7 Ways to Fund a Start-Up

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1. FUND IT YOURSELF
2. FRIENDS & FAMILY
3. BANK LOAN
4. VENTURE DEBT
5. LIMITED PARTNERSHIP
6. SEED/ANGEL MONEY
7. VENTURE CAPITAL

1. **FUND IT YOURSELF**
   If you are able to, the fastest and simplest way to fund a start-up is to fund it yourself. This means you can start right away, don't have to answer to anyone and don't have to give away any ownership in the company, as you will own it 100%. If you have a good business model and are a little lucky you may never have to raise money from the outside at all. By funding it yourself you are helping put your company in a better position to raise money in the future and at more favorable terms. Even if you ultimately do need to raise money in the future you will likely have proven your business concept at least to a certain extent and created value. This will be more likely to attract investors and enable you to substantiate a higher Pre-Money valuation.

2. **FRIENDS & FAMILY**
   The closest thing to funding it yourself and a time-tested means is to get small amounts of money from friends and family. These people trust you and believe and you and can help you financially in the early days. Friends & Family money can be in the form of loans or equity stakes. Either way you should treat this money seriously and professionally by documenting the terms of the loan and or the equity investment. If it is an equity investment you can position these investors as founders. That can make there are x number of founders. Each friend or family investor could own a small stake such as 2% and the original founder owns the rest. If it is a loan then clear terms of payment and interest should be established. Once you pay back the loan then you would still own 100% of the company. In some cases the loans could be convertible debt. That means if the loan is not paid back the debt can be converted into an equity stake in the company.

3. **BANK LOAN**
   While it can be difficult or may require the pledging of personal assets, another great option is to borrow the money from a bank. In today's world, that probably will mean giving a personal guarantee and pledging collateral such as a stock portfolio or your house. But if you believe in your business idea and are confident in its success then you should be able to repay this loan over time – typically a term of 5-7 years. Once it is paid off you will still own 100% of the business.

4. **LIMITED PARTNERSHIP**
   This structure is common for businesses like restaurants and other specialty investments such as oil and gas exploration. This typically allows the General Partner to raise sufficient capital and still control the business. This arrangement usually calls for a certain pre-determined payback to the investors over time and one they get their money back and an agreed upon return then the entire business is owned by the General Partner or Founder. For example if a restaurant needs $1 million to get started, it might be funded by 10 limited partners who each invest $100,000. The terms of the partnership might be that each limited partner will be paid back their initial investment plus an additional $100,000. Once this money has been paid then the partnership agreement would call for the General Partner or Founder to own 100% of the business without further compensation to the limited partners. This approach is good for businesses that will likely have steady cash flows form the outset and probably will not require additional capital. It is also a good structure to pre-set what the return will be for investors and allows the founder to eventually own the business outright.

5. **VENTURE DEBT**
   Another way to raise funds for a new venture is through a structure known as Venture Debt. Typically this means borrowing money from a venture debt firm at relatively high interest rates of 12-18%. This provides initial capital for a venture without having to give up much if any equity. These deals are often designed to help an entrepreneur fund the initial stages of their venture to the point where they can have proof of concept and then be in a better position to raise Venture Capital by establishing a higher initial valuation for the company.

6. **ANGEL OR SEED MONEY**
   The above five structures mostly do not involve equity with the exception perhaps of friends and family. The next two are equity-based deals. Angel or Seed money is a smaller amount of money then is actually needed. The money is typically raised from venture capital firms that specialize in early stage investments or from "Angels" who are typically retired successful entrepreneurs

themselves. Either way these people understand the risks and rewards and trials and tribulations of start-ups. They are therefore willing to invest at the very outset before the business has been developed or proven. They invest small amounts of money – typically $50,000 - $500,000. In exchange they will often be given a much lower valuation and therefore get a greater stake for their investment. For example an entrepreneur may seek an initial valuation of $3 million and need to raise $2 million. But because the business concept is not sufficiently proven they may accept and angel or seed investment of $500,000 on a valuation of only $1 million. The thought being that the $500,000 initial seed investment will enable the company to develop itself to the point where they will be in a better position to raise money and hopefully at a better valuation.

7. **VENTURE CAPITAL**
   A Venture Capital investment works just like an angel investment but is typically for a greater sum and signals a more significant beginning for a company. With a few million dollars of fresh capital a company can immediately make investments and hire staff to develop and grow the business. Depending on the valuation and the size of the business the Founder may or may not maintain control. Once a venture investment is made then the structure is often a bit more formal with a defined board and corporate bi-laws etc. These are professional investors who demand quarterly if not monthly business reports etc. A good venture firm can add a lot of value to helping to build a business and attract new capital. A bad one won't do anything to help you and will let you sink or swim with the money they provided.