SIMPLE STEPS TO CHOOSING THE RIGHT FINANCING

SCORE®

FOR THE LIFE OF YOUR BUSINESS

SPONSORED BY ondeck

INTRODUCTION

Did you know that the process of finding a loan takes the average small business owner about 33 hours? That's almost a week away from the more important work of running your business. Even worse, much of this time is wasted looking for financing in the wrong places.

The good news: Finding the capital you need doesn't have to take that long. By leveraging technology, financing sources are creating new options that better fit small business owners' financing needs. As a result, there are more financing options than ever for businesses like yours.

In this eGuide, we'll provide an insider's perspective on the best ways to get the capital you need to grow your business.

TRADITIONAL VS. ONLINE LENDING

Industries such as bookstores, real estate and travel agencies have been transformed by online platforms. Now, small business financing is going through the same kind of transformation. Companies such as OnDeck, Lending Club, BillFloat and Kickstarter are changing the way entrepreneurs search for and obtain capital by using technology to address specific financing needs.

Consider the differences between the traditional lending process and the online lending process, shown in the box at right.

TRADITIONAL VS. ONLINE

TRADITIONAL LENDERS:

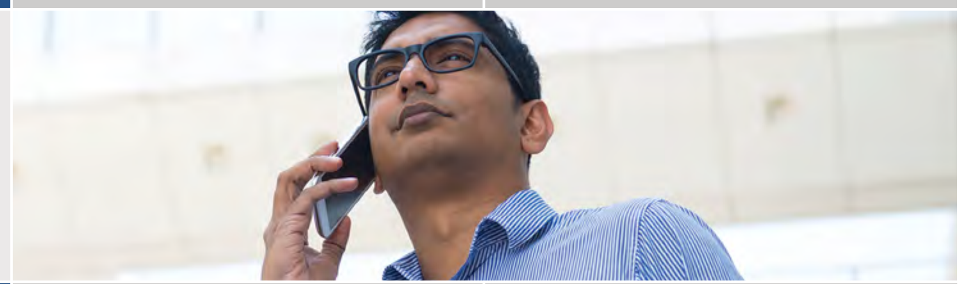
- Lengthy application process
- Lots of time-consuming paperwork
- Personal credit score evaluation
- Traditional lenders lend only large amounts of capital
- Often require very specific high-value collateral

ONLINE LENDERS:

- Short application process
- Less paperwork
- Data-driven approach to lending that looks beyond credit scores
- Lend smaller amounts of capital
- Willing to work with younger businesses
- Often require blanket lien on entire business but not specific collateral

NEW FINANCING ALTERNATIVES

Let's take a closer look at some of the most popular new financing options available to small businesses, including nonprofit lenders, crowdfunding, invoice financing, online business loans and loan-matching sites.



1. NONPROFIT LENDERS

Nonprofit lenders look for businesses whose missions coincide with theirs and offer them small business loans or microloans (as little as $5,000 or $10,000). Depending on the lender, you may pay low interest rates and fees or no interest at all.

GOOD FIT FOR:
An eco-friendly clothing retailer that donates a percentage of each sale to charity, is located in an underserved community and seeks $10,000 for expansion

POSSIBLE SOURCES FOR NONPROFIT LOANS:
Accion, Kiva ZIP, AEO Tilt Forward

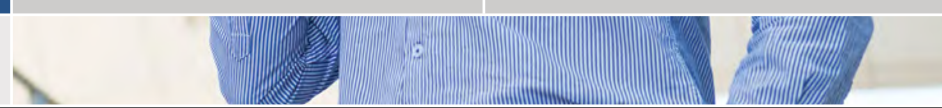
NONPROFIT LENDERS

PROS:

- Good for startups and microbusinesses
- Good for community-oriented businesses, civic-minded businesses, or local businesses in underserved communities
- Lenders may offer free mentoring or other business guidance

CONS:

- Because they offer smaller loan amounts, nonprofit lenders are often not suited for projects needing significant financing.



2. CROWDFUNDING

Small business owners visit crowdfunding websites to promote their business ideas to an audience of individuals who want to invest money in small businesses. The individuals support the small business with financing.

THERE ARE TWO TYPES OF CROWDFUNDING:

- In **donation** or **purchase-based crowdfunding,** individuals donate money to a company or small business owner in exchange for receiving products, perks or rewards. For example, suppose you are trying to launch and market a new smartphone accessory and need $50,000 to do so. On a crowdfunding site, you may find several hundred people to donate $50 each, 100 people to give $100 each, and a few people who are willing to give $1,000 each in return for obtaining the product.
- In **investment crowdfunding,** businesses seeking financing sell equity stakes in their companies in exchange for infusions of capital from individuals. For example, the smartphone entrepreneur in the previous example might find 10 individuals willing to invest $5,000 each in exchange for a combined 10% equity stake in the business.

Crowdfunding sites may charge a fund-raising fee based on a percentage of the funds raised or charge a monthly fee during the fund-raising process. If you use investment crowdfunding, you'll have to give up equity to investors.

GOOD FIT FOR:

A startup business owner with an idea for a new type of kitchen accessory who needs $15,000 to design and manufacture the first 5,000 units

POSSIBLE SOURCES FOR CROWDFUNDING:

IndieGoGo, Kickstarter, RocketHub, GoFundMe

CROWDFUNDING

PROS:

- Business owners can get in front of potential investors and obtain financing very quickly.
- Even individuals with limited funds can participate in financing small businesses.
- Obtaining financing through crowdfunding serves as market validation of new ideas

CONS:

- Crowdfunding can be difficult; many investments never get funded. You need to "market" your idea to the crowd, which takes time, energy and commitment.
- If you use investment crowdfunding, all investors must be "accredited" investors.

3. INVOICE FINANCING

In invoice financing, a business sells its accounts receivable to a third party. Invoice financing has been around for a long time, but newer companies such as BlueVine and Fundbox have brought the whole process online, simplifying it considerably.

Small business owners may pay a fixed payment on the fully advanced amount of their outstanding invoices, or pay a percentage of their outstanding invoices and then pay the remainder when they receive payment.

GOOD FIT FOR:

A baked goods manufacturer that sells to hotel chains and has $70,000 in outstanding invoices from customers due in 90 days. The company is facing an immediate cash flow crunch and needs $23,000 for short-term working capital.

POSSIBLE SOURCES FOR INVOICE FINANCING:

BlueVine, Fundbox

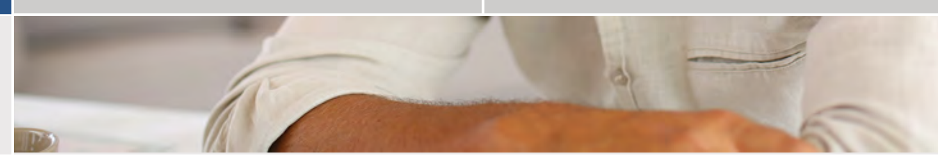
INVOICE FINANCING

PROS:

- A business can receive cash quickly instead of waiting for customers to pay their invoices.

CONS:

- Invoice financing typically works best for larger, more established businesses that get paid via invoice from regular customers.



4. ONLINE BUSINESS LOANS

Online business loans are a relatively new source of financing that provides faster approvals than typical bank loans. You apply online, the lender reviews your application, and you'll know if you're approved or denied within minutes. If you are approved, your loan can be funded in as little as one day to two weeks.

Online business loans offer fixed interest and fixed payments. Payments are usually automatically debited from your business bank account on a daily, weekly or monthly basis.

Be aware that the easier it is to obtain capital, the more expensive that capital will be. Traditional bank loans cost less but are difficult to obtain. Financing from online lenders costs a bit more but is easier to get.

So how do you decide when the cost of capital is worth it? Consider both the interest rate and the term of the loan.

For example, the choice between a loan at 67.5% APR and one at 22.5% APR may seem simple. However, when you consider the term of the loan, the answer is different than it may appear at first.

If you borrow $10,000 over six months at a 67.5% APR, your total cost of interest will be $1,500. However, if you borrow $10,000 over four years at 22.5% APR, your total cost of interest is $4,800.

GOOD FIT FOR:

Well-established restaurant generating steady revenue that seeks $75,000 to add outdoor seating

POSSIBLE SOURCES FOR ONLINE BUSINESS LOANS:

Funding Circle, SmartBiz, Kabbage, OnDeck

5. LOAN-MATCHING SITES

If you aren't sure where you need to go online to find capital, a loan-matching site is a great start. Visit a loan-matching site, fill out a profile of your business, and you will be matched with the most appropriate lenders for your financing needs—lenders seeking businesses exactly like yours. Depending on your profile, you may be matched with a traditional lender, an online lender, a credit union or other alternatives.

LOAN-MATCHING SITES:

SBA Linc, BoeFly, Fundera, Lendio

Photos© El Nariz/Shutterstock; Monkey Business Images/Shutterstock

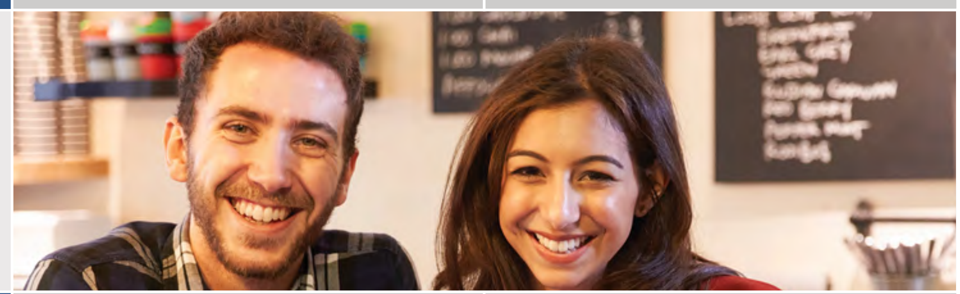
ONLINE BUSINESS LOANS

PROS:

- Approval is often extremely fast
- Decisions are based on more than just your personal credit rating
- Ideal for business opportunities with an expected short-term ROI

CONS:

- Generally not available to startups or new businesses
- Some lenders won't work with certain industries
- Higher interest rates than traditional loans
- Loan amounts and term lengths vary by company



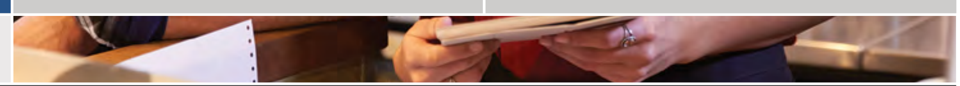
LOAN-MATCHING SITES

PROS:

- Using loan-matching sites is free; the sites make money from referral fees paid by the lenders.
- You can get your business in front of a significant number of lenders very fast.
- The sites filter out any lenders that are not a good match for your needs.
- Loan-matching sites can help you find lenders you would not normally discover on your own.

CONS:

- Borrowers must still apply separately to each individual lender.
- Borrowers may still have to deal with traditional lenders, time-consuming applications and strict lending requirements.
- Loan-matching sites may connect you with loan brokers, not lenders.



WHICH PRODUCT IS RIGHT FOR YOU?

With all of these options available, how do you know which financing product is right for your business? Ask yourself:

- **What do I need the money for?** You may need money for marketing your business, opening a new location, starting a new business, buying equipment, hiring employees or purchasing inventory. Different purposes require different types of financing.
- **How much money do I need?** “As much as I can get” is not the right answer here. The more specific you can be about the amount you need, the better. Are you trying to solve a short-term cash flow problem, or make a long-term investment such as buying a building?
- **What is the anticipated return on investment?** What will you do with the money and what will the results be? For instance, are you buying inventory today that will substantially increase your revenues in the next 90 days?

YOUR 4-QUESTION FINANCING CHECKLIST

Before you start your search for financing, know the answers to these key questions:

1. **What types of financing can I qualify for?** Evaluate your credit score, time in business and other factors that lenders consider.
2. **Which of those is the best fit for my business?** For example, do you need short-term or long-term financing? What type and amount of payments works for you?
3. **How much money do I really need?** Your desired amount may be too big or too small for certain lenders.
4. **Do I have all the information I need in order to apply?** All lenders will ask about your personal and business credit scores, time in business, financial statements and more. Have the necessary information at your fingertips before you apply.

By asking these four questions, you'll be able to narrow down your options and hone in on the best lending products for your business and your needs.

For more information about the world of online lending, visit
BusinessLoans.com, OnDeck's educational website.

Photos© mimagephotography/Shutterstock; Kinga/Shutterstock; izarizhar/Shutterstock; PathDoc/Shutterstock; Andresr/Shutterstock

POSSIBLE FINANCING SCENARIOS

HERE'S A CLOSER LOOK AT SOME SAMPLE FINANCING SCENARIOS AND POSSIBLE FINANCING SOURCES FOR EACH.

Financing need: Open a new franchise location
Loan amount: $300,000
Best lending products: loan-matching site; online business loans (longer-term), SBA loan

Financing need: Develop a new product
Loan amount: $15,000
Best lending products: crowdfunding; nonprofit lender

Financing need: Opportunity to buy discounted inventory but must purchase within four days
Loan amount: $75,000
Best lending product: short-term online business loan

Financing need: Manage cash flow during receivables gaps
Loan amount: $23,000
Best lending products: invoice financing; short-term online business loan

Financing need: Launch first marketing campaign
Loan amount: $5,000
Best lending product: nonprofit lender