Small Business Financing Options

There are many ways that a small business can be financed and there is no one right way. Companies may take advantage of one or more funding opportunities to help achieve their goals. Possible financing mechanisms applicable for small businesses are outlined below.

Government Funding

Small businesses participating in the Small Business Innovation Research (SBIR)/Small Business Technology Transfer (STTR) program are already experienced with government funding. Government funding could include additional SBIR/STTR funding, other small business opportunities, e.g. Rapid Innovation Fund, partnerships with prime contractors in support of a larger program, or procurement funding.

Venture Capital Fund

A Venture Capital (VC) fund is an investment fund that manages money from investors seeking private equity stakes in startup and small- and medium-size enterprises characterized as high-risk/high-return opportunities. Venture financing is a very competitive funding source for companies looking for $2M+ in financing. Venture capital firms often have a specific investment strategy (e.g., specific technology sector, market sector, geography, investment stage, etc.). It is important to understand the investment philosophy of the venture firms to determine which firm may be interested in your company. VCs will be focused on the management team and business plan.

Angel Financing

Angel financing is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. Angel financing is a possible source of funding at the early stages of a company. Amounts vary but typically are in the range of $200K to $2M. Many Angel funds prefer to finance local companies and sometimes in specific sectors. Angels will expect to see a well thought out business plan and will consider the management team as strongly as it considers the business itself.

Debt Financing

There are a variety of debt financing options ranging from: 1) a traditional secured loan from a bank (usually collateralized with a physical asset such as equipment), 2) bridge financing for awarded but not initiated government contract, and 3) traditional factoring of receivables.

Peer-to-peer/Crowd Funding

Crowd Funding entails the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet. Programs such as Kickstarter have provided a new source of funding for small businesses. These crowd funding platforms can potentially provide revenue for new products or businesses. Terms for each campaign vary and should be reviewed carefully.

In addition to these more common sources of funding, there are some alternative programs that may be of interest, e.g., Goldman Sachs 10,000 Small Businesses Program-program sponsored by Goldman Sachs to provide small businesses with specific educational classes that can benefit the entrepreneur. While there is no funding associated with the program, the program is free to those selected to participate - http://www.goldmansachs.com/citizenship/10000-small-businesses/US/about-the-program/index.html