Sources of Financing

Funding could usually be done in two different ways: equity and loan. Equity is non-refundable money where the providers expect a share of the profit in exchange for the risks taken. Loans cost less but are expected to be paid back. Let's look at the sources of these funds.

Family and friends

The people who know you the best are probably going to be the first people to help you out financially, either through an equity investment or a loan.

Investors

Professional investors are individuals or companies who invest regularly in new businesses. They are willing to share the risks with you but want a share of your success. You have to agree to their rights and obligations (in a shareholders agreement). Such investors can be individual "business angels", family offices where wealthy families have dedicated resources for investments or private equity funds where several investors have pooled their funds and have appointed a manager to look for investment opportunities.

Grants

The Government, the Region, the City, and the Chamber of Commerce want to promote entrepreneurship to create more jobs, and therefore, are willing to support new businesses. Funds allocated for this purpose have specific restrictions and you have to apply for them formally.

Banks

Lenders are, in general, risk-averse because they are lending deposits made by others to you, while also taking a margin for themselves. The loans have to be paid back after a year or so. The bank may request some physical guarantee or personal guarantee to make sure the loan will be paid back. It is cheaper than sharing a share of your profits but repayment terms can be short. Developing a trusted relationship with your local bank branch will make it progressively easier to obtain a loan from your bank.