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Technology companies have a variety of options for funding

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Before you pursue financing for your business, learn what lenders or investors look for when they finance a company. No bank, finance company or equity investor wants a bad investment or one that has a difficult story that compromises its standards. Selecting the appropriate lender or investor will make the process more efficient and be a better fit as your company grows.

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For emerging businesses, your best choice may be **bootstrap financing** from personal savings, credit cards or small investments from family and friends in amounts that generally do not exceed $10,000-$20,000 each.

Early investors often receive common stock. Keep it simple so you don't make future investments too complicated. Also think about how the capital or loans will be repaid and how you will keep outsiders informed of the company's position. Good communications could lead to additional investment later.

Angel capital may be available from individual investors who bankroll startups. They want to see experienced and successful management teams with well-developed business plans. Angels look for a defensible product or service in an established and growing market. Investments generally range from $50,000 up to $500,000. Introductions to angels are generally arranged through attorneys, bankers or CPAs.

New **venture capital** is not as plentiful as in the late 1990s. Venture capitalists rely on a strong, clear business plan demonstrating a deep, experienced management team. VCs look for home-run potential, billion-dollar markets and liquidation events in four to six years from an IPO or sale of the company. Both venture and angel investors usually get a different class of stock with better rights than the common shares.

Once your business has a track record, developed a product or service and built a customer base, you may be eligible for certain levels of supplier credit. Used judiciously, short-term accounts payable can give you a lot of room in your monthly cash flow.

Senior debt financing may be considered as the company grows. Commercial banks or finance companies may offer short-term lines of credit and secured term loans to your business. Lenders ask about:

1. Purpose — How will the business use the money?
2. Repayment — How will the business pay it back?
3. Fallback — If the primary repayment source fails, how will it be repaid?

Many companies can answer purpose and repayment, but the answer to fallback will determine if the borrower qualifies for a loan and under what conditions. If cash-flow generation is risky, the lender often takes a security interest in assets. In this case, maximum loan amounts are often set at an amount equal to an estimated liquidation value of a company's assets, including accounts receivable, inventory, machinery and equipment, and real estate.

If the company doesn't have sufficient assets to pledge, personal guarantees from the owners and additional security such as houses or personal financial assets may be required. Because senior lenders have a profit margin of only a few percentage points over cost of funds, they don't make risky loans to startups or undercapitalized companies that don't have a proven performance record.

Mezzanine financing, or subordinated debt, is available to companies with positive cash flow and compelling corporate value that need financing in excess of the borrowing availability of their assets or the personal guarantees of its owners. A mezzanine lender will generally require a second lien on all assets and ask for warrants to purchase a small percentage of the common equity of the company. In return, your company will enjoy an extended period before having to amortize the principal.

To sell your concept to financing sources, you need a plan. An executive summary up to 10 pages long should describe the business and opportunity. Include a brief company history with focus on management and expertise in the field or technology. Outline the equity investments and loans received so far. Provide analysis of the industry, market trends and your competition. Talk about key customers. Share your plans on how to grow market share, based on your current customer base and experience. Build your financial projections based on past performance. Describe the company's shortcomings and how you plan to address them. And finish with a strong supporting statement of how the business has kept its commitments so far.

These options represent a variety of funding sources. Keep them in mind over the life of your business as your financing needs and choices change.

Michael Oleksak is a principal in Adams Strategy LLC, a firm that helps entrepreneurs develop strategies for growth, change and succession.