



SOURCES OF FINANCING FOR YOUR BUSINESS

FUNDING SOURCES FOR SMALL BUSINESS

The following funding sources can help you start a small business. Some of these funding sources can be used by anyone. While others, like factoring or leasing, can be used only by certain types of businesses. There are a bewildering number of places to get money, and a truly amazing variety of ways to structure it. Some of it is simple; some is difficult and takes some time to fully understand.

Either way, finding the RIGHT kind of money for your company is very important. Conversely, finding the wrong kind of money can be fatal for your company. If you can find an organization such as Hidden Star or SCORE that will give you guidance, great. If not, you owe it to yourself to take the time to think about and understand the dynamics of getting money for your company.

SOURCE #1: YOUR SAVINGS

Most entrepreneurs start their companies by investing their own savings. This source of financing can be ideal—if you can afford it. It puts you in full control of how much you are going to get and keep. Furthermore, you never have to justify yourself to investors. This last point is an important benefit. You have the freedom to operate as you see best. There is a trade-off, though. This freedom usually comes at the expense of having little or not enough money.

Saving up to start a business takes determination and sacrifice. Save a portion of your income every month. Save as much as you can for as long as you can. You will need every dollar you can get your hands on. Consequently, you may have to give up luxuries—such as vacations and new cars—for a while. The reward is the ability to launch your startup and keep more ownership.

SOURCE #2: YOUR CREDIT

Many entrepreneurs also use their credit—either through credit cards or a

home equity loan—to start their small businesses. Be very careful about using these sources, as you could ruin your personal credit, risk your home, or both. If possible, avoid using a home equity line of credit as the risk is too high. Many businesses fail and you don't want to lose your business *and* your home.

Credit cards are best used to pay expenses directly related to a project. Once the project is completed and the client pays, pay the credit card back. It's best not to use credit cards to pay for startup company expenses not related to a specific revenue-generating project. This strategy limits the chances of something going wrong that could damage your credit.

SOURCE #3: FAMILY MEMBERS AND FRIENDS

One common way to finance a business is to ask friends and family members for an investment. Generally, we recommend against it. The problem is if things go wrong, your friend/family relationship is affected—and in any startup business, you are guaranteed things will go wrong at one point or another. If you are careful and upfront about the risks and uses of the money; family and/or friends can be fine, but you need to have a candid conversation before borrowing.

If you start your small business using friends and family investors, decide whether to sell them equity or take a loan from them. Both have advantages and disadvantages. Investments from selling equity don't have to be paid back. However, the person to whom you sold the equity becomes an owner and shares the profits. Loans, on the other hand, have to be paid back. However, once the loans are paid, the transaction is concluded.

Regardless of which structure you use, have an attorney draft a formal agreement or use a legal service such as LegalZoom.com. Lastly, separate the personal relationship from the business relationship—treat all investors professionally. Whether they are family, friend, or stranger, anyone who invests money in your company deserves your full dedication and full and regular reporting.

SOURCE #4: CUSTOMERS AND SUPPLIERS

Two great funding sources for small businesses are actually your customers and your suppliers. Customers can finance your business by prepaying for orders—or by giving you an advance. Obviously, you use these funds to handle their transaction. This funding is not easy to get, but customers may be willing to prepay if your service is unique enough or if they really need your products.

Another great source of financing is supplier credit. Basically, suppliers give your company 30 to 60 days to pay an invoice. Getting supplier credit is similar to getting interest-free financing for 30 to 60 days. It takes a little effort to get supplier credit, but it is definitely worthwhile. Learn more about getting credit terms from suppliers.

SOURCE #5: SMALL BUSINESS ADMINISTRATION

One interesting source of small business funding is the Small Business Administration (SBA). The SBA has a special program that offers *microloans* to small business owners. Microloans can reach \$50,000 (varies by state) and tend to be easier to get than conventional financing. They also come bundled with business training, which can be very useful for first-time entrepreneurs. The SBA also works with banks to provide 7(a) loans. These loans are larger than microloans and have stricter underwriting criteria.

Whether you get funding from them or not, the SBA is a great resource and is dedicated to helping you succeed.

SOURCE #6: PEER-TO-PEER LENDERS

Peer-to-peer (P2P) lenders offer a platform that allows people to seek financing from other individuals. The P2P platform acts as a matching service and provides basic due diligence. Like microloans, most P2P loans are small. They usually cap at \$25,000 to \$35,000. In a P2P loan, individuals are usually not lending money to your business. Instead, they lend money to the entrepreneur (personally), who then invests the funds into the business. Your personal credit matters since this loan is a personal loan.

SOURCE #7: FACTORING COMPANIES

Many small businesses encounter financial problems because their commercial clients ask for payment terms. As a small business, you may have to give them 30 to 60 days to pay an invoice. Otherwise, you could lose the client. The problem is most small businesses cannot afford to wait up to eight weeks to get paid.

You can improve your cash flow and get paid sooner by factoring (or pledging) your invoices and accounts receivable. Factoring allows you to finance slow-paying invoices, which provides your company with immediate working capital. You take your slow-paying invoices to the factoring company and they give you, let's say, 80% of the total right away. You can use these funds to run the company. When the client pays the factoring company, you will receive the rest of the money, minus the

The advantage of factoring is it allows you to finance your business by leveraging the commercial credit of your clients. This method is a great option for small businesses with a strong roster of clients. The disadvantage is it is very expensive money. If you use a factoring service, you will want to move away from them as fast as you can.

SOURCE #8: LEASING

Small businesses in certain industries need equipment to get started. One way to finance the equipment is to lease it through a finance company. Most equipment leases are structured so the finance company buys the equipment and rents it to you for a monthly payment. Once the term of the lease concludes, you can buy the equipment from the finance company for a fairly modest cost.

SOURCE #9: CROWDFUNDING

Crowdfunding is a new way of financing businesses and is often misunderstood. Typical crowdfunding can be used to finance only certain types of businesses. Think of crowdfunding as a platform on which you can pre-sell your products to consumers. If enough customers prepurchase your product, the transaction clears and you can move forward.

Example: If you want to build a brand-new type of bicycle but do not have the funds to do so; you could start a crowdfunding campaign on a popular crowdfunding platform such as Kickstarter.com or Indiegogo.com. On their platform, you outline the details of exactly what the buyer gets for their money, upload a video, provide pictures, set your goal, and launch. NOTE: There are a LOT of people who can give you great advice on how to run a crowdfunding campaign such as this. So let's say you want to sell your new, innovative bicycle for \$1,000 and it will cost you \$600 to produce. You launch your crowdfunding campaign with a *goal* of selling 100 bicycles. At \$1,000 each, your goal is \$100,000 in sales. Let's say you sell exactly 100 bicycles and meet your goal.

You would then have \$100,000 in cash in your account but you would need to produce and deliver 100 bicycles to the people who bought them. That will cost you about \$60,000, for a gross profit of \$40,000. That is all good. However, now you have an obligation to deliver 100 bicycles to the folks who pre-paid for it.

If, for whatever reason, you are unable to produce the bike you will need to return all of the money to the customers. Or, if it costs you more than \$1000 to make the bicycle, you will lose money. So make sure you can live with each of these alternatives.

Crowdfunding is a great platform if you are selling an innovative product that could have mass appeal, and the *usable* cash is the profit margin from people pre-purchasing the product.

A new kind of crowdfunding is quite different. In this model, you are not selling a product, you are actually selling some of your company's stock (equity). This is a little trickier and you will need to spend more time on this, but for many it is a far superior option. One of the reasons is it totally shifts your risk. If someone buys a bike from you, they do not assume any risk; you do. If they buy stock, they share the risk with you.

If someone buys—let's say—5% of your company that is going to build

this new bicycle, they assume the risk you might not be successful in your endeavor—you do not have to pay back their money if you fail. Another advantage of this type of money raising is individuals cannot command/demand the unpleasant concessions you might have to make if you were dealing with a very sophisticated venture capital firm or private equity firm.

SOURCE #10: THE BANK

After you are established and have cash flow, a bank can be a great source of capital to expand your business, but very few new companies qualify. It can lead to tremendous frustration and a giant waste of precious time.

Far too few people understand the business a bank is in—or more accurately, what business a bank is NOT in. Banks are not in the *risk* business. Generally, a bank is more open to loaning you money only after you can show them your business is sound, will produce cash flow, AND you can show the bank several ways they would get their money back.

This makes sense, since they are loaning out the life savings of little old ladies and men who cannot afford to lose their money by making a bad loan to you or any other entrepreneur. Yes, the deposits are insured, but still, this is how you should think about it.

For some reason, many business books recommend you consider a bank loan to start a business. This approach may work well in theory but not in practice. Banks typically lend only against assets or cash flow. Unless you have a business with assets or you have substantial personal assets, you will not qualify for a commercial line of credit or bank loan. However, bank loans may be a good or very good source of funding later on, once your business has grown.

A lot of new entrepreneurs waste a lot of time trying to get bank financing long before their business is a good candidate for bank financing. There is an old adage something like, “A bank will loan you money only after you prove you don’t need it.” Remember, Facebook was five years old before it could have supported any debt at all.

SOURCE #11: VENTURE CAPITALISTS AND ANGEL INVESTORS

Venture capitalists and angel investors can be a great source of financing if your company has the right opportunity for them. Consider venture financing only if you have an innovative concept with high margins that can scale quickly.

Venture capital and private equity investors are private investor firms that invest in, typically, early-stage private companies. These firms are

generally populated with very smart, very sophisticated professional investors. They can be great; they can be terrible. Watch out. Angel investors are typically high net worth (rich) individuals investing their own money.

Getting this type of funding is notoriously difficult. As a matter of fact, many entrepreneurs spend weeks or months creating presentations and pitching to venture capitalists and end up with nothing to show for their efforts. Worse yet, they have lost the most precious asset: time.

SOURCE #12: GOVERNMENT GRANTS

Usually, the government does not provide grants to start or operate a for profit business—unless the business is in a specific industry, is in a specific location, or serves a very targeted cause. In other cases, there are many organizations that receive government grants or subsidies and they, in turn, provide grants and financial assistance to new for profit companies.

When they do work, they are great, since they do not accrue interest or need to be paid back.

Remember that the government is investing your tax dollars and is very strict and careful when spending them.

Unfortunately, the competition for this type of funding is significant; and the grants are typically limited in scope.

Here are a number of sources of grants for new, startup companies.

How to apply

You can find complete application instructions and announcements of award availability at [grants.gov](https://www.grants.gov).

General requirements

There are specific requirements for recipients of an SBA grant. Make sure you can meet the legal and administrative prerequisites before you apply. The full [terms and conditions for SBA grant programs](#) is available on [sba.gov](https://www.sba.gov).

In addition, you should understand the [uniform administrative requirements, cost principles, and audit requirements for federal awards](#).

SBA-associated award programs

Boots to Business (B2B) Funding Opportunity

This funding opportunity is addressed exclusively to Boots to Business (B2B) grantees. Through this program, the SBA supports your organization for a period of 5 years. [Learn More.](#)

Federal and State Technology (FAST) Partnership Program

This is a one year funding opportunity for organizations to organizations to execute state/regional programs that increase the number of SBIR (innovation)/STTR (research and development) proposals; increase the number of SBIR/STTR awards; and better prepare SBIR/STTR awardees for commercial success. [Learn more.](#)

Veterans Business Outreach Centers

The Veterans Business Outreach Centers Cooperative Agreement provides quality counseling assistance and training events, particularly B2B events to transitioning service personnel and spouses of veterans, veteran and service-disabled small business owners and entrepreneurs. [Learn more.](#)

Service-Disabled Veteran Entrepreneurship Training Program (SDVETP)

This Cooperative Agreement aims to support organizations that currently deliver entrepreneurship training programs to service-disabled veteran entrepreneurs who aspire to be small business owners or currently own a small business. [Learn more.](#)

State Trade Expansion Program (STEP)

The purpose of this Funding Opportunity is to invite proposals for funding from eligible state entities interested in and capable of providing assistance and guidance to eligible small business concerns to increase the number of such firms that export and the value of small business exports. [Learn more.](#)

7(j) Management and Technical Assistance Services

This funding opportunity is for capable small businesses in Regions I - X interested in providing management and technical assistance and guidance to eligible small business concerns under the U.S. Small Business Administration's 7(j) Management and Technical Assistance Program. [Learn how to apply.](#)

Program for Investors in Microentrepreneurs (PRIME)

This grant will provide funding for private, nonprofit microenterprise development organizations; microenterprise development programs run by State/Local/Tribal Governments; or Indian tribes interested in providing assistance and guidance to disadvantaged microentrepreneurs and/or microenterprise development organizations. [Learn more.](#)

SBDC Northeast California

In order to fill the vacancy of the Host Institution for Northeast California SBDC Program, SBA invites proposals for funding from eligible entities which are institutions of higher education and Women's Business Centers. [Learn more.](#)

SBDC Pennsylvania

In order to fill the vacancy of the Host Institution for Pennsylvania SBDC Program, SBA invites proposals for funding from eligible entities which are institutions of higher education and Women's Business Centers. [Learn more.](#)

Portable Assistance Program

The purpose of this Funding Opportunity is to invite proposals for funding from entities currently funded by SBA as a Small Business Development Center (SBDC) Lead Center. Each proposal must describe recent, serious economic conditions resulting from diminished business or government operations within a discrete area served by an SBDC network. Proposals must include detailed plans to deliver technical assistance to the affected area with corresponding objectives and milestones to be accomplished. [Learn more.](#)

Veteran Federal Procurement Entrepreneur Training Program (VFPETP)

This funding opportunity is for current Veteran Federal Procurement Entrepreneur Training Program (VFPETP) recipient organizations only with an initial 12 month period and two option years of 12 months each. There are currently two procurement programs available through this award: procurement opportunity training for start-up small businesses and procurement training for established small firms. [Learn more.](#)

Women Veteran Entrepreneurship Training Program (WVETP)

This funding opportunity is for current Veteran Federal Procurement Entrepreneur Training Program (VFPETP) recipient organizations only, and offers an initial period of 12 months with an option of 2 option years of 12 months each. [Learn more.](#)

Best Small Business Grants of 2019

1. [FedEx Small Business Grant](#)
2. [Nav's "Legitify Your Small Business" Grant](#)
3. [Eileen Fisher Grant Program](#)
4. [Small Business Innovation Research Program](#)
5. [Caleb Brown Urban Entrepreneur's Community Grant](#)
6. [USDA Rural Development Business Grants](#)
7. [InnovateHER Women Business Challenge](#)
8. [Bill and Melinda Gates Foundation Grand Global Challenges](#)

8 Private Small Business Grants

FedEx Small Business Grant Contest

Each year since 2013, FedEx has offered \$25,000 grants to businesses. The application process is a short one month period, so ready your applications for the February 20th open date. You'll need to capture your business's story via video (read [FedEx's tips here](#)).

Good for: existing businesses.

National Association for the Self-Employed (NASE) Growth Grants

[NASE Growth Grants](#) are offered to NASE members looking to take their business to the next level. NASE grants are worth up to \$4,000 and can be used for all types of activities, like purchasing new equipment, hiring help, and creating promotional material.

Good for: existing businesses.

The [StreetShares Foundation](#) Veteran Business Grant

Open to veterans, active duty members, or the spouse of a military veteran or active duty member. Applicants can receive up to \$5,000 and will be judged based on their business idea, their expected use of funds, product-market fit, team, and the influence the business will have on the veteran or military community.

Good for: veterans, military members, and military spouses who run a business.

IdeaCafe \$1K Business Grant

This grant is open to any business owner or person looking to start a business. [\\$1,000 will be awarded](#) to the most innovative business or business idea. Past winners include bakeries, magazines, an art gallery, and a custom cycling company. Applications open in November.

Good for: planning stage businesses.

Bill and Melinda Gates Foundation Grand Global Challenges

The foundation awards its grants primarily to 501(c)(3) organizations, but if you run a business that is solving health and development problems through innovation, this grant could be yours. [Check here](#) for their open applications and keep in mind that the open grants are usually specific to a particular problem.

Good for: nonprofits or businesses solving health and development problems.

Caleb Brown Urban Entrepreneur's Community Grant

The Caleb Brown Venture Capital and Consulting Project hosts a \$1,000 grant aimed at promoting and nurturing [young urban entrepreneurs](#) with vision who plan to rebuild local blocks, neighborhoods, and communities "by providing training and jobs to the next generation." The grant is open to startups and young businesses in urban areas. This contest is run every month—submit your application by the 15th to enter.

Good for: community businesses, new businesses, existing businesses.

Halstead Jewelry Grant Award

Are you a jewelry artist? If so, submit your portfolio and business plan to Halstead for their annual [jewelry grant award](#). In addition to funds, Halstead aims to help jewelry artists develop their business, their plan, and hit their goals.

Good for: jewelry artists, startups less than three years old.

9 Federal Business Grants

Small Business Innovation Research Program

The SBIR grant program is for entrepreneurs focused on innovations in technology that has the potential for commercialization. You can check their funding opportunities [here](#) or via [grants.gov](#). Focus areas from 2017 include clean and safe water, homeland security, land revitalization, and green construction and advancement of health care, and more. Here's the full list of participating agencies:

Department of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Transportation

The Environmental Protection Agency

NASA

The National Science Foundation.

Small Business Technology Transfer Program

The STTR program aims to expand funding for innovation research and development leveraging existing technology. What makes this program unique from the SBIR program is that small businesses get the opportunity to formally collaborate with research institutions throughout the program. Federal departments that participate in funding businesses through the STTR include: Department of Defense, Energy, Health and Human Services, NASA, The National Science Foundation.

Each agency sets its own guidelines — check [grants.gov](#) for open STTR grants.

Department of Defense Grants

The DoD offers grants to small businesses through the STTR program and a number of other initiatives, like the Defense Enterprise Science Initiative. The Office of Naval Research, the Air Force Office, and the U.S. Army Research Institute are all looking for research and development of technology that will help them reach their goals.

Department of Energy Grants

The DOE offers grants through the SBIR and STTR programs for innovative research and development leveraging technology developed by a university or a DOE National Lab. [Check here](#) for their current grant openings.

National Institute of Health (NIH) Grants

NIH is a federal agency within the Department of Health and Human Services (HHS). They offer business grants to small businesses developing and researching biomedical technology.

Department of Justice Grants

The DOJ allocates grant funds to projects that support law enforcement, public safety activities, programs to improve the criminal justice system, and more. [Here's an overview](#) of the agencies within the DOJ that provide grants—last year they offered over 20 different grant opportunities.

Department of the Interior Grants

The DOI offers small business grants—for example, there's an outstanding grant offered by the US Geological Survey for the collection of topographic elevation data. Find other DOI grant opportunities on [grants.gov](https://www.grants.gov).

USDA Rural Development Business Grants

The Department of Agriculture offers both loans and grants to businesses and cooperatives in rural areas to create quality jobs. They fund community projects such as the development of housing, community facilities, and other services.

National Institute of Food and Agriculture (NIFA) Grants

The NIFA is a federal agency within the USDA with a focus on leadership and funding programs. They [offer grants](#) throughout the year, which come with support and guidance. You can find their current grant offers and application requirements on [grants.gov](https://www.grants.gov), but be mindful that many of their grants are offered to nonprofits or larger businesses.

4 Small Business Grants for Specifically for Women

While grants offered by private companies and grants for startups are available to a broader range of business owners, there are grants specifically for women-owned businesses. You can find resources and info at women's business centers, but here's a list of 4 business grants for women:

Eileen Fisher Grant Program

[Eileen Fisher](#) is a clothing shop for women who's founder has a personal passion for helping women-owned businesses. All grants exceed \$10,000 and are awarded to up to 10 applicants each year. Businesses must be in operation for a minimum of three years and meet other various requirements. (Note: the next grant application will become available in mid-2020 and will support women working in environmental justice.)

Good for: existing businesses with social or environmental impact.

The Amber Grant Program

[The Amber Grant](#) is a \$500 grant awarded to qualifying female entrepreneurs each month. At the end of the year, monthly grant recipients will have the opportunity to win an additional \$2,500 grant. Applications close the last day of each month.

Good for: planning stage businesses.

InnovateHER Women Business Challenge

The Small Business Administration hosts this grant contest to empower women with a business plan for an innovative product or service. It's an involved process to apply—applications must find a local Challenge to compete in hosted by a local organization. From the local challenges, one winner is selected to advance to the semi-final round. Finalists will then be invited to the SBA's national InnovateHER business challenge where they will pitch their ideas to expert judges. The top three businesses receive awards ranging from \$10,000 – \$40,000.

Good for: planning stage businesses, businesses with impact on lives of women.

Open Meadows Foundation Grants

The Open Meadows Foundation offers grants under \$2,000 to projects designed and implemented by women for the community. Startups and small businesses are given priority. Grants are accepted during the winter and summer each year.

Good for: startup businesses owned and run by women.