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## FUNDING

# 10 Ways to Finance Your Business



**Finding financing** in any economic climate can be challenging, whether you're looking for start-up funds, capital to expand or money to hold on through the tough times. But given our current state of affairs, securing funds is as tough as ever. To help you find the money you need, we've compiled a guide on 10 financing techniques and what you should know when pursuing them.

## 1. Consider Factoring

Factoring is a finance method where a company sells its receivables at a discount to get cash upfront. It's often used by companies with poor credit or by businesses such as apparel manufacturers, which have to fill orders long before they get paid. However, it's an expensive way to raise funds. Companies selling receivables generally pay a fee that's a percentage of the total amount. If you pay a 2 percent fee to get funds 30 days in advance, it's equivalent to an annual interest rate of about 24 percent. For that reason, the business has gotten a bad reputation over the years. That said, the economic downturn has forced companies to look to alternative financing methods and companies like The Receivables Exchange are trying to make factoring more competitive. The exchange allows companies to offer their receivables to dozens of factoring companies at once, along with hedge funds, banks, and other finance companies. These lenders will bid on the invoices, which can be sold in a bundle or one at a time.

**A message from Inc. - Looking for factoring solutions for your business? If you would like information to help you choose the one that's right for you, use the questionnaire below to have our partner, BuyerZone, provide you with information for free:**

Read more on financing your business with factoring  
(<https://www.inc.com/magazine/20080101/short-on-cash.html>).

## 2. Get a Bank Loan

Lending standards have gotten much stricter, but banks such as J.P. Morgan Chase and Bank of America have earmarked additional funds for small business lending. So why not apply?

Read more on what you need to know about filling out a loan application  
(<https://www.inc.com/guides/filling-out-loan-application.html>).

## 3. Use a Credit Card

Using a credit card to fund your business is some serious risky business. Fall behind on your payment and your credit score gets whacked. Pay just the minimum each month and you could create a hole you'll never get out of. However, used responsibly, a credit card can get you out of the occasional jam and even extend your accounts payable period to shore up your cash flow.

Read more on financing your business with a credit card  
(<https://www.inc.com/magazine/20040101/gettingstarted.html>).

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## 4. Tap into Your 401(k)

If you're unemployed and thinking about starting your own business, those funds you've accumulated in your 401(k) over the years can look pretty tempting. And thanks to provisions in the tax code, you actually can tap into them without penalty if you follow the right steps. The steps are simple enough, but legally complex, so you'll need someone with experience setting up a C corporation and the appropriate retirement plan to roll your retirement assets into. Remember that you're investing your retirement funds, which means if things don't pan out, not only do you lose your business, but your nest egg, too.

Read more on financing a business with your 401(k) (<https://www.inc.com/guides/2010/05/financing-a-business-with-your-401k.html>).

## 5. Try Crowdfunding

A crowdfunding site like Kickstarter.com can be a fun and effective way to raise money for a relatively low cost, creative project. You'll set a goal for how money you'd like to raise over a period of time, say, \$1,500 over 40 days. Your friends, family, and strangers then use the site to pledge money. Kickstarter has funded roughly 1,000 projects, from rock albums to documentary films since its launch last year. But keep in mind, this isn't about long-term funding. Rather, it's supposed to facilitate the asking for and giving of support for single, one-off ideas. Usually, project-creators offer

incentives for pledging, such as if you give a writer \$15, you'll get a book in return. There's no long-term return on investment for supporters and not even the ability to write off donations for tax purposes. Still, that hasn't stopped close to 100,000 people from pledging to Kickstarter projects.

Read more on using Kickstarter for business (<https://www.inc.com/guides/2010/04/using-kickstarter-for-business.html>).

## 6. Pledge Some of Your Future Earnings

Young, ambitious and willing to make a bet on your future earnings? Consider how Kjerstin Erickson, Saul Garlick and Jon Gosier are trying to raise money. Through an online marketplace called the Thrust Fund, the three have offered up a percentage of their future lifetime earnings in exchange for upfront, undesignated venture funding. Erickson is willing to swap 6 percent of her future lifetime earnings for \$600,000. The other two entrepreneurs are each offering 3 percent of future earnings for \$300,000. Beware: the legality and enforceability of these "personal investment contracts" have yet to be established.

Read more on trading future earnings for funding now (<https://www.inc.com/magazine/20100501/is-this-a-smart-way-to-get-funding.html>).

## 7. Attract an Angel Investor

When pitching an angel investor, all the old rules still apply: be succinct, avoid jargon, have an exit strategy. But the economic turmoil of the last few years has made a complicated game even trickier. Here are some tips to win over angel interest:

- **Add experience:** Seeing some gray hair on your management team will help ease investors' fears about your company's ability to deal with a tough economy. Even an unpaid, but highly experienced adviser could add to your credibility.
- **Don't be a fad-follower:** Did you start your company because you are truly passionate about your idea or because you want to cash in on the latest trend? Angels can spot the difference and won't give much attention to those whose companies are essentially get-rich-quick schemes.
- **Know your stuff:** You'll need market assessments, competitive analysis and solid marketing and sales plans if you expect to get anywhere with an angel. Even young companies need to demonstrate an expert knowledge of the market they are about to enter as well as the discipline to follow through with their game plan.
- **Keep in touch:** An angel may not be interested in your business right away, especially if you don't have a track record as a successful entrepreneur. To combat that, you should formulate a way to keep them in the loop on big developments, like a major sale.

Read more on finding an angel investor (<https://www.inc.com/magazine/20090101/get-your-wings.html>).

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## 8. Secure an SBA Loan

With banks reluctant to take any chances with their own money in the wake of the credit crisis, loans guaranteed by the U.S. Small Business Administration have become a hot commodity. Indeed, funds to support special breaks on fees and guarantees on SBA-backed loans have run out a number of times. And while SBA-backed loans are open to any small business, there are a number of qualifications, including:

- Under law, the SBA can't guarantee loans to businesses that can obtain the money they need on their own. So you have to apply for a loan on your own from a bank or other financial institution and be turned down.
- In order to qualify as a small business, your firm needs to meet the government's definition of a small business for your industry.
- Your business may need to meet other criteria depending on the type of loan.
- After determining that your business meets the qualifications, you need to apply for a commercial loan from a financial company that processes SBA loans since the SBA doesn't provide loans directly. The bank's qualifications can be more stringent.

Read more on getting an SBA loan (<https://www.inc.com/guides/2010/04/securing-sba-loan.html>)

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## 9. Raise Money from Your Family and Friends

Hitting up family and friends is the most common way to finance a start-up. But when you turn loved ones into creditors, you're risking their financial future and jeopardizing important personal relationships. A classic mistake is approaching friends and family before a formal business plan is even in place. To avoid it, you should supply formal financial projections, as well as an evidence-based assessment of when your loved ones will see their money again. This should reduce the likelihood of unpleasant surprises. It also lets your investors know you take their money seriously. You also need to seriously consider how the arrangement will be structured. Are you offering equity? Or will this be a loan? Perhaps most importantly, you need to emphasize the risk involved. Offer up a strong business plan, but remind them there is a good chance their money will be lost. It's better to mention that upfront to Aunt Gladys rather than over Thanksgiving dinner.

Read more on raising money from family and friends (<https://www.inc.com/magazine/20031201/gettingstarted.html>).

## 10. Get a Microloan

The lack of a credit history, collateral or the inability to secure a loan through a bank doesn't mean no one will lend to you. One option would be to apply for a microloan, a small business loan ranging from \$500 to \$35,000. Microloans are often so small that commercial banks can't be bothered lending the funds. Instead of a bank, you need to turn to a microlender, a non-profit organization that works differently than banks. Microlenders offer smaller loan sizes, usually require less

documentation than banks, and often apply more flexible underwriting criteria. There are a few hundred microlenders throughout the U.S. and they often charge slightly higher interest rates for loans than banks. "Microloans are really for that startup entrepreneur or an entrepreneur in an existing business facing a capital gap who needs to secure capital for new equipment or to service a contract," says Connie Evans (<https://www.inc.com/topic/Connie+Evans>), president and CEO of AEO, which represents 400 mostly non-profit microlenders and microenterprise organizations.

Read more on getting a microloan (<https://www.inc.com/guides/secure-microloan.html>).

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## My Company Only Hires Remote Workers. Here Are the Top 3 Traits the Most Successful Ones Share



By Carrie McKeegan [@cpmckeegan](https://www.twitter.com/cpmckeegan) (<http://www.twitter.com/cpmckeegan>)



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Not everyone is cut out for remote work. And hiring someone who slows down your team (<https://www.inc.com/adam-robinson/4-ways-to-weed-out-unqualified-applicants-during-hiring-process.html?cid=search>) can cost you time and money (<https://www.inc.com/young-entrepreneur-council/time-is-money-especially-for-entrepreneurs.html?cid=search>), two resources that can make or break your business. So, how can you tell if someone will make an effective addition to your workforce without meeting them face to face? As the co-founder of a company that operates 100 percent remotely, I look for three characteristics in new hires (<https://www.inc.com/carrie-mckeegan/hiring-for-remote-work-is-different-from-normal-hiring-heres-best-way-to-hire-candidates.html>) to ensure they will collaborate well on an online team.

## 1. Strong written communication skills

On a remote team, most of your communication will be written in emails or on your internal collaboration software. Hiring a remote worker who doesn't communicate clearly is one of the worst mistakes an entrepreneur can make. Unclear communication can delay productivity in a major way.

For instance, if the new hire has a question, their manager will have to take additional time to find out what they are asking, determine whether or not they understand the answer, and ensure the solution is utilized in the future. Each part of the collaboration process can come to a complete halt with a new hire who has a vague and imprecise communication style. Taking written communication skills into account as a part of the hiring process is an excellent idea for anyone hiring remotely.

Measuring communication skills can be as simple as adding a question to the application process. When someone is submitting their application to you, ask them to include a simple explanation of their skill set. For instance, have them describe something they find complex (preferably in their area of expertise) in as simple terms as possible. Then, assess. Was the explanation clear? Did it provide you with new insight? If so, you're on the right track.

## 2. The ability to work independently

Remote work involves more than the confidence that your team is working diligently without the ability to supervise them directly. Your employees are often working on very different schedules if they are scattered all over the world. So, they need to be able to make smart decisions when no one is there to answer their questions. Critical thinking skills are key, and so is self-motivation. If they show these skills throughout the hiring process, they just might be a good fit for remote work.

To determine whether or not someone can hack it in your company, familiarize them with the systems used during the interview. Then, ask questions about how they manage tech issues when they occur to get an understanding of whether they struggle or can stay cool-headed and self-reliant when problems inevitably arise.

## 3. A sense of when to "just Google it" and when to ask for help

Common sense is a necessity for hiring in general, but for remote hiring, it's of utmost importance to find a way to measure it throughout the hiring process. Someone who would rather disrupt another employee's day than take the time to find a simple answer for themselves will not make a good hire for your remote team. When given the choice, a remote employee needs the drive to figure out some answers on their own. Anyone who routinely burdens others for information they could easily ferret out for themselves raises red flags for hiring purposes, and this is especially true for remote companies. During the hiring process, give them opportunities to prove that they are considerate with how they spend their colleagues' time and resourceful in their research.

The confidence to ask for help is every bit as important as the ability to search for answers independently. If your employee is hitting a brick wall, it is imperative that they admit it and seek help. When they can't figure out the answer, employees on a remote team must resist the urge to stay stuck. Asking for help can save time and money when the question shows insight and initiative.

Measuring common sense can be tricky. A good place to start is to throw in a curveball question during the interview; ask them something surprising. How well do they think on their feet? Are they able to admit when they don't know the answer? Consider this before deciding whether or not the applicant would fit in with your team.

Finding remote employees that exhibit these traits is necessary for those managing virtual teams. Incorporate tests for these qualities in your hiring process, and you'll find your remote team operates smoothly.

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