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Equity Funding Sources

Equity financing may seem less intimidating to a small business owner than debt financing because of the lack of concern of qualifying for a loan and paying back debt. Equity financing requires selling a partial interest or ownership in your company.

Advantages
- No debt payments
- Increases the net worth of the business

Disadvantages
- No longer the full owner of the business because financial contributors expect a share
- Must relinquish some control

The types of equity partners to be considered include informal investors, limited stock offering, venture capital, and initial public offering (IPO). Following, there is a detailed discussion of each type.

Informal Investors- Informal investors can include family, friends, colleagues, suppliers, or private (angel) investors. Private (angel) investors are difficult to find and require a very detailed business plan. You can find investors by contacting the investor directly or by contacting accountants, bankers, stockholders, venture capitalists, or investment clubs.

Limited Stock Offering- Limited stock offering provides an opportunity for your company to raise significant amounts of equity from outside investors without the high cost and burden of a public stock offering. A limited stock offering is still subject to some state and federal regulations. You must make sure your offering complies with all provisions that exempt it from the public offering registration process.

Venture Capital- Venture capitalists are the most risk-oriented investors. Most venture capital firms have specific investment preferences that involve business style, size of investment opportunity, rapid growth, and high return. To a venture capitalist, the most important factors are the management team and the ability to recover investment with substantial return in 5-7 years. Venture capital funds are typically available to less than one half of one percent of all new businesses.

Initial Public Offering (IPO)- An IPO involves offering your stock to the public. It is very expensive and requires extensive registration procedures. Most small businesses will not consider IPO for the afore-mentioned reasons; however, a profitable well-managed business may consider IPO to be an option.