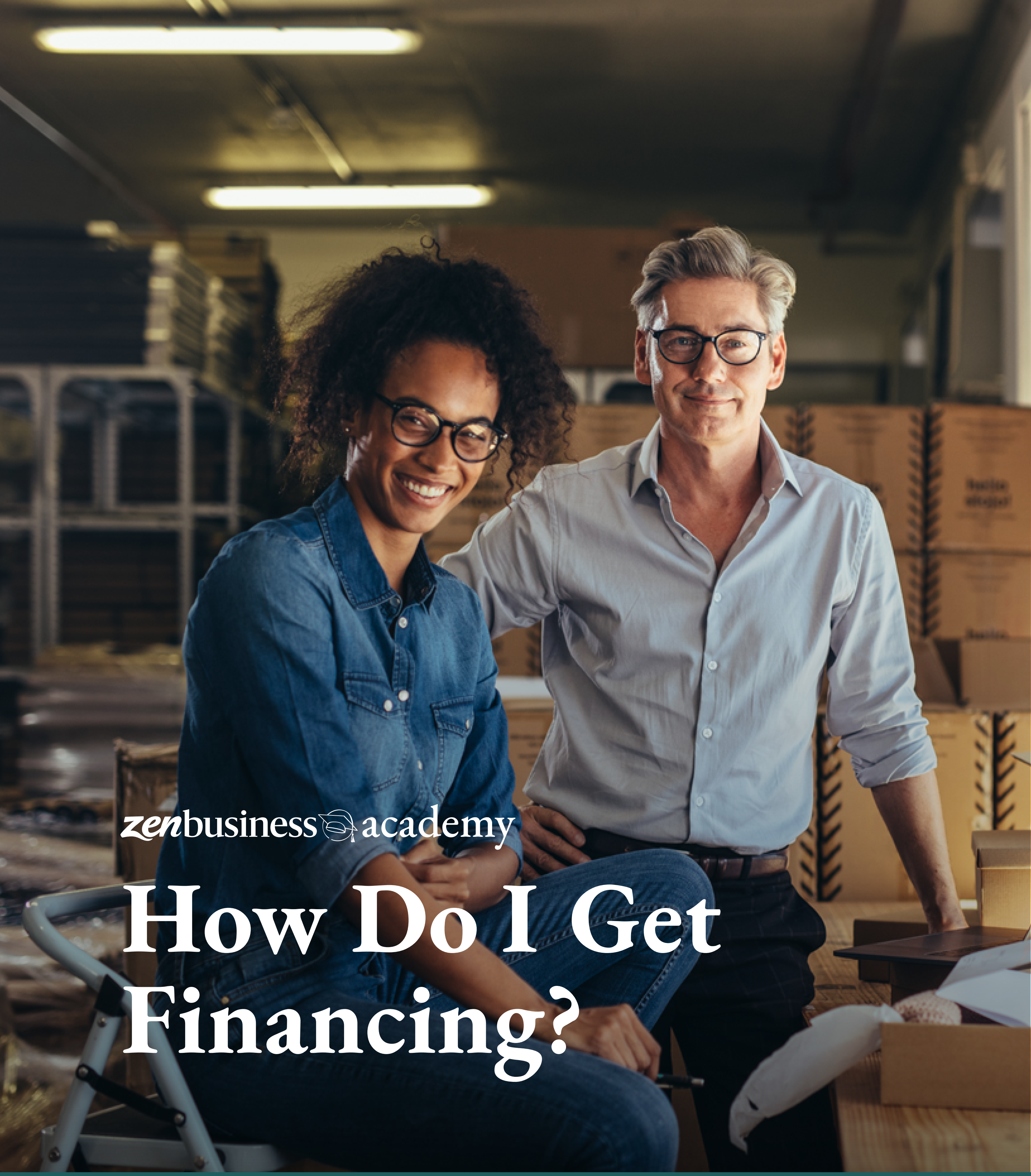

zenbusiness academy

How Do I Get Financing?

ZENBUSINESS.COM

What is funding and why do you need it? How do you get financing?

Managing your business's finances can make or break your ambitions, especially in your first year of operation. Fortunately, with some basic budgeting knowledge, you can turn your dreams into a success story. In the first lesson of this series, we'll explore how you can secure the cash you need to operate and grow your business.

Estimating Costs

The funding you need depends upon the type and size of business you operate. For example, retail businesses may need cash for periodic purchases such as bulk inventory, whereas a food truck owner will need to purchase supplies regularly and incrementally.

Another factor that affects how much funding you'll need is the amount of cash you can supply for your business from assets like savings accounts, home equity, or other investments.

Understanding how much demand there is for your product or service can help you estimate your cash requirements. Being in high demand is good for your business, but you may need more money up front to meet these demands.

It's also important to learn about your competitors. More competitors means you might have to spend more on marketing to get ahead. You may also see slower growth if there are many brands competing for your customer base.

New business owners also need to estimate their startup costs. Startup costs include anything that you need to begin selling your products or providing your services.

Some examples of startup costs

Cleaning Company
Basic supplies like vacuums, sponges, mops and cleaning products

Photography Business
Studio space rental, cameras, accessories, lighting equipment, backdrops, props

Food Truck
Truck and equipment, menu ingredients, point-of-sale payment systems, signage and printing costs

Next, think about the fixed and variable ongoing costs of running your business:

- **Fixed costs** are expenses that won't change much in the long term, like monthly rent, payments on equipment or vehicles, and utilities.
- **Variable costs** can change depending on your operations. The most common variable costs you'll encounter are raw materials and supplies.

More Examples of Variable Costs in Business

- Marketing and advertising expenses can be variable because they may be higher as you promote a grand opening, and lower as word-of-mouth starts bringing in customers.
- Some variable costs change seasonally. For example, an ice cream shop will spend more on supplies during the summer when it's hot out than in the slower winter months.
- Accepting credit card payments from your customers usually comes with a fee from the payment processing service. These fees are variable expenses because the amount you pay fluctuates with the amount of sales you make.

Ways to secure and manage funds

One of the most important tools in securing and managing your business's cash is a **business bank account**. To open a business bank account, the bank will require your **Employer Identification Number**, or **EIN**.

[Setting up an EIN] and [opening a business bank account] with all the tools and features you need is easy with ZenBusiness.

Speaking of banks, let's talk about **bank loans**. Ironically, it's when your business is just beginning — when you're most in need of cash — that bank loans are hardest to attain.

Instead, most business owners invest their own capital, such as savings and other assets. You can also consider asking family and friends to invest in exchange for a stake in your business.

As far as traditional financing is concerned, **government funding** and **small business grants** are the most attainable for new business owners.

Federal, state, and local governments have programs that include **low-interest loans**, **venture capital opportunities, and grants.** You can check your grant eligibility at Grants.gov.

Another option is called a [Small Business Administration microloan]. The average microloan amount is around $13,000.

To find an SBA-guaranteed loan, visit SBA.gov and use the website's search tool to look up "**microloan lenders.**"

Last but not least, technology and social media have opened up **new sources of financing** for business owners. Here are some alternative sources of funding that might work for you:

- Crowdfunding platforms like Kickstarter, Indiegogo, GoFundMe, and Fundable allow you to seek monetary support as donations or in exchange for future products or services as business picks up.

- Try searching for special types of funding for certain demographics: **Black business owners**, **female business owners**, immigrants, first-time business owners, and other groups may be able to access cash intended for entrepreneurs with limited resources.
- In rare instances, angel investors may be an option. Websites like AngelList and SeedInvest connect business owners in need of capital with investors looking for a stake in new projects.

Your creativity and tenacity as a business owner will come in handy as you hunt for financing opportunities. While you focus on the big picture, let us help with the rest. Visit **ZenBusiness** to see the many ways we serve hard-working business owners like you.

Now that you have a better understanding of business financing, let's move on to the next lesson, where we'll cover everything you need to know about budgeting.

Budgeting Basics: Your Need-to-Know Financial Terms Explained

No matter what kind of business you operate, there are some important terms that you'll frequently encounter. In this lesson, we'll help you understand what these terms mean and how they fit into your ongoing budgeting tasks.

Loans and Grants

First, we'll define **loans** and **grants**. It's important to know these terms so that you can seek the right type of funding for your business.

Business loans are typically provided by a bank and need to be repaid to the lender, with interest. For new business owners, lenders may require that you offer collateral to back your loan.

Collateral Example

Entrepreneurs may offer vehicles or even their home as collateral. In the event of nonpayment, the lender may seize and sell the collateral in order to pay off your debt.

Business grants are very different from business loans. Grants are usually intended to incentivize local businesses. Grants do not need to be repaid.

Cost of Goods Sold (COGS)

To be successful, business owners need to understand their costs. One key cost analysis concept is called **cost of goods sold**, or **COGS**. Your cost of goods sold tells you how much you spend to create your product, including the cost of materials and labor.

Cost of goods sold is determined by adding together the value of your starting inventory and any purchases you make over a period of time. Then, you'll subtract the value of your ending inventory.

For example, if your business inventory at the beginning of the month is $3000, you purchase $2000 of inventory during the month, and you have an ending inventory of $1000, your cost of goods sold is $4000.

Knowing this number helps you make decisions, such as finding new vendors with better direct material prices.

Payables/Receivables and Gross/Net Revenue

Two more terms you'll encounter as a business owner are payables and receivables:

- **Payables** include money you owe others.
- **Receivables** include money owed to you, such as unpaid invoices you've sent to clients.

Next, you'll need to be familiar with the differences between gross revenue and net revenue:

- **Gross revenue** includes all the money that came in throughout the year.

- **Net revenue** consists of your total earnings AFTER you subtract your cost of goods sold.

Break-Even Analysis

One of the most impactful budgeting concepts you'll use is called a [break-even analysis](). A break-even analysis reveals the point at which your total costs and total revenue equal zero. Above this point, your business is profitable. Below it, your business is losing money.

$$\text{Break-Even Point} = \frac{\text{Fixed Costs}}{\text{Sales Price per Unit} - \text{Variable Cost per Unit}}$$

Step 1 Determine your total fixed costs for a period of time.

Step 2 Next, find your sales price per unit, such as the cost of service provided or the purchase price of your product.

Step 3 Subtract your variable costs per unit from your sales price per unit.

Step 4 Divide your fixed costs by this number to find your break-even point.

Profit and Loss Statements

Business owners also need to understand [profit and loss statements](). This report tells you whether you're operating with a net income or a net loss.

Let’s take a look at a sample profit and loss statement:

My Awesome Company

PROFIT AND LOSS

January - December 2018

Income	$90,000
Cost of Goods Sold	$10,000
GROSS PROFIT	**$80,000**
Expenses	$6,000
NET OPERATING INCOME	**$74,000**
Other Income	$45.00
Other Expenses	$12,000
NET OTHER INCOME	**-$12,045**
NET INCOME	**$61,955**

Profit and Loss Statements

The report begins with the total revenue you’ve brought in, then subtracts the cost of goods sold, materials, utilities, travel, repairs, equipment purchases, and more to determine your business’s net income.

Assets and Liabilities

Up next are assets and liabilities:

- Your **business assets** include anything that you own.
- **Liabilities** are debts that you owe.
- The difference between these two is called **working capital**.

Balance Sheet

Finally, you’ll use many of these terms in one useful financial report called a [balance sheet].

A balance sheet includes three sections: assets, liabilities, and a portion called **owner's equity**. Owner's equity includes any capital you've invested and your net income. Any salary that you've paid yourself as the business owner is subtracted from owner's equity.

Tallying up your assets, liabilities, and owner's equity tells you the total equity of your business.

Here's an example of a basic balance sheet:

Balance Sheet

ASSETS	
Bank Account	$2,000
Accounts Receivable	$6,000
Equipment	$1,000
Total Assets	**$9,000**
LIABILITIES	
Accounts Payable	$200
Long-Term Debt	$2,000
Total Liabilities	**$2,200**
OWNER'S EQUITY	
Capital	$6,000
Retained Earnings	$12,000
Drawing	-$8,000
Total Equity	**$10,000**

As your business grows and thrives, all these terms and concepts will become second nature to you. While you focus on the big picture, let [ZenBusiness](#) handle the rest, such as business formation, [compliance](#), and more. Don't forget to check out the next lesson in our series, where you'll learn all about **business loans**.

An Intro to Business Loans

Sometimes, you need more cash on hand than you have in the bank. In this lesson, we'll be discussing an introduction to business loans.

Why businesses seek out loans

We know, by definition, that a business loan is money obtained by a business from a financial institution for the purpose of operating said business. Simple enough, right?

Let's start at the very beginning, though, and explore why a business would seek out a loan in the first place. Often, when a business is still getting started, it might not have the funds yet to make its next move. A lot of businesses need funding at start-up to help get the company up and running. For example, they might need to purchase new equipment or machinery.

Another reason a business would seek out a loan is for **growth**. If a company wants to grow, they could seek out funding to help them with that, too. Sometimes, a company might be ready to **expand**, but it doesn't necessarily have the funding to do so. Or, the business owner doesn't want to place the company in a less-than-ideal spot by utilizing all available resources.

So, whether you're scaling up by improving equipment, hiring more employees, or even opening up a second location, a **business loan** can help you cover those frontloaded costs so that you don't have to burn through all of your existing funds. Think of your business savings the same way you would your personal savings. If you use all of your available cash, and you don't have a safety net to fall back on, you can potentially find yourself in a pretty rough spot financially. A business loan can help prevent that from happening.

Securing a business loan: differences between private and SBA lenders

Now, let's talk about the first steps you're going to take to secure a business loan. First and foremost, research is your best friend when it comes to securing a business loan. Although you obviously want to get a great rate, you first need to know about the different types of business loans that are available to you.

Check out this chart showing some of the differences between private lenders and [SBA lenders]:

Private Lender Pros	Private Lender Cons	What does this mean?
Tailored funding offerings	Higher interest rates	More customized offerings might be more convenient, but the higher interest rates that come with them could make the loan more expensive than it needs to be over time.
Faster application process	Unregulated	Unregulated loans mean your business has fewer protections provided by overseeing agencies. Quicker processing time is the trade off here.
Unsecured options	Shorter terms	No-collateral loans are convenient, but they also come with shorter term limits, meaning your monthly payment will generally be higher than it needs to be.
SBA Lender Pros	**SBA Lender Cons**	**What does this mean?**
Broader eligibility	Slower approval process Lower-credit applicants may be less qualified	More businesses may qualify for these types of loans, but a longer waiting period is the trade off.
Capped interest rates	Collateral is typically required	More difficult entry point due to a down payment and/or collateral being required, but trade off is an interest rate that's capped.
Various loan amounts available	Individual is liable for the loan if business defaults	More variety in loan amounts is offered, but trade off is personal liability in the event the business goes bust.

It’s important to recognize the differences between private lenders and SBA lenders.

Private lenders tend to offer a quicker application process and more flexible options. The downside here is that:

- Interest rates are generally higher.
- The loan is offered at a shorter term.
- These types of loans are unregulated.

On the flip side, **SBA lenders** offer broader eligibility, capped interest rates, and various loan amounts. However:

- The process is generally slower.
- It’s more difficult to qualify for these types of loans.
- Collateral is typically required.

Types of SBA government loans

Here’s some information about the different types of government loans you can get as well:

SBA 7(a) loans:

- For existing businesses, not individuals looking to launch a new business
- Maximum loan amount is $5 million
- Can be used to buy land, buildings, inventory, raw materials, etc.
- Eligibility is largely extended to for-profit businesses unable to acquire funding elsewhere

504/CDC loans:

- For existing businesses looking to expand
- For-profit businesses with net worth under $15 million and average less than $5 million over two standard fiscal years are eligible to borrow between $5 million and $5.5 million
- Can only be used to buy or modernize real estate or acquire assets to make expansion possible
- Usually include low down payments and fees that can be financed

Microloans:

- Available to qualifying small businesses to get started and grow
- Typically capped at $50,000
- Can be used to purchase furniture, supplies, inventory, machinery, or as working capital
- Interest rates range between 8% and 13% and have a maximum repayment period of six years

Business loans: things to consider

When it comes to **business loans**, you need to do your homework. You need to decide which type of loan to apply for, and which type of financial institution you want to do business with. National banks may have better name recognition, but that doesn't necessarily mean that their rates are going to be better than a smaller institution, like your local credit union. Another option gaining popularity these days is working with an online bank, which generally has lower overhead when it comes to brick and mortar operating costs, and consequently might be able to offer more competitive rates as a result.

Another big consideration is your credit score. A good credit score is definitely something you'll need, but you also have to provide a lot of documentation showing that your business can take on the loan.

That's why it's important to keep careful track of tax returns and bank statements, and have your **business plan** handy. You're going to need them all to work with your lender. Remember, best bookkeeping practices will save you a lot of headaches not only during tax time, but also when applying for a business loan. We'll go more into that during our next lesson, though.

If you have any questions about what you learned in this course, don't hesitate to reach out to us. We're always here to lend a hand however we can. And be sure to check out the next ZenBusiness Academy course on Bookkeeping and Payment.

Glossary of Terms

Startup costs
Anything that you need to begin selling your products or providing your services.

Fixed costs
Expenses that won't change much in the long term, like monthly rent, payments on equipment or vehicles, and utilities.

Variable costs
Costs that can change depending on your operations. The most common variable costs you'll encounter are raw materials and supplies.

Business bank account
An account that enables business owners to keep company funds/transactions separate from personal transactions.

Employer identification number (EIN)
A unique nine-digit number assigned to business entities by the Internal Revenue Service for identification purposes. You'll need an EIN to open a business bank account.

Business loans
Funds that are typically provided by a bank and need to be repaid to the lender, with interest. For new business owners, lenders may require that you offer collateral to back your loan.

Business grants
Typically provided by the government, business grants are funds provided to businesses in need. Grants are usually intended to incentivize local businesses and do not need to be repaid.

Cost of goods sold (COGS)
Your cost of goods sold tells you how much you spend to create your product, including the cost of materials and labor. COGS is determined by adding together the value of your starting inventory and any purchases you make over a period of time. Then, you'll subtract the value of your ending inventory.

Payables
Money you owe others.

Receivables
Money owed to you, such as unpaid invoices you've sent to clients.

Gross revenue
All the money that came into your business throughout the year.

Net revenue
Your total earnings AFTER you subtract your cost of goods sold.

Break-even analysis.
A break-even analysis reveals the point at which your total costs and total revenue equal zero. Above this point, your business is profitable. Below it, your business is losing money.

Profit and loss statements
A profit and loss statement is a report that tells you whether you're operating with a net income or a net loss.

Business assets
Anything that you own.

Liabilities
Debts that you owe.

Working capital
The difference between your business assets and liabilities.

Owner's equity
Owner's equity includes any capital you've invested and your net income.

Balance sheet
A report showing your business assets, liabilities, and owner's equity. Tallying up your assets, liabilities, and owner's equity tells you the total equity of your business.

Private lender
Any entity that loans money to individuals or businesses, but is not affiliated with a bank or credit union.

SBA lender
A lender that is certified through the Small Business Association to provide loans to businesses. These loans are typically backed by a federal guarantee.

SBA 7(a) loan
An SBA loan program that provides funding for businesses with special requirements. (This is a great option for purchasing real estate for your business, securing short- and long-term working capital, and refinancing existing business debt.)

504/CDC loan
An SBA loan program that provides long-term, fixed rate funding for major expenses related to business growth and job promotion.

Microloan

An SBA loan program that provides funding for startup companies, newly established businesses and growing small businesses.