

Self Informed

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*2012 NASE Future Entrepreneur
Abigail Dahl comes from a
family of entrepreneurs.*

7 Ways

to Fund Your Startup



By Kim O'Connor

By the time you start looking for cash for your startup business, you've put in a considerable amount of hard work.

You had a million-dollar idea and completed the research to make sure it's viable. You drafted a detailed business plan and determined how much money you needed to get off the ground. You even planned precisely how you'll spend that money, down to the dime.

Now all that's left is the final—and crucial—step of finding the funds.

Not sure where to begin? Here's a primer to help you navigate the options.

1. Bootstrapping

More of a philosophy than a funding source, bootstrapping involves making the most of minimal resources to avoid taking on debt.

Bootstrapping startups operate on a shoestring budget, employing aggressive cost-cutting measures and creative workarounds. They might, for example, shop for office furniture at the consignment shop or keep inventory stored in a friend's garage.

Some businesses lend themselves more readily than others to bootstrapping. It works best for service-based startups with little overhead.

But even if your business requires external funding, the bootstrapping mentality holds valuable lessons.

Before you approach a funding source, scrutinize your startup expenses and cut corners wherever you can. Maybe you could meet clients in a restaurant instead of leasing an office space. Or set up terms with suppliers instead of securing an outside line of credit.

When in doubt, go with the cheapest option; you can upgrade later.

2. Traditional Loans

Many small businesses rely on commercial loans from banks or credit unions to pay for startup costs. The process is straightforward, if not exactly simple.

First approach the institution that handles your personal banking, then shop around locally to make sure you secure the best terms. Be prepared to share your business plan, tax records and other financial documents.

A traditional loan is one of the most efficient ways to fund your startup—if you can get one.

In recent years, banks have tightened their belts and raised the requirements for most borrowers. People with flawed credit histories or few assets will likely need to pursue other options.

A traditional loan is one of the most efficient ways to fund your startup.

3. SBA Microloans

If you don't qualify for a traditional loan, ask your banker whether you're a candidate for the [microloan program](#) administered by the U.S. Small Business Administration.

The SBA is not a direct lender. Instead, it backs loans made through [third-party lenders like banks and credit unions](#). The federal government guarantees your loan to minimize the lender's risk.

The average microloan is \$13,000, with the maximum topping out at \$50,000. Interest rates run from 8 to 13 percent. All of the SBA microloans must be repaid in full within six years.

4. Loans From Friends And Family

Borrowing money from friends and family is almost always easier than getting a bank loan, which makes it an attractive option for funding your startup.

But, it can also be a dangerous option.

"Everybody wants to help out their kids or their spouses or their siblings," says Gene Fairbrother, the lead consultant for the [NASE's Business 101 program](#).

"Resist the urge to go to them because they're an easy touch. Go to them because you have a viable business opportunity. If you don't have anything to offer them, there's probably something wrong with your business model."

When you borrow from friends and family, formalize the arrangement as much as possible to prevent misunderstandings.

Make sure you sign a promissory note. A paper trail will help prevent any misunderstandings and will make it easier to get funding if you apply for a traditional loan later.

5. Peer-To-Peer Lending

Another source for alternative loans is a practice called peer-to-peer lending, which is usually facilitated by websites like [Prosper.com](#) and [LendingClub](#).

Peer-to-peer lending connects small-business owners (and other individuals) who need money with regular folks (not institutions) who have money to lend.

Potential borrowers are vetted by most peer-to-peer lending websites. For example, [Prosper.com](#) and [LendingClub](#) assign letter grades that gauge borrowers' creditworthiness.

Learn More

Want to know more about the dos and don'ts of financing your startup?

Check out these NASE resources. They're online now. They're free. And they're exclusively for NASE Members.

- [Ask the Experts: Microloans](#)
- [What Retirees Need To Know Before Starting Their Own Companies](#)
- [No More IOUs](#)
- [Bootstrap Your Way To Success](#)
- [NASE Members Reveal Their Smartest Financial Moves](#)

But, it's up to individual lenders to decide which ideas are worth funding.

Peer-to-peer lending can be a great resource for startups, but make sure to do your homework. Start by researching the policies of the lending website and the terms of a given transaction.

It's important that you understand the terms of any loan, but lenders that aren't bricks-and-mortar institutions may require extra scrutiny.

"You need to know who you're dealing with," says Fairbrother. "You have to be cautious about the 'cost' of the money you borrow."

6. Crowdfunding

Another Internet-based fundraising platform is crowdfunding, which has been popularized by websites like [Kickstarter](#).

[Kickstarter](#) uses a patronage model to fund creative projects such as documentaries. People who help fund the project do so with no strings attached. They may receive a reward, such as the finished DVD of the documentary they helped fund. But, the funds they give are essentially donations or gifts.

That's what makes donation-based crowdfunding so attractive to startups. You have the opportunity to raise capital without giving away equity in your new company or having to repay any loans.

Although [Kickstarter](#) has been wildly successful in its niche, the crowdfunding model was not widely applicable to small businesses outside of the creative community. But new legislation (the JOBS Act, signed by President Obama in April 2012) has made it possible for startups to use crowdfunding to raise capital.

The government is still developing the regulations for this alternative way of financing a startup. But, small businesses should have greater access to crowdfunding within the next year.

7 Ways The NASE Can Help

The NASE offers a network of resources to help you take the right steps to start, run and grow your micro-business.

1. Finance and accounting experts
2. Online NASE Business Startup Kit
3. Business strategy experts
4. Business credit cards
5. Tax experts
6. Business formation services
7. Business law experts

As always, educate yourself on the terms for any given transaction, and watch out for administrative fees imposed by crowdfunding websites.

The NASE offers much more detail in this blog item: [Crowdfunding—An Innovative Way To Fund Your Startup](#). Plus, here are five crowdfunding sites worth exploring:

- AngelList
- Crowdfunder
- Crowdfunder
- Indiegogo
- Peerbackers

Peer-to-peer lending can be a great resource for startups.

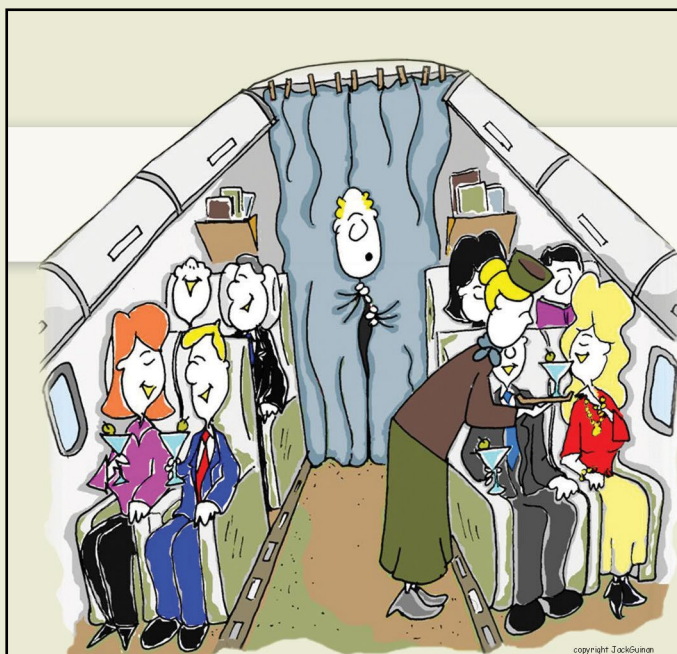
7. Credit Cards

Compared to most loans, credit cards carry high interest rates. Therefore, plastic tends to work better as a stopgap solution than as a viable source of long-term funding for your business.

It's fine to use credit cards for relatively small purchases like a new computer or office furniture. But as a rule, it's best for startups to avoid heavy credit card debt.

Consider credit cards only if you're confident your business will quickly generate a positive cash flow—and even then, they should be your last resort. ■

Kim O'Connor, a freelance writer based in Chicago, often writes about best business practices.



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ABIGAIL DAHL

RECEIVES NASE 2012

Future Entrepreneur
Scholarship

NASE Scholarship
Program Hits
\$1.9 Million

PHOTO CREDIT (ABOVE, PAGE 6 AND COVER): DOUG CROUCH

By Don Sadler

You could say that entrepreneurship runs in Abigail Dahl's blood.

Five of her close family members have owned their own businesses. That includes her mother, Suzie, who recently opened Avenue 30, a retail store selling wine and gifts in Scappoose, Ore.

So it's not too surprising that 19-year-old Abigail, who is studying entrepreneurship at Oregon State University, has already launched Cycle-Jacket. Her company sells a high-tech bicycle cover that Abigail invented.

"I had to come up with a business idea for my entrepreneurship class, so me and my mom started brainstorming," she says.

An avid bike rider, Abigail began researching the problems cyclists experience with bicycle covers. She found major problems with the leading cover: It rips easily. Water soaks through it. And it doesn't have a slit in the side for locking the bike.

"I knew I could design a cover that solves these problems," says Abigail.

She addressed another important issue, too. The Cycle-Jacket weighs just 7 ounces, compared to 11 ounces for the leading cover.

"Cyclists seek out the most lightweight equipment they can find, which gives the Cycle-Jacket another significant edge," Abigail explains. "The lightweight design and completely waterproof material are unique in the marketplace."

"I believe I can utilize every aspect of college to help me achieve my entrepreneurial goals."

MAKING AN IDEA REALITY

As any seasoned entrepreneur knows, coming up with a great product idea is just the beginning of starting a successful new business.

With her family's entrepreneurial background and her own instincts, Abigail wasted no time formulating manufacturing, distribution and marketing plans. That's enabled her to move quickly to take the Cycle-Jacket to market.

She's working with a manufacturer that has provided three prototypes. Her first full production run will start soon. Abigail also trademarked the product name and logo. Next up is getting a patent for the Cycle-Jacket. And she's launched a *Cycle-Jacket* website where online purchasing options will be available in the future.

"I have talked to the bike shops here in Corvallis, and they get complaints from their customers about the bike covers they carry, so they're very interested," she says.

Abigail plans to distribute prototypes to influential users (like members of bicycle and triathlon clubs at OSU) to get feedback and gain exposure. She'll also attend bike races and shows throughout Oregon to sell and promote the Cycle-Jacket.

Her goals for the business are ambitious: to hit \$100,000 a month in profits within the next five years.

"The harder I work now, the more I know it will pay off in the future."



Abigail celebrates her award with her parents, Mike and Suzie, and brother, Evan.



Learn More About NASE Scholarships

The award-winning [NASE Scholarship Program](#) is open to legal dependents of NASE Members, ages 16–24. To apply, students must be high school students or college undergraduates planning to enroll in college for the upcoming fall semester.

NASE Future Entrepreneur Scholarship awards up to \$24,000 each spring to one ambitious individual who demonstrates the characteristics of a future micro-business owner. The scholarship is granted in the form of a \$12,000 scholarship for the first year and \$4,000 for additional scholarships in the next three years as eligible.

In addition, the NASE awards multiple \$4,000 scholarships each year.

Get all of the details about the [NASE Scholarship Program](#) today. The scholarship program [FAQ](#) can answer many of your questions.

And mark your calendar! [Applications](#) for scholarships for the 2013–2014 academic year will be available on Jan. 1, 2013.

RECEIVING THE SCHOLARSHIP

Abigail's entrepreneurial ambitions haven't interfered with her college studies. She achieved a 3.9 GPA during her freshman year. It's that combination that merited her selection as the NASE Future Entrepreneur for 2012.

The scholarship program, which started in 1989 for dependents of NASE Members, will award Abigail up to \$24,000 toward her education. It is the largest scholarship of its kind in the U.S. and the only one that promotes the entrepreneurial philosophy.

With this year's award, the NASE program hit the \$1.9 million mark in scholarships.

"The NASE scholarship program is designed to help students just like Abigail," says Kristie Arslan, president of the NASE. "She's an innovative entrepreneur who stays dedicated to her studies. We're proud to be part of her success by presenting her with the 2012 NASE Future Entrepreneur Scholarship. And we're proud that the association offers this resource to our members."

Balancing the demands of her education, her fledging new business and her many extracurricular activities can be challenging, but Abigail says that school always comes first.

"My education is very important to me, and I believe I can utilize every aspect of college to help me achieve my entrepreneurial goals. I'm interested in a lot of different things and I like to stay busy—everyone says I'm a Type A personality."

Abigail devotes Monday through Thursday every week to schoolwork and studying, which leaves Friday through Sunday to work on the business.

"It can get really stressful sometimes, so I've learned that I need to set aside some time to just hang out with friends and have fun. It's all about finding the right balance."

WORKING WITH NO ILLUSIONS

From her perspective as a young college student and budding entrepreneur, Abigail has no pie-in-the-sky illusions about what to expect in the rough-and-tumble world of business ownership.

"I understand that creating a new business is no easy task and I will face difficult challenges. I plan to persevere and overcome these challenges by working hard, being open to constructive criticism and keeping an open mind. The Cycle-Jacket has given me the opportunity to apply the knowledge I've gained about entrepreneurship in college to the real world of business."

"The harder I work now, the more I know it will pay off in the future."

Like a true entrepreneur, Abigail is already thinking several steps ahead.

"If the Cycle-Jacket does well over the next few years, I'll need to decide whether to sell the company and invest the money in another startup, or focus on continuing to run and grow the business."

Not surprisingly, Abigail's parents are proud of their daughter and excited about her entrepreneurial future.

"Abby following in the family footsteps of entrepreneurship at such a young age is scary, yet invigorating," says her mom, Suzie. "She knows what she wants from life and she's going for it!"

Suzie believes that Abigail's drive, personality and passion for Cycle-Jacket will make the business a success.

"The product is not only genius, but anyone would want to work with such a bright and energetic young lady." ■

Don Sadler is a freelance writer based in Atlanta, Ga., who specializes in business and finance. Reach him at don@donsadlerwriter.com.

NASE GIVES \$48,000 In College Scholarships

This year the NASE awarded a \$4,000 scholarship to 12 deserving dependents of NASE Members. These students can use their scholarships to study any subject at the college of their choice.

“We see the costs at universities going up and up and families making sacrifices so their kids can get the benefit of a higher education,” says NASE President Kristie L. Arslan. “That’s why the NASE wants to help these students pursue their college dreams. Congratulations to all of our scholarship recipients!”

2012 NASE SCHOLARSHIP RECIPIENTS



Jared Burant
Oconomowoc, Wis.
*Dependent of NASE Member
Charles Burant*



Kelly Gwiner
Fostoria, Ohio
*Dependent of NASE Member
John Gwiner*



Sarah Hough
Crystal Lake, Ill.
*Dependent of NASE Member
Charles Hough*



Britney Jandreau
Waterville, Maine
*Dependent of NASE Member
Richard Jandreau*



Brendan Langford
San Antonio, Texas
*Dependent of NASE Member
Anthony Langford*



Melody Morrison
Salem, Ore.
*Dependent of NASE Member
Maria Morrison*



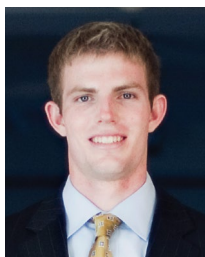
Alexander Palomares
Dublin, Calif.
*Dependent of NASE Member
Kathleen Palomares*



Charles Reins
Rohnert Park, Calif.
*Dependent of NASE Member
Michael Reins*



Raphael Shapiro
Sag Harbor, N.Y.
*Dependent of NASE Member
Julian Shapiro*



Samuel Wells
Leawood, Kan.
*Dependent of NASE Member
Joan Wells*

NOT PICTURED:

Erik Arndt
Franktown, Colo.
*Dependent of NASE Member
Laura Arndt*

Katherine Thorkildsen
Mount Bethel, Pa.
*Dependent of NASE Member
Bruce Thorkildsen* ■

Ask The Experts

Q: *We are wondering if buying a new vehicle would be a good tax deduction for us. Our current work vehicle is paid for, but it's 8 years old. If replacing it will give us a tax break, we'll replace it. But if it won't make a big difference tax-wise, we'll keep the vehicle. What's your advice?*

A: Never spend money just to get a tax deduction. You will never be ahead of the game by spending money just to avoid taxes. So, if the existing vehicle is meeting your needs, then certainly do not go out and spend your hard-earned money just to increase a tax deduction.

Having said that, buying the new vehicle would most likely increase the overall tax deduction related to vehicle usage. Again, the only reason the deduction would be higher is because you are spending more.

Never spend money just to get a tax deduction.

So if the intangible benefits of the new car and the “want to” side of the new car are high enough that you are going to get a new one anyway, then buying one before the end of the year could increase your tax deduction and therefore lower your overall taxes.

But again, do not buy the new car because of an expectation of an increased deduction. Instead of the new vehicle, consider increasing your contributions to a **qualified retirement plan**, such as a simplified employee pension plan or traditional individual retirement account.



GET MORE ANSWERS

The NASE's small-business experts are here to help you understand the ins and outs of operating a successful small business. And access to these professionals is free with your NASE Membership!

Just go online to the **NASE's Business Learning Center** where you can ask the experts questions about:

- Taxes
- Health care expenses
- Financial issues
- Employee relations
- Accounting rules
- And much more

The experts are available 24/7 and ready to help!

Contributions to a SEP can be made in any amount up to 20 percent of the net earnings that you have from the business. Your contribution goes into an investment account that will fund your retirement years. And the contribution is deductible on your Form 1040.

This is a much wiser investment, in my opinion, than spending money on a new car. ■

Member Spotlight

Marketing Maven

Sydni Craig-Hart has been an NASE Member since 2005. She owns Smart Simple Marketing in Emeryville, Calif.

Tell us about your business.

I teach busy entrepreneurs how to use simple marketing strategies to make more money in their business. I started my business in 2005 as a virtual marketing assistant and after a couple of years was consistently receiving requests for consulting. I realized I enjoyed teaching and consulting more than being the actual technician, so in 2009 I transitioned fully into coaching and consulting.

How do you market your business?

Our primary marketing strategies include generating referrals, speaking (both in person and on virtual events like teleseminars and webinars) and networking. To support these three main strategies we also do email marketing, blogging, participate in social media and develop strategic partnerships with other businesses offering complementary services. This formula has worked for us from day one, and we continue to refine it to focus our energy on the activities that get the best results.

What obstacles have you faced in running your business?

Like all entrepreneurs, we've made a lot of mistakes along the way. We've purchased items we didn't need, pursued opportunities that didn't really fit our goals and tried to implement too many ideas at one time.

But what always gets me back on track is going back to why I started my business in the first place—eliminating marketing overwhelm, solving my clients' problems and helping them to be more successful in their business.

How has the NASE helped your business?

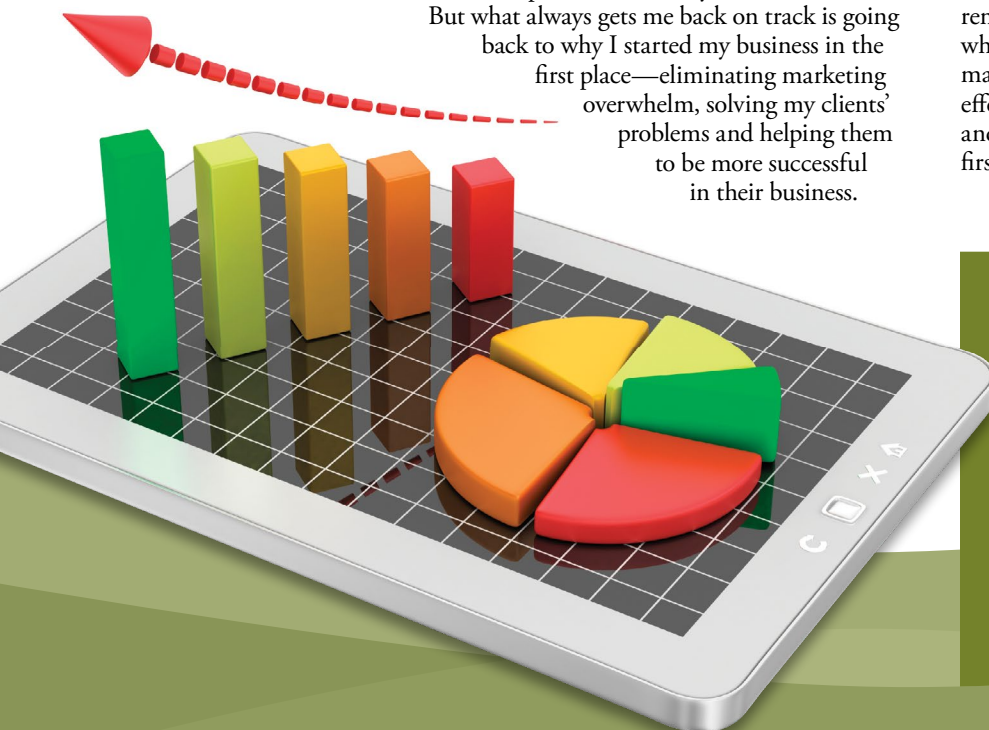
Let me count the ways! We were first introduced to the NASE because of its health insurance benefits, but we found so much value in the many other benefits. We've taken full advantage of the Legal Club services, the Emergency Roadside Assistance and the NASE HRA 105 where we can deduct our health insurance premiums. It's just a great feeling to know that we have the organization behind us and access to a one-stop shop of benefits and services at great prices.

What always gets me back on track is going back to why I started my business in the first place.

What advice would you offer your fellow NASE Members?

Slow down and stop trying to do so much! I know what it's like to wear all the hats in your business and feel like you need to work 25 hours a day, 8 days a week. But really, 80 percent of your results are coming from 20 percent of your effort. So you can save yourself a lot of time, money and needless frustration by just focusing on that 20 percent, especially as it relates to your marketing efforts.

One other thing is to be consistent! It's not your customer's job to remember that you're in business and available to help them. You have to keep reminding them, week in and week out. It's not what marketing strategy you pursue that really makes the difference, it's being consistent in your efforts. Consistency builds trust and credibility, and you'll find that your clients will come to you first because you've stayed top of mind. ■



GET PUBLICITY FOR YOUR BUSINESS!

Your business could be featured in SelfInformed's Member Spotlight or in another NASE publication. Let us know you'd like to be featured and tell us more about your business on our [Publicity Form](#).

NASE TO CONGRESS:

Get Moving On The Self-Employed Health Care Tax Deduction



By Kristie L. Arslan

On behalf of the 21 million self-employed Americans, the NASE is, once again, holding Congressional leaders accountable for the lack of true small-business legislation in the 112th session.

The NASE recently submitted a letter to the House Ways and Means Subcommittee on Tax and Select Revenue formally requesting a hearing on H.R. 6102, America's Small Business Tax Relief Act of 2012.

We Want Action Now

Before the election campaign season kicks into high gear, the NASE is calling on House leaders to move quickly to address the significant inequities faced by the self-employed community. And one of the largest inequities is the fact that the self-employed are not allowed to deduct their health insurance premiums as a business expense.

NASE TO HOST Educational Webinar Series on the Affordable Care Act

Beginning in September, the NASE advocacy team will host a series of educational webinars aimed at informing NASE Members on aspects of the Affordable Care Act that will most likely impact the self-employed. Topics covered in the five-part webinar series include:

1. *New Rules and Requirements for Individuals and the Self-Employed*
2. *How You Will Shop For Health Insurance in 2014*
3. *Affordability of Health Coverage for the Self-Employed*
4. *Can You Keep the Health Insurance You Have?*
5. *Health Reform Law and the 2012 Presidential Election*

NASE Members may find registration information in the Action Alert box on the Your Voice in D.C. page on NASE.org.

H.R. 6102 includes several provisions that would lift the tax burden placed on the self-employed and small-business community. We stand united as we advocate for practical solutions supporting and encouraging small-business growth in the U.S.

The bill was introduced by champions of the self-employed, Reps. Jim Gerlach, R-Pa., and Ron Kind, D-Wis., in July 2012. The health insurance deduction is part of a larger package of permanent deductions aimed at providing fiscal clarity for the self-employed in a tax environment that is often clouded by temporary one to two year fixes.

How H.R. 6102 Could Help The Self-Employed

The NASE champions the permanent, full deduction of health insurance for the self-employed, one of the provisions included in H.R. 6102.

In June 2012 the NASE released its national health care survey, in which 85 percent of respondents indicated that rising health coverage costs have been detrimental to themselves, their families, their businesses and their bottom line over the past three years.

Juxtapose this against the fact that in 2011, the number of insured self-employed was at its highest, 77 percent. And yet, the self-employed pay on average nearly \$1,800 in additional taxes that no other business owners face—simply because they decided to purchase health insurance.

How H.R. 6102 Could Boost The Economy—And Your Business

If the self-employed were allowed to fully deduct their health insurance costs as a business expense, they could inject roughly \$39 billion into the U.S. economy annually. That money would give individuals the financial ability to re-invest in their business, purchase goods and hire additional employees.

How could H.R. 6102 boost your micro-business? Find out by [following our advocacy efforts](#). You can also read the full text of [our letter to Congress](#). ■

Kristie L. Arslan is president and CEO of the NASE and provides critical insight to policymakers on issues affecting our nation's self-employed. You can contact her at advocacy@NASE.org.



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