Fund

Decide how to fund your business and pay yourself. Include business cash projections and their reliability along with other funding sources.

Why does funding matter?

You have a great concept and now you need funds to set your idea in motion. Where will you find the cash to start your business and support it during its ramp up? You can fund from your personal accounts or seek financing from outside sources like family or friends, investors or bank loans. Funding a business out of your personal funds will allow you to fully control the business and is usually the lowest risk option. However, it can lead to slower growth. Getting external funds, whether an equity investment or a loan, can reduce the personal financial burden associated with starting a business and potentially shorten the time it takes to get your idea off the ground. Understand the assets you bring to the table, the various sources for funding, the risks you take and the advantages and disadvantages of each option.

Key actions to take

If you don’t have adequate funds for your startup, you may not be able to grow.

• **Build a launch budget:** Predicting the funds required to start your business will help you understand the amount of additional capital you may need. There are many one-time costs to consider. Just about every business will have business setup and legal costs, computers and software, phones, insurance, logo & branding, introductory marketing, rent deposits, leasehold improvements, furniture, fixtures, etc. Depending on your industry, there could be other costs. It is normal to uncover additional financial needs once the launch process begins.

• **Understand your immediate needs as you ramp up:** Once you are launched, a financial projection helps you plan and budget your business and monitor cash on hand. If you are seeking external funding, it can be used to convince prospective lenders and investors of the viability of your business. The projections can be used as a guideline to keep you on track as you get your business going.

Create a financial projection that it is realistic, but also make sure you have a worst-case scenario as well. If you are an experienced business owner, you already have a good understanding of a startup’s financial needs. Gather information about similar businesses in your area. Talk to a CPA or business advisor familiar with businesses in your industry to look at the type of expenses, sales and profits you can expect. Conduct market research to determine the demand for your business which will help you build a business model. Remember that growth often requires cash to fund working capital for inventory and accounts receivable.

Source of initial funding for business¹

<table>
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<th>% of owners who funded startup with this method</th>
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<tr>
<td>Personal Savings</td>
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<td>Family/Friends</td>
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<td>Personal Assets</td>
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<td>External Financing</td>
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Accuracy of initial budget and financial planning²

- 68% of startup owners created an initial budget and financial plan
- 49% of those owners accurately forecasted their initial business budget projections

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¹ Source: SunTrust Small Business Economic Study, 2014
² Source: SunTrust Small Business Economic Study, 2014
• **Explore the best sources of funding:** Initial startup funds can come from a variety of sources. Many entrepreneurs draw on their own resources such as stocks or savings, home equity or available personal credit through credit cards and unsecured loans. Family and friends are a source, as are angel investors or crowdfunding. In a limited number of cases, Small Business Administration (SBA) loans may be available. Some businesses can access government programs targeting industries or locales. Infusion of funds can be structured as an equity investment, as a loan, or some combination. Seek advice from your advisors like your CPA or attorney about investment structure possibilities and limitations for your corporate structure. Study the capital structure of other startup companies in your industry.

• **Decide on a prudent commitment of personal funds:** Access to funds can govern how quickly you can get your business off the ground. Many entrepreneurs turn to personal accounts for some portion of those funds. If, as owner, you are “all in” on your new company, committing personal funds may be the right choice to protect your ownership and retain future profits. However, committing a large percentage of your personal funds to the new venture entails a high degree of risk. Consider the impact to your personal portfolio of liquidating lower risk investments to invest in a startup. Such a move changes your investment risk profile by concentrating that capital in a single unproven venture (that also happens to be the source of your compensation.) That’s a big bet on a startup company!

• **Getting paid (or not):** Project the necessary expenses to get the business started. Hiring staff, buying supplies and equipment, and building or outfitting an office or store may absorb startup capital and initial profits. The shortfall may come directly out of your pocket in a capital infusion or missed paycheck. Can you afford to go without a paycheck for a period of time? Plan personal backup funds and sources that can be liquidated or borrowed against, e.g., home equity, paid up insurance, automobiles, stocks, etc. Make sure you haven’t used all your personal funds in the initial company funding!

How SunTrust can help

A SunTrust Business Credit Card[^2] can be a great opportunity for a small business to extend payment of initial expenses while establishing credit in the business name. It is easy to use for point-of-sale purchases, and monthly billing improves cash flow. You can use our web-based tool, Small Business Credit Card Online, to manage employee spending limits, track card usage and add or replace employee cards. Additional reports will help you track and manage your business spending and provide valuable transaction history.

As your startup emerges, you might need additional funds to reach your goals and financing from a bank might help. SunTrust Loans and Lines of Credit[^3] support a variety of financing needs including commercial building acquisition, equipment purchases, expansion capital and more with the best loan structure for you, whether that is a conventional term loan, a SBA loan, a line of credit or a commercial mortgage.

Click below for additional resources:

10 Mistakes to Avoid when Financing your Business
Learn about financing mistakes and how to avoid them.

Will I Ever Get a Loan?
Understand how a bank views startup lending.

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[^1]: SunTrust conducted research with 532 small business owners ranging from $100,000 to $2,000,000 in annual revenue in the first quarter of 2018.

[^2]: All business credit cards, loans, lines of credit, and other financing are subject to credit approval and other underwriting criteria.

[^3]: Loans are subject to normal credit criteria.

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