GOURMET NEWS
THE BUSINESS NEWSPAPER FOR THE GOURMET INDUSTRY

General News

How to finance your new venture

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There is a fundamental need for all entrepreneurs undertaking a new business venture... money! As you plan to build your specialty retail empire or take your products to the marketplace, you must answer the question of how to finance the venture. How does an entrepreneur come across this valuable resource? There are different types of funding sources available, and each has its own benefits and drawbacks.

The first place everyone looks to start a new business is in the mirror. You retain the most control and ownership of the venture by funding it yourself, but using solely your own money is often not practical. You may not have enough savings to cover your budget, or you may be putting at risk too much of your savings to allow you to sleep at night. Even if you think you have enough money now, the always unpredictable contingencies like higher build-out costs or raw material inputs can be enough to close your company if you have not allocated enough to your "rainy day" fund.

Friends and family are your next closest option, and they usually allow you to retain most of the control in your business while usually offering attractive investment terms. These funds, however, may be limited, and your friends and family frequently are not good sources of business support or connections.

Everyone always wishes for the proverbial Daddy Warbucks, the elusive angel investor. Angel investors may very well have retailing or food industry experience and contacts that can be useful to you in your venture. These hard-to-find investors are scattered around the country with no central resource for finding them. Additionally, the farther you get from your immediate circle of friends and family, the more of your company investors will want for their money. Angel investors help get a business off the ground but typically do not have the deep pockets needed to extensively grow a company.

SBA loans are often your only traditional debt option. The amount the SBA is willing to lend is based largely on your collateral as you will be personally guaranteeing the loan. The covenants to the loans are frequently very restrictive. You may be able to find an SBA officer who can provide some insights and helpful connections to you, which along with the relatively low interest rate, are the main benefits of this type of investment. An SBA loan allows you to retain more control of your company yet leaves you with many of the trade-offs of personally funding your business.

Venture capital for food companies is very hard to come by and offers the biggest trade-offs. You will end up parting with more of your company than with the other options - this may include giving up control - and will receive in return a larger check and more strategic counsel. A VC investment externally validates your company's vision while giving you the resources to grow it quickly. That being said, venture capitalists require as many, if not more, conditions than banks and have very aggressive growth targets.

Some useful resources for new entrepreneurs include:

* A business plan writing course at a local business school, where you can typically get free student assistance in putting together your business plan.

* A board of advisors can offer advice on your venture and also hold you accountable to objectives.

* Many state economic development agencies have grant programs and staff who can provide support and guidance.

* Food innovation centers or business incubators have become an important resource for small to mid-size food entrepreneurs.

No funding option is the perfect choice for every entrepreneur. You have to decide your vision and which choice best fits with your aspirations and means.

Adam Borden is a specialty food venture capitalist and participated in a seminar at the Summer Fancy Food Show on how to find funding for start-up food companies.

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