The ultimate guide to financing your business [24 different funding options]

When you need working capital for your business, there are a wide number of options to choose from and they each work in different ways.

There are so many options, in fact, that deciding on the one that's right for you is a bit like trying to navigate a minefield.

In this guide, we'll cover as many of the different funding options available to you and how each of them work. We've also highlighted what each of the different types of finance are an ideal fit for.

#1 A business loan

Ideal fit: Any small or medium-sized business

With a business loan, you can borrow a lump sum for your business and repay it over the course of a few months or years. For your application to be successful, you'll need to meet the lender's eligibility criteria.

For example, they may require that you've been trading for a certain amount of time, or might restrict you based on the industry you're in. You can choose to borrow over a short or longer period of time – from a few months to many years.

At Boost Capital, we provide unsecured business loans which can last between four and 18 months.

We've also published a complete guide on how business loans work.

#2 A personal loan

Ideal fit: Business who are struggling to get finance elsewhere

If you're not able to get a business loan, you might be able to get a personal loan instead. Personal loans work in the same way as business loans, but it will be you who is ultimately liable for the debt.

Be careful, though – some lenders may have rules about what you can use the personal loan for. If they don't allow them to be used for business purposes and they find out that's what you're using it for, they may demand you repay it then and there.

A good rule of thumb is to keep your personal and business finances separate. It may not be wise to risk your personal financial security for your business.

We've published an article comparing the differences between a personal loan and a business loan.

#3 A merchant cash advance

Ideal fit: Seasonal businesses who take most of their revenue in card payments

With a merchant cash advance, you can effectively sell a portion of your future sales in return for a cash advance. It's not technically considered a loan as you're in fact selling one of your business's assets – its accounts receivable.

Usually, merchant cash advances do not come with a deadline. You simply pay the advance off over time as a percentage of your sales. This tends to be a good option for seasonal businesses, as the repayments fluctuate depending on your revenue.

Merchant cash advances can be complex to set-up, however, as your card machine provider will need to get involved in the set-up process.

#4 Your salary from your day job

Ideal fit: New businesses and first-time entrepreneurs

Many entrepreneurs choose to fund their business using the salary from their day job. This is only really an option if your business is new as eventually, assuming your business succeeds, you may not have the bandwidth to continue with your day job.

You'll also have to balance the money you're able to commit to your business and the money you need for day-to-day living (for example, rent or mortgage, bills, food, etc.)

#5 Crowdfunding

Ideal fit: Startups or newer businesses who are struggling to get funding elsewhere

Crowdfunding lets you raise capital from a variety of different individuals, usually through an online platform. People can invest small amounts of money which, together with the investments from other people, can amount to much larger sums for the business.

In return, the lenders can get either a stake in the company (equity) or some other kind of reward. In some cases, their investment is just a donation with no expectation of a return at all.

Kickstarter is an example of a popular crowdfunding platform, which is especially popular for new business ideas.

#6 Equity financing

Ideal fit: Established, limited companies who are looking to expand

Another good way of raising capital for your business is to sell some of its equity to investors. In return for an injection of cash, those investors will become a part of your company and can have a say over its future direction. This can be done by selling shares – with those investors becoming shareholders.

One big downside of equity financing is that you will need to sacrifice some degree of control in return for the investment. The investors will also be entitled to a slice of the company's profits. How much control and profit they're entitled to will depend on how many shares they own in the business.

When companies reach a certain stage, they may consider "floating" on the stock market. This means the company's shares can be bought and sold by the wider public. When a company is floated on the stock market, they become a public company (Plc) and are subject to much more scrutiny and transparency.

There's a good guide on Hubspot about how equity financing works which is worth a read.

#7 Your friends and family

Ideal fit: Newer businesses with lower startup costs

Particularly when you're starting out, raising money from friends and family (including the good old Bank of Mum and Dad) can be a good way to get off the ground.

Friends and family may be willing to lend you money for your business without the expectation of being repaid interest. Or, if they do, the interest they charge could be considerably lower than alternative funding sources.

Just be careful their investment in your business doesn't lead to sour relationships further down the road if things go wrong! Have a frank conversation first and make sure they understand the risks up-front.

#8 Your personal savings

Ideal fit: Business owners who have a decent amount saved up and can't get finance elsewhere

If you already have some money saved up, this could be a potential source of funding for your business. However, as with any investment, it comes with its risks. If your business does not succeed, you'll lose those savings.

#9 Angel investors

Ideal fit: Startups and established businesses looking to raise large sums of capital

Angel investors are a relatively new phenomenon (the last 50 years or so), and can be a great source of capital especially for startups. Angel investors are usually wealthy individuals who lend their own money to new businesses in return for equity or bonds (see equity financing).

Many angel investors group together to form what are called angel groups or networks. As well as capital, an angel investor may also be willing to share their expertise to help your company succeed.

There are online platforms, like Seedrs, which have been created to connect business owners with angel investors.

#10 Invoice finance

Ideal fit: Businesses with significant accounts receivable and poor credit

In some business models, there's often a length of time between the service you provide your customers and the time they pay you. They may also pay you in instalments, which can affect your business's cash flow in the short-term.

With invoice finance, you can effectively sell your invoices to a lender in return for a lump sum. Then, when your customers pay you, the money goes straight to the lender (most likely plus a small amount of interest).

Invoice finance comes in two main types – factoring, where you give control of collecting the money for your invoices to the lender, and discounting, where you're still in control of collecting payments.

For more information about what invoice finance is and how it works, have a look at our knowledge guide.

#11 A business credit card

Ideal fit: Smaller businesses looking to borrow small amounts over a short period of time

For smaller, short-term needs, a business credit card can be a great option. By using a credit card for some purchases, you can offset the payments until a later date or even spread the repayments over a period of time.

Be careful, though – business credit cards are only really a good option for short-term borrowing. The interest rates can be quite high, so you may end up paying quite a bit if you take too long to finish the repayments.

If you need more information about how business credit cards work, take a look at this guide.

#12 A business overdraft

Ideal fit: Businesses with weak cash flow who need a bit of extra breathing room

A business overdraft is another good solution for short-term cash flow shortages. Business overdrafts works in more or less the same was as personal overdrafts, giving you a bit of extra breathing space in your bank account. The main difference is that you will normally need to secure your overdraft against an asset either you or your business owns (for example, your home). You'll also probably need to reapply each year.

Again, overdrafts should only be considered as a last-resort, for short-term purposes. The costs can quickly become prohibitive if you stay in your overdraft for too long.

You can read more about business overdrafts and how they work in our knowledge guide.

#13 A Government Start Up loan

Ideal fit: Startups… obviously!

If you're planning on starting a business, or your business has been trading for two or fewer years, you may be eligible for a government-backed Start Up loan. Government Start Up loans are actually unsecured personal loans, and can let you borrow between £500 and £25,000.

As well as the cash, you can also get access to free support and guidance. These loans currently come with a fixed interest rate of 6% per year, and you can spread the repayments over one to five years.

#14 Grant

Ideal fit: Pretty much any small or medium-sized business

In certain situations, your business may be eligible for a government grant. Grants can work in a number of different ways, including either a lump sum (known as a direct grant), or a reduction in income tax on investments in new businesses (equity financing).

A major drawback of grants is that they can often be very complicated to get hold of. The application process can be quite arduous and often involves many different stages. You can find more information on the GOV.UK website.

If your business is based in Wales, you can find a list of available grants here, and there's a similar list for Scottish businesses here.

#15 Asset finance

Ideal fit: Businesses without much capital who need to purchase expensive assets, or businesses who already own expensive assets

Asset finance covers a number of financing solutions which revolve around either assets you intend to buy or hire for your business, or assets your business already owns. For example, asset finance includes hire purchase (where you pay for a new asset in instalments over a period of time), and equipment leasing (where you hire an asset for as long as you need it).

It also includes asset refinancing, where you can use an asset your business already owns to borrow money. Asset refinancing effectively lets you unlock the cash tied up in the assets owned by your business, and is a form of secured lending.

We've written a guide on the different kinds of asset finance and how they work in our knowledge centre.

#16 Auction finance

Ideal fit: Business who need to buy property at auction and need quick access to capital

At an auction, you need to act fast to secure the investment you want. You often need to pay a 10% deposit on the day, with the rest of the balance due within 28 days. In most cases, the rules a mortgage out, as they can take many weeks to arrange. This is where auction finance comes in.

With auction finance, you can get an offer in principle agreed before the auction, usually subject to certain stipulations.

You can read more about auction finance and how it works in this knowledge guide.

17 Peer-to-peer lending

Ideal fit: Pretty much any small or medium-sized business

Peer-to-peer lending (sometimes shortened to P2P lending) is very similar to crowdfunding, although its more similar in operation to a straightforward loan. The main difference is that the capital raised through peer-to-per lending comes from a number of different individuals.

The funding's usually raised through a peer-to-peer platform, and the repayments are then distributed back to the individuals plus their share of the interest. The platform also takes a portion of the interest for facilitating the transaction.

Read more about peer-to-peer lending in our knowledge centre.

#18 Bootstrapping

Ideal fit: Startups with low set-up costs

Some business get off the ground with next to no external financing at all. When this happens, it's called bootstrapping (from the phrase "pull yourself up by your bootstraps"). Bootstrapping can limit the rate at which a company can grow, because they have to rely on their existing revenue for reinvestment.

Despite that, many high-profile companies have started by using a bootstrap financing model, including GitHub, GoPro and SPANX.

To find out more about what bootstrapping is and how it works, [read our guide].

#19 Presales

Ideal fit: Businesses without enough capital to produce and supply a new product line

Whether your business is already established or not, you may be able to raise finance by preselling your services or products before they're actually available. This allows you to start earning revenue from products and services straightaway which you can then invest in fulfilling those orders.

In this approach, you're effectively borrowing money from your own customers. In this case, you will usually agree with the customer to provide them with their purchase within a certain timeframe.

#20 Venture capitalists

Ideal fit: Startups and established businesses looking to raise very large sums of money

Venture capitalists are wealthy individuals or groups of individuals who generally invest very large sums of money in established businesses. They're similar to angel investors, except that venture capitalists tend to invest other people's money on their behalf.

Raising venture capital is usually only an option for businesses which already have a proven track-record of sales and growth, and who are looking to move up to the next stage. Venture capitalists usually invest very high amounts – from hundreds of thousands to millions.

#21 Revolving line of credit

Ideal fit: Businesses who have fluctuating cash flow

In many ways, a revolving line of credit is like an overdraft, allowing a business to borrow from a pool of money when it needs it, and pay off what they owe when they can do so. A good way of describing a revolving line of credit is like an "always-on" loan which you can flexibly draw down from and pay off.

For more details about how a revolving line of credit facility works, have a look at [our guide].

#22 Trade credit

Ideal fit: Businesses with low cash flow

In many cases, your suppliers may be able to offer you credit. This usually comes in the form of paying for stock or inventory in instalments. For example, your supplier may ask for 20% of the cost upfront, 30% on receipt of the goods and the remaining balance within 30 days of that date.

Always make sure you negotiate with your suppliers to see if this is possible, as it's a good way to free your cash flow for other purposes. Just make sure you remember to keep the money you owe aside so you're not caught short later.

For more information about what trade credit is and how it works, have a look at this guide on [the ACCA website].

#23 Purchase order finance

Ideal fit: For businesses who don't have capital available to fulfil their orders

One of the big challenges for newer businesses is not having the cash available to fulfil a large order from a client or customer. Having to turn down an order like that because of weak cash flow would be a terrible missed opportunity.

In these cases, purchase order financing can help. When you manage to secure a confirmed purchase order, a financing company will pay a percentage of the cost to your manufacturer or supplier to deliver that order to the customer. When your customer pays you, the financing company will take their repayment from that amount plus their interest.

#24 Home equity release

Ideal fit: Homeowners who can't get business finance elsewhere

If you own your own home, another option would be to use some of the equity you've built up to unlock cash. Equity is the difference between the market value of your home and the outstanding balance on your mortgage. As you pay your mortgage off, and the value of your home increases, so does your equity.

Just bear in mind that you're effectively selling a portion of the ownership of your home, meaning you'll get less of a return if and when you decide to sell.

Can we help?

If you need fast funding for your business, why not try a small business loan from Boost Capital? You can borrow between £3,000 and £125,000, with no homeownership required. Apply today and you could have the funds you need in as little as two business days.

Bear in mind…

We're experts when it comes to business finance, but we don't know everything when it comes to your business's specific needs. Make sure you consider your options carefully and discuss them with a professional advisor.