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Fund your business

It costs money to start a business. Funding your business is one of the first — and most important — financial choices most business owners make. How you choose to fund your business could affect how you structure and run your business.

Content

Determine how much funding you'll need

Every business has different needs, and no financial solution is one-size-fits-all. Your personal financial situation and vision for your business will shape the financial future of your business.

Once you know how much startup funding you'll need, it's time to figure out how you'll get it.

Self-funding

Investors

Loans

Fund your business yourself with self-funding

Otherwise known as bootstrapping, self-funding lets you leverage your own financial resources to support your business. Self-funding can come in the form of turning to family and friends for capital, using your savings accounts, or even tapping into your 401(k).

With self-funding, you retain complete control over the business, but you also take on all the risk yourself. Be careful not to spend more than you can afford, and be especially careful if you choose to tap into retirement accounts early. You might face expensive fees or penalties, or damage your ability to retire on time — so you should check with your plan's administrator and a personal financial advisor first.

Get venture capital from investors

Investors can give you funding to start your business in the form of venture capital investments. Venture capital is normally offered in exchange for an ownership share and active role in the company.

Venture capital differs from traditional financing in a number of important ways. Venture capital typically:

- Focuses high-growth companies
- Invests capital in return for equity, rather than debt (it's not a loan)
- Takes higher risks in exchange for potential higher returns
- Has a longer investment horizon than traditional financing

Almost all venture capitalists will, at a minimum, want a seat on the board of directors. So be prepared to give up some portion of both control and ownership of your company in exchange for funding.

How to get venture capital funding

There's no guaranteed way to get venture capital, but the process generally follows a standard order of basic steps.

1. **Find an investor**
   Look for individual investors — sometimes called "angel investors" — or venture capital firms. Be sure to do enough background research to know if the investor is reputable and has experience working with startup companies.
2. **Share your business plan**
   The investor will review your business plan to make sure it meets their investing criteria. Most investment funds concentrate on an industry, geographic area, or stage of business development.
3. **Go through due diligence review**
   The investors will look at your company's management team, market, products and services, corporate governance documents, and financial statements.
4. **Work out the terms**
   If they want to invest, the next step is to agree on a term sheet that describes the terms and conditions for the fund to make an investment.
5. **Investment**
   Once you agree on a term sheet, you can get the investment! Once a venture fund has invested, it becomes actively involved in the company. Venture funds normally come in "rounds." As the company meets milestones, further rounds of financing are made available, with adjustments in price as the company executes its plan.

No treasure map necessary

When John and Kelly didn't have enough money to open their auto repair shop, they got an SBA-backed loan to help start their business.

Read more

Use crowdfunding to fund your business

Crowdfunding raises funds for a business from a large number of people, called crowdfunders. Crowdfunders aren't technically investors, because they don't receive a share of ownership in the business and don't expect a financial return on their money.

Instead, crowdfunders expect to get a "gift" from your company as thanks for their contribution. Often, that gift is the product you plan to sell or other special perks, like meeting the business owner or getting their name in the credits. This makes crowdfunding a popular option for people who want to produce creative works (like a documentary), or a physical product (like a high-tech cooler).

Crowdfunding is also popular because it's very low risk for business owners. Not only do you get to retain full control of your company, but if your plan fails, you're typically under no obligation to repay your crowdfunders. Every crowdfunding platform is different, so make sure to read the fine print and understand your full financial and legal obligations.

Get a small business loan

If you want to retain complete control of your business, but don’t have enough funds to start, consider a small business loan.

To increase your chances of securing a loan, you should have a business plan, expense sheet, and financial projections for the next five years. These tools will give you an idea of how much you'll need to ask for, and will help the bank know they’re making a smart choice by giving you a loan.

Once you have your materials ready, contact banks and credit unions to request a loan. You’ll want to compare offers to get the best possible terms for your loan.

Use Lender Match to find lenders who offer SBA-guaranteed loans

If you have trouble getting a traditional business loan, you should look into SBA-guaranteed loans. When a bank thinks your business is too risky to lend money to, the U.S. Small Business Administration (SBA) can agree to guarantee your loan. That way, the bank has less risk and is more willing to give your business a loan.

Use Lender Match to find lenders who offer SBA-guaranteed loans.

SBA investment programs

Small Business Investment Company (SBIC)

SBICs are privately owned and managed investment funds licensed and regulated by SBA. They use their own capital, plus funds borrowed with an SBA guarantee, to make equity and debt investments in qualifying small businesses. Learn more about SBICs to see if your business might qualify.

Small Business Innovation Research (SBIR) program

This program encourages small businesses to engage in federal research and development that has the potential for commercialization. Find out if the SBIR's competitive awards-based program makes sense for you.

Small Business Technology Transfer (STTR) program

This program offers funding opportunities in the federal innovation research and development arena. Small businesses who qualify for this program work with nonprofit research institutions in the early and intermediate stages of starting up. Find out if the STTR program makes sense for your business.

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