Six step strategy to source business funding

COMMUNITY FIRST Credit Union

Once your business has reached a certain scale, funding decisions become more strategic. You're no longer scraping together startup capital, you're choosing the right combination of funding sources to support expansion, innovation, or resilience.

Whether you're opening a second location, investing in automation, launching a new product line, or entering new markets, aligning the right capital with the right growth plan is key. Additionally, factors such as your business stage, risk tolerance, and financial capacity will influence which options are best for you.

Here are six ways to identify potential sources of funding.

Option 1: Minimize how much you need

Before seeking outside capital, look for ways to reduce how much you actually need. Even mid-sized businesses often hold onto excess capacity or pay more than necessary for growth-related expenses. Ways to tighten your capital requirements:

- Lease equipment instead of buying it outright, especially for technology that depreciates quickly.
- Streamline your product launch. Start with fewer SKUs and invest only in what's essential until market demand is validated.
- Outsource non-core functions like accounting, HR, or marketing to reduce upfront investment in full-time staff.
- Use shared spaces or short-term leases for testing new locations before committing to long-term real estate.

Think of this step as capital optimization. Reducing the amount you need makes you more attractive to lenders and investors and increases your flexibility.

If for whatever reason you're still short of money, bootstrapping your business could be the answer, short cutting your way to starting up.

Option 2: Start with your own cash

Using your own money to fund your business is often the simplest and most straightforward option. It demonstrates your commitment to your business idea and signals to potential investors or lenders that you are willing to take on personal risk. Common sources of your own cash include savings, personal bank accounts, or tapping into any equity you have in property or assets.

Another option is borrowing from friends and family. While this can be an accessible way to raise initial funds, it comes with personal risks. Treat it like a formal transaction and use written agreements and clearly communicate risks.

Option 3: Explore strategic partnerships

Collaborating with other businesses can be an effective way to raise capital while sharing the risks and rewards. For example, a joint venture with a supplier or distributor could help you enter a new market with lower upfront costs. Shared infrastructure agreements (such as co-manufacturing space or warehousing) can reduce capital expenditures.

When considering a partnership, think about the following:

- A partner can help provide the capital or infrastructure you lack, allowing you to expand more quickly.
- If your partner has experience in areas where you're lacking, such as marketing, supply chain management, or sales, their knowledge could help you avoid common pitfalls.
- Partnering with a business that already has a presence in the target market can allow you to reach new customers without the need for a costly market entry strategy. A channel partner or reseller agreement could give you sales momentum without building a large internal team.

Partnering with others can be a valuable long-term growth strategy, as long as you align with partners whose values, goals, and strengths complement your business objectives.

Option 4: If it makes sense, borrow

Debt financing remains one of the most common funding routes for growing businesses but it's not one-size-fits-all. Match the type of borrowing to the purpose:

- Term loans are deal for long-term investments like equipment, vehicles, or renovations. Use these when the return will happen over time.
- Lines of credit a best for working capital, inventory, or short-term fluctuations.

- SBA 7(a) and 504 loans are government-backed options tailored for businesses seeking capital to grow or expand.

Don't overlook vendor financing, where your suppliers offer longer payment terms, or asset-backed lending, where you borrow against accounts receivable or inventory.

Investigate emerging funding sources such as crowdfunding where groups of people pool small amounts together as an investment or a down payment on a future purchase. This might suit your type of business.

Option 5: External capital

If your new business has a bright future, it's possible outside investors may be prepared to contribute initial capital.

Angel investors typically seek business opportunities with promising growth. You can search online for local providers, but often funding will be sourced from local entrepreneurs, councils, corporate investors, incubators and accelerators.

Venture capitalists tend to be investment companies seeking more established businesses.

Option 6: Grants and subsidies

It's always worth checking out what the federal and state government can offer in terms of financial support for your business. Government funding programs are designed to encourage entrepreneurship, innovation, and job creation. Grants are often non-repayable and can be used for specific purposes, such as research and development or hiring new employees. Tax breaks and incentives can help reduce the tax burden on your business, while wage subsidies can offset employee salaries.

Explore:

- Grants.gov for federal grant opportunities
- SBIR/STTR programs for innovation funding for R&D-focused businesses
- Local economic development agencies for relocation, workforce training, or infrastructure support

These funds can be non-dilutive, meaning you don't give up ownership or repay them making them especially valuable when you qualify.

Next steps

- Assess how much capital you need for your business and explore ways to minimize this amount, such as borrowing equipment, leasing, or buying second-hand materials.
- If you can, consider using your own savings or assets to fund your business as it's typically the most cost-effective option.
- Evaluate potential business partners who can help provide infrastructure, capital, or expertise to help you grow more efficiently.
- Research government funding options that may include grants, subsidies, or tax breaks to reduce your financial burden.

At the end of the day the best sources of funds are most likely those that free you up to grow your business without excessive costs to weigh you down. Consider a combination of sources of funds to make sure you have enough capital for a contingency fund, so you do not need to seek additional funding immediately after launch. Talk to us about how we can help your business grow and succeed.