payments that will affect your personal credit score and that is not good! Here is a great resource for both personal and business credit cards (if your bank is not able to help you out) www.creditcards.com.

4. **Business line of credit/business loan.** This is very similar to the comments under a business credit card. Banks will want to wait until you have been in business for 1 to 2 years before you may apply for a business loan or business line of credit. Including the personal requirements a good personal credit score of 680 or higher, a revolving debt level of 50% or less, the bank will look at the businesses overall gross revenues and net profits. How much will your business qualify for? It may be from 10-15% of the businesses annual gross revenues. If your business does $300K per year and your business is in a high risk category (the bank will let you know) you may only get approved for a $30,000 revolving line of credit or a higher amount if a loan. If you are in a low risk category it is a closer to 15%. A revolving line of credit is just that, it revolves. That means if you have a $30K revolving line and you use all $30K and later pay down the line to $20K, that means you still have access to another $10K (just like with a credit card). A loan is a set period of time, set monthly payments and as you pay down the loan, you don't get access to the amount you have paid down. You will find that a cash advance or merchant account cash advance is easier to obtain and will give you a higher percentage of your sales (sometimes 50% or more) but the factor rate is much more costly and it is paid back typically over 6-9 months vs. a loan that may be a 3-5 year loan. Keep in mind if you apply for a business revolving line of credit many times that only revolves for one year. Meaning if you have a $30K revolving line of credit and you have used $25K, the bank may expect that balance to be paid off in full after one year. At that time the bank may decide to carry continue the line of credit for one year. If the business does not pay back after one year the bank may decide to term out the business line of credit into a loan for three years. That means now your business line of credit is no longer revolving. The key is to ask your banker first. "what is the criteria to be approved before applying for the business line of credit or loan". Many times they will tell you they do not know but you will have to ask more questions or ask them to check with their underwriters to give you an idea on what are the basic requirements.

5. **Cash advances.** This has been the most popular areas since 2008 after the economic collapse. The theory is that banks lend based upon credit and cash advances (first merchant account cash advance, then cash advances) and a cash advances lends based upon cash flow regardless of your personal credit. A cash advance assumes a small business owners may not have great personal credit. That does not mean you can have a bankruptcy or foreclosure, but a credit score of lower than 600 would typically qualify. Most popular is the merchant account cash advance. This is based upon your monthly VISA®/MASTERCARD credit card revenue (not AMX). If your business has $10K per month for at least 6-9 months in a row of VISA®/MASTERCARD credit card revenue your business may qualify for an advance of about 50-75% of that monthly volume. In this example, that would be $5K to $7,500 typically approved within 2-3 days and you can have the money in your account within a week (maybe faster). One catch is that you have to move your merchant account processing over to the merchant account cash advance company. This is so popular now that you will probably receive an offer from your own merchant account cash advance company. The big key here is to understand two terms, the cash advance ratio and remit rate. This is an advance and there is no interest rate. Typically, this advance is paid back over 6-9 months if your sales are consistent. If your sales increase, you will pay it back faster; if your sales slow you will pay it back slower. The cash advance rate is the amount you will pay for the money. A 1.23 would mean if you received an advance of $30K, you would pay back $30K x 1.23=$36,900. The remit rate is a percentage of your daily VISA®/MASTERCARD sales that are taken out and used to pay down the advance. That may range from 15-25%. That means if you have $3,000 in VISA®/MASTERCARD sales one day, 15-25% or $450 -$750 would come out of those days sales. That is a big expense to pay back. The key is to secure the cash advance to grow and expand, not just to pay your bills because you are behind! Using all the money to pay bills and without plans to grow and expand is just putting a band aid on the inevitable, which may be going out of business. If your business is really behind on your bills, even 30-60 days late, a great resource is to call CorporateTurnaround.com. They are a great resource to negotiate with business vendors and business creditors so you can still move forward with your business. A cash advance is basically the same concept as a merchant account cash advance

except it is based upon your overall sales revenue. It may be easier especially if you have no credit card sales.

6. **SBA loan.** The U.S. Small Business Association helps business owners who may have trouble qualifying for a traditional bank loan. The SBA will back the bank and remove some of the risk they may experience. To start the process you would visit a traditional bank that participates in an SBA program. The bank will have certain criteria for a loan that we have already discussed. If you do not qualify for the loan from the banks point of view they may suggest (or even before you apply) for an SBA loan through the bank. The SBA will have lower criteria. There are specific loan programs like the basic 7(a) loan program that gives a 7 (a) loan to eligible borrowers for starting, acquiring and expanding a small business. This loan is for businesses that handle exports to foreign countries, businesses that operate in rural areas, and for other very specific purposes. If you are looking to buy a building for your business you may want to check out the Certified Development Company (CDA) 504 Loan Program. The most popular area that may be of most interest to you is the microloan programs. These are loans up to $35,000 and all decisions are made at a local level. A great resource for you is Sue Malone with www.StrategiesForSmallBusiness.com. She is the #1 SBA lender in the U.S. and is one of only 14 SBA approved direct lenders in the country. That means you do not have to go to a bank first, you go directly to her. There is a new SBA program out (since June) that will provide a loan from $5K -$25K based even for a start-up. If your credit score is 680 and above, with no major personal derogatories, and a business plan for two years, a plan for the use of funds, this is your best option. You may contact Sue Malone at her office (she is very supportive of women owned businesses): 1-(925)899-8449. You pay back $76 for every $5,000 borrowed. It is an 8 year loan.

7. **Crowd funding.** This is the hottest trend the last 1-2 years and growing every month. There is expected to be over 530 crowd funding sites that will facilitate your crowd funding project. This may be the best bet for many of you looking to create a new product. It is involved like a product launch and can really pay off when you do it properly. Since, I wrote a detailed article on this subject this month, I will not go into great detail here. This is certainly an option you must consider!

8. **Building business credit.** This is the new kid on the block so to speak. It is fast becoming more known as a must for every business. Imagine being 17 and never developing your personal credit? That would have major negative effects on you personally to grow from buying a car, to a house to developing credit to acquire assets. Now more and more business owners realize this is so important to do at a business level but they do not know how to go about building business credit and doing it fast. It starts with making sure your business is in compliance and looks like a real business. That means everything from a 411 listing for your business phone number, a real business address, an email address. A free email address does not cut it. Once that is in place then you have to build the business credit profiles with the big three, Dun & Bradstreet®, Corporate Experian® and Corporate Equifax®. D&B® is the only one that requires you to pay a fee to start the building process, the other two are started once you have a vendor that reports. Now the tricky part, to actually get vendors to report. There are over 50,000 vendors that will grant some type of credit to small business owners but less than 10% report. The key is to work with vendors that report to the business credit bureaus, that is what will build your business credit profile. Your business can develop an 80 Paydex score with D&B® (0-100 and 80 is about as high as you will get) with only three vendors that you pay on time and report. The strength of the business credit score of your business, similar to the strength of your personal credit score, will help your business secure more vendor credit in the future and cash lines of credit. A strong business credit score will also help you secure more business. If you are working with larger companies that are looking to do business with you more than likely they will invest $60 with D&B® to pull a business credit report on your company. If your company has no vendors reporting (which is the case for over 50% of all businesses) your company may look financial unstable. This may be the reason you lose the big contract and never knew about it. You can check out your business for free at Corporate Experian® at budurl.com/bizcheck1 and Corporate Equifax® at budurl.com/bizcheck2. The best resource for building business credit fast is our system, The Ultimate Business Credit Builder. Check it out at www.FastBusinessCreditBuilder.com.

9. **Angel investors.** Angels typically invest their own funds, unlike venture capitalist, who manage the pooled money of others in a professionally-managed fund. The money invested is typically

from an entity. Since venture capital firms rarely invest money under $1-$2 million, the angel investor is a common ground of capital for start-ups under that amount. Since angel investors bear high risk, they require a high rate of return. Many times they are looking for a 10 or more times return of their original investment within 5 years through an exit strategy. Some even look for returns of 20x-30x over a 5-7 year period of time. Not a surprise, Silicon Valley dominates the destination of angel funds, receiving 39% of the $7.5 billion invested in U.S. based companies throughout Q2, 2011. Here is a list of angel investors and cities through the U.S.: http://www.inc.com/magazine/20050701/angels-in-america.html. In this approach you are raising money from investors and they expect you to have everything in place from your business plan, management team, use of funds…and you as the founder better be able to answer tough questions on your business plan, not just your accountant or whoever wrote the plan.

10. **Raise capital from a venture capital (VC) firm.** This is capital provided to early –stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by investing in companies typically in the technology industries, like biotechnology, IT, software…A venture capital investment occurs after the seed funding round as a growth funding round in the interest of generating a return through an event such as an IPO. A popular recent IPO, was facebook, that did not fair too well overall, but the venture capital firms that invested a while back still did very well. There are typically six stages of venture round financing offered in Venture Capital that roughly correspond to these stages of a company's development.
    a. Seed Money: Low level financing needed to prove a new idea, often provided by angel investors. Crowd funding is also emerging as an option for seed funding.
    b. Start-up: Early stage firms that need funding for expenses associated with marketing and product development
    c. Growth (Series A round): Early sales and manufacturing funds
    d. Second-Round: Working capital for early stage companies that are selling product, but not yet turning a profit
    e. Expansion : Also called Mezzanine financing, this is expansion money for a newly profitable company
    f. Exit of venture capitalist: Also called bridge financing, 4th round is intended to finance the "going public" process.

Between the first round and the fourth round, venture-backed companies may also seek to take venture debt. Venture capital is not for most business owners and most never get to the stage to show explosive growth that would interest a venture capital firm or an amazing new technology that is desired by the big firms. If you are going this route we are working with a great law firm on the east coast that has a new program to help you start your company and get all the legal paper work in place to go down this route. If you are in this situation please email me at askscott@nvinc.com.

What did not make the list? Grants. Why not? I work in Las Vegas which is the telemarketing capitol for call centers for companies that sell grants. I have interviewed dozens of sales people who have worked in these rooms in Las Vegas and asked them how many grants have they sold and how many people actually received any money. Almost always the answer is, “I sold over 100 grants and no one has received any money”! It has been amazing. No one is getting funded. Does that mean there is no grant money? No. There is if you fit the eye of the needle and know people in Washington D.C. Overall, I would stay away from it.

The next step is for your business to secure as much money as possible moving forward, even if your business is doing great. Actually, that is the best time to secure more money is when you do not need any!

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Scott Letourneau is *"The Expert on Establishing and Positioning Network Marketing Companies for Maximum Profit!"*

Worldwide **successful entrepreneurs turn to *only one person*** when they want to establish their **company in the United States.** They want the one person who they know can deliver a truly turnkey experience to position themselves for profits and success. That person is Scott Letourneau!

Scott is the prominent entrepreneur and CEO who founded Nevada Corporate Planners, Inc. in 1997. He also founded the complementary Fast Business Credit, Inc. in 2003, again with great success.

In addition, Scott is a busy lecturer, consultant and author, who is recognized worldwide for helping entrepreneurs get their businesses off to a fast start in the United States.

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Scott is the *only* speaker offering a solution to help clients accomplish two goals: how to grow net worth and profits in the shortest period of time *and* how to **sustain and protect your net worth as it builds and accumulates.**

He is **recommended by top professionals** such as **Sandy Botkin**, a top Attorney/CPA; Attorney **Dr. Arnold Goldstein**; top Internet marketers **Tom Hua, Brett McFall**, and **Stephen Pierce**; and marketing expert **Jay Abraham** and other top CEOs and professionals throughout the U.S. and internationally. Leading entrepreneurs throughout the world laud him as the foremost expert on not only incorporating businesses, but also helping owners get access to capital and other invaluable business tools. Scott has a BA in Finance, a Masters Practitioners Degree in NLP (Neuro Linguist Programming, the study of patterns of success) and is the author of *"The Insiders Guide to Incorporating Your Business and Protecting Your Assets!"* He is also a contributing author for the new book from

Entrepreneur Magazine's Start Up series; *"Start Your Own Information Marketing Business – Your Step-by-Step Guide to Success."*

He has appeared on **CNN Headlines News with Pat Summerall's Success Stories**, and has been interviewed by various radio and TV stations throughout North America, eager to tap into his expertise and experience.

Scott understands the **energy and passion required** to balance a successful and growing **business along with a healthy and thriving family life**. He has been in **business for over 12 years and married for 13 years** to his beautiful wife De Ann, an amazing classical violinist, and is the proud father of three beautiful girls, Gracie, Rosie and Faith. His family and offices are headquartered in Las Vegas, Nevada, where he has made his home for the last 15 years.