

# 8 Alternative Financing Options\$ for \$small Bu\$ine\$\$e\$\$

**By Sean Peek**

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Securing funds for your business can be a daunting task, particularly if you do not qualify for typical bank loans. However, you can still navigate your financial needs by considering alternative lenders and unique financing options. Here's a comprehensive list of some of the most innovative financial avenues for startups and small enterprises.

## **Crowdfunding**

Public funding platforms, such as Kickstarter and Indiegogo, allow small businesses to amass small investments from a range of investors, as opposed to seeking a single source of substantial funds. Crowdfunding has been utilized by many successful companies to raise the capital they need to go from a young startup to a successful business.

## **Debt to Equity Conversion**

Convertible debt is an arrangement where a business borrows from an investor or group of investors, with an agreement to convert the debt into equity at a future date. This option is beneficial because it does not stress your cash flow as the interest payments accumulate during the term. However, one potential drawback is that you will have to surrender a portion of your business ownership.

## **Independent or Angel Investors**

While venture capitalists and angel investors are often confused, they differ significantly. An angel investor is typically an individual willing to back startups or early-stage businesses that might not exhibit the growth rate demanded by a venture capitalist firm. Obtaining funding from an angel investor also allows for a more personalized relationship and potentially valuable mentorship.

## **Merchant Cash Advances**

Merchant cash advances are a quick, albeit expensive, method to raise capital. Many credit card processing services offer this option, but due to its high costs and potential impact on cash flow, it is often used as a last resort.

## **Microfinancing**

As the name implies, a microloan is a small loan provided to entrepreneurs lacking substantial collateral. These loans often come with certain spending restrictions, but they generally cater to operational expenses and working capital for equipment, furniture, and supplies. Notable microfinancing providers include Kabbage, and the SBA microloans managed by nonprofit organizations.



### **About the Author**

Sean Peek is a writer and entrepreneur with a degree in English Literature from Weber State University. He began his career as a copywriter, editor, and SEO specialist before co-founding content creation agency Lightning Media Partners in 2018.



### **Peer-to-Peer Lending Platforms**

Online lending platforms, or peer-to-peer (P2P) lending, connect borrowers to lenders through various websites, such as Lending Club and Prosper. This hybrid form of crowdfunding and marketplace lending, enabled by the internet, started as a platform for individuals with limited capital to lend to peers. However, over time, larger corporations and banks have significantly participated in this model.

### **Receivable Financing or Factoring**

Receivable financing, commonly known as factoring, is a service where a provider advances you money against your pending accounts receivable, to be repaid once your customers clear their invoices. The primary benefit of factoring is it can improve your cash flow by supplying you with immediate funds while you await payments from customers. However, factoring companies often take a percentage of each invoice, plus other fees, as payment for their services.

### **Venture Capitalists (VC)**

Attracting outside investors for your business is a common way organizations bring capital into the business by selling a portion of its ownership. The advantages of collaborating with a VC extend beyond monetary terms. It can also result in an influx of industry-specific knowledge, important business connections, and overall strategic guidance. Once a VC company is invested in your company, it wants your business to succeed as much as you do to generate the highest possible return on its investments.

### **Tips to Secure Alternative Financing**

Regardless of what type of alternative financing appeals the most to you, these tips will help your business look attractive to potential lenders or investors.

- Improve your credit score. Even if your preferred financing strategy doesn't rely heavily on credit scores, there is no downside to working on your credit. This can also help for future loan applications if you choose to seek traditional financing down the road.
- Prepare financial statements. Having a precise understanding of your funding needs and allocation plans is crucial when seeking financial backing. Some lenders require these statements before approval.
- Invest in market research. Demonstrating your business's potential for growth within a flourishing industry can increase your likelihood of approval. Show lending institutions you are capable of returning their investment
- Work on your pitch. An effective pitch can make a compelling case for your business, capture the interest of potential investors or lenders, and demonstrate your commitment and passion towards your venture. Refine your pitch by practicing it.
- Seek advice from seasoned professionals. Look for mentors who can provide guidance and support. If you don't know where to look, check in with your local chamber of commerce or organizations like the Small Business Administration.