

FUNDING OPTIONS FOR NEW PRODUCTS

A GUIDE FOR SMALL BUSINESS OWNERS

INTRODUCTION

Bringing a new product to market is an exciting yet challenging endeavor for small business owners. Securing adequate funding is crucial to navigate the development process and achieve commercial success. This guide explores various financing options, offering insights to help you make informed decisions tailored to your business needs.

1. SELF-FUNDING

Self-funding, or bootstrapping, involves using personal savings to finance your product development. While this may depend on your personal financial situation - it does allow you to maintain not only ownership of the product - but secures that you can guide the direction of the business in the way you see fit.

Pros:

- Maintains full ownership and control over your business.
- Avoids debt and interest payments.

Cons:

- Maintains full ownership and control over your business.
- Avoids debt and interest payments.

2. FRIENDS AND FAMILY LOANS

Borrowing from friends or family can provide flexible terms and quick access to funds. In fact, a lot of businesses start with friends and family round which allows the family to either invest for a portion of the profits later, or a loan repayment at a later date.

Considerations:

- Clearly outline repayment terms to prevent misunderstandings.
- Treat the arrangement professionally to protect personal relationships.

3. BANK LOANS

Traditional bank loans offer lump-sum funding with set repayment schedules.

Key Points:

- May require collateral and a strong credit history.
- Interest rates and terms vary; shop around for the best deal.
- Prepare a comprehensive business plan to support your application.

4. SMALL BUSINESS ADMINISTRATION (SBA) LOANS

The SBA provides loan guarantees to encourage banks to lend to small businesses.

Benefits:

- Lower down payments and longer repayment terms.
- Access to counseling and education resources.

Application Process:

- Gather necessary documentation, including financial statements and business plans.
- Work with an SBA-approved lender to navigate the application.

5. VENTURE CAPITAL AND ANGEL INVESTORS

Equity financing involves selling a portion of your business to investors in exchange for capital. There are a variety of terms in these agreements. It is best to have a lawyer be able to take a look at these types of agreements to ensure that you understand the terms and conditions fully.

Differences:

- **Angel Investors:** Individuals investing personal funds, often in early stages.
- **Venture Capitalists:** Firms investing pooled funds, typically in businesses with high growth potential.

Considerations:

- Be prepared to relinquish some control and share profits.
- Investors may offer valuable industry expertise and networks.

6. CROWDFUNDING

Platforms like Kickstarter and Indiegogo allow you to raise small amounts of money from a large number of people. There is often a misconception that these types of crowdfunding sites don't take marketing. The truth is, they do. You need to publicise the campaign and plan to spend money doing so. You can search on the internet for a number of crowdfunding calculators that will help you understand what is involved. Additionally, some crowdfunding organizations do not release any money to you unless your entire goal is met. Ensure that you understand the terms and conditions of these crowdfunding options.

Types:

- **Rewards-Based:** Backers receive a product or perk.
- **Equity-Based:** Backers receive a stake in the company.

Tips:

- Create a compelling campaign with clear goals and rewards.
- Engage with your audience to build trust and excitement.

7. GRANTS AND COMPETITIONS

Non-repayable funds are available through various programs. There are a variety of countries that are offering grants or subsidies if you put resources in their country in exchange for investment. When looking for potential corporations that may have grants, there may be a longer term interest in partnering with a particular company. Look to leverage these types of relationships to look for grants.

Sources:

- **Government Grants:** Agencies like the Small Business Innovation Research (SBIR) program offer funding for research and development.
- **Private Grants:** Corporations and foundations may offer grants to support innovation.

Application Tips:

- Ensure your business aligns with the grant's objectives.
- Prepare detailed proposals highlighting the potential impact of your product.

8. ALTERNATIVE FINANCING OPTIONS

Exploring non-traditional funding sources can provide additional flexibility.

Options:

- **Revenue-Based Financing:** Repayments are a percentage of monthly revenue.
- **Merchant Cash Advances:** Receive a lump sum in exchange for a portion of future sales.
- **Peer-to-Peer Lending:** Borrow from individuals through online platforms.

Considerations:

- Often have higher costs compared to traditional loans.
- Assess the impact on cash flow and long-term financial health.

9. ASSESSING THE RIGHT FUNDING OPTION

Selecting the appropriate funding source requires careful evaluation.

Options:

- **Evaluate Business Needs:** Determine the amount of funding required and its intended use.
- **Understand the Cost of Capital:** Compare interest rates, equity dilution, and repayment terms.
- **Align with Business Goals:** Ensure the funding option supports your long-term objectives and growth plans.

CONCLUSION

Securing funding for new product development is a critical step in your business journey. By understanding and evaluating the various options available, you can choose a path that aligns with your business goals and financial situation. Thorough research and strategic planning will position your business for success in bringing innovative products to market.

If you are interested in getting a better idea of what it will take to get your product built, meet with U.S. based team at Worthwhile to scope out the cost of your project. **You can book a non-obligation meeting with them [HERE](#).**