

# Show Me The Money!

**Grassroots enterprise financing is one of several funding sources for equestrian endeavors.**

by Paul M. Wendee, CFP, CBI

*Grassroots enterprise financing* is a term I use to describe an area of finance that comes between the *friends and family* round of financing and the *angel* round of financing (please see below for a description of the various rounds of financing). It is an often overlooked area of funding for small enterprises, yet is potentially one of the most fruitful areas of financing for most small to medium-sized enterprises.

Grassroots enterprise financing is the financing of enterprises that comes from sources that are part of your extended network of friends, acquaintances and contacts. It goes beyond your immediate family and close friends and extends to the organizations that you belong to; the business contacts that you have; investors that you might have been introduced to at a social or business gathering; and even the sellers of a business or property that you might be buying. I'll give you some specific ideas on grassroots enterprise financing after a brief discussion of some of the traditional sources of financing used by enterprises of all sizes and types.

## Traditional Sources of Financing

The following are some of the more traditional ways of raising capital for small to medium-sized

enterprises. (Note: grassroots enterprise financing, a non-traditional source, has been inserted in the list below). This list of traditional financing sources can be used as a checklist when putting your financing plan together.

- **Friends and Family** – Most new enterprises start here. This is where you call your parents or Uncle Joe and ask for a loan or investment in your business.

- **Grassroots Enterprise Financing** – As discussed, these are the sources that are a part of your extended network of contacts. Everyone has such a network. You just need to think about who is in your network and put a plan together to present your business or project to this network.

- **Angel Capital** – Angel investors are wealthy individuals or groups of investors that invest in very early stage businesses.

- **Special Financing** – Special financing includes sources such as factoring and leasing.

- **Debt Financing** – This category includes bank lending, SBA loans and loans from venture capital and private equity sources. It also includes credit lines and working capital loans.

- **Venture Capital** – Venture capitalists are professional investors that form partnerships to invest in early stage companies. Venture capital is

usually provided in the form of equity investments or loans.

- **Private Equity** – Private equity groups (PEGs) tend to invest in companies that are at a later-stage than where you will find venture capitalists investing. PEGs often involve institutional investors (e.g., pension plans) and will often take an active role in managing their portfolio companies.

- **Private Placement** – A private placement is a securities offering that is placed directly with high net worth investors and not done through the public securities markets. Many early stage businesses and projects get funded this way.

- **Direct Public Offerings** – A public securities offering conducted by the company raising the capital and sold directly by the company in the public capital markets.

- **Initial Public Offerings (IPO)** – A public securities offering done with the assistance of an investment banking firm.

- **Project Finance** – Used for infrastructure projects involving a number of equity investors and a consortium of banks.

## Creativity and Awareness

The essential ingredients for a successful grassroots enterprise financing campaign are awareness and creativity.

You should constantly be aware of financing opportunities for your equestrian business or project. They will crop up in the most unexpected places. For example, you might be at an equestrian event and find yourself standing next to a potential investor that would be interested in your particular project or business. Or, you might read about a charitable organization that is looking to invest in projects that benefit disabled American veterans – and you happen to have a riding program for disabled riders. The possibilities are endless. The key is to be constantly looking for opportunities and to maintain an attitude of awareness so that you recognize the opportunities when you run across them.

Creativity is another key to success in the grassroots enterprise financing arena. Creativity in financing simply means considering all possible financing sources and ways of combining sources to get a financing structure that works best for your particular business or project.

## Financing Sources

The following are some examples of grassroots enterprise financing sources.

- **Seller Financing and Partnering** – When buying a business or the land for a project, try to get the seller to provide some of the financing or to become a partner in your venture.

- **Credit Unions** – Banks may not be lending, but credit unions are. And most credit unions didn't

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continued on page 22



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continued from page 20

make subprime loans so they are more able and willing to lend to businesses.

- **Microlenders** – Microlenders, which are typically nonprofit organizations, lend to small businesses. They tend to favor minorities and women and are usually more lenient in their screening of potential borrowers and in setting the terms of the loan.

- **Crowd Funding** – Crowd funding is a newer business model whereby your customers invest in your business and share in your profits. Your customers then help promote your business in various ways because they are now investors. This model is used mostly in the music and fashion industries, but could have applications in the equestrian industry. When structuring this funding approach, you should consult with a firm that is experienced in structuring securities offerings as this could be deemed a security by federal and state securities regulators.

- **Business Incubators** – Business incubators are often sponsored by universities to help new businesses get launched and grow.

- **Suppliers and Vendors** – Suppliers and vendors, like your customers, can become investors in or lenders to your business or project.

- **Charitable Organizations** – There are many charitable organizations that will invest in equestrian businesses and projects that have a humanitarian purpose. The charitable organizations don't necessarily have to have an equestrian focus. I know of a service club, for example, that recently raised \$6,000 from its members to repair a truck belonging to a riding organization client of ours that works with disabled riders.

- **Public/Private Partnerships** – Equestrian profit and non-profit enterprises can often partner with their local public entities in building and running equestrian businesses and projects.

There are many ways to finance an equestrian business or project. This article has reviewed some of the traditional sources, as well as an area of finance called grassroots enterprise financing. With both the traditional and grassroots enterprise financing approaches, being constantly on the lookout for financing possibilities and exercising creativity in structuring a financing program are the keys to success.



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