

Capital: The Holy Grail for Small Businesses – Part 2

In my last article, I covered changes in the capital environment for small businesses, and provided an overview of debt capital available to small businesses. This week I'd like to focus on grants and some equity capital sources.

SBIR / STTR Grants – Federal agencies with sizable external research and development (R&D) budgets are required to allocate 2.5 percent of that budget to small businesses through the Small Business Innovation & Research (SBIR) program. Currently, eleven Federal agencies participate in the program. These grants are intended to fund R&D by small businesses with a goal of commercializing a technology. SBIR grants can provide important funding, up to \$150,000 for stage 1 grants, to the right small business, particularly early stage technology companies. Applications are complicated, but the success rate for proper applications exceeds other better known equity funding sources like Angel Investors or Venture Capital firms. And one of the best things about an SBIR grant is that it is a grant — meant to be spent, and not paid back!

ANGEL INVESTORS – The prototypical angel investor is a wealthy individual who will invest in an early stage or startup company in exchange for equity in the company. The term originally described patrons who would finance Broadway plays in the early twentieth century. Today there are a wide variety of angel investors, from individuals who act alone to groups of like-minded investors who offer a formalized vetting process to determine which firms to invest in. There are dozens of angel investor groups in the Los Angeles area alone. Angels are typically looking for early stage, highly scalable companies that offer an exit strategy three to five years down the road (often to a venture capital firm) and seek a substantial return.

VENTURE CAPITAL FIRMS – The investment profile for a VC firm is similar to that of an Angel Investor. VCs are characterized by formal management of investor funds, where the fund manager has the latitude to make the investment decisions on behalf of the investors. As such, VC investments tend to be larger than those offered by Angels. However, like Angel investors VC firms are looking for substantial returns and an exit strategy five to seven years down the road (often to a private equity fund).

SBICs – There are more than 400 Small Business Investment Companies (SBICs) in the United States. These are “VC like” private firms that are licensed and regulated by the SBA. The typical SBIC leverages private funds 2:1 with borrowings from the SBA, and uses those funds to invest in small businesses. Some of the funds offer debt instruments while some offer more equity like investments. SBICs are mandated to invest in small businesses, making them a good potential capital target for certain small businesses.

CROWD FUNDING / PEER TO PEER NETWORKS – The Internet and other social media sites are bringing new ideas to the world of small business lending, resulting in new products and options. Two very dynamic new programs that small business owners may want to look at are crowd-funding and peer-to-peer lending. Both entail on-line platforms that match businesses looking for relatively modest amounts of funding to large groups of micro investors who pool their funds to invest in small businesses. There

are a large number of platforms that offer access to these groups. However they should be approached with caution and carefully vetted, as it is a very dynamic space with new platforms being brought to the market on a weekly basis. Recent federal regulation relaxed some of the restrictions on crowd funding and regulations implementing those changes are currently being written by the SEC.

While gaining access to capital is challenging for small businesses today, the good news is there are a wide variety of options available. If you'd like more information about these capital sources, or assistance accessing them, the Small Business Development Center (SBDC) hosted by College of the Canyons, a local non-profit small business assistance group, can assist you.

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