
Karsten Strauss, Forbes Staff
Journalist covering entrepreneurs, technology & business.
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5 Ways To Avoid Taking VC Money While Growing Your Business

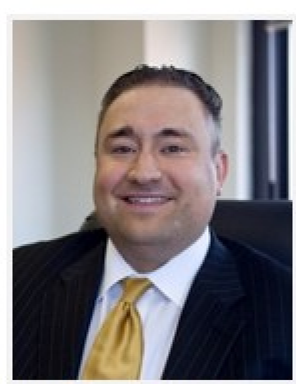

Do you really have to sell part of your business to an investor?

Startups may be a little bit capital crazy, and why shouldn't they be? The promise of wads of growth money is enticing, especially if you see venture capital-backed success stories everywhere you look. The expense, of course, is company ownership.

Commercial financier Kris Roglieri used to feel intense frustration while watching the TV show "Shark Tank," where a group of entrepreneurs vie for capital from a panel of potential investors that has included the likes of Mark Cuban and Barbara Corcoran. "I want to jump through the screen and say 'you don't need to give up a chunk of your business!'" Roglieri said.

According to Roglieri, founder of the Albany, New York-based Prime Commercial Lending, Durham Commercial Capital and the lending product training program, Commercial Capital Training Group; there are a number of ways startups and small businesses can get access to funding without selling off portions of their businesses.

1) Sell Invoices for Instant Cash


Kris Roglieri, founder of Commercial Capital Training Group.


Startup Capital: Show Me the

A lot of young entrepreneurs and small businesses are swimming in receivables. They get orders from retailers or clients, ship out product and send an invoice. But it takes weeks for that much needed payment to arrive. One way to get that money quickly is to sell those invoices to an accounts receivable finance company. The lender pays 90% of the value of the order on day one and is paid directly by the small business owner's clients. The small business owner will have to pay 1-3% of the total value of the invoices, *but* they don't have to sell ownership in the business in order to get instant capital.

2) Monetize Purchase Orders

Before an entrepreneur can sell a product it must be built and that costs money. If the entrepreneur has received orders for a product, there's a way to make that order turn into instant cash. Once a lender verifies the order, it can loan the money needed to produce the product and ship it to the client. This comes in the form of a short-term-loan and usually is paid within three months. Cost to the entrepreneur? 1-3% of the total value of the orders.

3) Contracts As Leverage for More Up Front Capital

Sometimes a company – a tech services firm, for instance – signs a contract to provide services for a larger company, say $5 million over five years. But to provide the services, the tech firm needs more than the down payment to provide those services. If the client company agrees to guarantee its total payout, a lender can provide several million dollars in up front capital using the client's guaranteed payout as collateral. As payment arrives from the client, the lender carves a 6-11% portion as a fee. The tech firm's multi-million dollar ramp-up costs have been met and no company ownership has changed hands.

4) Merchant Cash Advances

Entrepreneurs whose businesses rely heavily on credit card sales can receive advances on future sales to pay for growth. A merchant cash advance lender will review several months of credit card sales and offer an advance of sales over a set number of months. Every night, when the entrepreneur closes out the card sales, a certain portion of the take is wired directly to the lender. If the business does well, the loan is paid off more quickly. If it's slow, the loan is paid off over a longer period of time. The percentage fee can range from about 16% to 22% because of the higher risk to the lender. "From the lenders perspective, they're betting on the merchant's future," Roglieri said.

5) Get A Business Credit Card (a *real* one)

Believe it or not, one of the most common types of credit cards used for small businesses is Capital One, probably due to that bank's strong advertising campaign and high visibility. What many of these entrepreneurs using it don't know is that it's not a real business credit card and any debt they incur with it is affecting their own personal credit score, Roglieri said. A dedicated business card – available from regional banks – can offer up to $100,000 in unsecured, rolling credit, on which debt will not damage an entrepreneur's personal credit rating.


Mark Cuban played a shark on ABC's "Shark Tank," a show where entrepreneurs beg richer entrepreneurs to buy chunks of their businesses.

Some business models require stupendous growth to achieve their ends and need VC money. Those ends are usually an exit in public markets or, more likely, sale to a larger firm. That said, the search for heaping bowls of VC capital is a perilous one. "A lot of entrepreneurs don't realize that VC funding is very, very hard," Roglieri said.

Though it's generally the larger venture and private equity firms that make headlines – with large investments in 'it-companies' that promise to be earth-shattering – the majority of venture capital firms are much more conservative, looking through over 200 possible investments per month to eventually buy a stake in no more than five per year. "The numbers don't stack up in the entrepreneurs favor."

Whether its lack of faith that banks will provide loans, the high profile success of venture-backed firms like Facebook or simply ignorance, startup entrepreneurs don't seem to be clamoring for alternative financing. Though the practice may seem more complicated and the percentage fees may seem daunting at first, just think of how much is saved by not selling portions of a growing business.