

Getting Money to Start Your business

This is part one of our three-part conversation about getting money to start your business.

Today we'll dispel some of the many misconceptions people have about business financing. This was often my first task with clients and it's a great place for us to start, too.

Next time we'll discuss innovative ways to get money to start your business

Can I get a loan to start my business?

We remember from our “*startup questions*” that the answer is “No, you can't.” I stated that no one lends money to people to start a new business. Especially people without business experience.

I should tell you that **there are commercial loan officers listening right now saying “Nonsense, Kevin, my bank will make a business loan to any startup that meets our lending requirements.** In fact we're prohibited from turning down qualified borrowers!”

These apparently contradictory positions need some clarification. Let's clear up **the single biggest misunderstanding in business lending.**

There are two little words buried in that loan officer's statement that sum up the challenge - requirements and qualified

- Business loans **require** three years of historical revenue to assess ability to repay
- Business owners need five years industry experience **to qualify** for a loan
- Business loans **require** specific debt to equity, and asset ratios
- Business borrowers submit a host of loan documents **show qualifications** to support the ask
- Business lenders **require** specific levels of liquidity and collateral coverage

The challenge for startups is meeting requirements and providing qualifications, when the business does not yet exist. See the problem?

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A bank will happily loan you money to start a business, **just as soon as you meet criteria a new business is not likely to meet.**

Here is something else to consider — Tech billionaire, NBA team owner and Shark Tank investor **Mark Cuban says it's a bad idea to start a business on a loan.** If you want to work for yourself then work for yourself. If you get a loan then you work for the bank, not for yourself.

Can I get a grant to start a business?

That question is both a little bit funny and a little bit sad..

It's funny, because why would anyone award a grant to a person to set up a business to make a profit?

It's sad, because scammers use this myth to rip off unsuspecting people mercilessly. I get calls every year from shocked people who were ghosted by silver tongued thieves. Victims were promised grants (or loans!) and received nothing after paying four and even five figure 'application fees.'

Sorry to put it this way, but suckers are still being born every minute, so just don't be one.

What about grants that aren't ripoffs? Are there grants available to help you start a business? In extremely rare, limited and specific circumstances... maybe.

Is it worth your time? Well, that depends on what you want to do with your time. Do you want to look for grants that might not exist or do you want to start a business?

Bank-sponsored Business Competitions

This is one example of grants that aren't a ripoff. Entrepreneurs are sometimes tempted by business competitions offered by local banking institutions. **These events offer real grant money, usually awarded across a collection of multiple participants.**

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Participating banks enjoy good publicity and community engagement. These competitions often last for several months, with press releases, bank-sponsored pitch videos and bank-branded competitor profiles in abundance.

I've had a number of clients get swept up in the excitement of these offers, only to be disappointed by the outcome. This disappointment comes, in part, from failing to take advantage of the networking opportunities these events provide.

Who wins these contests?

Well, first and foremost, the bank. The lender gets priceless positive PR.

Who doesn't win?

Generally, startups. This is for two very important reasons.

First, few startups have the personal business network to garner the local support often required to be successful in these competitions.

Second, the awards are often split among multiple participants. This means a very low individual award. The third reason startups are seldom chosen is because startups sometimes fail — and who wants that in a PR campaign?

Time and time again, bank-sponsored grants are awarded to the same businesses a bank would welcome as a loan customer — well established, with a robust asset base, a large network and a proven market share. Why? Because it's a bank!

Are there exceptions to this grim prognostication? Of course. Question — do you want to put your energy into starting your business, or do you want to spend your time looking for exceptions to the rule?

The targeted opportunity grant

Another source of confusion and disappointment is the targeted opportunity grant. This is another example of legitimate organizations leaving startups feeling disappointed.

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Like the bank-sponsored grants noted above, targeted opportunity grants have hundreds (or in the case of a national campaign, thousands) of applicants and a limited award pool.

When the winners are announced, it's often discovered that the award is business training or some other non-cash result. Some of these grants are paid with a coupon for free services from the sponsoring vendor. Likely a valuable opportunity, but it's not startup money.

What about pitch fests?

Pitch fests are events that purport to put entrepreneurs in front of early stage investors looking for deals. In its purest form, a pitch fest is a gathering of like-minded individuals seeking mutual opportunity. If only...

Unfortunately, an entire industry has emerged focused on separating inexperienced startups from their money using pitch fests. These operators use the promise of lucrative introductions to recruit startups but sometimes the results are very disappointing.

Victims of pitch fest scams report that, after last minute fees, the promised event never takes place. If the event is held, startups find no investors but lots of service providers (IP attorneys, staffing companies and leasing agents) who paid for access to the startups!

You might have a different experience, but only if you are both extremely careful and extraordinarily lucky.

Are these opportunities of any use at all?

Maybe. You can avoid disappointment by using these unlikely sources of money **as networking opportunities.**

When the next bank competition, targeted opportunity or pitch fest comes around in your area, participate by attending the meetings and events.

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You'll be taking important steps in building your personal business network without putting your efforts at risk of wasted time and disappointment. This always increases your chances of gaining access to all kinds of business resources.

Enjoy the networking but apply for these opportunities only after very careful consideration.

Next time, where CAN you get money to start?