Tips to Financing Your New Business

While many entrepreneurs start out by bootstrapping their businesses—meaning they use only their own money to finance their company—sooner or later most growing businesses will want to find outside financing.

Getting financing is a huge milestone in the life of a new company. There are two broad categories of financing: debt and equity.

★ **Debt financing** means you are borrowing money from someone that will have to be repaid. This type of financing includes loans from financial institutions and personal loans. You'll pay interest on the money you borrow and repay it in regular, usually monthly, instalments.

★ **Equity financing** refers to investments made in return for a share of the ownership of your business. While it doesn't have to be repaid, an equity investor will likely want to be involved in decision-making. Equity financing includes money from angel investors and venture capitalists.

Main sources of financing for start-ups

Personal investment

When starting a business, your first investor should be yourself. Investing your own money, and/or putting up your assets as collateral, shows investors and bankers you have a long-term commitment to your business and are ready to share risk with them.

Love money

This is money loaned to you by a spouse, parents, family or friends. Investors and bankers consider this to be patient capital, meaning it's money that can be repaid later as your business grows and becomes more profitable. When borrowing love money, you should remember that a business relationship with family or friends should never be taken lightly.

Business loans

Loans from banks and other financial institutions are the most common source of funding for small and medium-sized businesses.

For new businesses seeking relatively small loans, the best route is often to get an online loan. Many lenders now use algorithms and artificial intelligence to assess risk. They take such information as your personal credit history, income, home ownership and current debt and compare it to the credit profiles of thousands of other borrowers to make a decision on granting you a loan.

Specialized organizations such as Futurpreneur can also be a good place to get your first business loan.

Credit card and lines of credit

Many new entrepreneurs rely on credit cards and lines of credit to fund their businesses. While these are easy sources of cash and their use is often encouraged by financial institutions, you should be careful with them. They often carry high, variable interest rates that can drain your company's cash flow. Term loans are often a better option because they carry lower rates and your payments are fixed.

Angel investors

Angel investors are generally wealthy individuals or retired company executives who invest directly in start-ups. They are often leaders in their field who can also offer their experience, network of contacts and technical and/or management knowledge to early-stage companies. You can find angel investors through such organizations as the National Angel Capital Organization.

Venture capital

Venture capitalists are looking for technology-driven businesses and companies with high-growth potential in sectors such as information technology, telecommunications and biotechnology. Venture capitalists take an equity position in the company to help it carry out a promising but higher risk project and expect a high return on their investment.

Grants and subsidies

Many types of grants, subsidies and other resources can help in starting to build up your business. While these funds don't need to be repaid, they are limited in nature and can be difficult to obtain.

Try Canada's Business Benefits Finder to see what kind of grants could be right for you.

Business incubators

While business incubators or accelerators are not strictly a source of funding, they can be a great place to network and access resources when starting a business. Most incubators and accelerators are focused on the high-tech sector. However, there are also local economic development incubators that assist start-ups in more traditional sectors.

Pros and cons of each source of financing for start-ups

	Pro	Con
Personal investment	Shows you are committed to your business	Repayment is dependent on your business's success.
Love money	Is based on your personal relationship with the lender and usually comes with few conditions.	Often not enough money to fully finance your business.
Bank loan	Comes with relatively low interest rates.	Must be repaid, usually in monthly instalments.
Credit cards	Easy source of cash that can help you build your credit score.	High interest rates can quickly drain your cash flow.
Angels	Often share knowledge and experience with you.	May require giving up ownership in your business.
Venture capital	Can be more tolerant of risk.	Expects a high return on investment.
Grant	Does not have to be repaid.	Hard to obtain.

Sources
Your ultimate guide to starting a business | BDC.ca
WLB
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