Title:
How Much Money Does Your Business Need?

Word Count:
457

Summary:
As much as I can get! This would be the answer readily shouted out by most entrepreneurs. The fact is though, both over and underestimating the amount of capital needed to fund a business can have serious negative consequences.

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Keywords:

Article Body:
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Underestimating what you need can cause problems ranging from having to go through the whole time consuming fund raising process again, to having to shut down the company because funds have run dry. Having to go back to the original investors and ask for more money often undermines the entrepreneur's credibility with the investors and can cause a significant dilution in the founder's ownership.

Obtaining more than enough capital may seem like a blessing at first, but it can breed a lax attitude toward expense control. "If you have it, spend it," is not an advisable motto for a new company. If the investment takes the form of equity, raising too much money means that the founder's share of the business was reduced more than was necessary--and this violates one of the maxims of entrepreneurship: hold on to those equity points!

Typical advice given to entrepreneurs is to do a cash flow projection, or cash budget, and then add 10%, 20% or even 50% to this amount, for "contingencies." These contingencies are all the things that can go wrong in a start-up venture, all the unfavorable events that can negatively affect results.

Contingency planning is a skill that does not come easily to all entrepreneurs--even those with a finance background. How do you get the cockeyed optimist (what you absolutely must be to even conceive of the idea of the starting a company), who expects the best, to plan for the worst?

To stimulate contingency planning, it helps to look at the reasons why entrepreneurs so consistently run out of money; among these are:

Not realizing how expensive it is to introduce a new product, especially consumer products, on a national basis.

Not realizing how long it takes to introduce a new product, or for the market to truly accept the product.

Delays in regulatory approval, municipal zoning, or patent approval.

Assuming that a small start-up company will get the same forbearance on payments and favorable terms that a large one will.

An entrepreneur with an early stage company must be prepared for one or more of these situations to occur. Contingency planning doesn't mean simply adding a percentage or dollar "cushion' to the amount of capital being sought from investor or lenders. It is a way of thinking--a recognition that the entrepreneurial road is always rocky. Envisioning what might go wrong does not equate to entrepreneurs losing faith in their product or their company; it means they accept these difficulties as steps on the path to prosperity.