Not all funding options will have the same risk

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Economic Diversity

When we think about starting or growing a business, it's impossible not to think about money. It's what makes business go round, after all. But does coming up with funding always have to mean you're betting the farm that things will turn out as intended?

Generally speaking, raising capital for a business venture does carry some risk, but not all types of funding are created equally. Dilutive funds, for example, typically cost more and carry higher risk than their nondilutive counterparts. And although both have their place, it's important to know the difference and when one is more appropriate than another.

Dilutive funding often is tied to company equity (i.e., the funding buys part of the company), as in the case of sources such as venture capital, angel funding, or convertible debt. Funds also are often exchanged for things like an established rate of return to investors as interest on their contributions, board seats, or other conditions which take seniority going into the company's future.

So what are some examples of nondilutive funding that businesses can use to their advantage? Government contracts are one good example, and Small Business Innovation Research and other grants are other popular options. But there are many more.

Business credit cards might not be as obvious an option when thinking about funding a business, but they provide immediate access to funding that can be helpful with managing cash flow in limited amounts. Keep in mind, however, that these funds require a clean credit history, must be repaid, and sometimes carry a higher-than-desirable interest rate.

Outbound licensing or sublicensing is another avenue for raising capital for technology-based companies. Licensing your intellectual property, or sublicensing that of others, can generate front-end fees, milestone payments, and ongoing royalties, which can offset the costs of protecting the intellectual property for the licensor. Licensing into multiple fields of use can also generate multiple revenue streams.

The drawbacks of such an approach include potentially long lead times, IP that may not be adequately developed to permit licensing, and the possibility that the licensee won't actively pursue commercialization, which could negatively impact required payments to the licensor down the road.

Another exciting and important funding source that businesses should never overlook is often right in front of them in the form of their suppliers and customers. Supplier credit is one option, but another that I find particularly interesting is the potential role of the customer in providing funding. It might sound a little counterintuitive, but if done right, it makes perfect sense and works.

Technology developers, for instance, can entice their customers to pay for research and development costs in advance, in exchange for something in return, such as first dibs on an exclusive license for the new intellectual property.

National R&D laboratories operate under this model every day with advance funding from government contracts supporting much of their innovation, for example. The funding agency, in this case the laboratory's customer, covers the labor and materials costs involved with the sometimes long and challenging development process, then retains certain lifetime rights to the finished technology.

There are many more examples of how to creatively source funds. But the takeaway is that money comes in many different colors when attempting to fund business ventures. Having an open mind about funding, and understanding the benefits and drawbacks of the various alternatives appropriate to your specific situation, is critical to making the right move and minimizing risk.

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