

Buck Hunting: Finding the Right Alternative Source of Capital for your Business

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When it comes to finding sources of capital to fund a business, small business owners in Alberta have more options than ever. Over the past few years, just over half of small & mid-sized businesses have borrowed money at some point to fund the business. A bit surprisingly, fewer than a one-third of those business owners ever considered one of the many alternative lending options, according to the *ATB Business Beat, 2016*. Taking a loan from a traditional bank is still the most common source of capital, but it is not always the best option for every company – see [‘Commercial Loans: What to Know Before You Sign’](#).

Here’s a rundown of some of the alternative sources of capital for your business, along with some of the pros and cons for each.

Grants

Depending on the size and nature of your business, there may be a provincial or federal government grant that is right for you. The grants cover a wide variety of programs from aboriginal enterprises, tourism, research & development to agriculture, the arts, media and exporting. [Click here](#) to see details on many of the grants. Grants do not have to be repaid but the funds do need to be spent on a specific purpose and there are usually reporting requirements.

Crowdfunding

Thanks to websites like [Kickstarter](#) and [Indiegogo](#), crowdfunding has become a popular way for small and new businesses to test market their offering and raise funds. Crowdfunding works by raising small amounts of money from lots of people in exchange for a reward, such as first access to a new product. Crowdfunding is a low-cost way to access capital without having to relinquish any equity or control in the company. Many crowdfunding campaigns do require that a minimum amount of money be raised. This minimum is often needed to fund the initial production of a prototype.

Factoring

Companies in need of cash flow can consider raising funds by selling their accounts receivable to a factoring company. There are numerous factoring lenders in Alberta. But factoring may be an expensive source of capital, so it is worth speaking with several companies to get a sense of the different rates and terms on offer.

Angel Investor

Angel investors are high-net-worth individuals who provide financing in exchange for convertible debt or equity. Angel investors are typically experienced and successful business people who can provide mentorship and guidance to the company's leadership team. Here's a list of some of the active [angel investors in Alberta](#) and the investments they have made.

Venture Capital

Companies that are showing good promise but are still developing a track record of success can look to venture capital firms for potential revenue. The jump to taking in VC cash is a big one as it typically requires relinquishing some control of the company and coming up with an exit plan for the business. More information on venture capital opportunities can be found on the [Venture Capital Association of Alberta website](#).

Private Equity

Established companies looking to scale often turn to private equity firms for large injections of capital. But accessing the capital usually requires giving up ownership control of the company. Like venture capital firms, private equity companies are also looking to the future and planning their exit strategy. An often-overlooked advantage of private equity financing is tax planning as private equity firms may be more flexible in how they structure the deal with the current owners which may allow them to use their capital gains exemptions by buying shares rather than assets.

Initial Public Offering (IPO)

One exit strategy for Private Equity and Venture Capital firms is taking the companies they have invested in public through an Initial Public Offering (IPO). An IPO is the first sale of a company's stock on a public exchange and it can raise significant amounts of money from Canadian and international investors. Taking a company public takes a lot of time and money and there are many regulatory requirements that must be met during the listing process and afterwards.

There are many different sources of finance, each with their own pros and cons. The one that is most suitable will in large part depend on the stage in the life-cycle a company has reached. Before accepting any financing, be sure to consider all the options to figure out which is best for your short-term and long-term business goals. Your legal and accounting team can provide valuable counsel during this phase.

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