BUSINESS SOLUTIONS

How To Finance Your Startup Business

(NAPS)—If you're wondering how to finance your startup, you're not alone. Depending on your business, financing it can either be relatively simple, such as drawing on your personal savings, or more complex, perhaps requiring you to seek loans or investors.

Here are some common ways to finance a business, along with pros and cons to keep in mind:

Personally Finance Your Startup

In the digital age, many small businesses can be up and running with little to almost no capital, which can make financing your business with your own money more realistic.

Personally financing your business has some distinct advantages—you retain full control over your company, take on zero debt and have no loan payments to worry about.

On the flip side, you could lose money if the business doesn't work out.

The bottom line is that if you're willing to take on personal financial risk, using your own money is one of the most straightforward methods of funding your startup, while maintaining full control.

Ask Friends and Family For Financial Support

Help from friends and family is another common method for financing a business. This could look similar to personal financing or a private loan.

The advantages depend on the terms of the contributions. You might retain full control over your company and not have to take on debt or you may have to relinquish some control and agree to repay what you've received plus interest.

Take Out a Bank Loan

Banks and credit unions are another financing option. However, you're taking on debt and will need to make regular payments on the loan, which can cut into cash flow. On the plus side, financing your business with a loan means that you retain full control of your company.

Be prepared to show a bank a business plan, expense sheets and financial projections, often for the first five years.

Securing a bank loan is a challenging process. A mentor can help you prepare a loan application, so you have the best chance of securing the loan you need.

Bring in an Outside Investor

Bringing in an outside investor is typically not a realistic option for most businesses. The experts at SCORE found that only about 2% of businesses have a business model that would interest investors.

There are many options for financing a business and a mentor can help guide you. Pictured: Aaron Mulherin, owner of AM Glass and his SCORE mentor, John Brockhardt.

Most often, equity investors require not only a percentage of ownership in the company but an "exit plan"—otherwise known as your plan for how they'll recoup their investment and see a healthy return.

With an investor, though, you get relatively quick access to capital without periodic loan payments, potential access to business expertise, and connections you might lack.

If your startup requires a significant capital investment, bringing in an outside investor may be a smart option.

Rally Support Through Crowdfunding

Once considered an unconventional way to finance your business, crowdfunding is now a common method for raising startup funds.

The structure of a crowdfunding campaign depends on your platform host. The idea is to encourage small contributions from a large pool of people. Funders receive gifts for their support which usually includes the product or service you sell.

The downside to crowdfunding: it takes a lot of effort and money and failure is very public, unlike with private ventures.

Choosing the Right Financing Option is Key

As you develop your startup, connect with a SCORE mentor. They can guide you toward the right financing options for your needs and lead you on the pathway to success.

Learn More

Visit www.score.org to learn more.