

# How to get cash to start your business

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Cedar Anderson and his father Stuart Anderson used crowd funding to finance their Flow Hive business. *Photo: Elizabeth Milne*

The barriers to starting a business continue to get easier to overcome but you still need a bit of cash behind you. The thing that holds many people back is how they are going to fund their great idea. Here are five ways you can access cash for your venture.

## 1. Crowdfunding

Crowdfunding platforms such as Pozible, OzCrowd, Kickstarter and Indiegogo allow businesses to pool funds from a number of investors. Byron Bay based business Flow Hive [raised a staggering \\$10 million on Indiegogo last year](#).

OzCrowd director, Nick Karolidis says, successful crowdfunding campaigns are those with a strong business plan.

"People still don't fully understand how crowdfunding works," he says. "It's not a matter of putting a business up to the public and saying, I want money. The process is similar to taking a business plan to a bank to get a loan. You'll need to demonstrate to prospective investors that the idea is legitimate and strong. You're relying on your networks and circle of contacts to validate your idea and, hopefully, snowball to your target."

In terms of timing, aim to reach your funding target within 30 to 45 days. "The problem with longer campaigns is people forget about your idea or change their mind. Of course, there are longer campaigns which still reach their targets, however most successful targets are around a month or so."

His message is to maintain momentum by keeping people in the loop and being on hand to answer questions, during and post campaign timeframe.

"Crowdfunding is low cost and for this reason most people use it. Currently, Australian laws for business crowdfunding are under review and effectively this will make it even easier to crowdfund a business idea."

## 2. Small business loan

The research required to compare business loans can be exhausting and one option is to use a loan comparison site. Infochoice spokesperson Alan Caputo says the research required to compare business loans can be exhausting and recommends business owners consider the following options before securing a small business loan.

- Are you looking for a fully drawn advance, an overdraft or a line of credit?
- Are you happy to pay entry fees, exit fees or annual fees?
- What payment structure suits your business operations and cash flow?
- Does your circumstance dictate that you put up residential or non-residential security against your loan?
- Do you require a short term business loan for a year, or longer, up to five years?
- Do you prioritise security? If so, a fixed-rate loan might be suitable, if you are flexible, a variable interest rate maybe better.

## 3. Online lenders

With the advantage of speed, the online business lending sector has taken off in the United States and is now making inroads in Australia.

Bessie Hassan, spokesperson for comparison site Finder says online lenders will usually require several forms of "traditional" identification such as a passport and a driver's license, access to your social accounts such as LinkedIn, and access to online bank accounts. They will then automatically gather information on your income and expenditure, usually the last three months. Using a combination of these online tools, lenders can make a quick decision and often lodge funds directly into your business bank account without you ever having to schedule a physical meeting.

"The market in Australia is small but burgeoning, with lenders such as Max Funding, Prospa, Banjo Loans and Spotcap offering online lending to businesses," says Hassan. "It's worth mentioning that you may pay a higher rate for these loans due to the increased convenience, and some business owners may prefer to bargain in-person with potential lenders. As the market grows, we may see similar behaviour to the US with increased competition driving down interest rates and larger lenders

coming on board, or partnering with smaller lenders."

#### **4. Family and Friends**

Borrowing money for a business venture from friends and family has some advantages, such as, no or very low interest payments. They are generally quicker to access and without the hassle of forms that come from other sources. The only commitment is making a promise to pay off the loan. Another option is to give the investor a stake in the company as Gemma Lloyd from Diverse City Careers did. Prior to setting up her business in February 2015, she and business partner Valeria Ignatieva, presented their plan and revenue projections to a family member.

"We gave them an investment opportunity into the company in return for the \$20,000 loan they gave us," says Lloyd. "They're a silent shareholder. We have in place, proper terms to cover the legalities. They receive annual dividends as well as a return when we exit the company."

#### **5. Grants**

There are a number of federal and state government grants available if your business meets certain criteria. Andrew Clarke's accountant suggested he apply for a business grant for his new online shopping platform, Cashrewards. In 2013, Clarke chose to use a grant advisor to lodge his claim.

"The grant advisor reduced the time spent preparing the application," says Clarke. "We received around 45 per cent of our eligible research and development expenditure refunded in cash as a tax refund. It was extremely beneficial for us as a new start-up to receive this benefit. The grant was significant in helping us grow the business and today we employ around 20 staff."

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