Debt or Bootstrap: Which financing strategy is right for your startup?

You have the idea, skill, and spirit — now all you need is the funding. New businesses can only grow when they have adequate financial support, but where you acquire money for your new venture could determine whether your company survives and thrives or whether it dies a swift and painful death.

Temps de lecture : minute

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Entrepreneurs typically have two primary choices when funding their business: borrowing or bootstrapping. Some *experienced entrepreneurs* and finance experts might argue that one is always better than the other, but the truth is that you may succeed with either self-funding or debt — as long as you understand when to choose which option.

When should your startup opt for bootstrapping?

Bootstrapping, or *relying on personal savings* to build a business venture, is often the most attractive option to entrepreneurs. Self-funding provides a business owner with complete control; when you bootstrap, you don't need to answer to investors or adhere to a strict repayment schedule, so you have more flexibility to direct your business as you see fit. Then again, without investors or a lender looking over your shoulder, you will be completely alone in your business leadership, which may be a daunting prospect to a first-time entrepreneur.

However, not everyone has the option of bootstrapping. *Shopify estimates* that the average business spends over £40,000, or more than £31,000, in its first year alone, and different types of startups might require dramatically more than that to get off the ground. Meanwhile, the average Brit has *only about £11,000 in savings*, and nearly half of the country has *£1,000 or less* in their accounts. You aren't alone if you don't have the cash available to launch your startup on your own.

Even if you do have enough pounds on hand to fund your business dreams, bootstrapping might not be the best choice for you. Self-funding can severely limit an entrepreneur's opportunities for business growth. When you bootstrap, your business budget is tightly constrained to what you have available in your savings account, so your business decisions will be limited to what you can afford. Generally, this means that growth occurs slower for bootstrapped businesses, which has its own pros and cons.

When is debt the right choice?

Before we can explore the pros and cons of taking on debt to fund your startup, it is important to recognise that there are many different types of business borrowing. There are advantages and disadvantages to every variety of business debt, so you should evaluate each option to determine whether it suits your startup's needs.

Startup Loans. The U.K. offers *between £500 and £25,000* to new SMEs with a repayment term of up to five years and a fixed interest rate of 6%. In addition, these startup loans include a year of support plus exclusive access to business offers. However, not all business types are eligible, and if you need more than £25K, you will need to seek additional funding elsewhere.

Bank Loans. Most banks won't even consider lending to a startup that can’t show consistent cash flow, so if you haven’t yet launched, this isn’t an option for you. Depending on the institution and the amount you are asking for, you may need to secure your loan, which means backing it with assets that you will forfeit if you cannot repay the money you borrowed.

Non-bank business loans. There are other institutions that offer business loans, including online lenders, and these non-bank lenders tend to be much more flexible in their requirements for borrowers. You might explore this option if you or your business has poor credit or if you don’t meet bank loan conditions in other ways.

Venture Debt. *This type of debt financing* provided by banks, non-bank lenders, and venture capitalists isn’t dependent on cash flow or collateral but rather on your business’s potential for growth. When you utilise venture debt, you are compensating lenders with warrants on your startup’s equity.

Lines of Credit. Like a credit card, a *business line of credit* provides you with a revolving source of funding: You can draw up to your limit, repay the debt, and draw on your line again. Requirements and terms for lines of credit vary amongst institutions, but they can be advantageous to startups that need more flexibility in their access to capital.

By no means are these your only options for debt financing. Many entrepreneurs who struggle to meet the requirements of traditional lenders pursue *alternative financing in various forms*, such as stock loans, invoice factoring, revenue-based financing, or P2P lending. You may be able to mix and match different types of debt to achieve the capital your startup needs to soar.

What should you choose?

- If you have personal savings to meet your startup's funding needs, you should bootstrap.
- If you want explosive growth, you need a business loan.
- If you desire complete and total control over your business, you should bootstrap.
- If you want to keep your personal finances separate from your business finances, debt is best.
- If you hate paying interest, you should bootstrap.
- If you enjoy a variety of options and welcome a bit of risk, you can look into the wide world of business borrowing to find a funding solution.

There is no one perfect funding solution that fits every venture. Consider your startup plan, explore your options, and find the best way to build your startup into a successful business.

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