Unique Ways to Obtain Growth Funding

Access to capital is the lifeblood of any small business. This continues to be high on the “help needed” requests that SCORE volunteers get asked from business owners. A few weeks ago I wrote about refinancing and a temporary opportunity available for those who could be helped by restructuring their current debt. One email response said “Dean, what other ideas do you have for someone who needs funding for growing my business. That refinancing idea doesn’t fit me”.

There are obvious funding sources like bank loans, credit card funding and angel investors. You could tap these sources if you can. But if you can’t access them—due to poor credit or other reasons—you must get creative.

I will pass on to you some unique ways that were suggested by David Lavinsky, president and co-founder of Growthink, Inc which provides products, consulting and banking services to help business owners develop business plans, raise funding and prepare their businesses for sale.

Lavinsky says that “The good news is that funding is within the reach of most small business owners—if you know where to look”. This New York company has used several unique strategies with their clients. Maybe some will give local business owners some ideas.

Customer financing
With customer financing, current or potential customers provide funding you can use to develop or produce new products or services. The best technique is pre-selling your proposed products or services at a discount. For example, you can offer a 35-40 percent discount for pre-payment; they can pay $60 now for a product that will eventually sell for $100.

The potential downside here is raising too little money. For example, you need to make sure you raise enough money to build the new product or service to fulfill the promise you made to these funders. So, before seeking this type of funding, fully calculate your expenses to ensure you’ll be able to create the product or service within budget.

Vendor financing
As the name implies, vendor financing is when a company receives funding from one or more of its vendors or suppliers.

This form of funding was responsible for the success of shoe maker Kenneth Cole. Early on, Cole found an Italian shoe manufacturer willing to produce his shoes on consignment (Cole only had to pay the manufacturer after he sold the shoes). Without this funding, the now prominent company might not be around today.
**Peer-to-peer (P2P) lending**

P2P lending is when one individual lends money to another without an intermediary such as a bank. As a result, even if you have poor credit, you may be able to access this form of funding. And, you can often get better funding terms versus working with a bank.

The two biggest P2P funding networks are Prosper and Lending Club. While the loans are structured as personal loans to the business owner, they can be used for business use. For example, small business owner and clothing designer Lara Miller has received three loans via Prosper which she used to launch her new website and clothing lines.

**Customer customization financing**

Customer customization is similar to customer financing in that you ask current or potential customers to fund you. However, in this case, you seek out one large customer and create a product or service specifically for them.

For example, Scott Mitchell, co-founder of small business Learning Productions (LP), a corporate training and e-learning company, needed funding to grow his business. In his quest, he identified that Fortune 500 company Avnet was interested in a solution similar to the one he wanted to develop, which was a training software that simulated real business experiences. After presenting to Avnet, LP received over $1 million to build a customized solution. The funding also allowed LP to build a system it could then sell to other customers, and eventually sold the company to SmartForce (which later merged with SkillSoft).

**Partner buy-in funding**

Finding a business partner could be a great way to gain growth funding; that is, if the partner has their own capital or access to capital.

And remember that the ideal partner brings more to the table than just capital; they bring know-how and/or connections that can help grow the business.

Most small business owners only consider funding when they are in a cash crunch. A smarter decision is to seek funding to grow and build a stronger business. If the traditional channels aren’t working for you for whatever reason, consider these five unique funding sources.

__________________________

Dean L. Swanson  
Southeast Minnesota SCORE  
c/o Rochester Area Chamber of Commerce  
220 South Broadway, Suite 100  
Rochester, MN 55904  
*Dean is a volunteer SCORE Mentor and District Director of SCORE Minnesota*