Having your main supplier give you credit might be enough to get you off the ground. This is creative guerrilla financing.

Most angels back their equity investments with personal loans to their entrepreneurs. So a good amount of your angel's money could come in the form of debt, not just equity.

There is hope for the entrepreneur

Because of the information in this chapter, you should conclude that there is an angel or choir of angels for every entrepreneur, including you. Still, don't abandon your search for financing.

13
101 Guerrilla Financing Techniques

In addition to all the guerrilla financing sources and methods evaluated up to this point, there are, at the very least, *101 other ways to get money for your business* using creativity, innovation, and finesse. Guerrilla financing is also finesse financing.

These guerrilla financing techniques — call them secrets if you will, since so few people know them — have been proven to solve financing problems that everyone else said *could not be solved*.

The information and case histories in this chapter alone can make you a guerrilla financier!

State-of-the-moment technology

You're going to be exposed to the state-of-the-moment technology developed to finance the unfinanceables. You're going to learn how to do it without credit, collateral, or even cash in true guerrilla fashion. Just about every technique discussed here is being used today by savvy guerrillas.

The techniques are simple, realistic, and logical. Some involve no capital whatsoever. Many of them are *noncash solutions to financial problems*.

These innovative solutions will help you learn how to *think* about solving any financing problem. You will develop the mindset of a guerrilla. You will see how to think creatively about your own financing problems, to find the perfect solution to your situation. By the end of this chapter, you will have thought of several solutions and will be itching to try them. Strong words — but true.

Positive attitude

The main point is *not* to try all 101 techniques but to *open your eyes* to the many opportunities available for you to engage in alternative ways of thinking about money. You must always maintain a can-do, don't-say-no attitude toward raising capital. Never ask, "Is my company financeable?" Instead say, "I'll find a way to *make* it financeable!"

The 101 guerrilla financing techniques are divided into four categories. They are techniques to: (1) start a business, (2) buy a business, (3) expand a business, and (4) mine the lucrative world of investment banking.

The last section applies guerrilla financing to the traditional world of investment banking.

Don't just read the part of this chapter that pertains to your particular situation. For example, if you need capital to buy a business, *don't* just read that section. Read *all* the sections, because many of the techniques can be used for any purpose.

All set? Put on your guerrilla financing uniform, which may be a dark three-piece suit, and get ready for a financing foray, guerrilla style.

Guerrilla financing techniques to start a business

1. Barter financing. Think about what you need the money for and try to barter for it.

A man with little capital wanted to open a comedy club. He needed a location, furniture and fixtures, and a marketing campaign to get customers. He sought restaurateurs who needed business on weekends. One restaurant provided the location, furniture and fixtures, even the customers. The man got his comedy club, and the restaurant got more business on weekends.

A photographer used makeup and other products to make his clients look more attractive. He wanted to raise capital to set up a studio. Eventually he discovered how to set up his studio, rent free, inside hair salons that *already* had the traffic. The hair salons loved the idea because it was something new to offer their clients, and he got his customers at the perfect time — right after they got their hair done. A guerrilla victory.

2. Landlord financing. Your own landlord is probably an excellent source of capital. Imagine yourself owning a building and watching company after company prosper, then reading about the enormous success of several of your renters years later. Landlords are ripe for lending or investing in your business. If your company is exciting enough, they may jump at the chance, knowing that if they don't, they may well have to read about your success in years to come.

The most popular arrangement is to have the landlord pay for some or all of your leasehold improvements, then just add that amount to the rent and amortize it over the life of the lease.

If the landlord really likes your business, he or she may just invest outright in your company or offer you free rent for a period of time for a piece of the business. To raise money for an upscale billiard parlor, with no capital, an entrepreneur convinced his landlord to put in the leasehold improvements for part of the business.

Landlords make excellent angels. All you have to do is to ask. The worst they can say is no.

3. Contract financing. This technique requires the customer or client to prepay for services, using an agreement upon contract. A businessman started an air-conditioning repair business with hardly any capital by selling 1-year maintenance contracts with a 24-hour emergency repair service. His market was small retailers who couldn't afford to lose their air conditioning for too long.

The man learned how to sell these annual contracts and now has more business than he can handle. But as a guerrilla, he is handling it.

4. Other people's credit. If you need capital because you have no credit, why not *rent* someone else's credit? A man sold his business in one city and wanted to start the same business in another city, but he needed more capital to buy inventory. With the permission of the owner of his old store, he was able to use the credit from his old store and buy the inventory, then pay back the new owner within the supplier's terms. You have to get a friend or business acquaintance to do this for you, but using someone else's credit works very well, especially when you need inventory or anything that can be bought for you by someone who already has credit.

5. Concession sales. Selling space to other vendors in your own retail store is an excellent way to raise small amounts of capital. This is called concession sales, which means subleasing part of your space to other

companies. You can collect a fee up front, a royalty, rent, or a combination of all three.

A woman wanted to open a bookstore and coffee shop but did not have enough capital, so she began selling concessions to different companies to raise the capital. She sold the bakery concession to a local bakery, the use of the walls to a local art gallery, the gift concession to a local gift store, and even attracted a local florist to open a flower concession. The bookstore attracted the customers who could then be sold other products when they were in the store. The woman operated all the concessions and collected a percentage of their sales as profit. This is guerrilla financing at its best. Everyone came out well. That's the way it should always be.

6. Future commitments. You can raise money based on commitments from your customers. Obtain letters of intent or commitment letters that certain customers will do business with you. This increases your credibility tremendously and helps reduce the risk in the eyes of the lender or investor. Sometimes a letter of intent to do business with you or even a purchase order is all you need to swing the loan or the investment.

7. Manufacturer's outlet. An entrepreneur wanted to set up a Jet Ski rental business but had very little capital. He contacted a manufacturer for used Jet Skis and promised to rent its brand only. He offered to maintain the skis and to repair any ski when it became necessary. The manufacturer owned the skis, but the entrepreneur got his business off the ground by using the manufacturer as his supplier. The advantage to the manufacturer was that this was an inexpensive way to get its product onto the market for demonstration purposes. If you solve a manufacturer's problem, it will do the same for you.

8. Dealer's outlet. The same man used the facilities of a local retailer of Jet Skis in return for setting up a rental and repair business for the dealer.

9. Buy instead of starting a business. As you know by now, there are many different ways to buy a business. Most sellers finance up to 80% of the price. It is easier to get financing on an existing business than a start-up. So, instead of starting a business, buy a similar business. *Later*, when you've got your feet wet, convert it into what you want it to be. Guerrillas must be patient.

10. Lease space at your competitor's. A recording studio start-up needed money for leasehold improvements. Instead of putting a lot of money into someone else's property, the studio subleased space from a

competitor who had too much room. This avoided the costs of opening a new studio and still got the business going.

11. Work out of your home. Why sign a lease when you can perform most of your work at your home and get all the tax deductions? Few businesses can't be started in a private residence.

12. Incubators. This is a new breeding ground for small businesses and is just getting started. The incubator phenomenon consists of putting a number of small businesses under one roof and providing lots of auxiliary services to support these companies. It has been referred to as a climate-controlled greenhouse, where businesses can be watched over like fragile seedlings. Many state and local governments and universities are sponsoring these incubators, offering free or below-market rent and other free or reduced services. Contact the following:

National Business Incubation Association
One President Street
Athens, Ohio 45701

or write for the *Annual Directory of Business Incubators*:

International Venture Capital Institute
P.O. Box 1333
Stamford, Connecticut 06904

13. Tenant partnerships. Suppose you want to start an advertising agency. You could bring all the necessary subcontractors together under one roof and share facilities, maybe even form a partnership. For example, a printer, graphic house, copywriter, and public relations firm could all split a large suite of offices. Each could stay separate but share certain services and facilities. In effect, you have created your own incubator. You can also share a lot of the equipment, such as the fax, copy machine, and other pricey items.

14. Equity sharing. You can use the principle of equity sharing for any business that requires real estate. Just get investors to put the down payment on the real estate for part of the property. You pay the mortgage and maybe you own the building as "tenants in common." It is easy to attract people to invest in real estate. Just try putting an ad in the Real Estate or Business Opportunity section of your local newspaper.

An equity sharing agreement matches an investor who provides the bulk, if not all, of the down payment with an owner/occupant who picks up the remainder of the down payment and makes all the mortgage payments. Both parties share in the appreciation of the real estate.

The owner/occupant pays all the closing costs, makes minor repairs, and pays the mortgage. Both the owner/investor and the owner/occupant are on the deed to the real estate.

After a specified period of time, the owner/occupant has to refinance the real estate and buy out the investor, or the real estate is sold and the profits split. The success of equity sharing depends on the real estate's appreciating. Investors need appreciation to make the investment worthwhile, and occupants need enough appreciation to refinance and buy out the investor.

A version of this allows the investor to buy the real estate outright, while you operate the business. A day care center convinced investors to put a down payment on a home and own it outright while the day care center just operated its business in the home. The investors got a secured real estate investment with a new tenant, and the day care center got the building it wanted.

Equity sharing is an ideal way to get angels to invest the down payment in any project involving real estate.

15. Staged financing. Staged financing is raising capital for each stage or milestone in the development of your business. It is an ideal technique for new companies. You don't look for capital to finance a company completely, from beginning to end. Instead, you raise just enough money to finance each stage of development. The key to the success of this technique is always to line up enough capital at the beginning stage for all or most of the later stages. This is not an idea to raise only enough funds to get you going for a few months. It is an idea to fund you only enough for you to *prove you can successfully reach certain goals.*

Test market your product

Is it possible to get too much money for a business? Yes. Professional venture firms are notorious for giving start-ups too much money, which is usually squandered on unimportant things. Lean and mean is the guerrilla's motto. Prove your success at each stage, and there will be money waiting for you to fund the next stage. The concept is to test market your product continually at each stage so that you are only investing more based on the results of each market test. You are tying up money for the test market only. In this way, you continually roll out the product based on its success.

The concept of staged financing is to give your product or service a *reality check.* By having you actually market the product or service in the real world, you get instant feedback and can modify your idea accordingly.

The stages of a start-up

Successful start-ups move through clearly defined phases:

- Idea
- Feasibility/Prototype
- Verification/Face the public
- Demonstration/Customer feedback
- Assemble management team
- Commercialization

Staged financing allows the entrepreneur to raise small amounts of money to prove the viability of a product and to continue to raise money at each success benchmark.

Angels don't like to put money into an unproven idea but will invest in a proven idea. This lean and mean approach has been used by countless successful entrepreneurs in the past. It forces you to watch expenses carefully and use only money you need. At the same time, it offers the investors time to invest in stages of success, reducing their risk.

A budding business owner needs over a million dollars to get a video concept off the ground. As a guerrilla, he opts for financing the various stages of the proposed company. First, he raises a small amount to develop the prototype. Then he raises another small amount to test the product to see if anybody will buy it. Eventually he raises enough capital to start manufacturing the product.

There is no limit to the amount of capital you can raise using this method. Investors love this type of financing for start-ups; nobody gets in too deep. Create a plan of attack and follow it stage by stage.

16. Three sources for small unsecured loans. To finance any start-up situation, try these three methods of raising small amounts of unsecured credit. Up to $50,000 has been raised this way through many different lending institutions. The only requirements are that you have fairly good credit and hold a job when applying. Always apply for credit *before* you leave your job to start your business.

Credit unions. Many credit unions offer easy credit to their members in the form of small loans. You could join a credit union for just this purpose. Make sure you learn the length of time you have to be in the credit union before you are allowed to take out a loan.

Credit cards. Credit cards can be a good source of small amounts of capital, providing your personal credit is solid. The best technique is to turn in your credit applications to banks simultaneously so that you can obtain a number of cards with a cash advance privilege. This is called a *multiloan* concept. A cash advance allows you to take out your line of unsecured credit at any time. Approach your banks all in the same week so that on your application you can honestly state that you hold no other cards. By applying for credit at a number of sources simultaneously, you can truthfully disclose that you have no other outstanding loans. What you are looking for is an unsecured line of credit between $1,000 and $5,000 from each bank. If you contact enough banks, you can pick up substantial credit instantly. Don't mention the reason for the use of the funds. Banks usually don't like issuing credit card money for business. But they love deposits made by thriving, growing businesses.

Thrifts. Small consumer loan offices offer small unsecured lines of credit. Treat these loans as you would credit cards and approach these thrift and loan offices all at once. They can be found in the Yellow Pages under "Loans." In every case, be sure you know how you'll pay back the money. Guerrillas pay their bills on time.

17. Pyramid your credit. Here is a technique to increase your credit rating and unsecured borrowing power. Take out a $3,000 30-day loan from one bank and deposit it in another bank in an interest-bearing account. In 25 days, withdraw it from the second bank and pay off the loan to the first bank. Then wait a few weeks and go back to the first bank and ask for a $4,000 30-day loan. You'll probably obtain it because you have proven your credit reliability. Now deposit your $4,000 in the second bank for 25 days and then pay it back. As you keep repeating the process, your credit and borrowing capability grow. It's guerrilla financing in a pure form: no money needed, just imagination and information.

Guerrilla financing techniques to buy a business

18. Seller financing/earnout. How can you easily raise money for a business? Buy one. Why? ***Because the seller will usually finance most of the purchase price.*** Most owners of small businesses will take back a note for up to 80% of the purchase price.

Sellers usually give a 5-to-10-year note at 10%, terms usually much better than you can get from any financial institution. If the buyer can't make payments, the seller gets the business back. The fact that the seller is willing to wait for his or her money is a good sign that you are not buying a pig in a poke. ***You are really buying a business and paying for it out of its own profits.*** With guerrilla marketing added to guerrilla financing, you can turn the business into a cash cow.

If the seller lends you the money to buy the business, that is a good indication that the seller is confident you will succeed. Most sellers are anxious to sell and much more flexible regarding terms than any formal lender. Normally, you can get a below-market interest rate, and you do not have to go through all the formal qualification procedures that a lender would require. Make an effort to keep the down payment as small as possible. Any loan payments you make after you start operating the business will come out of business profits, not your own reserves.

These are the reasons that sellers are good sources of money to finance their own business:

- *Sellers offer the best terms.* Sellers will finance more of the purchase price, up to 80% or more, and you can usually get a seller to agree to 5-to-10-year terms.

- *Financing costs less.* Most sellers only ask for 10% interest on their money. Why 10%? It is easy to calculate.

- *You'll need less collateral.* Usually, only the assets of the business are used to support the seller's note. Very rarely do sellers take personal assets as collateral.

- *No credit checks.* Sellers usually don't do a substantial credit check on the buyer.

19. Leveraged buyout. How do you finance the purchase of a business with little or no money down? Use the same tactics the big boys use, a leveraged buyout (LBO): the purchase of a company using its own assets to secure loans that are used to pay the seller.

It all boils down to using the assets of the business you are buying to raise enough cash to buy the business. Think of the business you want to buy. What type of assets does it have? Receivables, equipment, whatever. Think of how to finance those assets. Then arrange their financing *before* you buy the business. Simultaneously, you will get the funding to buy the business, retain the legal ownership of those assets, and either sell them off or finance them. To get the actual cash to buy the business, sometimes you have to arrange a one-day bank loan to make the transaction legal.

Not only are there many ways to finance some of the assets, but you can also sell some of them off to raise the capital. Guerrillas will find a dazzling array of financing options. Again, the sale of the assets has to be set up before you actually buy the business. Many businesses are sold with ***excess inventory that can be presold*** for extra cash to buy the business. Look carefully at the assets you can sell. For instance, sell the customer lists to other companies before buying the company. Sometimes you have to ***sell the patent or trademark*** to raise capital. Another way to obtain funds is to ***license a foreign company for the rights to sell*** in that country. Selling off foreign rights can raise a lot of capital quickly. ***Rolling stock*** is very easy to presell when buying a company. You could use a ***sale and leaseback***, where you sell the asset to a leasing company that rents or leases it back to you. You can use a sale and leaseback with used equipment, too.

Sometimes you can get the supplier to ***buy back some of your inventory***. Or maybe you can ***sell some of your inventory to your competitors***. Of course, you always have the option of ***selling your inventory to your own customers*** at a substantial discount.

Look for assets you can sell, rent, license, or borrow against. Always arrange the money-raising transaction *before* the sale and make it conditional upon the closing of the sale. Then coordinate the closing transaction so you can use the money to finance the acquisition. Don't forget to make sure any asset you want to sell or encumber has the right to be sold or encumbered after the sale.

Leveraging your buyout means using *other people's money* to get what you want. Is the risk worth it? Ask Victor Kiam, who bought Remington Electric Shavers, a $25 million company, for a total cash

outlay of only $750,000! Victor even has the perfect first name for a guerrilla.

Some assets that are frequently overlooked can be used to raise money: customer lists, trademarks, patents, and copyrights, any excess equipment or inventory, and credits due from suppliers.

You can also borrow from the company's pension plan if it has one.

Here are some leveraging techniques to buy a small business without borrowing or getting investors.

20. Assume liabilities. Get the seller to accept your offer to assume the liabilities as part of the purchase price.

A woman did not have enough cash to buy a laundry business. The seller wanted to get cash to pay off all the debts and keep the rest himself. She convinced the seller to leave all the debts in the business; she assumed them all, which reduced the price to something she could afford.

21. Broker's commission. How do you get some extra cash to buy a business using a business broker? Have the broker leave his commission in as a liability to you. This reduces your price, and the broker takes a note for his commission to be paid over a period of time.

22. Seller assumes the receivables. Problem: how to buy a business with little cash. Solution: arrange for the seller to keep the receivables and reduce the price accordingly. In effect, the seller accepts his own receivables as part payment for his business.

23. Offer less than 100%. Once you have bought the business and assumed the liabilities, a good financing technique is to offer the creditors something less than 100%. The better you are at negotiating, the more money you can create to operate your business. If you understand the creditor's alternative of accepting sometimes only 2% to 10% on the dollar, the concept of debt reduction becomes more realistic and acceptable. Creditors will accept any amount beyond what they think they would receive if the business were liquidated. All you have to do is offer a little more than the creditor thinks he or she would get out of liquidation.

24. Use cash flow for a down payment. Sellers are sometimes willing to wait a few weeks for their down payment. Determine the net cash flow generated by the business over the first several weeks by calculating the difference between cash receipts and what must be paid out. Then structure the deal so that the seller receives the down payment out of the cash flow available once you acquire the business. Sometimes you can work it out so that the company advances its cash flow as part of

the down payment. Some sellers who are anxious to sell don't care where the down payment comes from, even if it is from their own business.

25. The escrow method. With the aid of a good attorney, you can insist that the down payment be held, not cashed, by the escrow officer until certain conditions have been satisfied, such as auditing of books, counting of inventory, and others. During this period you should be able to accumulate enough cash flow from the business to cover your down payment. Some ways to do this are to dump the inventory, sell off the assets quickly, or just defer every possible expense and avoid paying bills until the cash builds up.

26. Option financing or lease purchase. *How do you buy a business with no money down?* Some sellers will allow you to lease their business with an option to buy. This is a new concept, but it is starting to take hold in certain parts of the country. A man wanted to raise money to buy a liquor store. He lived next to a run-down liquor store whose owner had died and whose widow was trying to keep things going. The place was a mess and the widow kept no financial records. The man felt he could turn the store around with little effort but had no money.

In true guerrilla fashion, he offered to buy the store at the seller's price and get a 12-month option, with the right to manage the store during that period and keep all the financial records. The seller accepted, and within 6 months the man made the store very profitable and had enough positive financial information to attract partners to put up capital to exercise the option and buy the store.

What you do in this type of guerrilla financing is use the credit of the seller and operate the business as if the sale has been made. When you exercise the option to buy, there is a good chance that you will have enough rapport with your suppliers to continue obtaining credit for merchandise or products. Another version of this technique is to become a partner with the seller until you are ready to buy.

27. Partners with the seller/lease part of the business. There are times that you can get the seller of a business to *take you in as a partner* until you find the money or the credit to buy the entire business. Make sure you have an option for the rest of the business. One entrepreneur did not have enough net worth to get the approval from a major oil company to purchase a gasoline station. The solution was to buy a ***minority piece*** of the business, ***take over the operations***, and ***still use the credit*** of the seller. Eventually, the oil company recognized the creditworthiness of the new partner, who then completed the purchase of the entire business.

28. Similar buyers. Often guerrillas have to use guerrilla techniques to find a *partner* to help them buy a business.

- *Franchise buyers.* Problem: you want to buy a franchise, but you don't have enough money. Solution: contact the sales representative for the franchisor and ask for a list of other people like yourself who want to buy the franchise. Contact these people and form a partnership or co-op to buy the franchise. The advantage is, these people have already shown interest in the franchise and are very susceptible to a co-op idea.
- *Other buyers.* Problem: you want to buy a business, but you don't have enough money. Solution: ask the seller for a list of people who wanted to buy the business but can't come up with the cash. Contact these people and form a partnership or co-op to buy the business. Again, many people just don't have enough money to pull a deal off but, banded together, can make it happen. In the future you can always arrange to buy each other out, if necessary.

Guerrilla financing techniques for existing businesses

29. Supply-side financing. Suppliers and vendors can be excellent sources of capital in many ingenious ways.

Trade credit. How much credit suppliers will give you, and how flexible they will be regarding terms, depends on how important your business is to them. Most businesspeople just don't ask for enough credit. You'd be shocked to know what can be done by just asking for better credit terms. All you do is speak to the presidents of the vendor companies and explain how much business you're prepared to do with them if they extend more credit. It works. Generally, vendors will assist you with credit if they see you are having cash flow problems because of rapid growth.

If you are a new business owner, it will be to your advantage to visit your major suppliers in person. Meet with the credit manager and work out the best possible terms. Ideally, the vendor will agree to ship goods to you on credit and will let you sell the goods and collect on them before you have to pay for them. Getting even one extra day's credit before your payments are due means that you will have that day's receipts as extra working capital.

Meet with your suppliers' and vendors' accounts receivable departments and explain your situation *before* a cash flow crunch hits. You will be pleasantly surprised by how much cooperation you will get by being candid with them. Make special credit arrangements with a vendor before you order, not afterward. It is one thing to arrange an extra 30 days' credit before ordering and another to just let the bill go an extra 30 days before paying it. The former builds credit and the latter destroys it. Guerrillas build.

If your cash flow gets tight, ask your larger suppliers to allow you to issue notes to extend their payments. They will charge interest, but it is well worth it. In effect, you will have turned a short-term debt into a long-term debt.

You can be very innovative in supply-side financing. A car nut needed capital to buy three Ferraris that he would then restore and sell. He had buyers lined up, but no money to buy and restore the cars. So he got the sellers of the Ferraris to ***finance the restoration themselves for one half of the profits from selling their cars.*** The car nut put up no money and took half the profits. Guess he's not really a nut.

A young man needed capital to buy a vending route. The vending machine offered stuffed toys, so he asked his supplier of toys to help finance the purchase of the vending route. The supplier had a stake in the success of his business and got a contract that guaranteed that all the stuffed toys sold by the vending machines would be bought from him.

If several suppliers carry about the same merchandise, you can pit one against the other to see who gives you the best terms and credit. This is called *business.*

Suppliers don't have to put up cash, only use their credit to arrange for a loan or purchase of inventory or equipment.

Even service suppliers, like advertisers, can contribute credit to your business. Companies that are going to do a lot of advertising can sometimes get an advertising agency to work on a results basis. You might offer them a percentage of the new sales generated by their advertising.

All in all, if they want to do business with you, suppliers and vendors can be a great source of cash or credit. Use your imagination, and you will be surprised at how eager they are to help finance your business.

Problem: a man did not have enough capital to swing the purchase of a bar. Solution: he arranged to guarantee a vending company a long-term lease of its machines in return for putting up some of the down payment.

Concentrate on your larger suppliers where your business offers them a large profit potential. Suppliers cannot only offer you credit, but can make loans to or investments in your business to get it off the ground or save it from collapsing.

30. Inventory/supplier financing. Use inventory for improving your cash flow. Keep more inventory in your supplier's hands, not yours. Order in economical quantities. Schedule production to minimize floor inventory. This is called ***just-in-time inventory purchasing:*** you schedule your purchases to arrive just when you need them. Tailor payments for raw material to coincide with revenues.

31. Customer financing. Customers can also be an excellent source of financing. Try guerrilla techniques using a customer's money or credit.

Offer a membership. A former insurance salesman wanted to open a brew pub. So he created a ***brew club,*** then sold founding memberships by offering such privileges as discounts on beer and food, a private newsletter, a membership card, special founders' activities, tours, raffles, personalized beer steins, and more.

Selling memberships in advance has succeeded many times in raising capital. A smart way to attract members is to announce that you have already signed up some celebrities as members, for you got the celebrities to become members by offering them free memberships. It works every time. Who wouldn't want to join a club whose members include the local sports and entertainment celebrities? People love to mix with the rich and famous. You will be amazed at how many people will be attracted to your concept.

A former teacher wanted to start a nightclub with little capital. He sold memberships in the club to get enough capital to start the business. Owners got special privileges when the club opened: special late hours, discounts on drinks and food, and reserved tables.

Another guerrilla technique using customer financing was used by a woman in the travel business who wanted to open a school for travel agents. She tested her idea and got it to work, but had no capital to set up a solid business. Instead of obtaining standard financing, she found a way to finance her ***customers,*** the students. She contacted local government agencies that had people looking for work and explained that she would provide both an education to the agency's people and actual jobs.

She said she could arrange a loan for each student if the agency guaranteed the loan. The agency agreed. Then she contacted a bank and arranged to have the bank finance the school tuition. To make it easier for the bank, she arranged to put up a reserve in the bank for each student the bank financed. With the students practically guaranteed a job, the bank's getting to make high-interest loans plus a cash reserve on each loan, and the government agency's boasting it was helping to create jobs, the travel lady ended up with an endless supply of students — all with the money to enroll in her travel agency school! Everybody won. How's that for guerrilla ingenuity?

Carrying this idea of getting the customer to finance your business further, consider a publisher of mystery novels with a problem of selling very few copies but a need for money to pay off old bills and expand. The publisher was forced to look at the business from a different angle. All kinds of authors were continually approaching it to publish their books. The publisher changed its business from *paying* authors to publish to *charging* authors to publish. No new capital was needed because *the authors paid to get their books published*. Even if only a few hundred copies were sold, the authors could tell their friends that their book was published by a legitimate publishing company. Call it guerrilla publishing.

Remember, customers don't have to put up cash but can just cosign for loans, leases, and other obligations.

32. Advance payments/anticipation. Another method for getting money from your customer is to ask for money before shipment. This is called *anticipation*. Your customer pays before shipment, sometimes in return for a substantial discount in price.

A business owner had to find a way to finance a drapery business, so he contacted a number of interior designers to ask for a cash advance in exchange for a discount on all future work.

The examples of this concept are endless. One of the best examples of customers advancing funds is American Express, whose millions of cardholders pay a hefty membership fee each year in advance. Millions more purchase traveler's checks that they hold on to and don't use. American Express loves these people, absolutely adores them. Wouldn't you?

33. Private flooring of inventory. When banks put up the money to finance durable good inventories such as cars, refrigerators, and TVs, it is called *flooring*. The bank owns the inventory until it is sold "off the floor." You can accomplish the same type of financing, using private investors instead of a bank. For example, any business selling used cars can finance its inventory with titles of ownership. You finance cars bought at auction by using private investors. The private investors are given the titles to the cars as collateral plus half of the profits on the sale of the used car. It's a great investment because investors can double

or triple their money in a few months and are collateralized by the cars bought *below* wholesale. You can get an unlimited supply of investors to buy these used cars just by advertising in the newspaper.

This concept was also used by a dealer of baseball cards, who used private investors to finance his inventory of cards, which he bought and sold in case lots.

34. Royalties.

Do you want to make money or own a business?

Pause in your exploration of guerrilla financing techniques to gain insight into the problems encountered with inventors. There is a lot of work involved in running a business. Every inventor must choose between *making money* or *managing and building a business*. Some people think that owning a business means they will automatically make money, which, as you know, is not necessarily true. On the other hand, if you license or sell your invention for a royalty, at least you know that there are no costs involved. Depending on the sales of your invention, you simply receive regular royalty checks every month. Most royalty deals involve a sale of the rights plus a royalty. So you get a fee up front *plus* royalties. The truth is, not everybody has the skills to be a successful entrepreneur. An inventor has a better chance of making money by licensing the invention than by starting a company to make and sell the invention. Guerrilla financing experts recommend that inventors license unless they show the ability and skills to manage a business and have a good reason that licensing is not appropriate.

Royalty checks can pay for a lot of new inventions. This is really a case of letting other people do the work at which they excel. When deciding whether to license or build your own business, know that it is easier to have someone make and sell who is equipped to make and sell. Many businesses are already equipped to manufacture and sell your product. They have the marketing and sales staff to get your product to market quickly. Forget business. Just invent!

35. Licensing. Distributor licensing is a popular way to sell partial rights to your product or service. Some people sell territory rights by licensing distributors. You can also have another company market or make your product or service for a fee. Usually you are selling an exclusive product or territorial right. By licensing specific product lines to be made or sold by somebody else, you are reducing your costs.

Overseas licensing is also an excellent way to raise capital. Licensing overseas companies to manufacture or distribute your product or service is a way to set up an overseas distributorship and raise needed capital at the same time. Some companies sell the territory and then charge a royalty on everything sold! Not bad when you can get it, and guerrillas can get it if they try.

A couple developed a new game and needed capital to market it. Instead of reinventing the wheel by creating their own manufacturing and distribution company, they licensed it to a company that does all that. Now the couple relaxes and collects royalties. Sounds like fun.

36. Franchising. Why not become a franchisor to raise capital? It is an excellent way. All you need to start a franchise is to set up one prototype of your operation. Systemize the operation, put it in a manual, and set up a system to train other people to do what you do. There are going to be legal expenses, but you can get those back almost immediately by: up-front franchise fees, royalties, per store opening fees, sales of supplies, and selling master territories.

You can get income from all these sources and methods.

Some companies sell master territories, such as entire states, for huge up-front fees and then require the master territory holder to sell the franchises in its state. In this case, the franchisor assumes *none* of the cost of selling the actual franchise; that is left to the master territory holders. For any franchising, see a franchise attorney. Franchising is profitable, and nearly risk free these days (1.2% failure rate), but it abounds with red tape.

37. Timesharing. Turning idle equipment, excess space, or anything you are not using all the time into dollars is what this concept is all about. When you can't use equipment fully, tap into a timesharing arrangement. Rent it out when it is not working for you. You can even get some people to pay the rental payments in advance for a discount. You can rent computer time or printing time. You can sublease unused space or timeshare the same space.

A restaurant timeshares its entire premises in the evening. During the day, it is used as a delicatessen, and at night, with a few changes, another owner uses the space as a restaurant. Talk about efficient use of facilities!

If you need capital and the only thing you own is your equipment, rent it to other entrepreneurs or have them use your facilities at night or at off-hours. Heavy equipment that can be operated 24 hours a day is ideal for timesharing. It's a guerrilla sin to keep potential capital idle.

38. Sublease. Want to buy a building for your business but can't come up with the down payment or meet the mortgage payments? Sublease part of the building and ask for several months' rent in advance. You can even timeshare your property. A man subleased his parking lot

to a parking company during the day and used it for his own restaurant at night.

Another enterprising soul opened a nightclub and leased the space during the day to a dance studio and for rock band rehearsals in order to get more capital. In other words, use your own facilities on a 24-hour basis if possible.

39. Advertising space. If you own property that many people see daily, you can raise capital by renting space for advertising and display. Contact a local advertising agency or rent the space yourself. Check with your local authorities first.

A trucking enterprise sold the rights to advertise on the sides and backs of their trucks to an advertising agency. Sometimes the side of your building can be rented or sold to an outdoor advertising agency.

40. Preselling/paid subscriptions/advance bookings. You can sell just about anything in advance or get advance subscriptions. Problem: how to get the funds to start a magazine. Solution: paid subscriptions to get enough money to print small quantities of the magazine. This is classic staged financing. Test and finance each stage for consumer acceptance and roll out the product as you get acceptable consumer response. That way, you are not wasting a lot of money on something that might not sell. There is no end to the preselling concept of raising capital. Both authors of this book used it to finance their first books!

41. Direct response/preselling. After selling advertising space in a book, an author obtained *more* money to publish by mailing a direct response brochure selling the book. The cash he received from these subscriptions was used for the final graphics and printing necessary to deliver the books. Nobody complained that it took two months for their books to arrive. If you want to try this, you must give the buyer an honest date of when you can deliver your product. As long as a delivery time is stated in the direct mail piece, you are okay. If you put no time limit for delivery on mail order products, you must deliver within six weeks.

There is no end to the products or services you can sell for capital to get your company off the ground. How about selling enrollments for a school you want to start? In effect, you can take orders for anything and take quite a bit of time to ship. Just be sure to be totally honest.

42. Coupon preselling. You can practically sell anything using *coupons*. For example, a balloonist had his balloon company sell balloon rides during the off-season by selling half-price coupons to be used during the regular season. He had the use of the money for six months before the customer used the service. People bought balloon ride cou-

pons as gifts during the winter to be used in the summer. Any type of gift coupon is a form of preselling.

43. Prepaid subscriptions. Think of all the companies that use this method of financing: Book-of-the-Month, Fruit-of-the-Month, Tape-of-the-Month, CD-of-the-Month, plus all direct mail order offers of special editions, such as those used by the Franklin Mint, which sells collectibles using direct marketing.

44. Deposits. This is one more form of selling in advance. Ask for a deposit or down payment with an order.

45. Improved collection procedures. It's amazing how many firms don't follow simple proven guidelines to improve their collections and consequently their cash flow. Here are a few guerrilla suggestions:

Bill customers quickly.

Set a definite written policy for handling past-due accounts. Set payment due dates before billing. Your customers should understand your credit policies before you ship goods to them. The more formal your credit policy is, the clearer it is to your customers that you mean business.

Establish penalties for late payment and make them real penalties. Actually charge your customers when they are late.

Contact past-due accounts by telephone immediately. Don't wait. Get on the phone and start calling as soon as the account is overdue. It's not fun, but it works and it's fair.

Set up your collection procedures according to the customer's size, amount outstanding, prior collection history, length of time the account has remained unpaid, and customer's relationship to your business. Longtime customers deserve special treatment.

Determine how you will handle bad debts, disputes with customers, chronic past-due accounts. Decide about contacting a collection agency or attorney for further action.

Delegate responsibilities. Determine who will implement the collection program and be responsible for its success.

46. Shoestring economics. This is a catchall for the wheeler-dealer types, for you must have this type of personality to use these methods effectively. If you have to force yourself to do these things, don't do them. Some people are natural wheeler-dealers and are masters at solving their financing problems using the following techniques. Only a few are listed to give you the main idea:

Leaning very heavily on suppliers for credit.

Buying all equipment and fixtures at foreclosure sales, or from classified ad bargains.

Using seconds as inventory, buying out bankruptcies, closeouts, and excess inventory.

Selling consignment merchandise.

Bartering for your services.

In reality, it is a bargain-for-everything attitude to save every single nickel. This is a very difficult method of operation, but it is how to get what you want by spending very little money.

47. Rent it. Why buy or lease when you can rent just about anything you need from equipment to furniture? You can literally rent everything you need to start a business. Many people think they require large amounts of capital for equipment that can easily be rented until their company builds up enough cash flow to buy or lease the equipment. Renting is *not* leasing. Renting is usually done on a monthly basis. When renting, find out if the monthly payments can be applied to the purchase price if you decide to buy it later on.

48. Subcontractors. Let someone else do it, make it, deliver it, even sell it.

Problem: a design firm has a new idea for closets, but no money to expand. Solution: subcontract all the work. All the construction and carpentry, including installation, was subcontracted out and the design firm just concentrated on marketing. This can be done with any business. It is a much more efficient way to operate until you have the money or expertise to produce things yourself. Some subcontractors eventually join your business or you buy their business.

This concept has become so popular that there now is a name for entrepreneurs who use it extensively: *minimalists*. The minimalist entrepreneurs pare their operations to the bone by subcontracting just about everything to outside specialists. They farm out virtually anything they can. They leverage themselves by associations with clusters of related businesses and support services. Little money is needed in this kind of business. The independent contractors they hire will naturally build a profit into their prices, which comes out of the entrepreneur's profit. The result is that it costs more to run a business this way and you may sacrifice some quality control, but you can start a business with minimal capital. To gain quality control, many entrepreneurs offer their outside suppliers an equity stake in their business to make sure they do a good job. The minimalist's strategy leads to lower costs up front. Offering equity to suppliers improves long-term control by linking the subcontractors' fortunes to their own.

49. Competitors. Getting money, products, or services from your competitors can work under certain circumstances. For instance, a

man needed work for his backhoe machine, so he went to his competitors and offered them his services. He would be their subcontractor. This can work with any piece of equipment you may have that is not being used 100%: rolling stock, trucks, anything that can be used for your competition where you get paid for your work. Renting out your equipment is a temporary solution until your own business picks up.

A Californian had a new idea for a drive-in video store but needed money for videocassettes. He obtained inventory from a local video store that would be his partner. It was a way for the local store to expand, and the Californian could sell the old videos through his new partner's store. In effect, he was using his competitor's credit to buy inventory.

This is one technique where you really have to be creative to find a way for your competitors to help you by helping them. But creativity is a guerrilla byword.

50. Charity. They say you can't get something for nothing, but that's not true. A firm had a children's home for the disabled and needed furniture and fixtures. It solicited charitable contributions for furniture, toys, and food. Not only did it end up getting the furniture and other items, but it also got volunteer personal services such as gardening and maintenance. Even the local sheriff got prisoners to work off their time at the home, doing leasehold improvement work.

51. Replacement/substitution. To lower the costs of a business, replace or substitute a major purchase with a different, less costly purchase.

A person wanted to open a hot dog business in a mall's retail space. Rather than looking for the money to pay for all the leasehold improvements needed to launch the enterprise, he purchased a much less expensive portable hot dog cart that could operate anywhere in the mall. Later, if his hot dog business did well, he could then consider renting a retail space.

The point is to look for another way to do what you want, *without* having to spend a lot of money.

52. Shows/showrooms. Instead of tying up money in a retail store, test the concept out of motel rooms, other people's show space, showrooms, or even flea markets. One way is to put on your own show and invite complementary businesses. For example, if you want to sell apparel, put on a fashion show with compatible businesses. An excellent example of cooperation within a market niche is all the companies that exhibit in a bridal show. You can create a mobile retail store without the permanent rent of a fixed location.

53. Piggyback through other companies. Sell your products in complementary mail order catalogues. Find a way to use what other companies have instead of spending money yourself. The example of the comedy club's using the facilities of the restaurant is a good example of this technique.

54. Multilevel/party plan marketing. This approach gets other people to sell your products for you, eliminating the money necessary to train your own sales force and sometimes eliminating the cost of your own facilities. Selling without stores, directly to consumers at their workplace or home, is a way to get started with very little cash. Other people buy your products and resell them door-to-door or at meetings or parties.

55. Become a management company. If you can't get the financing to expand your business, get more business by setting up a management company offering services for your competitors. The problem is getting money to expand a cleaning and janitorial business. The solution is to become a management company for an association of cleaning people. The members of your association will use you to get business, bill, and collect revenues.

56. Prepayment inducements. Offer your customers inducements to pay in advance for your product or services. You can offer free delivery, free installation, free service, free gifts. People love anything for free.

57. Newsletters and seminars. An interesting way to raise capital is by selling your own personal expertise. What do you know that would be valuable to other people? Help others learn what you know and make some extra cash at the same time. Getting subscriptions to a newsletter is a form of up-front financing. The *Guerrilla Marketing Newsletter* (call 800-748-6444) is living proof of this technique, and this sentence is living proof of guerrilla marketing.

58. Facilities management. Here, you agree to manage a certain facility for another company, or even the government, at a price equal to or less than what it is already paying. Doing someone's payroll or operating a cafeteria is a prime example. The customer is providing the capital, the people, and the operation on a silver platter for the entrepreneur to run.

59. Selling off your assets. Why not sell off some of your unused assets for fresh working capital?

Accounts receivable. Discount or sell off notes or accounts receivable. See the ads in the classified section under Money Available for people who buy notes.

Inventory. You can sell inventory without hurting your own customers. Depending on your type of inventory, you can now hire companies that do nothing but sell off your inventory to people other than your own customers. Their job is to go out and find unusual customers for your merchandise, then offer it at the right price.

Here are some tips if you want to raise money from your inventory yourself:

Sell it to employees or friends.
Hold an open house on weekends (factory or warehouse sale).
Marry unwanted products to fast-moving goods in one package.
Negotiate a buyback provision with your suppliers. If they won't pay you back for the leftovers, try for a credit against future orders.

Disposable fixtures and equipment. Not only can you sell off equipment, you can do a sale and leaseback.

Trademarks and patents and copyrights.

Distributor territories.

Selling off assets is also a good way to buy a business with little or no money down because you can pay back your down payment in a matter of weeks. A good technique for using this to buy a business is called the *simultaneous selloff*. You locate a buyer in a similar business who agrees to buy the excess inventory from you at the time of the sale.

60. Direct response financing. This is a way to get capital by selling the product or service through direct mail, radio, TV, newspapers, or magazines. In this approach, you get the money first and have time to deliver. It is called *up-front financing*. You apply the revenue from the direct response program to produce and deliver your products. You are using your customers' money to finance your business.

61. Free advice. Many entrepreneurs spend a fortune on all kinds of services for their companies when they could have received the same advice free. Here are some ideas on how to get good free advice about your business.

Suppliers. They will bend over backwards to help a business succeed. Get their advice free.

Associations. This is a fine source of information on how to run your business. Most businesspeople miss this source. The best part is that each association is giving you specialized information about your own industry.

Government. Take advantage of your tax dollars and contact the thousands of government agencies set up to help small businesses.

Manufacturers. If you are a retailer, many manufacturers help with

displays, research, advertising dollars, and marketing materials. All you have to do is ask.

Freelance consultants. Find one who will accept payment based on results. Marketing, advertising, and public relations specialists can be found in every city. Look for people who have the courage of their convictions to work this way.

MBA candidates. Graduate students can be used to work on your project as *interns* for pennies or less. Talk to the dean of your local business college.

62. Purchase order financing. This is commonly referred to as work-in-process financing or financing based on invoices, back orders, purchase orders, or production schedules. Money is dispersed per order. Sometimes a company just arranges for a bank line of credit to the entrepreneur, to be taken down as needed to deliver orders.

63. Internal capital. There are many things to do to get capital from your own business. You might call it a cash management system or a cash generating system:

Shorten credit terms to accelerate cash flow.

Raise discounts for early payment of invoices.

Tighten credit policies so that marginal, slow-paying customers are required to pay in cash.

Use more aggressive collection practices.

Accelerate billing procedures so that invoices are mailed at the same time as shipments are sent.

Review inventories for excessive stock, and accelerate inventory turnovers by tight merchandise controls.

Pay bills at the last possible date, and use discounts only if it is cheaper than retaining the cash for your own business.

Increase prices or gross margins.

Increase C.O.D. orders, offer a discount, and reduce receivables.

Sell off equipment, inventory, and other assets.

Establish minimum orders or service fees on orders below your minimum.

Settle customer disputes immediately.

Contact late-paying customers by phone first.

Sell gift certificates.

Provide salespeople with incentives for collections. Give all salespeople an aging of accounts receivable.

Improve your credit checks.

Open all mail immediately, and deposit checks the same day they are received.

Take out bad debt insurance.

Use the fifty free marketing weapons described in *Guerrilla Marketing Attack*.

64. Per inquiry sales. A per inquiry sale on TV, radio, and in some magazines is when you pay not for the advertising but only a percentage of the sales you generate. Certain forms of communication will offer free air time or print space to use unsold air time or display space. You really have to shop around to find the radio and TV stations and magazines that will do this. Many will.

65. Cooperatives, trade associations, networks. Groups of companies get together to buy in larger quantities in order to get better prices from suppliers. Cooperative efforts can be applied to other areas, such as marketing, shared advertising, cooperative printing, and mailings. Some cooperatives have formed their own banks, where members pool their own money to back loans to other members for specific purposes. By putting all their money together in one bank, a cooperative or association then has clout with that bank. Talk to your own industry association about this new idea or form your own.

66. Cooperative advertising. A glider company needed money for advertising. As part of the glider ride, the company arranged a stay at a local hotel and a meal at a nearby restaurant. The concept was to make the whole experience an exciting weekend package, with the hotel and restaurant contributing toward the cost of the ad for the glider ride.

67. Reduce accounts payable. With each vendor, work out an agreement to delay payments or spread them out. A long payout over one year can be secured by a note, will reduce your accounts payable on your balance sheet, and go under long-term obligations. This improves your working capital position from any lender's or investor's eyes. Remember, once you have made an agreement with a supplier or vendor, stick to it! Guerrillas keep their promises.

If you are not going to continue doing business with some suppliers, offer to settle their invoices at less than 100% on the dollar. You can negotiate payables if you try.

68. Create a school or clinic. Create a school to teach people something about your product or service. For example, a wine importer taught wine appreciation. You can use hotel seminar rooms as your facilities. You can also get your students to do some of your work for you as part of the course.

Another example of this concept is a chiropractor who developed a machine that would absolutely make money for other chiropractors, but he needed to raise money to sell it. So he set up a clinic of chiropractors, all using his machine. He soon made enough money from his clinic to sell the machines around the country.

69. Interns. Most colleges today will provide you with students *free of charge* or for a minimum wage. Set up an intern program where students earn college credits by working at your place of business. How can you beat cheap, well-educated labor? Talk to the dean of your local college about how to set this up. Interns *need* you to get going with their careers.

70. Pawnbrokers. Certain business and personal assets can be pawned for cash. People forget that every town has a pawnshop that does just that.

71. Movie credits. Want an innovative way to attract angels to invest in a film? Give credit to all the angels who buy an interest in the movie. How much they put in influences the form of their credit. The benefits or credits may include the following (guerrillas are going to love this):

Amount Invested	*Benefits*
$ 1,000	Invitation to premiere
$ 5,000	Premiere cocktail party
$ 10,000	Premiere dinner
$ 25,000	Screen credit: "Special Thanks to . . ."
$ 50,000	Appear in movie as an extra
$100,000	Screen credit: "Associate Producer." Friends can be extras
$250,000	Main title and print ad credit: "Executive Producer" and complete access to set

Every angel also gets all the benefits of the other angels below their category. That's show biz, guerrilla style.

72. Restructure financial statements. Many business owners redo their financial statements to show a more favorable picture to the financial community. This is perfectly legal. For instance, a company was showing a loss because it wasn't capitalizing research and development costs but expensing them. It was being turned down by bank after bank. But after it worked on its statements, it was easy to get financing because the new statements showed a substantial profit. The problem is that ***accountants are not necessarily familiar with what financial sources are looking for and are only preparing statements for tax purposes.*** That's fine for saving on taxes, but not for raising capital. Guerrillas get ac-

countants who know what financing is all about or advisers to help them with their financial statements.

73. Discounting notes and mortgages. Many firms have personal or business assets that can readily be converted into cash. *Just about any secured IOU can be discounted.* Notes receivable and mortgages can be sold off for a discount. To find a buyer, look in the classified section of your newspaper under Money Available for firms that buy mortgages. Or place an ad under Money or Capital Wanted. Some hard money lenders will buy notes backed by real estate or other assets, such as equipment or businesses.

74. Sale and leaseback of your own equipment. Selling off your own equipment to a leasing company and then renting or leasing it back is very common. Look into it.

Guerrilla investment banking techniques

These techniques are mostly used for larger deals of $250,000 and up. The descriptions may sound a little like financial mumbo-jumbo, but worry not, many investment bankers will teach you how to use these concepts. They will give you a glimpse into the world of guerrilla investment banking.

75. Revenue-sharing notes. This new concept is being applied successfully to small businesses. It is a way to attract investors/angels without giving up almost any equity in your business. It uses a new kind of financing instrument for small businesses called a *revenue-sharing note, revenue participation note,* or *participating revenue certificate.* Instead of sharing the revenues *after* expenses, the buyer of the note (the investor) gets a share of the revenue off the top, before any expenses have been deducted. This makes it a very attractive instrument to offer an angel who is uneasy about waiting around for a company to make a profit. Here's how it works and why it is such a popular method to finance a small business.

Problem: A company wants to sell stock to an investor but doesn't want to give away a big chunk of the company. The investor, on the other hand, does not like the insecurity of just owning stock and waiting for the profits to be produced.

Solution: The company offers the investor a revenue-sharing note or bond. This is an unsecured note to pay the principal back over a period

of years or months. You can determine how and when the principal payments are paid back to give you time to use the funds. Sometimes you can wait 6 to 12 months before starting to pay back the principal.

The investor/angel likes this because now he or she is a full-fledged creditor, not a last-in-line stockholder, and if anything goes wrong he or she gets paid before any of the owners. Also, the investor gets paid off the top, not the bottom, of the profit and loss statement.

To provide an incentive for the investor to lend the company money, the company agrees to pay the investor a percentage of the gross sales for as long as the investor's note is outstanding. This percentage is over and above any principal payments. Most of these notes collect an average of about 1% of the revenues. This should cost the company nothing because almost any business can raise its prices by 1%. The company continues to pay the 1% as long as the note's principal payments are outstanding. Obviously, the company has a great incentive to pay off the note as soon as possible to eliminate the revenue expense. As an added kicker for the investor, you might want to issue warrants or options to buy 5% to 10% of the stock of the company. This way, the investor does not have to buy any stock if he or she doesn't want to, and the company is now selling stock, not giving it away.

This lucrative method of raising capital for both the company and the investors can offer the investors double or triple their money in 12 to 18 months or more, depending upon the revenues.

An added attraction: the angel does not have to worry about an exit strategy to get his or her money out since that is worked out at the beginning.

Check with your lawyer before attempting this type of financing. Some states might consider the note as carrying usurious interest. The revenue aspect of the agreement is not usury interest because it is based on *future income* or something that will happen in the future. To comply with some state usury laws, an existing company might want to use a revenue note to fund a particular new product line it is marketing.

76. Product-preferred stock. This is a preferred stock that gets its income stream in the form of profits from other aspects of the business, such as royalties on the sales of specific products. This is another new and creative way to sell a security. It is like a revenue-sharing note, but it is preferred stock.

An entrepreneur had to get money for his mail order business. Instead of getting investors to buy into the company, he arranged for investors to use the product-preferred stock concept (which can also be used in limited partnerships) — to invest not in the company but in new customer lists. Each investor ended up owning a number of names and received money each time those names bought any merchandise. If the company was ever sold, then the mailing list of customers would be valued and the investor given part of the value of those names.

77. Zero coupon bonds. This is a way to raise capital from angels by guaranteeing their principal investment. Zero coupon bonds are annuities that pay the bond back in one lump payment at the end of the maturity of the bond, so the bonds have no principal or interest payments until the final payment.

Say you need $600,000 for your business. You could form a limited partnership and sell ten limited partnerships at $100,000 each, guaranteeing your limited partners that they will get their money back in 10 years. How do you do that? You take the $1 million you have raised from the limited partners and buy a $1 million zero coupon bond for only $400,000. In 10 years, the $400,000 will be worth $1 million. The rest of the $600,000 is yours to put into your business. It's wild, but true.

Besides guaranteeing the investors' money back in 10 years, you can also give them a percentage of your company for the investment. So the investors are getting a piece of the action plus a guarantee for their money. This is a dandy deal for all parties and a good way to raise large amounts of capital. Savvy people do it every day.

78. Private placements. Through a private placement, you can offer stock in a corporation or units in a limited partnership to a relatively small number of private investors. And you don't have to meet the expensive registration statement requirements set by the Securities and Exchange Commission. Because private placements don't have to comply with such complex regulations, there is much less paperwork and they are much faster and cheaper to complete. They are usually known as Regulation D offerings because they fall under Regulation D of the Securities and Exchange Act. Also, they are sometimes referred to as "exempt offerings" because they are exempt from most of the procedural hurdles that apply to major public offerings.

These special offerings are termed private placements because they are usually offered to a few private investors, not to the general public. The investors are not primarily concerned about the liquidity of their investment, because private placement stock or units are usually not easy to resell to other investors. The most common type of private placement is the limited partnership.

79. Limited partnerships. A limited partnership offers an exciting way for a business to raise money. A typical limited partnership involves one general partner, the business owner or management team, and a number of limited partners, or investors/angels. The investors are called limited partners because their role as partners in the business is very passive and limited. In fact, the general partner usually holds full authority for all business decisions and operations.

Entrepreneurs are attracted to raising money from limited partners because these partners, by law, cannot tell them how to run their businesses. Limited partnerships are not new. For years they were the primary financing vehicle for real estate and oil and gas ventures, where they were used as tax shelters for investors. Recent changes in the tax law, however, have practically eliminated the tax shelter value of limited partnerships.

Now limited partnerships are finding a strong new appeal as financing vehicles for business opportunities. Most limited partners are looking for a high rate of return on their investment and are willing to accept more risk in exchange. Usually collateral is not an issue for them in a business opportunity. Limited partnerships are relatively inexpensive to underwrite, as registered securities go, and can be sold in a few months. They can be used to raise money to start, buy, or operate any business enterprise.

Limited partners like the concept because they are limited in their liabilities and don't have to come up with any more money, no matter what happens to the investment. The entrepreneur likes limited partners because they cannot tell him how to operate his business. Not a bad arrangement! It's a win-win situation for all concerned.

The popularity of limited partnerships has created a myth that they are a magic way to raise capital. Not true. They are just a legal form of ownership. Even though you form a limited partnership with you, the owner of the business, as the general partner, you must still find limited partners to whom to sell the investment. The owner can sell the units (the denomination of a limited partnership as compared to stock in a corporation) without any licenses. You must register your partnership with the state and, if you are soliciting partners outside the state, with the federal government. Contact your attorney to set up a limited partnership.

Limited partnerships are not for every deal, but are effective *when you know who your partners are going to be.* A physical therapist wanted to raise capital for an indoor pool facility. Her customers would come from doctors who would recommend the facility to their patients. This was an ideal situation for a limited partnership because it could be sold to the doctors who would benefit the most from the facility.

This is a good example of when to put together a limited partnership because you know who the ideal investor is *before* you invest the money to create the partnership. The problem with a limited partnership is when it is created *without* any idea of how or where or to whom to sell the units.

Do not go through the expense of creating a limited partnership agreement until you have a very good idea of who your limited partners will be.

It is not expensive to form a limited partnership; you can even form a public limited partnership and advertise for partners.

80. Master limited partnerships. Commonly called "roll-ups," the assets of a number of limited partnerships can be pooled together into a new partnership and the old partners given a stake in a new master limited partnership. The new partnership offers the old investors a way to cash their weak investments into a stronger investment. A master limited partnership can be a publicly traded company. This is a way for a limited partnership that is not going anywhere to take a limited loss and sell out to a much stronger partner.

A man was a syndicator of real estate partnerships but couldn't borrow more money on each partnership. By combining all the partnerships into one big master partnership, he was able to raise fresh capital. New partners were brought in for a piece of the pie and old partners took slightly less, but the total package was now well financed.

81. Research and development partnerships. These are specific limited partnerships where the angels invest in a losing situation because the company usually has no sales but is in the development stage. The partnership owns the rights to the results of the research and usually ends by selling these rights when they become valuable. This becomes the exit strategy. The investors use the losses as writeoffs to reduce their income taxes. When the company becomes profitable, the investors receive income, usually as a percentage of sales. Because of the changes in the tax laws, these types of partnerships are not as popular as they used to be.

82. Last sale commitment. Use this technique if you are contacting angels or limited partners because it eliminates their fear of being the first to invest. With the approval of your attorney, tell each investor that he or she does not have to come up with any cash until you have

raised a majority of the funds. Tell them you will come back when you have a majority of your capital committed. When you get a majority committed, go back and collect the cash.

83. Third-party guarantee. A lot of angels would like to invest or lend to your project but don't have the cash or are not liquid enough. A good solution is for the angel to *guarantee a loan* from a lending institution. This is called a third-party guarantee. You get money from a bank that receives a guarantee from the third party, who is the investor. Look for investors who have strong personal balance sheets, which means they have a high net worth made up of real estate, stock, bonds, or other valuable assets.

84. Third-party collateral. Stronger than just a guarantee is the situation where angels allow a lien against their real estate. Millions of people own real estate that has gone up in value. They cannot afford to sell or refinance it. Their equity in their real estate could be *your* collateral for a loan or investment. They don't have to put up any cash, only allow their real estate to be used as collateral. Your company makes the mortgage payments.

85. Buying collateral/credit enhancements. Another very popular method of financing is to literally *buy the collateral* necessary to secure the loan. There are many different ways to do it, but it all comes down to borrowing much more than you need, usually three times as much, and using the extra two thirds to buy bonds or some type of collateral, guaranteeing the principal payments of the financing. Only the interest is at risk. These deals are usually handled by boutique investment bankers throughout the country and are called credit enhancements.

86. Overseas or offshore capital. Foreign financial sources are getting into business opportunity financing in a big way in the United States. They're getting into it in many different ways, but the most popular seems to be through a third-party guarantee, where they put up enough money to buy collateral to protect their own investment. Even though the deals they get into could be very risky, they usually want only to get interest on their money, not equity. Their rates are competitive, and they take risks that no stateside financing firm would dare to take. They will even lend money to start-ups!

87. Offshore underwriting. This is another way to get foreign capital. It consists of having an offshore merchant bank or underwriter sell stock in your company to foreign investors or angels. In these situations you have to be wary of the firms you deal with; the security laws in other countries are not as protective as they are in the United States.

88. Reverse mergers into shells. This is a fairly new phenomenon. You become a public company instantly by being bought by a public shell. A shell is a public company that may or may not have assets, but it is a conduit to get your company public. After the merger, you can usually sell more stock to the public very inexpensively to raise more capital.

These mergers may take place in a blind pool or a shell. The shell may have been an old public company that sold off its assets and left only its corporate public "shell." The shell company usually adopts the operating company's name, headquarters, and management. Hence the name "reverse" merger.

89. The shell. This is not to be confused with the old shell game. The shell can be either a company that ceased operations or a blind pool. The operating company usually will get stock and cash. To raise additional capital, the new combination of shell and operating company ordinarily does a follow-up public offering or gets existing shareholders to put up additional money by converting warrants into stock.

Both the reverse merger and blind pool are ways to go public for a fraction of the cost of an initial public offering, and they can be done much more quickly. It allows weak companies to go public regardless of stock market conditions.

90. Blind pool. A version of this shell concept is the blind pool, a company created specifically to find and acquire operating companies. It accepts money from people who do not know or specify the investments to be acquired. The managers of the blind pool invest the capital raised in small businesses.

91. The spinoff. A private company becomes a public company via a spinoff by issuing shares of its common stock to an existing public company. The public company then registers these shares with the SEC, and, upon registration, the shares are distributed as a dividend to the shareholders of the public company. The dividends of the stock of the once-private company are considered a "spinoff" of the private company's shares. This is also quick and inexpensive compared to an IPO (initial public offering). Weak companies or even start-ups can go public this way without the normal due diligence. Generally, only 10% of the stock of the private company's shares are distributed as a spinoff, preserving the corporate ownership.

If all these private placements sound like gobbledegook, don't worry; investment bankers arrange for all these types of financings.

92. London and Canadian stock exchanges. A way to raise public

capital for about half of what it costs in the United States is to "go public" on the London or Canadian stock exchange. There are a lot of pitfalls, and it is best to contact your brokerage firm for information on going public this way. But as a guerrilla, check it out.

93. Penny stock market. The penny stock market has had its ups and downs, but it is still a viable way to sell a new public issue. It is still somewhat expensive to go public, even with a penny stock, although many good companies raise money this way. Contact your brokerage firm to find out who is underwriting penny stocks.

94. Corporate venturing or partnering. Corporate venture investments, joint ventures, technology transfer, and strategic alliances are all part of corporate venturing. The idea is to use the capital, credit, management, and facilities of major companies to get the things you need for your own company. Corporate venturing takes many forms, through both direct corporate investments and joint collaborative efforts. One of the significant features of most corporate venturing relationships is that the large and small companies are considered equals, with important benefits accruing to each. While the larger company may or may not eventually acquire the smaller, it is not a condition of the arrangement. Outside any specific areas of collaboration, the smaller company remains independent to pursue its own business goals and objectives.

Corporate partnering is ideal when you have a product or technology that is so difficult to understand that it would take an interpreter to explain it to an angel or lending institution. On the other hand, the appropriate corporation, in the same or related field, will have the staff to understand the technology. In effect, in selling your concept for financing you should market to people who understand what you are talking about.

95. Corporate venture capital. Large corporations have set up traditional venture capital subsidiaries with a twist: the companies they invest in must have something to do with the corporation's industry or help the corporation in some way now or in the future. It is also appropriate where the product, market, or technology is related to the parent corporation's operations or where the business provides an opportunity for diversification. Corporate venture capital is often made in conjunction with other business arrangements, such as license or royalty agreements, research contracts, or volume purchase agreements.

96. Joint ventures. This involves two companies going into a market together, each one complementing the other. Both companies want

to collaborate on a specific project or series of projects that capitalize on their relative strengths. The joint venture is usually done under a separate legal organization, such as a new partnership or corporation. There may be certain aspects of your business that appeal to major companies so that they would want to be associated with you.

97. Strategic alliances. Two companies come together on a project to help each other, but these collaborations do not involve setting up a new legal entity. Strategic alliances are usually used for research contracts, marketing, or licensing agreements. Under a research contract, your company performs research for the sponsoring corporation in exchange for financing. Under a marketing or licensing agreement, your company receives either up-front or future payment financing for giving the right, exclusive or nonexclusive, to another company to produce or sell your product as its own.

The advantages of using the capital and other resources of another business are enormous. More and more small businesses are forming a partnership or alliance with a larger, better-capitalized business to get their product or service to the market. This is good business. Large companies are relying on the innovation of small companies to develop new technology and are either investing in those companies directly or sharing their facilities or other resources for a piece of the action. Strategic alliances are sensible, enabling the small business to enter the market for much less money and much faster. It is much less risky to use a corporate partner to help you finance your business. Guerrillas delight in using this approach. They don't have to give up any control and still get the capital and other resources they need to grow.

98. Technology transfer. This is where corporations or governments want to buy rights to manufacture, market, and/or distribute your product or technology outside the country. Technology transfer agreements allow you to penetrate foreign markets easily and profitably.

A company had a piece of equipment with twenty moving parts but was having difficulty with its equipment. It went to a major company to fix the equipment's technology. The result was that the big company, because of its resources, was able to reduce the equipment to five moving parts, saving substantial production costs. It turned out that the major company was using a government grant that required it to help little companies. Check out what a major company can do for you. Even giants can be guerrillas.

99. Employee stock option plan (ESOP). You can raise money from your own employees to buy shares in your own company. Do this by borrowing money to purchase the stock. Many guerrilla financing

sources are anxious to make these types of loans because they pay taxes on only 50% of the interest income. Use an aggressive bank as your lending source. Your accountant or lawyer can also help you set up an ESOP.

100. Merger. There is always the option of merging your company with another that has what you need, such as products, services, or expertise. But be careful not to get in over your head. Many mega-conglomerates have merged into oblivion.

Maybe, with these techniques, you can create your own guerrilla conglomerate.

101. The mastermind concept. Two heads are better than one, and three are even more valuable. Brainstorm creative ways to raise capital. Motivated people can work out innovative solutions of all kinds. Napoleon Hill called this "the mastermind concept," and it has worked exceptionally well for thousands of companies in the United States.

Only scratched the surface?

You have reached the 101 mark, but you have really only scratched the surface in applying creativity and innovation to the world of finance. You get the point by now. Using a mixture of common sense and innovative ideas, there is nothing you can't do.

If you need financing, try some of these techniques. If one won't work, another will. Ask any guerrilla.