

The Ultimate Guide to Startup Funding



Your startup is ready to raise funding. So now what?

There are several options available to entrepreneurs raising money and it can be difficult to decide which outlet is best for your startup.

We're here to help with the Ultimate Guide to Startup Funding.

Startup Funding – Friends and Family

Often entrepreneurs raise a “Friends and Family” round in the pre seed stage before seeking outside seed funding. This shows a vote of confidence from your closest network and is usually an outlet in the early days when you haven’t proven product market fit. This is typically the quickest and easiest way to raise capital when you have an idea but no traction or MVP (minimal viable product).

Friends and Family Advantage: You know your investors well and can likely structure a lower equity compensation because of the relationship. Due to your relationship, this also may prove the quickest way to raise capital and get your startup off the ground.

Friends and Family Disadvantage: Any startup investment is risky and more often than not, the money is not repaid because of a failed product. This can affect your relationship. Make sure any friends and family investors are aware of the risk of startup investing before accepting their funds.

Startup Funding – Angel Investors

Angel investors are most often used during pre-seed or seed rounds. These investors are independently wealthy and typically savvy investors. They know there is the potential to see a massive ROI (return on investment) and are willing to take the risk associated with startup investing.

Angel Investor Advantage: If you can find an angel investor with expertise in your sector, they can prove an invaluable advisor to the startup. There are also usually less hoops to jump through for angel investment versus traditional venture capital. You will also typically get more favorable terms from an angel investor as opposed to a VC.

Angel Investor Disadvantage: Angel investors can sometimes be seen as “dumb money”. This means that outside of the capital they are investing, they aren’t very useful and don’t bring the connections or market savvy that traditional VCs typically bring to the table.

Startup Funding – Venture Capital

The most traditional route involves seeking funding from venture capital firms who manage a fund that invests primarily in startups. VCs typically write much larger checks than angel investors and in some cases can fund an entire investment round.

Venture Capital Advantage: Firms often specialize in certain sectors and are a helpful resource in building out your product. This can be invaluable down the line as you are scaling the business, raising much larger startup funding rounds and hiring new talent.

Venture Capital Disadvantage: Seeking funding via venture capital is a long process, usually taking at least 6 months – 1 year. This is because they typically want to build a substantial relationship with the founders prior to investing. If you need the startup funding ASAP, this may not be the best route. Venture capital firms also have several stakeholders they need to manage. Because of this, they often want a large say in the direction of your startup. Make sure your vision is in line with that of the VC before accepting funds.

Startup Funding – Small Business Loan

Before the rise of venture capital, this was the only outlet available to entrepreneurs looking to start a business. For a small business loan, the loan amount and repayment fees are structured through the bank.

Small Business Loan Advantage: You don't have to give up equity in your company. This may not seem like a big deal at the beginning when your startup isn't worth much, but down the line if you're able to have an acquisition event (acquisition or IPO) you'll be grateful that you held onto that equity early on.

Small Business Loan Disadvantage: The business is taking on debt which has to be repaid plus interest. There is usually a cap on the amount of money you can get from a small business loan. If you are looking to scale quickly and need a large amount of funding, this isn't a good route.

Startup Funding – Equity Crowdfunding

Using platforms like [Crowdfunder](#), entrepreneurs are able to raise funds online by offering equity to accredited investors. Equity crowdfunding is not only an excellent vehicle to raise money, it also brings brand awareness and new customers to your startup.

Equity Crowdfunding Advantage: Equity crowdfunding is one of the most scalable ways to raise funds quickly. Through equity crowdfunding, you have the ability to reach thousands of investors almost instantly. It also serves as a marketing tactic, raising awareness for your product amongst investors and users.

Equity Crowdfunding Disadvantage: All platforms are not created equal. Make sure the equity crowdfunding platform you choose has reputable investors and high success rates. Crowdfunder is seen as the leader in equity crowdfunding and you can get started [here](#).

Startup Funding – Crowdfunding

Raising funds from “the crowd” via sites like Kickstarter or Indiegogo. Startups often offer rewards and perks in exchange for startup funding.

Crowdfunding Advantage: Oftentimes, startups will leverage crowdfunding to fill their pre-orders before allocating any resources to production. This is a great way to test market reception to your product and see how much demand there is.

Crowdfunding Disadvantage: Crowdfunding campaigns have become increasingly competitive and companies must offer great perks in order to attract startup funding. The more expensive your perks, the less money you have to scale the business. It can also be difficult to fulfill all the orders if your crowdfunding campaign does particularly well.

Every startup is very different and every fundraising journey is unique. While [equity crowdfunding](#) might be the best option for your company, it might not be for others in your entrepreneur network. Know your unique funding needs and which startup funding outlet fits them. Remember, you can utilize more than one funding outlet in tandem. Have questions about startup funding? We're here to [help](#). Happy Funding!

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