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5 Ways of Funding A Business: How To Get Your Piece Of The Pie

No shocker here: One of the biggest challenges for entrepreneurs and small business owners is finding the funds necessary to launch – and eventually grow – their businesses. If you're reading this, you're likely looking right now.

As a social entrepreneur for more than four decades as well as an angel investor and venture capitalist, I've experienced the highs and lows of business funding myself and have learned the hard way what investors are looking for before committing to fund.



There have never been more funding choices to consider for prospective entrepreneurs.

Through the years, I've developed—and subsequently honed—some simple tips to help guide other entrepreneurs through the fundraising process across all phases of the business life cycle. Consider them as a guide while looking to fund your business in the following five ways:

1. Bootstrapping

In the idea/experimental stage, use your own financial resources, such as money from a savings account or careful use of personal credit cards. Wise deployment of these precious dollars is critical.

2. Friends and Family

If you don't have your own savings or credit cards – or you do, but your growing business needs additional funding – all is not lost. Consider inviting family and friends to invest in the company with the understanding that their money may not be returned. In most cases, these friends and family are investing in you, not your business. Both parties should think of this investment as a grant with no strings attached. If the enterprise succeeds, a reward to these risk-takers would be a nice gesture.

3. Crowdfunding

Let's take the "friends and family" investment discussion up a notch or two. If you haven't heard about crowdfunding, you must not be serious about funding your business – or you've been living under a rock over the past six months. Or both. Crowdfunding – allowed under the JOBS Act launching January 1 – allows for a wider pool of small investors with fewer restrictions and is ideal in the early stages of a business, especially if you don't qualify for a bank loan, aren't ready for angel or venture capital funding (as outlined later in this article), or don't have the friends or family willing – or able – to provide the "no-strings-attached grant."

There are many sites that have started crowdfunding already, so if you don't want to wait until next year to start asking for funding for your business or project, you can get started now. Last month, Forbes.com columnist [Devin Thorpe](#) highlighted [eight online resources for crowdfunding](#) for social entrepreneurs – and that list is definitely not exhaustive (see the comments to his post, which added more than a dozen more). The big names in online crowdfunding – and ones that will benefit from the new JOBS Act and the proposed U.S. Securities and Exchange Commission rules that would enable crowdfunding to start new businesses, not just fund projects – include [Fundable](#) and [Indiegogo](#).

Keep your eyes open for more SEC rules on crowdfunding over the next several months.

4. Angel Investors

As your business reaches the next level of growth and you see steady revenue on the horizon, begin to approach sophisticated "angel" investors if you need more funding. This affluent individual – or a group of individuals who pool their research and resources – provides capital for a business start-up usually in exchange for convertible debt or ownership equity.

These angel groups can be found in most communities – and on the Internet, with a description of their purpose and objectives. After doing their due diligence, these groups will determine if your business meets their requirements, and if so, will schedule a meeting to gather more data. Investments can range from \$50,000 to \$500,000 or more. At this stage of the business, angels become very real and serious investors and owners with high expectations looking for solid results.

5. Bank Loan/Venture Capital

In the later stages of a growing business, the now-incorporated business might need a bank loan for various needs, including operating capital and long-term growth. To secure this loan, financial institutions will require several years of financial information on both the business and the entrepreneur. They will want collateral to secure and guarantee a loan. To facilitate the process, engage with the financial institution at the earliest stages of the enterprise—not necessarily for a loan at first, of course, but for a merchant account, credit cards and a checking account. Over time, the bank will become familiar with the company and the entrepreneur will be in a better position to seek additional banking products – including loans – when needed.

For some very fast growing companies, the organization reaches a point in its life cycle when venture capital funds are required for hyper growth. In this case, the company may need tens of millions of dollars to enter new markets,

expand sales or add new products. Once again, these investors, who have money to deploy, conduct their due diligence to ascertain the viability of the enterprise. Their ultimate goal will be to sell your business to garner a financial return for its limited investment partners and the entrepreneur.

If you keep these five means of funding in mind and develop a business plan that demonstrates the value of investing in your company, you'll significantly increase the odds of securing the capital you need, whatever stage of business you are in.

What other suggestions do you have for getting funding? What successes have you had? Failures? I particularly welcome your thoughts on this topic as I am currently writing about funding as the topic for my upcoming book. You can reach me here, at @AskAlanEHall, or at my personal website, www.AlanEHall.com.

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