Financing Options For Small Businesses

SCORE mentors experience a common need from small business CEOs. For many start-ups, funding their businesses stands as one of the key obstacles to getting their companies off the ground and moving forward. But it isn’t only for starting a business. According to the SBA Office of Advocacy, small businesses seek financing for four primary reasons:

1) Starting a business
2) Purchasing inventory
3) Expanding the business
4) Strengthening the business

What approach to funding will best suit the intent and needs of your small business? Understanding what types of financing is available is a good first step in figuring that out.

There are two major categories of financing—debt and equity—and other options exist as well.

**Debt Financing**

This involves borrowing money that you must repay (usually with interest) over a period of time. Generally, some or all assets of your business will be used to secure the loans. To protect them from default on a loan, lenders commonly require borrowers to personally guarantee repayment (i.e., to have a sufficient personal interest at stake).

Banks have been the major source of small business debt financing, but some have become more reluctant to offer long-term loans to smaller companies because of the risk involved. Fortunately, the Small Business Administration’s SBA 7(a) program has helped fill the void by encouraging banks to issue long-term loans to small businesses unable to get financing on reasonable terms through conventional lending sources.

**Equity Financing**

With equity financing (or equity capital), a small business raises money by offering shares of ownership in the business. Investors’ equity investments give them ownership stakes in the business and allow them to share in the company’s profits.
Equity capital may come from a variety of sources—such as your own personal savings, your life insurance policy, family, friends, employees, customers, government grants, venture capitalists, or angel investors.

Equity investors will naturally expect to get a return on their investments. Some might also require that they have a hand in your company’s decision-making.

**Other Funding Options**

These other financing and cost-sharing options also exist.

- Partnerships
- Joint ventures
- Alliances
- Crowdfunding

And you might also consider researching business incubators. While they typically don’t offer cash, they do provide some combination of valuable support in the way of free or discounted administrative services, an affordable workspace, shared office equipment, and even management guidance.

If you’re seeking funding to start or grow your small business, reach out to your local SCORE chapter for guidance. SCORE mentors have expertise in all aspects of business, and they can help guide you to resources that might best fit your financing needs. I will have some more funding suggestions in future columns. Also, I suggest that clients might want to check out the free *Financing For Small Businesses* e-learning course on the SBA website

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