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Funding for Entrepreneurs

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One of the biggest challenges faced by entrepreneurs looking to start their own business is funding. There's an old saying that you have to spend money to make money. Without capital, an entrepreneur won't be able to buy inventory, cover payroll or the many other expenses associated with launching a business's operations. In this article we want to take a closer look at the twelve primary sources of funding for entrepreneurs.

1. Personal Savings

Most entrepreneurs fund their business using their own personal savings (also called Bootstrapping). According to American Express, this is the single most common source of capital for entrepreneurs. Most entrepreneurs wait until they have at least some money saved in their personal bank account before starting a business. Personal savings, however, isn't always enough to cover 100% of an entrepreneur's expenses. Therefore, it's often used in conjunction with other funding sources.

2. Patient Capital

Patient capital (also called "love money") is money loaned by a spouse, parents, family or friends. The money will be repaid later as your business profits increase. When borrowing patient capital, entrepreneurs should be aware that family and friends rarely have much capital. Also, a business relationship with family or friends should never be taken lightly

3. Angel Investing

Angel investing has become a popular method of funding among entrepreneurs. With angel investing, an angel provides large sums of money to an entrepreneur so that he or she can start their own business. The angel may provide this funding in exchange for stock shares of the entrepreneur's business, or they may require the entrepreneur to pay back the funding with interest.

4. Venture Capital

Venture capital is another common way in which entrepreneurs fund their business. In many ways, venture capital is the same as angel investing. They both involve funding from a private investor or investment firm. The difference, however, is that angels typically invest more money than venture capitalists, and angels invest in early-stage businesses.

5. Incubators

Business incubators (or "accelerators") generally focus on the high-tech sector by providing support for new businesses in various stages of development. However, there are also local economic development incubators, which are focused on areas such as job creation, revitalization and hosting and sharing services. A start-up incubator is often a company, university or other organization that ponies up resources - laboratories, office space, or consulting - in exchange for equity in young companies when they are most vulnerable.

6. Bank Loans

Although they can be difficult to secure, bank loans remain a time-tested funding option for entrepreneurs. If an entrepreneur has good credit, they may be eligible for a small business loan. In the United States for example, loans governed by the Small Business Administration (SBA) do not have a minimum amount, but they do have a maximum amount of $5 million.

7. Government Grants

Many government agencies provide financing such as grants and subsidies that may be available to a start-up business. Often governmental websites provide a comprehensive listing of various government programs at the federal and state level.

8. Bartering

Exchanging goods or services as a substitute for cash can be a great way to run on a little wallet. An example would be negotiating free office space by agreeing to support the computer systems for all the other office tenants. Another common example is exchanging equity for legal and accounting support.

9. Partnership

A more established company may have a strategic interest in helping to develop a product - and be willing to advance funding to make it happen. Several companies develop customized social networks for large enterprises, with the expectation of using that funding and experience to compete in the consumer market some day.

10. 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. Note that 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.

11. Major Customer Commitment

Some customers would be willing to cover development costs in order to be able to buy a product before the rest of the world can. Their advantage is the control over the production process and the promise of dedicated support. Even large companies look to their best customers to fund new projects - this is the essence of good business development.

12. Crowdfunding Campaign

While not as popular as the other methods listed here, crowdfunding is still a viable funding option used by entrepreneurs. As explained by the U.S. SBA, this involves seeking an investment from a large pool of collectors, typically over the internet. It’s called “crowdfunding” because the investments come from a large “crowd” of people. In comparison, angel investments come from a single investor or investment firm. Crowdfunding is a great platform for innovative product that could have mass appeal.