

Develop a Funding Plan for Your Startup

Once you have estimated your **total startup costs**, the next step is to build a **funding plan**—a clear, realistic roadmap for how you will pay for those costs.

If you haven't completed a startup cost estimate yet, start here first.

What Is a Funding Plan?

A funding plan identifies **where the money will come from, how much you expect from each source, and the trade-offs involved** (risk, control, repayment).

Most startups rely on **three categories of funding**, in this order:

1. **Equity funding** – money invested in exchange for ownership
2. **Income-based funding** – money earned or awarded that does not require repayment or ownership
3. **Debt financing** – borrowed money that must be repaid

This order matters. Strong equity reduces risk, improves credibility, and makes income and debt easier to secure.

Step 1: Equity Funding (Start With the Owner)

Equity funding almost always starts with the founder. Investors expect owners to have meaningful **financial skin in the game**.

Common owner equity sources include: - Personal savings - Investments or retirement funds - Sale of personal assets - Home equity (with caution) - Reduced living expenses

Personal Readiness Check

Before committing your own money, ask: - Will this delay essential health, housing, or family needs? - Will it force me into high-interest personal debt? - Will I still have **at least six months of personal living expenses**? - Does this exceed **40% of my net worth**?

If you answer **yes** to any of these, pause and reconsider the timing or scale of your startup.

Equity From Others

After committing your own capital, expand outward: - Friends and family - Angel investors - Accelerators and incubators - Equity crowdfunding - Strategic or corporate investors

Research consistently shows that **70-75% of startup funding comes from founders and their close networks.**

Equity Funding Table (Example)

Equity Source	Example	Amount
Owner savings	Cash	\$36,000
Asset sale	Estate sale	\$15,000
Home equity	HELOC	\$75,000
Retirement funds	401(k) withdrawal	\$7,600
Friends & family	—	—
Angel / seed investor	—	—
Equity crowdfunding	—	—
Total Equity Funding		\$133,600

Matching Equity Sources to Startup Type

Not all businesses attract the same investors. High-growth investors seek scale, not stability.

General guidance: - **Best fits for angels & VC:** software, SaaS, platforms, scalable consumer brands - **Poor fits:** retail storefronts, solo consulting, lifestyle businesses

Choose equity partners whose expectations align with your growth potential.

Dilution and Control Considerations

Every equity dollar comes with a trade-off.

Equity Source	Typical Dilution	Founder Control Impact
Friends & family	5-15%	Minimal if documented well
Angel investors	10-25%	Moderate guidance
Angel groups	15-30%	Increased oversight
Accelerators	5-10%	Short-term trade-off
Venture capital	20-40%	Significant loss of control

Equity Source	Typical Dilution	Founder Control Impact
Strategic investors	10–30%	May restrict future options
Equity crowdfunding	5–20%	Low control loss, admin complexity

If retaining control is a priority, limit large institutional equity early.

Step 2: Income-Based Funding (Non-Equity, Non-Debt)

These sources provide cash **without ownership dilution or repayment**, but are usually limited in size.

Common income-based funding includes: - Crowdfunding (reward-based) - Grants (local, state, nonprofit) - Pitch competitions and awards

Income Funding Table (Example)

Income Source	Example	Amount
Crowdfunding	GoFundMe	\$2,370
Grant	Local economic development	\$50,000
Total Income Funding		\$52,370

Step 3: Debt Financing (Use Last and Carefully)

Debt should be used **sparingly**, especially before consistent revenue.

Appropriate uses of debt: - Vehicles - Equipment - Machinery - Buildings or leasehold improvements

Avoid using debt for operating losses or speculative growth.

Debt Funding Table (Example)

Debt Source	Purpose	Amount	APR	Term
Line of credit	Cash gaps	\$10,000	5.0%	1 yr
Vehicle loan	Asset-backed	\$45,000	6.5%	5 yrs
Mortgage	Building	\$165,000	7.5%	30 yrs
Credit union loan	Member lending	\$22,500	6.0%	5 yrs
Total Debt Funding		\$242,500		

Final Check: Does Your Funding Cover Your Costs?

Compare total funding to total startup costs.

Summary	Amount
Total expected funding	\$426,100
Total estimated startup costs	\$475,436
Funding shortfall	(\$49,336)

If You Have a Shortfall

- Reduce startup scope or timing
- Increase owner equity
- Delay fixed asset purchases
- Seek additional grants or crowdfunding

Key Takeaways

- Start with **equity**, especially your own
- Use **income sources** to reduce dilution
- Treat **debt as a tool, not a crutch**
- Always weigh **risk, control, and cash flow**—not just availability

A strong funding plan is realistic, conservative, and aligned with how your business will actually grow.