

FOR SMALL BUSINESS OWNERS



FUNDING YOUR FUTURE.

A PRACTICAL GUIDE TO GROW YOU, GROW YOUR TEAM, GROW A SMALL BUSINESS.



Disclaimer.

The information provided in this eBook is for educational and informational purposes only.

While every effort has been made to ensure the accuracy and reliability of the content, it should not be construed as financial, legal, or investment advice.

Readers are advised to consult with qualified professionals before making any financial decisions or implementing any strategies discussed in this resource.

The author disclaims any liability for any direct, indirect, or consequential loss or damage arising from the use of, or reliance on, the information presented herein.

The success of raising capital for small businesses depends on various factors, including market conditions, industry trends, and individual circumstances. Therefore, no guarantees of success or specific outcomes are implied or expressed.

By reading this ebook, readers acknowledge and agree to the foregoing disclaimer and assume full responsibility for their financial decisions and actions.

LET'S GET INTO IT.

Have you got your small business primed for growth?

And are frustrated you don't have the fuel to fire that growth, funding?

We've been there with our businesses, and seen this conundrum in many of the ones we have guided to awesome growth over the years.

So, we've poured all the funding fuel we know into this eBook, to help you get your business to the next level.

Here's what we'll cover:

1. Nail the first 3 Growth Pillars, before adding funding
2. Find growth funds from within your business, and
3. All the external funding sources you can tap.

We'll also share with you two funding stories - one fun, one not so fun for the owner...

At the end of this eBook, we list all the resources we mention throughout, so you have them in one easy spot to reference.

If you would like his specific two cents on which funding option may be right for your business and stage of growth, [book a Growth Chat with Troy](#) - the founder of Grow A Small Business, he loves talking growth and especially how to get through your current growth challenge.

A reminder: please re-read our disclaimer. You need to do your own research and discuss the risks and returns of any funding path with your relevant professional advisers.

OK, let's get into it.

Enjoy!

Troy, Mick, Rob & AJ

Grow A Small Business

Nail the first 3 Growth Pillars, before adding funding.



Funding is the fourth of the five Growth Pillars the Grow A Small Business team believes you need to grow your business with ease.

The Pillars are:

1. People
2. Strategy
3. Marketing
4. Funding, and
5. Systems.

And, in that order of importance. In our teachings, we give more weight to People and Marketing, as we believe they are the two main levers you can pull to add serious, and profitable, growth.

The People and Marketing Pillars need constant attention and investment of your resources, whereas Strategy and Funding usually only need your occasional focus.

Before you really scale with more funding, we think you need to make sure:

- You have the right people on your bus
- Who help you finalise, then execute, the right strategy, and
- You have tested your marketing - so you know the handful of the right marketing activities that really work for your business.

Then, and only then, do you douse your growth with fuel (funding) and fire it up with a flamethrower.

If you have shit people on your bus - B-Players or worse - your Return On Investment (ROI) on the funding will be lower, your growth slower and even painful. You must fill your bus with A-Players before you scale.

Then, you need to do the work with your team to make sure you have the right strategy. Again, you will have a poorer ROI if you have the bus pointing down the wrong road - all you'll do is accelerate your growth in an unprofitable, or less profitable, direction.

**When do you
douse your
growth with fuel
(funding) and
fire it up with a
flamethrower?**

Nail the first 3 Growth Pillars, before adding funding.



In our [Business Transformation Program](#), when we run owners through strategy, we start with a 10 year financial model (as part of the Program, we build this model for you).

We believe a 10 year financial model is the heart of your strategic planning. It will show you what sales, profit and the cash balance looks like in each of the 10 years, as well as the potential valuation of the business along the way.

From the model, you complete the three other strategic documents in the Program, which will guide you and your team to success, these are:

- Agile Business Plan
- Mini Marketing Plan & Action Sheet, and
- Simple Quarterly Strategic Plan.

Marketing is the final piece to ensure you have right, before using funds to scale. Like the first two Pillars, if you have not nailed the three key marketing principles we talk about in the [Grow A Small Business Marketing Funding Flywheel eBook](#), your ROI from any funds you put to grow, will be lower.

Be sure you have done the work on your marketing, and know the handful of marketing activities that provide the greatest ROI.

If you feel you still need to get those first three Pillars bedded down, grab a copy of the other Pillar eBooks, to help you nail the People, Strategy and Marketing corners before considering growth from funding.

OK, you're happy those first three Pillars are where they need to be?

Ready to throw fuel on your business, and light it with a flamethrower?

Let's look at funding options internally, then externally.

**Are your people,
strategy and
marketing plans
in order?**



Funding Options: Internal

Customers

The first place you should look to unlock funds to fuel your growth is your customers. Here are some questions to ask your management team:

1. Can we get our products, or new ones, earlier to market to start getting some cash in?
2. Can we change our payment terms, so customers pay sooner?
3. Can we increase the deposit percentage we charge customers?

These sound obvious but a lot of businesses never look at this funding option. It's worth reviewing these questions each year, and especially when you are launching new products or services, or in new regions.

Crowdfunding pre-sales and rewards

There are two types of crowdfunding:

- Pre-sales, or
- Equity.

We cover crowdfunding by selling equity in the external funding part of this eBook, when we look at investors.

Crowdfunding for pre-sales has been around for a lot longer. Unlike equity crowdfunding, pre-sales crowdfunding does not see you selling off any shares in your business.

Instead, you offer rewards to supporters (they're not investors) who pledge to buy your product once it is ready to ship.

These rewards often include a discount off the retail price, but can also include things like merchandise or exclusive and premium offers to those supporting the business in its early stages.

It has been used to raise funds for tooling equipment to manufacture new products, and fill an order book so the business has enough confidence to go into production.

**What questions
should you ask
your managers?**

Funding Options: Internal



**Who raised
\$100k AUD
funds to
manufacture a
groundbreaking
beehive?**

A great example of this, and a hugely successful one, is the Byron Bay (Australia) based [Flow Hive](#).

In 2015, they launched their pre-sales crowdfunding campaign, to raise the \$100k AUD funds needed to manufacture their groundbreaking new beehive.

It allows beekeepers to collect honey without the need of those funny white suits.

Their \$100k target was reached in seven minutes.

After their six week campaign closed, they had not only [raised an amazing \\$16.9m AUD of pre-sales](#), but had also pre-sold 51,000 bee hives in 130 countries.

Another great example is Eli, a guest we had on the podcast

He co-founded the [Insta Floss](#) business, which allows you to floss your teeth in 10 seconds (the small device has 12 water jets).

In 2023, over 12 months, they secured \$2.7m USD in pre-sales.

The pre-sales campaign meant they only needed to raise \$1.3m USD from investors - a move that massively protected the founders' equity.

Suppliers

Like with customers, ask your management team these questions:

1. Can we extend payment terms with our suppliers?
2. Can we reduce the deposit we need to pay suppliers?

You don't know unless you ask.

Funding Options: Internal

If you are going to try to squeeze more cash from customers and suppliers, it may be worth assigning this to one manager, and recommend they listen to the awesome negotiation book [Never Split the Difference: Negotiating as if Your Life Depended on It](#), by Chris Voss.

There may be things you need to concede to land better cash terms, so get better at negotiating beforehand, and be prepared with a list of things you can throw on the table.

Your team

You can unlock cash to invest in growth by offering team members shares in the business, for a lower salary or wage. We did a 20 minute podcast on [ESOPs \(Employee Share Ownership Plans\)](#) which outlines how this works, and the other benefits to the business.

Another way to protect cash for growth is to implement a bonus system across the business. If the team member, their team or even the entire business doesn't hit certain financial performance over the quarter or year, bonuses aren't paid (or only partially).

We detail some great ways to design your bonus system in our [Business Transformation Program](#).



**Where can you
find more
information
about how to
design a bonus
system?**

A Grow A Small Business Story: Meet Roger* a passionate small business owner in the beauty industry.



*Roger is not his real name.

Roger tested a product he'd seen do well in the USA but had not yet launched in Australia. There was only one local competitor, doing around \$500,000 in sales per annum, from what he could find, so was excited by the opportunity.

Talking with his advisers, he decided against raising investment at the start, and bank debt was not an option, as they usually need at least three years of trading figures before considering lending a cent.

Delaying selling equity in the business meant he could prove the business model, reduce risk in the investment, which therefore increased the valuation of the business when he really needed investment to scale.

Deciding to bootstrap the business for the first few years, he invested \$200,000 of his own funds to start the online subscription-based business.

Three years in, the business was showing great signs of success, and with much more market share to nab, he now needed to raise investment so they could scale the business - throw fuel on the online business, and light it with a flamethrower.

The business could be profitable, and cash positive, if he chose not to go after growth, but he wanted funds to grow. In his pitch deck, this is what he said he needed the \$1m investment for:

- Increase marketing
- Add experienced managers to the business, an Operations Manager and a Marketing Manager, and
- Keep up with inventory re-orders as the subscribers grew - these were lumpy hits to the cash flow.

As he'd done with other parts of his business, Roger diligently prepared his investor pack. The pitch deck outlined their journey to date, the growth plans and potential exit options, a summary of the historical numbers as well as the 10 year financial model they now have reliable data to support.

Roger had now tested, on market, a product he'd seen do well in the USA but had not yet launched in Australia. A key point in his pitch deck was that his business model was subscription-based, and he was able to point to credible third-party evidence to show a valuation of 4 times next financial year sales was reasonable (as that is how SaaS or subscription-based businesses are valued, since they generally don't have profit to put a multiplier on, as they are investing everything back into growth).

Roger had done his homework, was well prepared and didn't rush the process - especially when searching out, and talking with, potential investors.

It was no surprise to us that he raised the \$1m within 6 months and went on to see massive growth in his business. And, Roger still owned more than 80% of the business.

Several investors commented, unprompted, how impressed they were with Roger's thorough preparation and presentation - particularly the 10 year financial model, which would help them see the opportunity into the future, especially since the handful of KPIs were now backed with real data from their first three years of trading.

Be like Roger when you need funds to grow, follow the 7 Ps - Prior Preparation and Planning Prevents Piss Poor Performance.



**How can you
impress
investors for a
great outcome?**



Why would you wait any longer? Business Transformation Program

[CLICK HERE](#) 

Funding Options: External

Debt

The level of debt you take on depends on your risk profile - some people hate debt, others see it as an opportunity to super-size the ROI from their growth plans.

When considering this funding option, be sure to add the interest costs to your profit & loss in your 10 year financial model, as well as in the cash flow (along with the principle repayments, and on the balance sheet).

That way, you can see the impact on profit, cash and equity in the business if you do decide to take on debt. You need to be comfortable you can repay the debt, and be sure in your modelling you show a worst case scenario - if your growth plan falters.

The 10 year financial model your Growth Guide builds for you in our [Business Transformation Program](#) can add in a simple loan schedule tab, and hook it into the cash flow, balance sheet and profit & loss.

There may be industry benchmarks you can look at to inform how much debt is too much, or too risky. Ask your accountant and / or Google it (eg. 'small business debt to equity ratio benchmarks').

Let's run through the various options you have, to secure debt funding.

The 3 Fs

Friends, family and fools!

These are people you are close to, and could chip in some cash.

Unless you are from, and / or mix in wealthy circles, this option can be fairly limiting.



**What can you
Google or ask
your accountant,
so you can
benchmark your
business?**

Funding Options: External

If you can find some interested Fs, here are some questions you should answer for them, so you set a good first impression:

- (1) How long will the loan be in place?
- (2) What interest rate will they receive for the loan, and is it calculated annually on another cycle?
- (3) Is interest paid at the end of the loan, with the principle, or monthly / annually?
- (4) Will the loan be secured by any of your assets (eg. equipment, stock etc)?
- (5) Can they ask for their loan to be repaid earlier than stated in the loan agreement?

This type of funding makes having clear legal agreements in place to ensure everyone is on the same page, and no bad blood is spilled if things go awry, even more important.

Encourage them to seek their own legal and financial advice.

Bank

An overdraft is usually a facility to help in the leaner months, not so much to fund your growth.

You can get up to \$30,000 unsecured as an overdraft, but your bank will want to see a few years trading before approving.

Interest rates are usually around 10% higher than the current RBA rate, depending on your bank. The annual fee to have the overdraft facility in place, even if you never dip into it, is only \$200 - \$600.

Broadly, any bank providing you a larger loan will want to see at least three years trading history and take security over assets (even your house).



How many years trading will most banks want to see for large loans?

Funding Options: External

They could also demand Directors sign a personal guarantee. This is a legally binding guarantee each Director provides that, if the business went bust and the bank was still owed money, the Directors would stump up the cash (or the bank could sue them for it).

As part of the application, the Directors would have to detail their assets and liabilities, so the bank had enough confidence there was enough personal equity they could go after, if need be.

Government

As well as grants, the State and Federal Governments do offer low-interest loans.

Many don't ask you to pay interest in the first year or two, to help with your cash flow, but from year two or three, interest payments and even small principal repayments may be needed.

There is a [Federal government export loan program](#) when you are ready to send products overseas.

Asset finance

This is when a bank or asset finance company provides you a loan, which is secured by an asset the business owns, like your equipment.

They will usually go to a 50%, but some even 100% LVR (loan-to-value) ratio. Which means if your equipment is worth \$150,000, at a 50% LVR they would provide a loan of \$75,000.

While banks do provide asset finance, they only do so over easily tradable assets, like forklifts (as there is a market for these if they had to sell your equipment).

Selling a unique piece of equipment, like a custom production machine, would be more difficult, as there would be less demand for this asset.



What is an example of a tradable asset to secure asset finance?

Funding Options: External

If you're in the beverage industry, there are specialised asset finance companies in the wine, beer and spirits industries who would be better to get a quote from (and compare to what your bank can do for you). Particularly because they will asset finance casks, so you can unlock a lot of cash here if you are maturing spirit.

Interest rates for asset finance from second tier (non-bank) lenders can be around 8% - 10% above the current RBA rate.

Though, if you can secure it from a Big Four bank, it would be half that.

Invoice Factoring

There are funding specialists out there who do invoice factoring.

As soon as you issue an invoice to a customer, you also send a copy to the factoring company and they immediately pay you 80% - 90% of the invoice (whatever your agreement is with them), then they chase the customer to pay the invoice amount to them.

When they get full payment from the customer, they pay you the difference, less their fee.

Even if this fee is 5%, and sounds reasonable, it's expensive.

Let's say your customers pay you on average every 90 days, in three months.

The rough annualised interest rate you are paying then is $5\% \times 4$ (12 months divided by three), which is 20%.

If your customers pay on average in two months, that effective interest rises to 30%.

It's usually for businesses that have a lot of cash sitting in their Accounts Receivable, and has blue chip customers - but smaller invoices and lower calibre customers can also be included.



What is the name of a service who will chase customer invoices for you?

Funding Options: External

We don't recommend this method of funding as it is very expensive, and has more complexity than most other funding options.

And, we have seen some companies get themselves into trouble after becoming addicted to factoring, to prop up their cash flow and faulty business model.

Revenue lenders

This is a relatively new form of funding, and is unsecured (you don't need to put any assets up as collateral, and in most cases, not even sign a personal guarantee).

It's where modern merchant providers will loan you an amount for less than 12 months, and you pay it back with a percentage of future sales.

For example, you agree to pay 10% of every future sale toward paying back the loan (and interest).

Some providers include:

- PayPal
- Square
- Shopify, and
- Stripe.

If you already use one of these merchants, check out their offer if they haven't already hit you up.

A good non-merchant revenue lender is [Wayflyer](#), and may be worth checking out. It can take less than 20 minutes to find out if any of the above will revenue lend to you, and how much.

The lenders get comfort over your ability to repay from future sales by looking at your sales history.



**Do you know
the names of
any revenue
lenders?**



Funding Options: External

They can see your sales, as you already use them to process customer payments, and if you are an online business, they usually ask to link to your Google Analytics and Facebook ad accounts, so they can analyse the performance of ad spend, and overall web traffic.

Be careful not to get too dependent on this source though, it can be expensive.

If your sales grow faster than you estimated when you applied for the loan, the equivalent annual interest rate could be over 20%.

It's not only for online businesses.

If you have non-online sales going through your merchant provider, like your bar or restaurant using Square, you can lend against those sales too.

Investor lending

Some businesses we have worked with have done the hard and smart work to get great investors into their business.

This has often opened the door to an investor providing a growth loan - giving you cash as a traditional loan, with a reasonable interest rate, but not taking any equity in return (it's just a loan).

If you can put together a compelling business case as to why you need funds to fuel your growth, and have a 10 year financial model to back this up, investors can be more open to providing a loan than most small business owners think.

Get the usual legal agreements in place, and they will probably want some sort of security over the loan (but often don't ask for a personal guarantee, where a bank would).

A good tool that is in between a loan and investment is a convertible note.

What is the name of the tool used for funding that is between a loan and an investment?

Do you feel confident about growing your small business?



[CLICK HERE](#) 

Funding Options: External

Usually for at least two years - so there is enough time for both parties to get to know the other - this is a legal agreement which basically says:

- (1) The lender will provide \$X as a convertible loan
- (2) The duration of the loan is Y years
- (3) Any time before the end of Y years, the lender can nominate to convert their loan to equity (at a share price that is agreed and documented in the agreement)
- (4) At the end of Y years, if the lender has chosen not to convert their loan to equity, their loan is paid out, with the agreed interest, and
- (5) The loan will have some security in the business - assets, or even the Founders' house perhaps.

This is a good funding instrument, as the lender gets to see the Founder and management team perform for a while, before deciding to come on-board as an investor.

If they have hit their numbers, then the share price in the agreement would make it attractive for the lender to flip the loan to equity, and become an investor.

Interest on a convertible loan could be between 6% - 12% above the RBA rate, depending on the risk of the business, and risk-profile of the lender.

If the note is converted to equity, the interest is not due - only the loan principle amount is converted to shares.



What is a good funding instrument to get to see the founder and management team perform before considering investment?

Funding Options: External

Government Grants

Monitor local, State and Federal grants.

There are often infrastructure grants available for example, which help businesses expand their production capacity.

There may also be start-up grants, some related to export, and research and development (R&D), so it's worth investing some time on this.

And, one manager should own searching for relevant grants at least monthly.

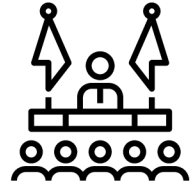
It's interesting to note that [BrewDog](#) in Brisbane and [Pirate Life](#) in Adelaide, both received large State government grants to set-up.

BrewDog played South Australia off against Queensland with the latter giving them \$30m to set up their sole South East Asia manufacturing facility, on the outskirts of Brisbane.

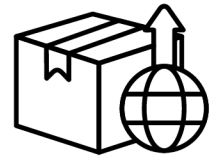
If you want some experienced help identifying the more than 4,000 grants on offer in Australia, we recommend reaching out to Madonna at [Melrose International](#) who, since 2010, has been helping the 35% of Australian businesses who have accessed grant funding.

Don't let your business be in the 65%!

Melrose International has a fixed upfront fee on all grant assistance, with their R&D work a percentage of successful lodgements (they won't take you on unless you will be successful, otherwise they don't get paid) and have a reasonable hourly rate if you want them to actually write the grant applications for you.



**Who has
identified
more than
4,000 grants
on offer in
Australia?**



Funding Options: External

In Australia, some places to check for grants include:

- [GrantConnect](#): a website listing all Federal Government grants
- [GrantGuru](#): a subscription site that lists both private and government grants
- [Business.gov.au](#): listing most government grants in Australia
- State government agencies (similar to above):
 - [Australian Capital Territory](#)
 - [New South Wales](#)
 - [Northern Territory](#)
 - [Queensland](#)
 - [South Australia](#)
 - [Tasmania](#)
 - [Victoria](#)
 - [Western Australia](#)
- [Export Market Development Grant \(EMDG\)](#): a popular one, and anyone serious about exporting should secure this funding.

The EMDG has been around for decades, is pretty easy to secure and great support if you are about to sell outside Australia.

Here is a brief summary of this grant:

- It is there to encourage small and medium-sized Australian businesses to develop export markets
- Your income must be less than \$50m a year
- Will reimburse up to 50% of eligible export promotion expenses above \$5,000 (provided the total expenses are at least \$15,000)
- The maximum grant you can receive in any financial year is \$150,000 (that is, paid to you by the government), and
- Provides up to eight grants to each eligible applicant (which means you can use the EMDG for eight financial years).

What is the maximum amount per year available for a business for export market development grant?

Funding Options: External

The business must have promoted one of the following:

1. The export of goods or most services
2. Inbound tourism
3. The export of intellectual property and know-how, or
4. Conferences and events held in Australia.

Note however, the only country excluded from the EMDG is New Zealand (as it is practically a suburb of Sydney).

Keep in mind, if you don't have a product-based business you can still access EMDG if you export a service. One guest on the Grow A Small Business podcast told our Founder, Troy, in 2022 - she accesses the \$150k a year to fund her Facebook ads, as she sells online courses internationally.

Investors

To raise funds from investors you must sell equity in your business.

They don't loan you money, instead they receive shares and are in it for the long haul. As we like to say, "recruitment is the most important thing a manager does."

Well, we believe recruiting the right shareholders, especially if they will be business partners - working IN the business with you - is the most important thing an owner does.

Even if they are a passive shareholder, if you get an asshole on your cap table, you are hit with the same pain and distractions as a toxic team member.

So, take your time in choosing the right shareholders and business partners. Our Founder, Troy, has had over 30 business partners (plus more passive shareholders) in 15 businesses in three countries so he has seen the good, bad and ugly in this corner of growing a small business.

Let's start with our key tips for bringing investors into your business.



**How
important is it
to recruit the
right
shareholders
into your
business?**



Working with Investors: The main steps.

People underestimate how much time is needed to raise funds from investors, so double the timeline you are thinking and be well prepared. Here are the main steps when raising funds from investors:

- (1) Be prepared, have these documents done before you start approaching potential investors
 - Have a 10 year financial model
 - Pitch deck (more on this below) without financials
 - Pitch deck with financials
 - A Non-Disclosure Agreement (NDA)
 - Agile Business Plan
 - Mini Marketing Plan
 - Simple Quarterly Strategic Plan
- (2) Run a simple spreadsheet to track each potential investor and their status
- (3) Approach investors, those that show interest:
 - Send the pitch deck without financials - this will whet their appetite for your business
 - If they are interested, ask them to sign an NDA
 - Once they sign the NDA, send the pitch deck with the financials and a link through to the financial model
 - If they ask for more information, share the Agile Business Plan, Mini Marketing Plan and Simple Quarterly Strategic Plan
 - Offer to meet with them and run through the information, and answer any questions (even if it's on Zoom, it's good to build rapport with a potential investor)
 - Use the investment round closing deadline to add a sense of urgency, and get a potential investors' genuine interest shown as early as possible
- (4) Chase, chase, chase...as we say when guiding a founder on the sales mentality they need to embed within their sales team "chase one communication short of a restraining order!"

Cast the net much wider than you think you need, as it will be harder landing investors than you think - so the more you have in the funnel, the better.

**Can you name
7 documents
we think you
should have
before
approaching
investors?**

Multiple Investment Rounds

It's usually best to break the amount you need to raise into several rounds.

If you can spread the investment you need over 6 - 18 months, there are a few benefits of breaking it up, including:

- The valuation of the business goes up every round, as more is achieved since the last round and there is less risk for the investor
- It creates scarcity and urgency, and
- The amount in each round is smaller, making it easier to raise.

Key will be to get a 'lead investor' in first, for each round.

This gives confidence to others to put their money into the business.

Minimum Investment

You need to set a minimum investment, so you don't get a lot of small shareholders.

In Australia, the Takeovers Panel laws mean if you have more than 50 shareholders there is a raft of extra (and costly) compliance you need to undertake every year (crowdfunding investors are not included in this count however).

Depending on the size of investment you are after, this minimum could be \$20,000, \$50,000 or even \$100,000 per investor.



**Are
crowdfunding
investors
included in
the Takeover
Panel Laws in
Australia?**



Do you want to know where to focus your energy and precious time?

[CLICK HERE](#) 

Legals are an Investment

Invest in the legal fees to get a solid Shareholders Agreement in place.

This sits above the Constitution and outlines extra things, like:

- How big the Board of Directors can be
- How is a Director voting deadlock broken
- What Shareholders must vote on (eg. substantial change in the business), and what the Directors decide (eg. funding for the business)
- The voting threshold for Shareholders to pass a resolution / decision
- Whether shares being sold by an existing shareholder should be offered to the other existing shareholders first (yes, they should)
- How the business will be valued if a shareholder wants to sell
- If there is a **shotgun clause** in place, and
- What the **Drag Along / Tag Along** thresholds are.

Some people are shocked at how much a good solicitor will charge to set this up but you only need to do it once, and it can save you a lot of pain down the track - so look at this spend as an investment, not a cost.

It should cover good and bad scenarios.

Brainstorm with your solicitor various scenarios, and let them write it up.

Especially consider if you have a shareholder as an employee and they are a bad leaver - you need to fire them.



Do you need to consider engaging with legal for a Shareholders Agreement?



Smart Money

Bonus if you can get ‘smart’ money - a shareholder that has experience, expertise and a great network in a part of the business you have a weakness in (eg. marketing).

It may be good to invite a ‘smart money’ investor onto the Advisory Board, or even formal Board of Directors.

Generally, a shareholder with less than 20% equity won’t expect a seat on the Board of Directors, but above that, professional investors may demand it.

Shareholder Communication

When you are seeking investors, leverage the 7 Ps - Prior Preparation and Planning Prevents Piss Poor Performance.

And remember - “you don’t get a second chance to make a first impression.”

Have a solid pitch deck, a realistic 10 year financial model and be sure to practise presenting.

In your pitch deck and discussions, you need to manage Shareholder expectations, mainly around their Return On Investment (ROI) - when and how much.

On the ‘when’, we recommend saying:

“We are raising funds to grow the business, the main return will be on the sale of the business - we don’t envisage dividends being paid in the short or medium term. However, if cash builds and the strategy hasn’t changed, then the Directors may decide to start paying dividends before the sale of the business.”

When talking about the potential ROI, you will need to be careful setting any firm expectations.

In your 10 year financial model there should be an area which shows a potential ROI (an equivalent annual percentage return), and a massive caveat saying these are forecasts only - they are not guaranteed.

When seeking investors what P’s should you leverage?



Professional and frequent investor communication is crucial to not only keep them happy about their current investment with you, but also make them more likely to invest further money in the future (if you need it).

We recommend a short quarterly email with a handful of key numbers, as well as good and bad news.

Your Constitution and / or Shareholders Agreement may stipulate you only need to communicate with them once a year, in the Annual General Meeting (AGM).

To be more effective, we recommend more frequent communication. Let's run through the different types of investors.

**Do you know
what questions
need to be
answered
before an F
invests in your
business?**

The 3 Fs

As we talked about in debt funding, if you are going to rattle the can around your family and network, you need to be very clear upfront on what they can expect from their investment.

In your presentation, and written material (especially), be sure to answer these questions, so you are on the front-foot:

1. When can they expect to get their money back?
2. What potential return could there be?
3. Will dividends be paid out at all, and if so, when?
4. Can they easily sell their shares, if they needed to?
5. What is the value of the business before and after they put their cash in?
6. What percentage shareholding will that investment give them?
7. Why will their percentage shareholding decrease if other investors buy into the business in the future?
8. What are the risks of the business failing?
9. What are the most likely ways the business will be sold, so the investors get a return?

And, especially make sure you invest in good legal agreements. You should encourage them to get their own legal and financial advice, in particular, to understand any tax implications if they get their investment back, and a good return on top of that.

Crowdfunding

You can sell equity in your business to the crowd, many small investors.

Using a crowdfunding platform, you set a minimum and maximum raise (eg. \$200,000 and \$1m).

If you don't reach your minimum, you don't receive any cash - and the platform fee is not payable either.

But you will have other sunk costs you have lost, like your time preparing the campaign and hard costs like ads and advisers when creating your Investment Memorandum (IM) document, and marketing it.

Our Founder, Troy, has kept over 200 IMs from crowdfund campaigns in a Google Drive folder, in many different industries. If you want to study these, just email troy@growasmallbusiness.com.

In that folder is a sheet at the top which summarises each raise - their key numbers from the IM as well as the result of their campaign.

A big benefit of crowdfunding is that it's cheap money.

The valuation you place on the business is often a multiple of sales, not EBITDA (operating profit).

As you will see in the sheet, this multiple can be between 4 - 10 times sales, and some even use the sales in the next financial year, not the current one.

When traditional private investors usually value a business on a 3 - 10 times multiple of EBITDA, you can see how you can get a good chunk of cash in, for giving away little equity.



Where can you go to get help for your Information Memorandum (IM)?

Key points about crowdfunding:

- Your performance and numbers will be public, so your competitors can see them (and the strategic plans you list in your IM)
- There is a fair bit of work putting together an Investment Memorandum (IM). Check out [the IM](#) Troy did for [The New Zealand Whisky Collection](#) when they raised \$700k NZD in late 2018
- The average investment is usually between \$1,500 - \$2,000
- To raise decent funds from this option, you need a tribe already following you and committed to your brand and business. Otherwise, you will need to spend a lot on marketing, as [Old Young's Distillery](#) in Western Australia did. In March 2023, they raised the maximum \$2.7m we were going for, in 19 hours. However, they invested \$50k - \$60k in professional videos, copywriting, a PR consultant and paid ads - and a lot of the founder and key team members' time was sunk into the raise
- You will have a lot more investors, so if you don't communicate well and often with them, they could become quite noisy
- A good crowdfunding shareholder base not only becomes avid brand ambassadors - pushing your product into new venues for you - but can also be a new sales channel. Crowd shareholders getting say 10% off your products would be encouraged to buy more from you
- You can design your investment packages so they only get voting rights with their shares in the top package. At New Zealand Whisky for example, package one was an investment of \$500 - \$3,000, package two was \$3,001 - \$40,000 and three was above \$40,000. Only package three had voting right, and only two people of the 313 shareholders put in more than \$40,000
- The rate the crowdfund platforms charge one-off if your campaign reaches your minimum target is 6% - 8.5%, and
- There are other costs to create and market the campaign so overall costs could be 10% - 12% of the total funds raised (including the platform fees of at least 6%)

The market leader in Australia is [Birchal](#), but [Equitise](#) is another option.



What is the average % of budget needed to create a marketing campaign for a crowdfunding?

Private investors

Pitching to professional investors takes a lot of time, information and courage.

They can be very fixated on the numbers and are usually very conservative, especially Private Equity or Venture Capitalist who want a big return in five to seven years.

Angel Investors are high net worth individuals, and there is an Angel Network in each of the capital cities.

We did a [podcast with Liz Raad](#), who has more than a dozen angel investments and is heavily involved with the Brisbane Angels.

Pitch Deck

We recommend using a well designed pitch deck when going for debt or investors.

This is 20 - 30 slides you can PDF and send through to a potential investor, the purpose is twofold:

1. To inform them of your business and the investment opportunity, and
2. Set a good first impression - you are organised and the deck is well designed.

It's human nature to write too much, and crap on about ourselves.

Resist the temptation and keep the deck simple.

The slides should have minimal text and a lot of nice images, and any graphs you can include.

In the pitch deck version with your financials, from your 10 year financial model one slide is simply the Summary tab, the next is the graph on the Summary tab and a third is some commentary on the key assumptions in your numbers.

In our Funding Pillar section of our [Business Transformation Program](#) we have three great examples of successful pitch decks.



Will you ask for help to prepare and design a pitch deck?

One is Old Young's Distillery mentioned and it was used in Australia's largest beverage crowdfund in early 2023.

Troy, our Founder at Grow A Small Business sat on this Advisory Board for the 3.5 years leading up to this fundraising.

He pushed the Founder to consider this funding option - the Founder eventually agreed, after the private raise a year earlier didn't yield all the funds needed to fuel growth.

In 19 hours, Old Young's Distillery raised \$2.7m - at a ridiculous \$32m valuation, on just over \$4m in sales in FY22 (so, valued the business at 8 times sales in the previous financial year) - even after making an almost \$1m loss.

In our **Business Transformation Program**, we have a pitch deck template document you can copy, to make a start pulling your content together.

Your graphic designer will want the final version of the text before they start laying the IM out, otherwise there will be a lot of extra costs making changes - so be prepared.



**Do you have
access to a
pitch deck
template?**

10 Year Financial Model

Having a 10 year financial model is the heart and start of your strategic planning. It forces you to research and test key assumptions that will make or break your growth, or even business.

It will allow you to play with scenarios, until you settle on the strategic plan for the next 10 years. Of course, this model is living, you will learn new things and come back and tweak it - especially in your quarterly and annual strategic planning sessions.

You can also copy the plan for the next financial year and load it into your accounting software, so you can run the budget v actual report each month.

A good 10 year financial model should be integrated - you change the sales plan and the profit & loss (sales, Cost of Goods Sold), balance sheet (bank balance, retained earnings) and cash flow should all change.

It should also include an estimated valuation of the business as it grows, using the two main valuation methods:

- Discounted Cash Flow (DCF), and / or
- Multiple of EBITDA (Operating Profit).

Watch [this video](#) of a past Business Transformation Program student who we built a 10 year financial model for. You will hear Stu, the Founder of Little Juniper Distillery in Adelaide, talk after our Founder, Troy, runs through the components of an effective financial plan model.

Stu says several times how having the 10 year financial model gave him the confidence to make the key decisions to expand his business.

If you don't have someone strong on numbers and spreadsheets to build your 10 year financial model, check out our [Business Transformation Program](#) - it includes a tailored model built specifically for your business.



**What are the
two main
valuation
methods used?**

Other Information in your Pack

The other documents you want to have ready before you start approaching potential investors, are:

1. The last three financial years signed accounts
2. A Non-Disclosure Agreement (NDA)
3. An Agile Business Plan
4. A Mini Marketing Plan, and
5. A Simple Quarterly Strategic Plan.

Let's expand on these.

Last three financial years signed accounts

Some potential investors will want to see the last three financial years of signed accounts, so have them on hand in case they ask, or include it in the pack you send out.

A summary of key numbers could be a useful one pager to include.

And be sure your accounts are clean - you don't have personal expenses going through the business etc, and it is clear what wage or salary you take, and how it compares to a market wage or salary.

If you were hit by a bus, the business would need to hire someone else to grow the business, so what is the cost of that person (or several people if you are wearing too many hours).

A Non-Disclosure Agreement (NDA)

An NDA is a legal agreement you and the potential investor sign which says neither party will disclose confidential information about the other party, to anyone else.

While they can be costly to enforce, as you will need good legal representation, for little upfront investment and time needed to have potential investors sign, it's worth a little extra protection.



Who signs an NDA to ensure there is no disclosure of confidential information?

Mini Marketing Plan

It's also really easy to write a thesis about your marketing plans, but being concise is more powerful.

A curious investor will want to know about the market potential (Total Addressable Market, or TAM), who your perfect avatar (customer) is, what products or services you will offer, at what price and how you will promote your offer - the marketing activities.

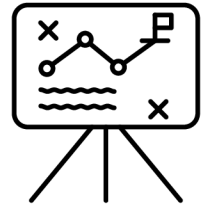
Simple Quarterly Strategic Plan

This is a concise few pages which cuts your 10 year plan down to the next quarter, so the team can focus on a handful of things which will move the business forward.

By including this in your investment pack you again bolster your image as a leader - it shows you are well prepared, work a plan and have your shit in one sock when it comes to leading and managing your team in the one direction.

The team knows what the priorities are for those 90 days.

Our [Business Transformation Program](#) has templates for those last three documents, and your Growth Guide will build your 10 year financial model.



**Do you have a
quarterly
strategic plan
for your team to
focus on?**

A Grow A Small Business Story: A NOT so fun funding experience.



*Mary is not her real name.

Some years ago, Mary * had a business idea. She loved the environment, and protecting it, so wanted to launch an environmental consulting business a few years after university and working for someone else.

She only had \$10,000 of her own savings, and needed another \$50,000 to launch. So, Mary hit up the 3 Fs - Friends, Family and Fools!

With her passion and drive, she scraped together the funds but it took almost a year to get her parents and a cousin to invest \$30,000, plus a friend the final \$20,000.

Mary was always in such a rush, her investor pack was a couple pages as a business plan, with no real financial figures that made sense. And, she didn't stop to manage the expectations of the 3 Fs when she took their money.

Worse still, she had no legal agreements in place - no Shareholders Agreement signed with her family and friend.

A few years after launching the business it was trading OK, not making huge profits, or any really, when you consider Mary paid herself \$50,000 a year under the market rate for the roles she held in the business.

She didn't mind, she was a scrappy business owner and knew she had to work long hours to make the business survive, let alone attempt to thrive.

With a team of 7 five years in, she needed cash to prop up working capital and add more team members. Cash was always tight.

Mary managed to put an information pack together for the bank and secured a \$200,000 loan over five years, with a lot of that going into working capital, to take the day-to-day pressure off.

Adding three more people to the team, now she had confidence there was a cash buffer in the bank, Mary ramped up her marketing efforts - only leveraging \$10,000 of the loan for this.

With Mary working so much, her health and relationships in and outside of work began to suffer - she was doing over 80 hours a week and the stress affected how she managed her nine direct reports.

Her best two, and only A-Players, decided to leave the shit-show. This caused a few clients to cancel, as the team couldn't keep up the service levels these clients had come to expect.

Of course, profits and cash took a big hit, so Mary needed to raise more funds, and fast.

She hobbled together a poor investor pack, with no clear historical numbers let alone a forecast to show not only how she would dig herself out of the hole, but where the opportunity was for the investors to make a reasonable return.

As you'd expect, the potential investor could sense the desperation and all declined.

Within three months of those two A-Players leaving, the business was done, Mary had to liquidate the business and is now back in corporate land to pay off her debts, or declare herself bankrupt.

And, she has some very unhappy family members and a friend she feels stressed and guilty about not being able to pay back their \$50,000.

Here are the issues we saw with Mary's business when she came to us in the final months, desperate, and we couldn't help as she sought support far too late:

- **The business model was faulty** - one of the big issues in their model was they weren't charging their clients enough, when - if they had tested the market, they would have found their initial happy client base would have paid 20% - 30% more without a thought of leaving. This would have given enough gross profit to invest in systems and marketing, to assist with the growth, let alone pay Mary a proper salary, taking pressure of her personal finances.



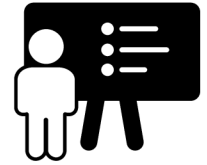
Mary has some very unhappy family members and a friend she feels stressed and guilty about not being able to pay back their \$50,000.

- **Mary rushed it** - she didn't invest the the time to put professional funding packs together in each round, and
- **There were no legal agreements in place** - she has tarnished the relationships with her 3 F investors, as they expected their money back, and with a decent return, in four years.

If Mary had put together the 10 year financial model, she would have worked through the core issues with her business model, addressed them and then been able to use that model to give the new investors confidence to come on board.

Don't be like Mary - be prepared, raise funds with professional packs, and when you don't desperately need to raise money to stay afloat.

And only raise funding to support genuine growth.



**Don't be like
Mary - be
prepared, raise
funds with
professional
packs.**

Resources

Books

- All 5 of the Grow A Small Business Growth Pillars
- [Marketing Funding Flywheel eBook by Grow A Small Business](#)
- [Never Split the Difference: Negotiating as if Your Life Depended on It by Chris Voss](#)

Podcasts

- [Angel Investing with Liz Raad](#)
- [ESOPs](#)

Websites

- [Export Market Development Grant \(EMDG\)](#)
- [Federal government export loan program](#)
- [GrantConnect: a website listing all Federal Government grants](#)
- [GrantGuru: a subscription site that lists both private and government grants](#)
- [Business.gov.au: listing most government grants in Australia](#)
- [State government agencies \(similar to above\):](#)
 - [Australian Capital Territory](#)
 - [New South Wales](#)
 - [Northern Territory](#)
 - [Queensland](#)
 - [South Australia](#)
 - [Tasmania](#)
 - [Victoria](#)
 - [Western Australia](#)

Courses

- [Business Transformation Program](#)

Tools

- [10 Year Financial Model](#) (this is an 8 minute video of another example model, for a professional services business)

And even more from the Grow A Small Business Team:

We understand the unique challenges faced by small business owners like you, and we're here to equip you with the knowledge and tools you need to thrive and grow your small business.



Blog Posts: We write about marketing, strategy, people, systems and funding

[CLICK HERE](#) 



FREE 20 minute Growth Chat

[CLICK HERE](#) 



Weekly Leadership Email Fridays

[CLICK HERE](#) 



FREE 'Transform Your Performance' 10 Day Short Course

[CLICK HERE](#) 



FREE Practical 'Guide to Recruitment Marketing'

[CLICK HERE](#) 



Grow A Small Business Podcast

[CLICK HERE](#) 



The 'Ultimate Recruitment Toolkit' Course

[CLICK HERE](#) 



The 'Business Transformation Program'

[CLICK HERE](#) 



Grow A Small Business YouTube Channel

[CLICK HERE](#) 