What are the pros and cons of using investors as business financing?

CAPITAL IDEAS

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Kristina Milke, director of deal flow at TEC/VA Angel. *NICOLE BORDATO / SUPPLIED*

We asked Capital Ideas members for their thoughts on using investors as business financing. Here's what members of our community of business owners helping business owners had to say:

"Having the benefit of experienced entrepreneurs as investors in your business provides you with the opportunity to tap into the investor's wealth of experience. Not only can they help you by sharing both positive initiatives and ones to avoid, they often come with a great network of potential customers, potential partners and other valuable contacts."
— Kristina Milke, director of Deal Flow at TEC/VA Angel (http://vaangels.com)

"It can be a real boon, but it's not to be taken lightly. Pros: Scale more quickly without the common risk of cash flow disaster and bring on experience in the form of investors/advisors. Cons: you're the curator of their cash and their confidence. To keep credibility you'll invest a lot of time reporting, so be organized and effective in communication. Success tips: Be clear, be consistent and be candid.
— Angela Armstrong, president and founder of Prime Capital Group (http://pcclease.com)

"Private financing may be easier to qualify for and carry more flexible repayment options than traditional bank financing. However, the cost of private financing is usually higher than bank financing and, depending on the arrangement, the investor may insist on a partial ownership of the company."
— Debbie Engel, owner of Debbie L. Engel Professional Corporation (http://depc.ca)

"It's best to think of investors as both an advisor and a source of capital. Quite often the advisory component can be more valuable than the actual capital. Investors can help you with independent advice, introductions to partners/customers/acquirers and much more. Selecting investors should be like how you hire, look for culture and attitude first. If you get a disengaged investor who's looking for a short

term win, it may not be right for your business."
— Ashif Mawji, president and co-CEO of Trust Science (http://trustscience.com)

Javier Salazar, account manager at Quikcard. *SUPPLIED*

"Investors can offer a lot more value than just money. Choosing the right investors can allow you to tap into their expertise and network. When they have interest in helping you grow, it's relatively easy to get them to connect you with potential clients, suppliers or even other investors."
— Javier Salazar, account manager at Quikcard (http://quikcard.com)

"Having an investor means they get a say in your company. It could be a great thing as their expertise could take the company further. It could also be a disaster as they may want to see your company head in another direction."
— Jamie Steinhauer, general manager at Dedicated Designated Drivers (http://tripleds.ca)

"Having another party vested in your success can be of great benefit, especially if you can find someone that brings more than simply finances. Finances certainly allow for more resources, however, a partner with know-how, contacts and experience can be worth more than the financing

they provide. On the flip side, they are another person that needs to be kept happy and if they don't share your vision it can be a serious stress point."
— Illarion Shulakewych, founder of High Stick Vodka (http://highstickvodka.com)

"**Investors make you accountable** but they can also drive your business in a direction you might not have taken it."
— Chelsea Krupa, owner of Rehab & Retreat Senior Care Specialists (http://rehabandretreat.com)

"**Pros: Benefit of capital** and various perspectives/experience of investors. More and better things can happen faster. Cons: Conflicting goals and changing expectations. A good and comprehensive initial agreement is necessary and critical."
— Henry Maisonneuve, project officer at the City of Edmonton (http://edmonton.ca)

"**Let me answer as** an 'angel' investor: The pros: Firstly we negotiated a shareholder's agreement. Then I established the books and offered ongoing advice to the two owners. The agreement really established our relationship in a good way. The con: I know I impeded some of their freedom by taking an active role.

John Lilley, retired investor. *SUPPLIED*

Because we were all equity partners, when we wound up with a failed venture the two owners had no debt to repay. That's a pro or con depending on which side of the equation (you're on)."
— John Lilley, retired investor, albertacharitysupport.net (http://albertacharitysupport.net)

"Outside of the financial benefits, validating perspectives are a primary source of support, motivation, accountability and additional planning. On the flip side, the dangers include misaligned perspectives, objectives, measurements and involvement expectations. A clear, written charter of understanding is critical for the soft and hard side of investor involvement."
— Darryl Moore, vice-president of marketing and communication at [Executrade](http://executrade.com) (http://executrade.com)

"When you turn to investors for funding, expectations are raised as they want their money back and they want it back quickly. It doesn't take much these days to get started so do as much as you can with as little as you have. Outside money should be plan B."
— Kris Hans, strategist at [Market Grade Ltd.](http://marketgrade.com) (http://marketgrade.com)

"Pro: Immediate capital for use. Make sure you have a use for it immediately, otherwise don't accept it. Cons: giving up equity (most expensive in long term), reporting, costs and time. Under current capital raising laws, depending how you raise capital you need to file with the appropriate securities commission and often provide audited financial reporting. This can be extremely costly and an ongoing cost every year, plus the added time by your staff. Be sure to understand all the legislation before going this route. If you have under 50 investors in a privately held company, then it's just internal reporting. Depending who the investors are it can still be a lot of reporting and answering questions on daily basis. As well, depending on legal structure, you can risk the control of your business. Look at debt options first. Many lenders offer flexible repayment options for businesses, BDC being one good example."
— John Carter, CEO at [Parkhurst Asset Corp](http://ptrust.ca) (http://ptrust.ca)

Yuliya Cruickshank, founder of Epic Experiences. SUPPLIED

*The above answers are in response to a question posed by **Yuliya Cruickshank**, founder of Epic Experiences (http://epicexperiences.ca) . Here are her thoughts:*

"Investors are a great asset to your business in terms of financial capital, experience and business connections but it comes with a price: to give up a part of business ownership. This is something not every established business owner is willing to do. Unless you are just starting a new venture, and this is a part of the business strategy, then definitely give it a try but have an exit plan ready.

Get Involved!

Answer our next question (http://capitalideasedmonton.com/home/weeks-question/?source=EJ0406) : What are some hurdles you've overcome to keep growing your business?

Submit your answers at the Capital Ideas website (http://capitalideasedmonton.com/home/weeks-question/?source=EJ0406) by Friday morning. We'll publish the best answers, along with your business name and website.

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