How To Fund Your Start-Up Business Idea

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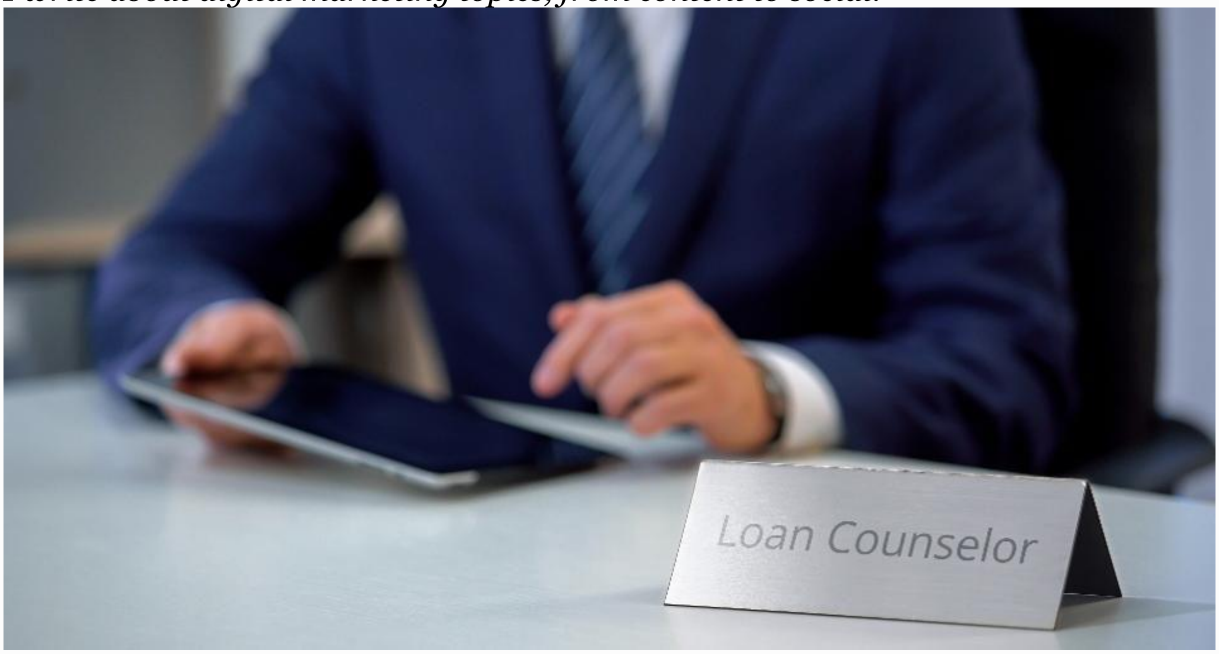

You've got the idea, the drive, the know-how: how about the capital? Funding is an essential part of any business, as without the seed money you'll be unable to fire the starting gun on your, er, start-up.

Entrepreneurs are an incredibly clever and industrious bunch, but many are in the dark about how best to fund their start-up business, preferring instead to focus their energies on a core offering. One supposes that reviewing funding options can seem like a dull, laborious task when you are devoting time and attention to your genius idea. In any case, great ideas can only fulfil their potential if they are backed by stable investment.

Read on to find out the best ways of obtaining financial backing for your start-up business idea.

1. Pursue a grant

The less monied cousin of a bank loan is a grant. While you shouldn't expect to be cut a massive check, there are dozens of grants available, offered by national and state governments (as well as private enterprises) in the interests of stimulating the economy and growing the jobs market so it's worth checking out your options for funding your startup.

These financial injections can help you save money on premises and fixed rates, purchase cheaper IT or manufacturing equipment and fund staff training. The main drawback, of course, is the fierce competitiveness of such grants, as well as the box-ticking involved: it can be a frustratingly drawn-out process, but that's the tradeoff for retaining equity. In the US, start-up grants are offered by organizations such as Small Business Innovation Research (SBIR), the National Association for the Self-Employed (NASE) and Idea Cafe.

2. Crowdfund

Crowdfunding is a favorite of the digital economy, and probably the quickest way of obtaining finance for a new business. You don’t even have to be massively tech-savvy to launch a crowdfunding campaign, but what you do need is a compelling pitch, one which strongly references your start-up’s potential for growth, as well as a knack for interacting with your cash-rich community. If all goes to plan, you’ll have capital you don’t need to pay back, without ceding any operational control. As a side benefit, crowdfunding is a nifty form of advertising, a way of stimulating public interest in your company before it’s even made its debut. The difficulty, needless to say, is in getting your voice heard in the vast crowdfunding landscape.

3. Family and friends

The idea of hitting friends and family for cash doesn’t sit well with some entrepreneurs, but many of the world’s top magnates readily admit to borrowing from their social network early in their careers. As such, you should have no compunction about doing the same. Soliciting short- or long-term loans from friends and family might lead to some domestic squabbles down the road, but you won’t usually have to pay them back with interest added. Indeed, you might not have to pay loans back at all, depending on the generosity of your creditor. On the other hand, it’s not easy to put together a hefty bankroll relying solely on family and friends; and you have to ask yourself whether you really want to risk straining meaningful relationships.

4. Get an angel investor on board

Don’t pray to the angels; seek angel investors. Targeting high net-worth individuals who have a track record of supporting start-ups isn’t difficult to do, but the challenge lies in convincing them you’re worthy of their investment. There are many online angel investment networks, as well as local investor groups you can pitch to in person, so do your research and start submitting your pitches. Find the right angel investor and not only will you benefit from their financial support but also their wisdom: oftentimes, they offer mentorship as a side dish alongside their capital. On the other hand, they generally offer less financial backing than banks and venture capital funds.

5. Raise money yourself

Entrepreneurs are a hardy, headstrong bunch and many elect to fund their business all by themselves. Breezing past the bank, they sell their possessions, save money from their day job, invest in various endeavors and free up capital by remortgaging (OK, that one does require a hasty U-turn to the bank). By going it alone, you'll retain complete control and be unburdened of the interest and strain of other avenues. And this decision has a precedent: over 90% of start-ups get up and running without the aid of loans or grants. On the other hand, raising money can become a full-time job in its own right – taking your attention from your business. To bootstrap or not to bootstrap: that is the question.

6. Seek venture capital

Finding a venture capitalist who shares your vision, or at the very least believes in your ability to turn your idea into a successful, profitable venture, is a good way of raising cash. Of course, you will need a fine-tuned business model, ideally one that's ready to scale. The main con with this option is that venture capitalists are typically looking for the next big thing, and so many entrepreneurs struggle to convey the scale-ability of their enterprise. Venture capital funds, by their very nature, have a short shelf life as they generally seek to recover their investment, turn a profit then move on to the next fresh start-up.

7. Good ol' bank loan or line-of-credit

In the modern age, it almost seems anachronistic to seek a bank loan. But if you've a solid credit history or existing assets which you're happy to offer as collateral, as well as a workable business plan with clear profit forecasts, it's still possible to launch your start-up with an infusion of bank cash. The advantages of this option are that you retain full equity, you can feasibly obtain a large figure and that you can build your credit; the negatives are that you'll need to pay back everything, plus interest, or leave yourself vulnerable to bankruptcy.

8. Ditch the bank in favor of micro-finance

Small-scale entrepreneurs can access capital via microfinance, circumnavigating the bank entirely. This is an especially good option for people with a bad credit score or track record, as micro-finance institutions like Non-Banking Financial Corporations (NBFCs) are more willing to green-light loans to individuals normally deemed high-risk. In essence, such organizations exist to promote financial inclusion and cater for those at the bottom of the financial pyramid.

Accessed from: Forbes online

Pros: no need for assets, low interest rates. Cons: modest loans, various documentation (references, financial statements, business plan etc.) required.

Conclusion

Needless to say, all of the aforementioned options require a good deal of consideration. What might be right for one budding tycoon may not be right for another. For example, you may have an excellent bank manager whom you implicitly trust, and a robust line of credit, making a bank loan the perfect option. Or you could have a supportive network of financially-secure family and friends willing to back your idea to the hilt. Perhaps a combination of funding options is best, but only you will truly know. The important thing is to go with a funding option with which you are comfortable and confident so that you can focus on turning your business idea into a success.