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## Be Realistic About Startup Financing

Great idea, no money and no investors. No problem? Think again.

By Tim Berry | August 31, 2007

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I'm sorry, but maybe I've had too many e-mails like the one I read recently. The message asks where and how to get a grant for a "great idea" for a retail business. "I don't have any money or assets for a loan, but I want to do this right," the e-mail goes on to say, "and I don't want to deal with investors who take your whole business."

Free government money to start your business is a myth, or maybe just a plain lie. I don't know everything, but I've been in business about 30 years now--all of the ventures related to planning and entrepreneurship--and I've never met anybody who got free government money to start their business. I deal regularly with people from the approximately 1,000 Small Business Development Centers in the U.S., and if anybody knew about free money, they would. And they don't.

I think I know where the myth of free government money comes from: a TV commercial. But the company in the commercial only sells a list of addresses to send applications to, nothing more. So it isn't a straight lie; there is a list of addresses, but it's a gross exaggeration. Governments and foundations occasionally establish programs for stimulating special development goals, such as inner-city businesses, minority businesses and, once in a while, arts and creative businesses. There are always larger social goals.

Think of it this way: How can a government, whether state, local or federal, give away business money except with a social purpose? And if it's a foundation, then its board of directors and the IRS monitor the businesses pretty closely. They can't give you money for a "great idea" for a retail business.

Government loans are much more common, meaning privileged, low-interest loans for favored development programs. A lot of agencies will lend money at a discount for job creation and related goals. These loans are rarely easy to get, and you still need to meet the underlying goals of the government agencies that set them up.

So you should probably forget about grants and start looking at the situation more realistically. If you're an average person with an average "great idea," then you're like the rest of us; your idea is worth nothing if you can't find the funding to get it running.

There are at least [three general categories of startups](#), divided by their financing possibilities:



- **The "just get going" startup** needs customers, not much financing. That includes a lot of small service businesses, from the kid cutting your lawn to your freelance bookkeeper or accountant, single-shingle lawyer or one-person graphic artist operation.
- **The elite, successful tech-savvy entrepreneurs** with good track records have access to angel investment and venture capital. If you're one of them, you know who you are.
- **The middle-ground businesses** need serious--as in six figures--startup money but aren't elite. If you're in the middle-ground category, but don't have assets to pledge, don't have friends or family with money, and don't have a real track record for investors, then change your plans. Get real.

## The Next Step

One option is find a more realistic starting point. For instance, if your great idea takes half a million dollars to start, then pare it down to what you can afford. One of my favorite gourmet restaurants started out as a sidewalk stand. Its owner now has four restaurants.

Look for partners and co-founders. Maybe somebody you know will jump on board and have a better track record. Plus, your team will look better with a few extra members. You don't have to do everything yourself. Most businesses in those in-between ranges are started by groups, not by individuals.

Stop talking about why you don't want investors, because it's silly. Like I said, I've had one too many e-mails from individuals saying they don't want to give up their ownership. But what else do you have to give investors? Investors don't want your "great idea." Investors want to make a fair return for their money, and if you're already complaining about them taking ownership, then don't ask for their money.

One final thought, with thanks to [Steven Brandt](#), who taught small business management at the Stanford Graduate School of Business when I was there: If you really can't get your company going now, because you can't pare it down and you can't get it financed, then start down a path that eventually will lead you there. Work in a related business as an employee and keep your eyes open. Look for potential partners that you could work with in the future.

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