

THE FIVE QUESTIONS EVERY MONEY SOURCE ASKS

Because the competition for financing is so fierce, don't think about approaching lenders or investors unless you've done your homework. Each money source, of course, has his or her own list of favorite areas to probe. But here are some of the basic questions all will want you to answer:

How much money do you need?

Instead of being coy, financial people say, it's important to be specific about the amount of money you're seeking. Saying how much you need helps set a framework for the discussion and show how well you understand your business. Indeed, some people say if you can't provide a figure, you're not ready to ask for money.

What do you plan to use it for?

Lenders and investors will always want to know how you plan to use their money. Do you need it for working capital? For marketing? Or is it to buy out your partner? Different sources have different biases and different tolerances for risk. Your answer will help reveal your priorities and your approach to the business.

How will this money improve the business?

Nobody wants to put money into a bottomless pit. Lenders and investors want to see how their loan or equity lowers your costs, expands your capability, and moves you closer to being self-sustaining. If you're not able to provide credible, cash-flow projections showing this, it will be hard to drum up serious interest.

How are you going to pay it back?

Obviously, this is of paramount concern to banks these days. The first thing bankers want to understand is how you can pay off the loan from cash flow. (They'll ask you to pledge collateral – usually business or personal assets – but only as a secondary source.) While equity investors aren't asking for the same level of predictability, they'll still want to hear your thought on how – and when – they might become liquid.

If Plan A doesn't work, what's your backup plan?

If the business runs into trouble, banks and other lenders will attempt to recover their money by liquidating the collateral. But equity investors won't have that alternative. For them, the big concern is, What if you need more money? The more you can show you have other options for generating revenues and financing, the better off you'll be.