A Guide to Securing Funding for Your Startup

Owning a business can be the first step toward financial independence, flexibility, and pursuing your true passions. However, for many aspiring entrepreneurs, securing funding to start their business is the biggest challenge. To operate effectively, a business needs to cover expenses such as payroll, insurance, permits, equipment, advertising, and rent. Having the capital to pay for these recurring expenses before making a profit can be unrealistic for many.

To get your business off the ground, you need to explore different funding options. This guide provides advice on planning for future expenses, estimating costs, and exploring various funding options.

Determine Your Startup Necessities

Startup costs vary based on location, industry, and business model. For example, opening a food truck requires a food permit, a health permit, a reliable vehicle, and kitchen equipment. In contrast, a freelance graphic design business might only need a computer, business license, insurance, and design software.

When assessing your startup costs, list your necessary expenses and categorize them as "immediate need" or "can purchase later." This helps you visualize critical needs and estimate the required funds. Additionally, conduct a break-even analysis to understand when your business will start making a profit. This analysis is crucial for your business plan and demonstrates to investors when they can expect a return on their investment. To get started with calculating your break-even point, we recommend using the [Small Business Administration's analysis tool].

Explore Funding Options

There are several ways a business owner can fund their business. It is important to note that depending on which option you choose, it could affect the way your business is structured and run. Below are some common funding options:

GRANTS

While the U.S. Small Business Administration (SBA) does not provide grants for starting a business or expanding (unless you are a nonprofit, community organization, or educational institution), entrepreneurs can still receive grants from other sources. Many state and local-level governments provide financial assistance to small businesses to help encourage and stimulate economic growth in those regions. Additionally, many large corporations offer small business grants as part of their organization's commitment to philanthropy. These types of grants often have stipulations such as requiring the business owner to have an account with said company or requiring your business to have specific goals. To find a list of small business grants and programs, visit the U.S. Chamber of Commerce's website.

LOANS

One of the most common ways new business owners get funding is through traditional business loans. These loans tend to be more challenging to obtain for new businesses as the business may not have established any credit history. In those instances, a lender will likely ask you to provide a detailed business plan and will also look into your personal credit history to determine if you are a reliable borrower. As a result, your odds of receiving a business loan are higher if your business has been established for at least two years.

There are three types of business loans that you can choose from: term loans, microloans, and SBA loans. Terms loans are a one-time upfront payment that you receive from a bank, credit union, or online lender that must be repaid over a dedicated period with a fixed or variable interest rate. Microloans are loans that are offered by authorized intermediaries and are geared toward small businesses and not-for-profit childcare centers. They are called "micro" because they are smaller-size loans of up to $50,000 and are ideal for startups that need a smaller amount of money to get started. The last option is receiving a loan from the SBA. SBA-backed loans are seen as more favorable as they have more favorable terms, lower interest rates, and less strict requirements than traditional bank loans.

VENTURE CAPITAL INVESTOR

If your business structure is either a partnership, limited liability company (LLC), S corporation, C corporation, or a limited partnership (LP) and has high-growth potential, you have the option to seek funding from a venture capitalist. A venture capitalist is an investor who provides capital to a new business in exchange for an ownership share and active role in the company.[1] When you receive venture capital, you are not expected to pay down any debt as it is not a loan but the venture capitalist is expecting a high return on investment.

CROWDFUNDING

Crowdfunding is a financing option that has gained popularity through social media. It enables you to raise funds from strangers who are interested in your business and its mission. It is a lot lower risk than venture capital because owners do not give shares of ownership to the crowdfunders. Instead, owners are typically expected to give the crowdfunders perks as a token of their generosity. These perks can range from anything like early access to the product you are producing or recognizing their name on the website. This is a great option for those in a creative field or who produce tangible products.

SELF-FUNDING

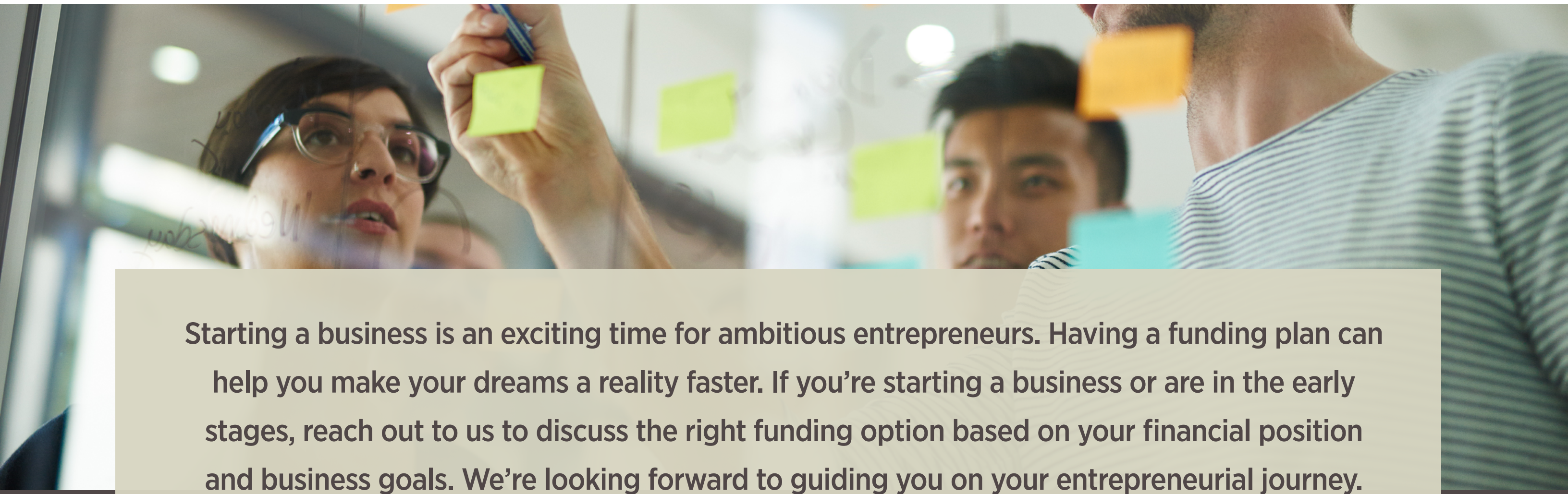
Entrepreneurs who want full ownership and control of their business often choose to self-fund. This means using personal savings instead of taking out loans. However, self-funding has its downsides, the biggest being the risk of depleting your savings. It's best to keep three to six months' worth of essential living expenses in your savings account. If your business requires so much money that you have nothing left for emergencies, consider other funding options.

It is also important to not drag yourself into any negative, long-term financial implications. Some business owners choose to use funds from their retirement accounts to pay for their startup's expenses. This is not recommended as this can cause both short-term risks such as penalty fees from withdrawing early and long-term risks like not having enough money in your retirement account when you are of retirement age. Business owners may also decide to use personal credit cards to pay for startup costs. This is also not advised as it can be harder to manage both your personal and business expenses in one account and doing so can increase the amount of debt you have for your personal finances. In the event that your business fails, you will have to choose between paying off an exorbitant amount of debt or filing bankruptcy.

FRIENDS AND FAMILY

Borrowing or receiving gifts from friends and family is a method that 22% of new business owners use today according to a 2020 report conducted by Clutch, a B2B ratings and reviews platform.[2] In the study, they also found that the majority of business owners find asking their friends and family for money uncomfortable as it can cause potential conflicts in their personal relationships. However, it can be less awkward if you approach them like investors, presenting a business plan that explains your concept, target market, strengths and weaknesses, team possibilities, and financial projections.

You should also be meticulous in negotiating the repayment terms to make sure everyone feels comfortable. Your loved ones may decide to loan you the money interest-free or at a fixed interest rate. They also may ask for equity instead. While somewhat similar to a venture capital investor in the sense that a person is issued shares and is given a say in your business decisions, this can be more of an advantage to you because someone you love and trust holds partial ownership of your business. Whichever option you choose, you want to try to make sure that it won't cause strain on your relationships in the future.



Starting a business is an exciting time for ambitious entrepreneurs. Having a funding plan can help you make your dreams a reality faster. If you're starting a business or are in the early stages, reach out to us to discuss the right funding option based on your financial position and business goals. We're looking forward to guiding you on your entrepreneurial journey.

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FOOTNOTES

[1] Fund your business. (n.d.). U.S. Small Business Administration. Retrieved February 11, 2025, from https://www.sba.gov/business-guide/plan-your-business/fund-your-business

[2] McKeon, K., & McKeon, K. (2024, December 19). Startup funding: Sources and challenges for new businesses. Clutch.co. https://clutch.co/resources/startup-funding-sources-and-challenges-for-new-businesses

DISCLOSURES