

# Roadshow for SMBs: Entrepreneur Concepts & Sources of Finance

---

May 24, 2007  
Cebu Waterfront Hotel  
Hinge Inquirer SMB MBA RoadShow

Wilson Ng

# Agenda

---

- The Entrepreneurial Myth
- Capital Requirements and Raising Capital
- Cash Flow
- Sources of Financing:
  - Debt Financing
  - Equity Financing
- Financial Objectives in Starting a Business
- Are you Entrepreneurial?

# The E-Myth

---

- My own experience
  - Am I a computer person or a business person?
- Learning the Technical Side of the Business is Knowing the Business
  - Samuel Gerber. The E-Myth.
- Can you make a better burger than McDonalds?
- The Role Models and the 21<sup>st</sup> Century Landscape

# Business Concepts to Learn

---

- Financials and Accounting
- Marketing / Sales
- Human Resource
- Information management
- Operations and Production Management
- Basics of Management
- Business Mathematics
- Social / Legal Sciences
- Communication Skills
- Organizational Development

Almost half of all new  
ventures fail because  
of poor financial  
~~management~~

-Dun & Brandstreet

# Determine how much you need

---

- Undercapitalized business
  - May run out of cash, borrowing capacity, and ability to raise additional funds
  - Cash is king.
  - When you run out of cash, it is GAME OVER.
- Accounting Profits do not pay bills. Only Positive cash flow can keep the business solvent
- The slew of unfinished buildings

## Advantages to Raising Maximum Capital

---

- Permits you to survive unexpected setbacks and delays
- Allows additional flexibility in taking advantage of new opportunities if they arise
- Erases the problem of obtaining credit from suppliers and banks
- Makes the entrepreneur feel secure in the critical initial phase

## Advantages to Raising Essential Capital

---

- Limited capitalization prevents major losses and the loss of long term credibility with the financial community
- Keeps attention and energies focused on the principal objectives
- If you sell more stock than you need to sell, you are selling it too cheaply
- If you raise extra money you will spend it perhaps unwisely

# Working Capital Concepts

---

- Permanent Working Capital
  - Amount needed to produce goods and services at the lowest point of demand
- Temporary Working Capital
  - Amount needed to meet seasonal or cyclical demand
- Risks
  - Inventory levels too low or too high
  - Purchasing opportunities
  - Accounts receivable too restrictive or too lax
  - Funds should meet the minimum internal rate of return

# Cash Flow Cycle

---

- Days in raw materials inventory
- Days in work in process inventory
- Days in finished goods inventory
- Days in accounts receivable
  
- Minus days in accounts payable

# Cash Flow affects ROI

---

- The fish or fruit vendor example
- The real estate company example

# To Obtain Funding

- Determine how much money is needed to start your company
- Prove to your investor that your company requires the predetermined amount of money
- Offer incentives, interest, or collateral for the investor's contribution
- Make arrangements to pay back the loan

# Initial Sources of Funding

---

- First source of funding —  
yourself
- Second source of funding —  
your family



# Sources of Funding

- Yourself
- Your family
- Your friends and colleagues
- Angel investors
- Venture capitalists
- Banks and lending institutions
- Private companies
- Government agencies
  - microloans

# Getting Debt Based Financing

---

- What will the money be used for?
- How much money is needed?
- How will the money be paid back and when?
- When is the money needed?
- 5 Cs of lending
  - Character, capacity, capital, conditions, collateral

# Some rule of thumbs on finance

---

- Short term Accounts receivable 70 to 80 %
- Long term AR 60 to 80 %
- Inventory: 40 to 60%
- Equipment ( general use) 70 to 80%
- Equipment (specialized) 40-60%
- Sales contract 60 to 70%
- Real estate 80 to 90%
- Plant improvement loan 60 to 80% of value

# Stages of Equity Financing

---

- **Seed Capital / Startup ( you and friends)**
  - Concept is viable, feasibility studies, get company organized and operational
  - Develop initial product
- **First Stage Finance ( incubator/Angel investor)**
- **Second Stage Financing ( Angels/ VCs)**
  - First commercial sale
- **Third Stage Financing ( VCs)**
  - Moving towards positive cash flow and breakeven
- **Fourth Stage Financing ( VCs)**
  - Bridge of being private and going public

# Business Incubators

---

- Provide seed funding
- Provide office space and use of material
- Provide consulting services

# Angels & Venture Capitalists

---

- Both look for ROI from 5 to 15 times their original investment
- Both carry out investigation of the new business and/or management
- Expect exit strategies to be spelled out and adhered to

# Venture Capital

---

- Distributes two-thirds of its funds to post start-ups
- Few start-ups fit the VC mold
- Significant investment in the high-technology fields
- Not all start-ups need VC funding

# Advantages to Financing with Common Stock

---

- Corporation is not legally obligated to make payments to stockholders, so long as board of directors acts in best interest of corporation
- Stock improves the credit rating of company because it increases the amount of capital in company
- Stocks are attractive to some investors as hedge against inflation

## Disadvantages to Financing with Common Stock

---

- Common stock owners have corporate voting rights and control can be transferred to new stockholders
- Shareholders share in the profits through dividends

# Entrepreneurial concepts

---

- People who exhibit the following :
  - Need for achievement
  - Risk taking propensity
  - Internal locus of control. Belief that personal effort is primary determinant of outcomes
  - Tolerance for ambiguity
  - Type A behavior

# Need for Achievement

---

- A person who prefers personal responsibility for decisions, desires to attain high, self-disciplined standards, likes clear means of assessing goal accomplishment and seeks to surpass others.

# Internal Locus of Control

---

- The belief that personal effort is the primary determinant of outcomes, this belief is in turn associated with self-confidence, penchant for action and resilience.

# Type A Behavior

---

- An incessant striving to achieve more and more in less and less time, and general competitiveness.

# Entrepreneur's Financial Objectives

---

- Your objectives in Owning a Business
- Sources of Income:
  - Active Income
  - Passive Income
- Understand your Objectives