Equity, loans, or fundraising: how should you be funding your startup?

Are you an entrepreneur? Maddyness has created a true kit of different steps to follow in creating, growing, and even selling your own start-up. From hiring to protecting your brand and moving on to financing your innovation, you will find tips and good practices so that you can easily find your way in the entrepreneurship labyrinth. In this article: several recommendations on financing your startup.

Temps de lecture : minute

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Too Long? Here's the key takeaways

- Decide what you are able to personally invest in your project
- Public grants are a good way to add to your equity. However, your financial plan shouldn't just consist of grants!
- Bank loans are also a good option. They may create leverage and convince other financial partners to trust you
- Crowdfunding can enable you to earn money and get visibility at the same time, thanks to word of mouth
- Weigh up the pros and cons before launching an investment round. Are you ready to be examined by investors you don't necessarily need yet?

The rule: engaging in your equity

Equity includes all the capital available to a business. This includes both what the partners have invested and the income generated by the business. In the beginning, partner’s funds make up a large part of equity. Once you go to see a banking partner, the equity should be about one-third of the financial needs of the company. Now you have a goal!

It's no secret: most entrepreneurs launch their business with their own money in the beginning. A recent study from Mazars and Estimeo highlighted that 93% of early-stage startups were financed by the founders. You don’t have to be born in the right social class to become an entrepreneur – although it helps – but you must decide how much you are going to invest before you start the venture.

Founding a startup doesn’t necessarily cost a lot at the beginning, but if your investment enables you to cover the initial costs, you will be more at ease. These savings could come from your own savings, for example. You can start a payroll saving plan through a credit union like Fairshare or Hoot Credit Union. Input from your friends and family is§ also valuable because at the beginning of your entrepreneurial adventure even the smallest amount of cash matters!

Also think about unemployment compensation. The Job Centre helps with starting your own business if you are eligible for “New Enterprise Allowance,” which offers you and your business partners a loan if you can prove that your idea could work.

> "*Take inventory of the equity that you can invest in your project.*"

Further help: public aid

Several public plans are available to help you launch your project. Grants are accessible to entrepreneurs according to who they are and what type of business their company is specialised in.

The European Regional Development Fund (ERDF) provides funding to many small businesses within the EU with a variety of grants of different amounts available under different conditions.

There are also many grants available within the UK and apply to certain regions like the Proof of Concept Grant Fund in Northern Ireland, SMART:Scotland Grant in Scotland, Coventry and Warwickshire Business Support Programme, and Business West Scale-Up Coaching Grants to name a few. Take a look at lists of grants available in your region on Small Business UK and on local websites to find out about the public funding available in your region.

> "*Public grants are a good way to add to your equity, but your finance plan shouldn’t just consist of grants!*"

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The traditional way: loans

Banks are the indispensable partner for financing, even for startups. More and more bank establishments are hiring advisors specifically trained in financing innovation who can guide you in your research and help you obtain a bank loan. Be careful though, banks won't lend you money if you don't already have consistent equity and if you and your partners don't offer guarantees (mutual or personal guarantees or a guarantee fund).

Think about microloans, "a microloan is, above all, a tool for economic and social development that allows people with low resources who are working on a personal project to benefit from loans that traditional banks have denied them," states the message from the micro-finance observatory. It is open to companies less than 5 years old or still in the early stages where the founder was refused a bank loan but whose needs are equal to or less than £8,500. You just have to find a guarantor who can cover more than half of the sum that you will be given.

> "*Don’t forget about bank loans. It is a good way to create leverage and convince other financial partners to trust you.*"

A little extra help: crowdfunding

Crowdfunding is a good way to pair your search for financing with your first bit of market research. If you launch a crowdfunding campaign, you will be able to gauge how your potential future clients feel about your product or service.

Peer-to-peer lending or equity crowdfunding campaigns work differently. The amounts can be very important, but the guarantees are also required. Work on your own project so that you can get the most of your financing!

> "*Crowdfunding can allow you to earn money and get publicity at the same time, thanks to word of mouth.*"

The marathon: raising funds

What was once a mandatory step for startups is now an optional way of financing for entrepreneurs and not as essential. Raising funds is time-consuming, especially in the beginning. You really shouldn’t get involved with it unless it is essential for the development of your company.

Business angels, public or private funding, etc., there are many potential investors. Does this mean that you will reach your goal quickly? Far from it! However, according to some success stories, fundraising can be a pathway to success.

> "*Weigh up the pros and cons. Are you ready to be examined by investors who aren’t necessarily needed yet?*"

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Article by Maddyness