ASCENT
elevate your business

How Should I Fund My Business Growth?

Deciding Who Holds the Purse Strings

Which source of funding is the best match with the unique characteristics and needs of your business at this time?

- Self-funding
- crowdfunding
- loans
- investors
- or some combination of these?

At this point, you have probably explored a variety of potential options for financing your business, such as:

DEBT FINANCING	EQUITY FINANCING
Bank loans; credit union loans; commercial finance companies; SBA-guaranteed loans; state and local government programs; loans from family, friends or associates[1]	Venture capitalists; angel investors; investments by friends, relatives, employees, customers or industry colleagues[2]

If you've already examined the ins and outs of each kind of financing you are interested in pursuing, it's time to take a step back and begin evaluating the options. For more guidance on the big picture of each type of funding, check out the other paths in this excursion.

Instructions

In Part 1, reflect on the questions about both your upcoming growth opportunity and you as a small business owner. In Part 2, tie it all together to inform your decision for which financing option to pursue for your growth.

Part 1: Step Back and Consider

When thinking through all the many possibilities for financing that are out there, it may benefit you to ask yourself some overarching questions up front. The following questions may help you in framing your pursuit of funding and help you get closer to the decision point:

1. **Where are you trying to go** with this growth opportunity for your business? What is your plan for how big this initiative will be?
2. **What do you need to get there?** How much capital, and what other resources will be needed? (Note: If you're thinking about a loan, you can start estimating the amount you will need in the Debt Funding excursion within Ascent.)
3. **How much help do you already have getting there?** Have you already invested some of your own money in growing your business?
4. **How do you feel about debt?** What is your relationship with debt?
5. **How do you feel about sharing ownership of your business (equity)?** Are you willing to accept new owners into your business?

Part 2: Compare Funding Options

Now that you've reflected on the current financing needs of your business and any leanings toward debt or equity, you can start examining and comparing possible sources of that funding. In the table below, you'll review an example of a pest control services company evaluating its funding options, and then you'll fill in a similar table for your business.

EXAMPLE: BYE-BYE BUGS!—FUNDING OPTIONS

Bye-Bye Bugs! is a small business that provides pest control services to the local market. They are interested in growing their business by offering a line of safer, more eco-friendly pest control products for consumers. The owner is looking at four different potential funding options to finance this new venture.

Growth Opportunity: Offering organic, chemical-free pest control products				
	Funding Option 1: Get traditional bank loan from Mountain Cedar (national bank).	**Funding Option 2:** Get an SBA-guaranteed small business loan (7(a) Small Loan) from First Trust (local bank).	**Funding Option 3:** Source capital through angel investor and employee stock options.	**Funding Option 4:** Raise donated money from personal network and campaign on online platform.
What type of financing is it?	Debt	Debt	Equity	Combination of self-funding and crowdfunding
What is the range of money typically offered?	Loans from this bank typically range from $500,000 to $800,000, plus interest. For current interest rates visit **H.15 Selected Interest Rates**.	7(a) small loans from this bank typically range from $150,000 to $350,000, plus interest. For more info on **SBA 7(a) loans visit Types of 7(a) Loans**.	Angel investor has history of investing $50,000–$200,000 at a time. Employee stocks could generate $20,000.	Crowdfunding efforts in similar ventures have raised $1,000–$10,000.
Would this be suitable for my industry in particular?	Banker does not have a history of lending to businesses in the pest control industry.	Banker has made loans to businesses in the pest control industry before.	Angel investor has not invested in pest control, but has invested in organic farming and environmentally friendly business ventures in the past.	Compared to products in other industries, there is not as much interest in pest control products on this crowdfunding platform.

Does this work better for a particular stage of financing (e.g., start-up, growth)?	Bank has a history of providing more growth capital than seed capital.	Bank has a history of providing more growth capital than seed capital.	Angel investor generally leans towards seed capital.	More businesses have been successful at financing their growth than their start-up on this crowdfunding platform.
Could this offer me additional expertise or networks?	Banker has expertise and networks, but none that would be especially helpful for my growth.	Banker has knowledge of working with small businesses, as well as contacts in the pest control industry.	Angel investor has a rich network of contacts in green technology to offer.	Online crowdfunding platform would give me access to a network of potential customers interested in organic, eco-friendly pest control products.
Would I stay in place as the founder, or would there be a professional manager?	I would stay in place as the founder.	I would stay in place as the founder.	Angel investor would encourage more professional management.	I would stay in place as the founder.

In the table below, write in your business's upcoming growth opportunity. Then fill in the next row with one to four funding options you are considering for your business—these could be self-funding, crowdfunding, loans (debt), investors (equity), or some combination of these. For each funding option, write in the answers to the questions in the left-hand column.

MY BUSINESS—FUNDING OPTIONS

Growth Opportunity:				
	Funding Option 1:	Funding Option 2:	Funding Option 3:	Funding Option 4:
What type of financing is it?				
What is the range of money typically offered?				
Would this be suitable for my industry in particular?				
Does this work better for a particular stage of financing (e.g., start-up, growth)?				
Could this offer me additional expertise or networks?				
Would I stay in place as the founder, or would there be a professional manager?				

Once you've taken a look at different possibilities for financing your business growth, you can start to think about which funding sources are a strong match for your business.

The purpose of this exercise is just to make an initial comparison—no need to decide which route to take toward funding just yet!

Before you make your final decision on which path to pursue, you'll want to meet with any lenders or investors that may be involved to learn more details on their offer, such as interest rates, fees and repayment schedule (for loans), or terms and conditions (for investments). After reviewing the fine print of each option, you can go about securing funding for your business.

Disclaimer: *The businesses appearing in this work are fictitious. Any resemblance to an actual business is purely coincidental.*

DID YOU KNOW?

> *SBA-guaranteed loans can be a great alternative financing option for women entrepreneurs. Sixty-one percent of the women-owned firms that applied for SBA-guaranteed loans in 2016, compared to 50 percent of men-owned firms, were approved.*[3]

[1] *Financing Options for Small Businesses*, U.S. Small Business Administration, https://www.sba.gov/course/financing-options-small-businesses/ (accessed March 22, 2019).
[2] Ibid.
[3] Federal Reserve Banks of New York and Kansas City, *2016 Small Business Credit Survey—Report on Women-Owned Firms* (November 2017), https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-WomenOwnedFirms-2016.pdf (accessed March 25, 2019).