Starting a business: Source of funds

SME Corporation Malaysia
http://www.smecorp.gov.my

How much money do you need?

It depends on your type of business and how quickly you plan to expand. You should sit down and write out how much your expected expenses will be for at least the next 24 months and how much you project to bring in as far as income on a monthly basis. There are several companies that can help you get started with funding your business. You can refer back to your business plan or start asking yourself what type of expenses do you need the money for? Generally, for a start-up business, there will be a few costs involve:

- **Cost of sales:** Product inventory, raw materials, manufacturing equipment, shipping, packaging, shipping insurance, warehousing
- **Professional fees:** Setting up a legal structure for your business , trademarks, copyrights, patents, drafting partnership and non-disclosure agreements, attorney fees for ongoing consultation, retaining an accountant
- **Technology costs:** Computer hardware, computer software, printers, cell phones, PDAs, website development and maintenance, high-speed internet access, servers, security measures, IT consulting
- **Administrative costs:** Various types of business insurance, office supplies, licenses and permits, express shipping and postage, product packaging, parking, rent, utilities, phones, copier, fax machine, desks, chairs, filing cabinets – anything else you need to have on a daily basis to operate a business
- **Sales and marketing costs:** Printing of stationery, marketing materials, advertising, public relations, event or trade show attendance or sponsorship, trade association or chamber of commerce membership fees, travel and entertainment for client meetings, mailing or lead lists
- **Wages and benefits:** Employee salaries, payroll taxes, benefits, workers compensation

Where to get the money?

All businesses require some form of financing. The most basic rule in financing a business is to commit yourself and your savings or other resources to the business. This will ensure your whole hearted commitment to its success. This is also a strong sign of good faith and commitment for other potential lenders/investors as, if you are not seen to be willing to risk your own funds why anyone else should! Further, for a start-up business, there may not be a wide variety of sources of funds as it is still untested. Hence, you will have to come up with the capital, from personal savings or through selling off surplus assets you may have.

Personal saving

There's nothing like having your own money saved, to put into your startup. You have the satisfaction of having saved it on your own, and the knowledge that you don't owe anyone. When using your own money to finance a business, you will feel more personally invested in the project, because it is basically your money on the line. However, there is more flexibility in using your own money. For example, if your business is having a slow start, you do not need to worry about paying back a bank loan because you used your own money.

But the risk you may face is that – It's your money, and if you're not successful, the money is gone, and with it the opportunity to do anything else with it later. It can also create another financial burden. Most people have a savings account for general purposes. In other words, the money is not saved for any particular purpose and is used whenever it is needed for whatever reason. As such, draining such an account may negatively affect your financial situation if you need to dip into that savings account for an emergency.

However, if the personal savings you use to finance a business was money saved for that particular purpose, you should not have any financial troubles as a result of the draining of that account. If your savings account was set up for the purpose of opening a business, this means that you planned ahead and reserved that savings account for that purpose only, and thus, will not feel the pinch in an emergency because you will have other funds available for that purpose.

Financing with debt

Financing a business with debt involves securing a loan. This can be in the form of either unsecured or secured debt. Unsecured debt refers to a loan taken without having to put up any specific form of security or collateral. This involves mainly borrowing from family or friends, a credit card, line of credit and other similar means.

Secured debt, on the other hand, refers to loans where you are required to put up some form of collateral in exchange for the loan, for example, mortgage on the house or refinancing your car, among others. For secured debts, you need to be able to assure the lender about your ability to meet your payments either through your business or other means. To secure such debt is some cases you will need to present a solid business plan, evidence of your experience and of your ability to repay.

Family and friends

Raising finance from family and friends can be rewarding for both parties: you get the finance to start or expand your business, while your family and friends have the satisfaction of helping you while earning interest on their spare cash. Family and friends may accept more flexible terms and conditions that are better suited to your business than those offered by commercial banks.

Often arrangements with family and friends are informal and based purely on trust and verbal assurances. However, a formal written agreement is strongly advised in order to minimise disputes in the future. Preserving your relationships with friends and family is as important as pursuing your business opportunity.

Personal loan

Financing a business with personal loans means that you borrow the money personally to invest it in your business. This is typically used at start-up or early stages where the business has not established enough history or performance to be able to secure a loan on its own merit.

Mortgage loan

Another source for financing a business is a home mortgage loan. Some banks allow you to mortgage or refinance your house. This may be a risky move as if you are unable to make the scheduled payments, you risk losing your home. It is therefore crucial that you are confident on your continued ability to make all payments scheduled.

Insurance loan

Another source of loan could be from your insurance policy. If you have been paying for a life insurance policy that builds up a cash value you are entitled to take up a loan on the cash value amount. Many insurance companies will loan you money with the cash value as security. This is a rather expensive method of financing a business and also means reduced benefits if you are unable to clear the loan and interests accrued.

Credit cards

Credit cards can also be a source for financing a business when you are first getting started. However, this is another expensive method as the rates charged can be high and it could also affect your credit rating, required for other sources of financing.

Government small business loans

There are a variety of government small business loans and programs that can be used in financing a business, including those specifically for Bumiputeras and micro entrepreneurs. Most of these loans are administered by the Financial Institutions like the Development Financial Institutions (DFIs) and the commercial banks. While some are directly administered by the department/agency involved. Funding from these sources may be relatively easier to secure as the government department/agency guarantees your loan, if you are approved.

Grants

There are often a variety of government grant programs for specific types of startup businesses. For more information, search online on government websites. Unless they're reputable, don't pay money to sites that tell you they'll give you a big list of where you can get grant money. The risk is that - While grants are rarely required to be paid back, accountability is higher, and you might have to work within a difficult deadline, to show your progress. If you do not achieve the progress you indicated in your proposal, there may be some sort of penalty.

Bank loans

Banks lend money to existing businesses but for a start-up, it may be very difficult to get a bank loan as they do not have a track record. Banks require a sound business plan and must be convinced of the viability of your business before they agree to lend you money. Banks also normally need collateral as security. If you have a solid business plan and the lender agrees, this can often be the cheapest (interest rate-wise) loan sources available. The risk is that besides the fact that it's often hard for a startup to qualify - since there's little evidence you'll be profitable - if you do get a loan, it can be like a ticking time bomb if your business isn't doing well.

Equity financing

Equity Financing is borrowing where the investor/financier becomes a part-owner of the business in the process. This could be through venture capital or issuing shares.

Venture capital

Venture capitalists do not want to remain in your business forever. Generally, they want to see an exit strategy that will see them out in about 5 years, with a high return on their investment as their reward. In terms of areas of interest, venture capitalists are interested in both high technology and various other industries. Normally they fund businesses which have already been launched and have probably reached profitability.

The angel investor, on the other hand, is a special type of venture capitalist. Usually an individual with substantial funds, the 'angel' provides capital to start-up companies and takes a personal stake in the venture. Depending on the individual 'angel', their requests for any form of control or a quick return on investment will differ. However, similar to regular venture capitalists, they seek high returns on their investment for the risks they take on.

Credit support schemes for MSMEs in India

Ministry of Micro, Small & Medium Enterprises, Government of India

http://msme.gov.in

Credit linked capital subsidy scheme

The Scheme aims at facilitating technology up-gradation by providing 15 per cent upfront capital subsidy up to a maximum cap of ₹ 15.00 lakhs (i.e., maximum investment in approved machinery is ₹ 1.00 crore) to MSE units including tiny, khadi, village and coir industrial units on institutional finance availed by them for induction of state-of-the-art or near state-of-the-art technology for up-gradation of the present technology level to a substantially higher one involving improved productivity, and/or improvement in quality of product and/or improved environmental condition including work environment. It would also include installation of improved packaging technique as well as anti-pollution measures, energy conservation machinery, in-house testing and on-line quality control.

IP Facilitation Centre for MSME

Objectives

To enhance the competitiveness of the MSMEs sector, a scheme "Building Awareness on Intellectual Property Rights (IPR)" for the MSME is administrated with the objectives as under:

- To enhance awareness of MSMEs about Intellectual Property Rights (IPRs)
- To take measure for the protecting their ideas and business strategies.
- Assists to SMEs in technology up-gradation and enhancing competitiveness and for effective Utilization of IPR Tools by MSMEs.

Salient features

Sensitise entrepreneurs on IPR related matters by providing financial assistance for taking up the identified initiatives covering broad areas of interventions as noted below:

- Sensitising SMEs on IPR related issues by organizing Awareness / Sensitisation Programmes
- Conducting Pilot Studies and Interactive Seminars / Workshops for selected Clusters and Groups of Industries.
- Specialized Training programmes for Government officials and Industries.
- Assistance is being provided to the Granted Patent & Geographical Indications.
- Implementing agency has to contribute 10% of the GOI assistance for each activity prescribed in the scheme guideline.

Design clinic

Objectives

- To create a sustainable design eco system for the MSME sector through continuous learning and skill development
- Bring the industrial design fraternity closer to the MSME Sector
- Develop an institutional base for the industry's design requirement;
- Increase the awareness of the value of design and establish design learning in the MSME
- Increase the competitiveness of local products and services through design.

Salient features

- Applicability of project funding is to an individual MSME or a group of MSMEs coming together.
- A Design Company/ Academic Institutions will visit the unit and scrutinize all designs relevant fields & will suggest next steps to be taken.
- Project Proposal to be prepared and to be submitted to Design Clinic Centre for consideration.
- Mobilization and co-ordination workshop for MSME officials.
- Seminar / Workshops (including need assessment survey).
- Promotional Activities such as Orientation programme for stake holders, Study on Global
- Practices & Design Clinic Programme of other countries and National Level Workshop, etc.
- Implemented through National Institute of Design (DIPP Institution).

Lean manufacturing

Objectives

The objectives of the scheme is to enhance the manufacturing competitiveness of MSMEs through the application of various Lean Manufacturing (LM) techniques by:

- Reducing waste
- Increasing productivity
- Introducing innovative practices for improving overall competitiveness

- Inculcating good management systems
- Imbibing a culture of continuous improvement

Salient features

- The Lean Manufacturing Competitiveness Scheme was started as a pilot phase in 2009 for 100 Mini Clusters (10 or so manufacturing MSME units) in 11th Five Year Plan. National Productivity Council (NPC) was selected as National Monitoring and Implementing Unit (NMIU) for facilitating implementation and monitoring of the Scheme. Intervention of Lean Techniques started in 89 Mini Clusters and successfully. Work completed in 59 Mini Clusters with an expenditure of Rs 16.17 cr under the Pilot phase of LMCS.
- The Scheme was up-scaled in September, 2013 considering the recommendations of the evaluation report conducted by Quality Council of India (QCI). The evaluation report on Implementation of pilot LMCS has recommended the continuation of the Scheme keeping in view benefits amounting to about 20% increased in productivity to the units. The up-scaled Scheme approved with a Total Project cost of Rs 240.94 cr. (GOI contribution Rs 204.94 cr.) for 12th Five Year Plan for 500 Mini Clusters.

Quality management standards & quality technology tools

Background and salient features

The scheme is aimed at improving the quality of the products in the MSE sector and inculcates the quality consciousness in this sector. With the adoption of this scheme, MSEs will become more competitive and produce better quality products at competitive prices. The adoption of these tools will enable MSEs to achieve efficient use of resources, improvement in product quality, reduction in rejection and rework in the course of manufacturing, reduction in building up inventory at various stages etc.

The scheme insists of multifold activities out of which following major activities are being implemented through various expert agencies/organization, viz.

- One day Awareness Campaign,
- 2 days duration workshop at Metros,
- One National Level workshop at Delhi,
- Implementation of QMS/QTT in selected MSEs Cluster,
- Monitoring International Study Mission,
- ITI/Polytechnic teacher training,
- Course module in polytechnic syllabus, etc.

Technology and quality upgradation

Objectives of the scheme

- The first objective of the present Scheme is to sensitize the manufacturing MSME sector in India to the use of energy efficient technologies and manufacturing processes so as to reduce cost of production and the emissions of GHGs.
- The second objective of the scheme is to encourage the MSMEs to acquire product certification/licences from National/International bodies and adopt other technologies mandated as per the global standards.

Salient feature of the scheme

- Sensitize the manufacturing MSME sector in India to the use of energy efficient technologies and manufacturing processes so as to reduce cost of production and the emissions of GHGs by providing EET equipments.
- Creating awareness among the MSMEs within and around the identified Clusters about Market Transformation of Energy Efficiency, Carbon Credit Trading, etc.
- Increased adoption of National /International Product Certification standards by the MSME sector to enhance profitability of the implementing MSMEs by reducing energy costs and also through possible income from carbon credits.

Incubation

Objectives

- To promote emerging technological and knowledge based innovative ventures that seek the nurturing of ideas from professionals.
- To promote and support untapped creativity of individual innovators and also to assist Individual innovators to become technology based entrepreneurs.
- To promote networking and forging of linkages with other constituents of the innovation chain for commercialization of their developments.

Salient features

- Under this scheme Government of India is providing opportunity to the innovators in developing and nurturing their new innovative ideas for the production of new innovative products which can be sent in to the market for commercialization. This Ministry has been implementing this scheme since 2008 under the approved guidelines which permits the Govt. GoI financial assistance of 75 % to 85 % of the project cost up to the maximum of 8.00 Lakh. This fund is routed through the Business Incubator (BIs).
- These BIs are IITs, NITs, Engineering Colleges approved by AICTE, Central / State Universities recognized by UGC and other recognized R & D and / or Technical Institutes / Centres, Development Institutes of DIP&P in the field of Paper, Rubber, Machines Tools, etc. These Institutions are also known as host institutions.
- Host Institutions (HI) are exploring the new innovative ideas from the Incubatee of various sectors that may be existing and prospective entrepreneurs. Even the students from the various streams are also participating in nurturing their new ideas through the Host Institutions as a part of their studies and carrier building.