Title:
6 Ways To Fund Your New Business

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Summary:
I’m often asked: what is the best way to finance a new business venture. This question is usually followed by "So, do you ever invest in new business ventures?"

The answers, respectively, are: 1. there is no "best" way to fund a new business; and 2. I do invest in new business ventures, but darn it I can’t today because I left my checkbook in my other suit.

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Article Body:
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The answers, respectively, are: 1. there is no "best" way to fund a new business; and 2. I do invest in new business ventures, but darn it I can’t today because I left my checkbook in my other suit.

The truth is there are a variety of ways to finance a new business and which way is best for you depends totally on your product, your market, your financial requirements, your burn rate, and most importantly, your personal and financial situation.

So with that in mind, here are a few of the most common ways to finance a new business without hitting old Tim up for a loan. Keep in mind that all methods have pros and cons and some (or most) may not work for your specific situation. No matter what financing method you choose thoroughly investigate the ups and downs and don’t jump in with both feet until you’re sure you’ll land on solid ground.

Savings and Investments

The first source you should consider tapping is your own savings and investments. I’m a huge fan of self-financing when it comes to business because it doesn’t make you responsible to others should the business fail. The bad thing is that it if things do go under, it will be your money that goes down with the ship. If you’re not willing to risk your own capital you certainly shouldn’t be willing to risk anyone else’s.

Friends and Family

After tapping their own savings and investments, many entrepreneurs turn to friends and family for help. This works well for some, but here’s the creed I live by: NEVER borrow money from anyone you have to eat Thanksgiving dinner with. Nothing causes tension in a family like lending money that is never paid back. And notice I say "lending money" rather than investing money. Venture capitalists invest money. Your relatives lend you money. They will expect it back someday even if they say they won’t. Remember, when a loved one invests in your business they are emotionally investing in you. It would be tough to tell mom and dad that their favorite son lost their life savings because his business went down the drain.

Credit Cards

I financed my first business on credit cards, which was an incredibly stupid thing to do given the fact that my business could have failed and left me with thousands of dollars in credit card debt that would have taken until the year 2099 to pay off. It worked out in the end for me, but if you decide to finance your business on plastic keep in mind that you will be paying extremely high interest rates on the money you’ve borrowed and unless you hit it big you will be paying for that money for many years to come.

Mortgage The Farm

Bank loans are next to impossible to get if you don’t have collateral and a track record of business success, which is why many entrepreneurs use the equity in their homes to finance their business after being turned down for a bank loan. While this makes more sense than building a business on a deck of credit cards, the financial risks are no less abundant. You must pay this money back whether your business succeeds or not, but it is a good source of low interest money to get you started and the interest may be tax deductible (check with your accountant to make sure).

Angel Investors

An angel investor is typically a wealthy individual who invests in start up ventures for a share of the ownership. Angel investors are usually the first formal investors in a business and provide the seed money to get the business up and running. Some angel investors will write you a check and leave you alone to run your business while others consider their investment a license to "help you" manage and make decisions. If you do accept angel money make sure the terms are clearly defined on both sides. Angel money always comes with strings. Make sure you know whether those strings come in the form of a bow or a noose before you accept an angel’s check.

Venture Capitalists

Venture capitalists are to angel investors as pit bulls are to Chihuahuas. That’s not to say all VC are big, bad dogs, but they do have powerful jaws that can chew up your business and spit it out if things don’t go their way. VC money doesn’t come with strings, it comes with chains and locks and lots of legal documents. VC always have the upper hand in any deal they invest in. That’s just how it works and that’s the price you pay to get access to VC money.

If your business gets to the level that VC money becomes a viable option, don’t jump at the first bone a VC dangles before your eyes. If one VC likes your idea, others will, too. Present to multiple VC and carefully consider each offer before you accept the check.

Just remember, no matter how you finance your business, use the money wisely. Don’t buy $1,500 plasma monitors and $1,000 Hermann Miller chairs.

Have a very clear plan of how the money will be used and how it will be paid back.

And remember this, the more you can shoestring the business, but more of the business you will own in the end.