

How to raise capital*

Most businesses need to raise extra capital or funding at some stage in their growth.

Many small businesses are undercapitalized, sometimes because of frequent cash flow challenges, or they struggle to find funds to invest in the necessary equipment, staff and resources required for business expansion and growth.

There are seven strategies to effectively raise capital for your business.

Step 1: **Identify how much you need and what it's for**

The first task you need to complete is deciding how much you need and what it's for. For example, you could be aiming to increase capacity by investing in new equipment or expanding your facilities. Or you might be planning to buy-out a competitor. Whatever the reason, the first part of your business case is to clearly define the reasons you need extra capital. Once you've done that, you'll have a clearer idea of just how much you'll need and whether it's justified.

Download the Start Up Costs Template to determine how much your new start-up may need. If you're in business, use the Cash Flow Template to identify when and the amount you may need.

Step 2: **Find the money inside your business**

Before you go down the path of seeking capital from outside your business, identify any other ways of raising the cash you need internally. For example, selling equipment you don't use very often (and leasing it when you do need it), cutting down on travel expenses, reducing the amount of personal withdrawals, moving some staff from full-time to part-time roles, re-negotiating deals with suppliers for better credit terms, having a sale of existing inventory, reducing the size of the store you're renting and reducing your own salary.

It's also important to chase up any late payers. Make sure you have robust systems in place for handling debt and collecting what you're owed.

Download the Five Ways to Increase Profit Template to find ways to increase internal profit.

Step 3: **Partner to access the resource you need**

Business owners are increasingly discovering the advantages of joint ventures and strategic alliances, ranging from short-term joint ventures to more formal long-term commitments. You can form strategic alliances with suppliers, customers or complementary businesses.

It's also worth looking into contracting out work, especially for large projects. Contractors will often have all the resources they need to handle work, saving you from having to purchase them.

Step 4: **Borrow**

Once you've decided that you'll need to seek extra capital from outside your business, it's time to look at the various options and identify the best resource for you and your business.

- **From the bank.** This is the first and most common place business owners go to seek extra capital and there are good reasons for doing so. As a customer of the bank they will know you and your business and have valuable advice around how much you'll need and will help structure the loan to suit your business and personal circumstances.
- **From friends and family.** This can be both good and bad. To preserve your relationship, it's essential that an agreement is drawn up that clearly lays out the terms of the loan. Both parties should have a full understanding of what it involves, from what the repayment terms will be to agreeing not to discuss business at family gatherings.
- **Wider finance options.** There are other options for borrowing money however, it's important to consider these options very carefully, since they're more likely to have higher interest rates than a bank.

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Step 5: **Angel investors, venture capitalists and crowdfunding**

Angel investors are successful entrepreneurs who are looking for investment opportunities with promising businesses. They'll have investment criteria – topped by wanting to see a return on their investment.

Venture capitalists are investment companies or fund managers who provide cash in return for part-ownership of your business. They typically looking to invest larger sums of money, which could be above and beyond what you need, and their requirements can be much tougher than angel investors.

Crowdfunding could be useful for owners with ideas that aren't bankable in the minds of traditional lenders. Having gained popularity over the last few years, crowdfunding lets you receive donations on the Internet to help get your business idea off the ground. You can offer people incentives to encourage them to get behind your business. This usually works best for a business that is assisting with a nature or human right cause.

Step 6: **Government grants and subsidies**

It's always worth checking out what the government can offer you. Mostly, this type of funding comes in the form of grants. Governments at all levels want your business to succeed, so they create programs to supply tax breaks, wage subsidies or loan guarantees.

Step 7: **If all else fails - bootstrap**

If for whatever reason you're not able to borrow money or interest investors or crowdfund, don't give up. You might still be able to raise the capital you need by 'bootstrapping' your business.

- **Cut personal expenses.** Look at the bare minimum you'll need for your own living expenses and cut your salary down to that amount.
- **Cut drawings or dividends to shareholders.** When you do this, it's important to communicate clearly to the business shareholders the reasons why. They need to be assured that the cuts they're experiencing now will pay off in the long run when your business benefits from your growth plans.
- **Sell any personal assets.** Look around your home and decide what you don't need and sell it. For example, if you've got a second car that you're not really using, sell it and invest the cash in your growth plans.
- **Extract equity from any property assets.** Go back to the bank and borrow on the equity you've built up in property, whether it be your home, your business location (if you own it) or any property you've invested in.

Next steps

- Before you borrow any funds, calculate how much you think you'll need and identify alternatives inside the business to generate the capital.
- Get outside help to assess your options and determine if growing your business is the right move.
- Talk to your banker about possible help and support.
- Use our [location finder](#) to visit a Store, call us on 1-855-278-8988 or [schedule an appointment online](#).

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