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Creative Business Financing Options: Self-Funding

Self-reliance is one of the most common traits of successful entrepreneurs, and that characteristic extends to business startup funding. Most people starting a business would just as soon rely on their own resources to do it. They don't want to depend on others – or on any form of debt – to begin building toward their entrepreneurial dream.

But even if your personal financial assets are ample, you've probably already got other dedicated purposes for them -- vacations, hobbies, college for the kids, or retirement. There are decided advantages to using other people's money to make some of your own, whether you borrow it from **family and friends**, extend your **credit card debt**, or seek **seed capital from customers**.

If you decide to go it alone to finance your startup business, you still need to grapple with some important questions. The most important: Is this the best thing you can do with your money? "Your business may become your largest investment, so you should think of it in terms of anything else you might invest in," says Larry Rice, an accountant and business-development expert with Rodman & Rodman, a firm in Boston. "Consider the risk. The returns you're projecting should be adequate for the risk you're taking."

Also ask yourself: How long will it be before you can pay yourself back? What are the competing demands for those resources that may continue or even grow while you're nurturing your startup? What if you *can't* pay yourself back, or the business fails – swallowing up what you've invested along the way?

If you're satisfied with how you've handled those issues, you can allow yourself to take a closer look at what personal financial assets you have available.

Here are your main options:

- Savings
- Investment portfolio
- Mortgage refinancing and home-equity loans
- Employer buyouts

- Retirement funds

Savings

In an ideal world, every aspiring entrepreneur would be disciplined enough and earn enough to save a chunk of their employment income to start a new business with it. “That’s the absolute ideal, because the risk is to discretionary money,” says David Shroads, a counselor with the Service Corps of Retired Executives in Jacksonville.

That’s what Chris Consorte did in 1999 when he invested $6,000 from his savings account to start his interactive-marketing agency, Integrated Direct, in New York City. “I never got in over my head,” says Consorte, who has bootstrapped his company since then, without using debt or outside investment, to the tune of $1.2 million in annual revenues. “And I don’t owe anybody a dime.”

If you’re starting up more spontaneously, or you just can’t save up in advance, of course you can tap into pre-existing savings. But you have to make a hard-core decision about using some or all of what many people regard as a rainy-day fund. Is your new business worth risking the obliteration of a financial security blanket that may be very important to you?

You may be surprised how easy it is to get to “yes.” Make a list of the risks that you’ve been saving against; you may find few that wouldn’t be covered by insurance. And you may decide that those savings are there for this moment. “When you’re talking about a startup business, you’re talking about the substance of an entrepreneur,” says Ralph Alterowitz, president of Venture Tech Corp., a Potomac, Md.-based business financier. “How badly do they want to do it?”

Investment portfolio

This may be the optimal source of personal funding for a startup business: Instead of investing in a blue-chip stock or high-tech mutual fund, back yourself! The younger you are, the better an idea it might be, because you have more time to make up any losses.

And if you have a brokerage account, you might be able to simply put some of your stock on margin rather than sell it outright. “You’re really borrowing against your own money in that case,” says Alterowitz, co-author of the upcoming book, *Financing Your New or Growing Business Made Easy.*

Mortgage refinancing and home-equity loans

If you redo your mortgage on better terms, you’re slashing expenses to create cash flow that you haven’t had before. So it can be a great resource for bootstrapping a startup business that you’re building slowly.

Some banks may hesitate to liberate equity in your home loan if they know it’s going directly into the relatively high-risk venue of a business startup. And accessing equity in your home via a loan is creating new debt. But it's hard to argue that it's not better than credit card debt, because you're using an asset you've built. In addition, the interest you pay on home-equity loans is tax deductible.

Employer buyout

Using a lump-sum buyout or severance package from your previous employer to fund a startup business can be a classic way of making lemonade out of lemons. That's certainly the approach that Alan Lowne took when the engineer took a six-figure buyout from Johnson & Johnson to start his company, Saelig, which imports circuit boards and other technical parts from foreign companies for US distribution. "It was so sweet because the buyout got me up and running," says Lowne, a Fairport, N.Y., entrepreneur who was 50 years old at the time. This year, Saelig expects $3.5 million in sales.

At least you might choose to use part of a buyout to start your company. Parcel out some to cover immediate expenses, and budget the rest to your startup venture.

Retirement funds

This option has the most red flags attached to it. If your 401(k) or other retirement plan has compiled a handsome sum after contributions by you and your employer, you should be very careful about risking your comfort in retirement. Discouraging such access is one reason that taxes and government penalties make such withdrawals expensive.

However, there are ways to do it legally and perhaps even advisedly. "The law specifically permits people to use IRAs and 401(k)s to invest in a business with no taxes, no penalties and no need for loan repayments," says Leonard Fischer, CEO of Benetrends, a company that has developed a system for doing so. Other advisers say it's legit. "What we do is purely adding another investment option in your retirement plan. You invest in your own company."

Our Bottom Line:

Investing your own financial assets in funding a startup business is the cleanest way to go, and it may help you sleep better at night. From savings to retirement funds, you may have a number of **options available for bootstrap funding for your new business**. Just be sure to weigh the very real risks against the benefits of startup self-funding freedom.

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