

## Customer Financing for Your Business

### *Introduction*

There are many ways to finance a business, as you have already discovered in other readings throughout this course. Some of these sources include bank loans, funding from angel investors and venture capitalists, grants, money from friends and family, and various bootstrapping tactics. However, there is another way in which you can finance your business: obtain financing from your customers. You can reach out to your current customers to help you expand your existing business, or you can connect with potential customers to help start a new business. This source of funding can be extremely difficult and challenging. However, it can be done. In this essay, we will explore the ways in which you can accomplish this type of financing for both existing and new businesses.

### *Be Prepared*

Do not underestimate the level of knowledge your customers possess. When you approach a customer for business financing, you should be as prepared for that meeting as you would be when approaching a bank for a loan or an angel investor for funding.

Have your business plan ready for your customer to review. Be specific about your request, and be sure to provide the customer with solid information about how his or her investment will be used, what levels of return on investment the customer may expect, and the timing for realizing those revenues. Additionally, take steps to develop your financial statements (i.e., balance sheet, income statement, statement of cash flow) to illustrate that the funds you are requesting will be sufficient for your needs. Also, because unforeseen events can occur, such as price increases by suppliers, changes in technology, shifts in consumer trends, etc., it is important to request enough funds so that you are able to maintain your business while adjusting to these changes.

### *Become a Strategic Partner*

Developing strategic partnerships with customers who purchase your products or services for their own businesses can prove benefits to both parties. Your customers can gain financially from the returns on their investments in your organization. They can also gain by enabling your organization to provide new or improved products and services, which, in turn, will benefit their businesses. When you have developed strong business relationships with your customers, they will also want your business to succeed. When your business succeeds, you are in a better position to help your customers succeed. By presenting your request for funding in such a way that the customer will be able to see the benefits to their own organization, you will be making a case for how their organization will gain from the collaboration.

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Another way in which customers can become strategic partners revolves around customized products and services. Perhaps your customers have specific product needs. While your company may have the expertise to develop the product, you may not have the resources for research, development, and production. The customer may be willing to help fund this project, knowing that the end result will help them grow their own businesses.

Businesses can also develop strategic partnerships with their consumer customers. For example, Naked Wines is a customer funded online wine business. Launched in 2008, the 12 founders of the company had 120,000 customers invest money toward future product purchases. The funds were used to help develop the businesses of talented, independent winemakers who, in turn, provided Naked Wines with exclusive wines. Naked Wines was able to obtain their inventory at wholesale prices and pass the resulting savings on to their customer/investors.

### *Who Do You Know?*

Before you started your business, with whom did you develop strong professional relationships? Contact those individuals to request financial assistance. If you are just starting your business, ask people you have previously worked with if they would like to help you finance your venture. Contact everyone you have worked with—people who know you and trust you. Ask them to invest in your business and to become customers to help the business get to the next level.

### *Give Things Away*

Opening a restaurant, hair salon, or pet shop? Raising money to launch one of these businesses might be easier if potential investors were offered perks along with potential profits. For a restaurant, an investor might offer free meals; a hair salon can offer free haircuts; a pet shop can offer free pet food or supplies. These as well as other types of businesses can attract investors with the lure of benefits above and beyond the potential profits from the investment.

### *Sell Stock*

Another way a business can raise money is by selling shares of ownership in the company in the form of stock. An advantage of this strategy is that funds are raised without incurring any debt, as you would in the case of obtaining loans. Another advantage of this approach is that should the business fail, you do not have to repay the money to your investors; they are aware of the risks when they purchase the stock. However, a disadvantage of this method is that you will be giving up partial ownership of your company. You also might be giving up some control over how the business will be run as stockholders may want to be part of company management.

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## *You Are also a Customer*

Not only does a business have customers, but a business is also a customer of its vendors. Approach your vendors as a source of financing. They may be willing to provide vendor financing in the way of loans, extensions of payments, or other financial arrangements. If your business has been a valued customer, your vendors' success also depends on your success. As such, they have a vested interest in seeing your business remain intact.

## *Conclusion*

Customer financing is not the easiest way to obtain financial resources to launch or grow a business. However, with the right approach and a solid plan, customers can be shown the potential benefits. Additionally, it is important to approach only those with whom you have developed solid relationships, those who trust in you, and those with whom you would like to take your professional relationship to the next level.

## *Summary*

- Customer financing can be a viable way of raising capital for a new business or a start-up.
- When approaching customers for financial resources, present a solid business plan with specific details about the investment.
- Use strong customer relationships to highlight the benefits of becoming a strategic business partner.
- Have a customer help finance the production of a product that is customized to his or her specific needs.
- In addition to expected financial profits, offer perks in the form of goods and services to your customers as another incentive for investing in your business.
- Sell partial ownership in the form of company stock to raise funds without incurring debt.
- Vendors are another source of financing as their success is connected to your business's success.