

14 Creative Financing Methods for Startups

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For entrepreneurs with a lot of money saved up, the only obstacle to starting a business is coming up with a viable idea. But many aspiring business owners have the opposite problem — the idea is there, but the capital isn't.

Clearing the startup financing hurdle is made even more difficult by the fact that brand-new entrepreneurs are often turned down for business loans. Traditional bank loans have always been tough to secure, and although loans funded by the Small Business Administration are typically more accessible, it's getting more competitive: The SBA's biggest lending program, the 7(a) program, recently maxed out its funds, and was on hold until July 28 after Congress raised the lending limit, [ABC News](#) reported. While business owners are in the clear for now, the growing number of SBA loan applicants means there's a good chance of the program reaching its limits again.

So what's a would-be small business owner to do? There are plenty of other options to help you fund your new venture. Here are 14 options beyond bank loans for financing your startup.

Online lending. Recently, online lending services such as OnDeck and Kabbage have become a popular alternative to traditional business loans. Online lenders have the advantage of

speed: An application takes only up to an hour to complete, and a decision and the accompanying funds can be issued within days. In contrast, the traditional loan process can take weeks, or even months, to complete. Because of this, former U.S. Treasury Secretary Larry Summers [said at the 2015 Lend It conference](#) that he expects online lenders to eventually reach more than 70 percent of small businesses.

Factoring/invoice advances. Don't want to take out a loan? Services like [factoring](#) and invoice advancing may help ease growing pains for small businesses. Through this process, a service provider will front you the money on invoices that have been billed out, which you then pay back once the customer has settled its bill. Eyal Shinar, CEO of small business cash flow management company [Fundbox](#), says these advances allow companies to close the pay gap between billed work and payments to suppliers and contractees.

"By closing the pay gap, companies can accept new projects more quickly," Shinar told Business News Daily. "Our goal is to help business owners grow their businesses and hire new workers by ensuring steady cash flow."

Product presales. Selling your products before they launch is an often-overlooked and highly effective way to raise the money needed for financing your business. Entrepreneur Priska Diaz was able to raise \$50,000 for her company [Bittylab](#) with a presale of her Bare air-free baby bottles. The money Diaz was able to raise helped her pay for inventory, and also helped to open some doors in retail and learn about her website's visitors. Though Diaz was able to benefit greatly from this means of financing, there were still some difficulties to overcome.

"The biggest challenge was in coordinating the inventory delivery times from our supplier so that we could start fulfilling orders," Diaz said. "Another challenge was forecasting the number of units we were going to presell, resulting in a shortage. We've now passed the presale stage and sold more than originally anticipated, resulting in back orders."

Friends and family. If you have a friend or relative with some spare cash, you have another potential way to finance your business. Borrowing from friends and family presents an interesting alternative to traditional forms of financing, and can have some unique advantages, including low- or no-interest payments and avoiding the hassles of bank contracts.

Debra Doran, managing partner of the Seattle branch of financial consulting firm [CTC Consulting | Harris myCFO](#), recommended open, frequent communication with potential friend and family lenders to avoid damaging relationships.

"Having a well-thought-out game plan will increase the odds of family members and friends agreeing to be your financial partners," Doran said. "Business success is not assured, but by professionally approaching your family and friends to support your efforts, and communicating frequently on the progress of the business, the chances of maintaining good relationships are significantly higher."

Side business. New business owners can try "double-dipping" as a means of funding their startup. Entrepreneur Alex Genadinik used his revenue from tours he organized on [ComeHike.com](#) to launch [Problemio.com](#), which builds mobile apps for planning and starting a business. After receiving donations for some of the free hikes he led, Genadinik began to charge for events, where he marketed his new site to hikers.

"I tried everything else before that, including monetizing with ads and becoming an affiliate reseller for outdoor gear, but it didn't quite work," Genadinik said. "This allowed me to work on my project without the distraction of looking for investors."

Home equity loan. For homeowners who have equity —the home's value minus what you owe —a home equity loan is a great option for financing a small business. These loans generally offer interest rates that are both flexible and lower than traditional commercial rates.

"Home equity loans are very cheap, rate-wise," said Al Engel, executive vice president of consumer lending at Valley National Bank. "It is a low-cost form of borrowing that is very controllable by the entrepreneur as far as when he pays funds and redraws funds. The flexibility is tremendous. The risk is, you are putting your home on the line. If the business fails, or you fail to maintain the terms and conditions of the home equity loan or line, you risk foreclosure."

Selling assets. Sometimes, you may have a financing method and not even realize it at first. That was the case for entrepreneur Hamid Saify, who was able to fund his opinion-sharing community, [ChoicePunch](#), by selling a car he had wanted to pass along to his children.

Though it was a tough decision, Saify was able to make \$30,000 from the sale of the car. That money, in turn, went toward some very important aspects of the fledgling startup.

"I used some of that money to help with the last payments to our design and development contractors," Saify said. "The rest I put into our account and used to help support marketing during our beta launch months."

Credit cards. Business credit cards are among the most readily available ways to finance a startup, and can be a quick way to get your business up and running.

"One of the few advantages is that the minimum payment on a credit card is very low," said Ken Nickel, senior vice president of community lending at Valley National Bank. "If you are a new business who is just starting out and you don't have a lot of money coming in, or you don't have a ton of expenses, you can put it on a credit card and pay the minimum payment."

However, there are some serious drawbacks to consider before using plastic to fund your startup, Nickel said. If a new business gets started and then has trouble making the payments, the interest rates and costs on the cards can build very quickly, and carrying that debt can be detrimental to a business owner's credit.

Angel investors. Those looking to finance their business can always look to an angel—an angel investor, that is. Angel investors have helped to start up many prominent companies, including Google, Yahoo and Costco. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting a 20 to 25 percent return on their investment.

"The principal advantage of an angel investor is generally that you have a friendlier atmosphere and a quicker decision-making circumstance for a smaller amount of [money]," said Mark DiSalvo, CEO of private equity fund provider [Semaphore](#). "You are likely to get an investor who has strategic experience, so they can provide tactical benefit to the company they are investing in."

Venture capitalists. For small businesses that are beyond the startup phase and already have revenues coming in, a venture capital investment may be appropriate. Fast-growth companies with an exit strategy already in place can gain up to tens of millions of dollars that can be used to invest, network and grow their company quickly.

Brian Haughey, assistant professor of finance and director of the investment center at Marist College, said that because venture capitalists focus on specific industries, they can generally offer advice to the entrepreneur on whether the product is going to fly or what they need to do to bring it to market. However, venture capitalists have a short leash when it comes to company loyalty and often look to recover their investment within a three- to five-year time window.

"They have to make a return and usually have a five-year time horizon," Haughey said. "If you have a product that is taking longer than that to get to market, then venture-capital investors may not be very interested in you."

Winning a contest. Sometimes, businesses can benefit from a bit of luck. That was the case for Roberto Torres and Luis Montanez, who funded a portion of their startup costs for apparel company **Black & Denim** with winnings from a business-plan competition.

"We utilized the funds to purchase manufacturing equipment that allowed us to scale our products and meet demand," the owners said. "This advantage gave us the opportunity to increase our production and get into bigger players like Stein Mart and Walt Disney World. The competition also gave us access to business experts that asked us the tough questions while allowing us to retain our equity—a perk that would have been very difficult to obtain otherwise."

Renting out your home. Cutting out liabilities is another creative way for new business owners to fund their startups. For Fay Johnson, founder and editor of **deliberateLIFE** magazine, that meant renting out her apartment. Johnson was able to do this by placing her San Francisco apartment on Airbnb and renting it out for anywhere between five nights and a month at a time. The decision has been successful for Johnson, who has used the money raised to fund the costs of the first few issues of her magazine. Though the move has

allowed Johnson to finance her startup, it has not come without its share of headaches, including tight time restraints.

"As an entrepreneur, time is one of your most valuable resources," Johnson said. "When renting, I have to keep in mind that I need to clean and reclean the apartment, and since I work from home, I also have to find a place to work during those days."

Crowdfunding. Crowdfunding on websites like Kickstarter and Indiegogo can give a big boost to the financing aspirations of small businesses. These sites allow businesses to pool small investments from a number of investors instead of forcing companies to look for a single investment. Many sites allow companies to raise money in exchange for rewards or products. Others have an [equity-based model](#) in which businesses give up a bit of their share.

Before choosing a crowdfunding platform, be sure to read all the fine print and know what you're getting into. Certain sites require businesses to raise their full stated goal in order to keep any money raised on the platform. Other sites will allow companies to keep any money they raise. Additionally, sites can claim a percentage of any money raised on the site. Sites often also charge a payment-processing fee for money raised.

Grants. If your business focuses on a scientific or research-oriented field, grants from the government may be able to help fund your company. The SBA offers grants through the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. Grant recipients are required to meet federal research and development goals, and to have a high potential for commercialization.

Shinar said there are not many downsides to a truly no-strings-attached grant. However, you should carefully read the fine print because grants may require that you give up part of the IP or other intellectual property, Shinar noted. Grants also can be time-consuming, and depending on the sector, the ratio of time expenditure to the odds of payout may be too high. Nonetheless, if your company could be eligible, it is wise to review the options.

Precautions and next steps. While the plethora of lending options may make it easier than ever to get started, responsible business owners should ask themselves how much financial

assistance they really need. Companies that receive more income than they truly need should be prudent in how it is used. Shinar urged such companies to make — and stick to — a disciplined budget.

"It's hard to go back later and try to exert fiscal discipline," Shinar said. "It's better to start from the beginning with good corporate governance."

Companies that have received a large cash infusion may benefit from bringing in an experienced partner or board member to help ensure accountability, Shinar added.

As an alternative, bootstrapping your company — building it with existing resources and earned revenue — offers companies a low-risk way to test out their product. If you and your partners are able to work toward creating a functional product in your spare time, you may be able to begin to sell that product with minimal or no cash.

"The advantage of bootstrapping is that you stay the boss," Shinar said. "More importantly, you get relatively quick validation from the market about whether you have a good business plan. Bootstrapping helps imbue a company with operational discipline."

Owners who bootstrap retain exclusive control over their company for a longer time, allowing them to better influence its culture and goals. As your company grows, funds can be put directly back into enhancing the business, rather than into servicing your loans. In addition, they avoid less-than-favorable conditions and terms that might be imposed by lenders or additional partners.

If you bootstrap, however, be prepared and open-minded about moving to the next step. If you remain without external funding for too long, you may be unable to take advantage of market opportunities. Moreover, you risk creating a business that has failed to integrate more experienced minds.

"At a certain point, you need smart partners around the table, and those partners are commonly investors," Shinar said. "If you want to grow really fast, you probably need outside sources of capital. And if you are only bootstrapping, you are missing some of the advantages of corporate governance. You may also miss some lifestyle advantage — you can go on bootstrapping for

years without making money. So taking on debt may actually mean that your company can move forward."

More information

Additional information about funding sources is available from the following resources:

- Loans and Grants ([U.S. Small Business Administration](#))
- Small Business Lending Fund ([U.S. Treasury](#))
- Access Financing Wizard ([USA.gov](#))
- 5 Ways to Fund Your Small Business ([Kiplinger](#))
- How to Raise Money for Your Business (Entrepreneur)
- How to Get Funding From Angel Investors ([The Wall Street Journal](#))

See more at: <http://www.businessnewsdaily.com/1733-small-business-financing-options-.html#sthash.1FJxEMeq.dpuf>