Exclusively for Those Owning or Starting a Business Which They Believe Will Become Successful ©

Arthur Lipper

For your new company to become successful, you will most likely need to obtain funding greater than you can personally provide.

If, down deep, you question the ultimate success of the business, then by all means sell ownership interests in the company in exchange for the necessary capital. The amount of ownership you retain will be less important to you if the business is not successful.

However, if you are confident the business will succeed and wish to continue both managing and owning it, then an alternative to selling equity should be considered.

The business will generate revenues, and if correctly conceived the revenues will be greater than the cost of goods and distribution. The assumption is that there will be significant profits earned.

The alternative form of investment suggested here is called a revenue royalty or just royalties, and provides for payment of a percentage of defined revenues to investors for a specified period of time. This means that you have the option of selling a percentage of the company's defined revenues to investors in order to raise capital, rather than selling a percentage of ownership in the company.

If royalties are used, you will own all of the profit, as opposed to only a percentage of the profit.

There are many other benefits to the owner of a business that sells investors a royalty, rather than stock in the company. These include: retaining full control of the business and executive compensation, determining how much to allocate to research and marketing, and deals to be made regarding possible sale of the business, and acquisitions you might choose to negotiate. The royalty investor is typically non-voting, has no influence over management, and is solely interested in the company's growing revenues and their sustainability.

Several items will have to be determined: investor protections, royalty rates, royalty payment periods, conditions for early termination of the royalty payment obligations, and other details.

You have to decide if you want to be a proprietor or, if retained, an interest holding employee of the company. Both can be good but one is much better if the company becomes successful.

Also, as the controlling owner of the business you are able to reward and motivate employees, since the possible profit reduction is of no concern to the royalty investors. Royalty financed companies do not require the same level of business and financial disclosure as do companies that have sold stock. It is also important to understand that once equity in a business has been sold to investors, the owner and all members of the Board of Directors have an affirmative obligation, as fiduciaries, to make all decisions on the basis of benefit to all of the investors, not just the founders or major investors in the company.

In the history of commerce, first there was barter, the process of exchanging assets; then came partnerships, a sharing of an activity's risk and reward, then royalties or revenue sharing, a sharing of gross revenues, and finally business corporations, permitting capital to be raised by selling shares of ownership in the expectation of dividends and increased valuation. Each of the commercial approaches had validity at the time of development and all continue to the current period.

Royalties are the better way of both investing in and financing of privately owned companies for many reasons. Those interested in specifics and details are invited to review http://www.royalties.website and the library of Pacific Royalties, at http://pacificroyalties.com.

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