

# How to Get Started With a Royalty Financing ©

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Many entrepreneurs having an idea for a business flounder in gaining the necessary financing to start the business.

One of the problems is their focus on the amount of money needed to start the business when they should be focused on the amount of money which will be necessary for the business to achieve a positive cash flow or, at least, being profit breakeven.

Seeking capital after starting a business but being before the cash generated equals overhead is likely to be very expensive in terms of equity dilution, if the company has been financed by the sale of ownership interests in the business.

Royalties, the sale of an agreed percentage of revenues for an agreed period of time, allow the entrepreneur to retain full ownership and control of the business. However, if the business needs more money before reaching the point of being cash flow positive the existence of a royalty is likely to make subsequent financings more difficult and expensive. However, royalties can be redeemable and thus terminated.

Therefore, the entrepreneur should seek to negotiate a deal wherein the amount paid for the royalty will be sufficient for the company to achieve a valuation which will allow for terms which will be far better for the entrepreneur than would have been the case at the outset of the company.

Projections of revenues, which should be more readily guessable than projections of per share profitability, will be necessary as the royalty investor must be able to project how long it will take for royalty payments to equal the cost of investment and then to provide the returns justifying the acceptance of risk by becoming a royalty investor.

The website calculator [REXRoyalties.com](http://REXRoyalties.com) allows users to enter all of the variables, based on revenue projections, necessary for the tabular and graphic display of both investor returns and royalty issuer value creation.

If investor funding is sought the making of projections is a necessary ingredient. Of course, the experienced investor is going to discount the entrepreneur's revenue and therefore profit projections, as the norm is for it to take longer and require greater cost than anticipated for revenues to reach projected levels.

The royalty investor is primarily concerned with the revenue projections and the [REXScaledRoyalties.com](http://REXScaledRoyalties.com) website calculator allows for entrepreneurs and the royalty investor to negotiate the benefit to the entrepreneur if the projected revenues are exceeded. The website also calculates the basis for a penalty if the revenues fail to achieve projected levels by an agreed percentage in an agreed period of time.

The best source of data as to possible revenues, assuming that produced is offered at a realistic price, is the major potential customers for the product or service. They can say, "We don't believe such a product can be produced for that price, but if it can we will probably be buyers of X amount". All that is needed is a positive statement by the potential customers for realistic projections to be made, assuming the company is successful in development and production of the product.

An additional and confirming data source would be industry statistics as to the sale of comparable products and the trend of the industry being served.

Of course, the marketing success of any product or service is dependent on the value offered by the product to the customer. It should be possible for entrepreneurs to obtain independent assessments of the value of the product, if produced, before deciding to go into business.

Creating a product for which there is no present market requires a much higher budget for marketing, frequently greater than that of production development. It also requires a more difficult decision making process for the royalty investor in structuring a fair arrangement, as there is such greater risk and probably time for revenues to reach projected levels.

In royalty investing getting the revenue projections right is key and [REXScaledRoyalties.com](http://REXScaledRoyalties.com) is a great negotiation facilitating website.

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