From start up to scale up

Capital strategies for every stage

Raising capital is one of the most important aspects of launching and scaling a successful business. While there are many potential sources of funding, it is important to be well-prepared before seeking investment.

Begin by determining how much money is necessary to support both ongoing operations and growth objectives. This requires a comprehensive understanding of the capital requirements of the business, such as purchasing new equipment, hiring new employees and expanding office space. A good plan will lay out how different levels of capital will help the company follow its business plan and achieve short and long-term goals.

Major sources of business capital include private investors, financial institutions, venture capitalists and government grants. The best source can depend on where a company is currently positioned in the business life cycle. Some sources, for example, are more popular for businesses that are in the start-up phase or progressing into the growth phase.

Below, learn which sources make sense at each stage and the best ways to solicit funding from each one.

Private sources

Business owners often approach individuals for money—from friends, relatives, a spouse or partner, business contacts, employees and private or "angel" investors[1]. These investors often value equity, which gives them a stake in the business's future. When approaching any of these private sources, there are certain considerations that one should keep in mind.

Individuals who are willing to invest in a business are rarely "silent"—they are typically active stakeholders who may seek involvement in the governance, strategy, or operations of the business. They can also step in to help by offering management or policy assistance, providing contacts or helping with special assignments. Business owners should balance the potential financial benefit against dilution of ownership and control. Individual investments often come with a highly personal relationship with the investor. Businesses that are setting up a partnership can consider supplementing areas of weakness in the business with individual investors that have strong and complementary experiences.

A written shareholder or partnership (operating) agreement[2] is essential when raising capital from financial backers or partners. This agreement will stipulate the rights and obligations of the shareholders or partners of the private company and will also include "buy-sell" provisions. It is important for business owners to review all agreements with legal counsel.

Crowdfunding

Crowdfunding has become an additional source of funding for certain businesses. Each crowdfunding platform is different, so it is important to read the fine print. Crowdfunding raises funds for a business from many people, called funders or crowdfunders. Crowdfunders aren't technically investors, as they typically don't receive ownership in the business and don't expect a financial return on their money. Instead, crowdfunders expect to receive non-financial rewards, such as early product access to branded merchandise.

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Financial institutions

Although U.S. banks are primarily concerned with short- and long-term lending, they also often provide other financing options such as leasing, mortgages, factoring and support services such as payroll, letters of credit, credit references and more.

When approaching financial institutions for funding, a well-prepared financial proposal and business plan are typically required. The bank will review facts and figures from statements, records and projections before investing, as they need to be sure of the stability of the company and the commitment of the owners.

The bank will look at the company's past and present performance, future potential, the amount that the founders or owners invested, the amount left (equity and retained earnings) and the way that leadership runs the company.

The bank will want proof of ability to service the debt—that is, to pay the interest and retire the loan on time and may require security or collateral that can involve the pledging of accounts receivable or inventory and a personal guarantee of principal. Term loans often require fixed or tangible assets as security.

It is important to keep lines of communication open. Tell the business banking professional in advance if there's bad news coming; the bank's confidence in the company will remain strong if the company is straightforward. Prepare and share a cash flow budget, and keep the banker in the loop each month, even when the company does not have any active loans. To establish a credit record, borrow from a bank early in the business cycle.

It can be helpful to establish an ongoing advisory relationship with a banking professional, as they can be a key partner to the company's success by offering support to the business beyond financing, such as cash management solutions that improve or create cash flow as an alternative to an operating line.

Banking professionals may also be aware of local economic conditions and suggest potential opportunities in other areas. They can introduce company leadership to prospective customers and suppliers and help with credit checks. In short, a banking professional with a deep understanding of the company can become a founder's best business friend.

Venture capital

For businesses seeking more aggressive growth or those with limited collateral, venture capital may offer an alternative path—albeit with greater expectations for return and influence.

Venture capital firms will invest directly in a company if they believe that a business will be profitable and show substantial growth. Almost all deals are based on equity or some form of subordinated debt with conversion or option rights. (This means that in case of bankruptcy, their loans rank behind all other secured creditors but ahead of other shareholder loans.)

Venture capital companies expect high returns and usually want substantial equity positions in exchange for their investment. They expect management shareholders to be fully committed financially, providing an efficient, balanced management team.

Venture capital companies can help in several ways, including planning and policy, finance and control and arranging mergers and acquisitions or an IPO (initial public offering). They will likely require a seat on the board, to attend regular board meetings, monthly statements, life insurance for the owner, involvement in the budgeting process and a buy-sell agreement covering everyone's shares. Most venture investments usually require more funds to be invested later as the company progresses. Ensure the venture capital company has a good reputation and is well financed.

Incubators and accelerators

Incubators are programs that are offered to start-up companies. These programs offer business support (i.e., operating space) and the opportunity to work alongside other start-up companies with the potential for growth. There is also usually some measure of mentoring from retired business leaders. Connecting with an incubator is a very competitive market, but successful participation can be very advantageous. Incubators are usually composed of successful entrepreneurs who will offer advice and access to advisors of other successful start-ups.

A business accelerator, on the other hand, is a program that gives developing companies access to mentorship, investors and other support that help them become stable, self-sufficient businesses. Companies that use business accelerators are typically start-ups that have moved beyond the earliest stages of getting established.

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Governments

Federal and state governments sometimes have loan, guarantee or grant programs[3] for creating jobs, increasing capacity and creating or upgrading technology.

When seeking government financing, companies may need to demonstrate that they can't get the funds elsewhere. Try to tailor the company's needs to the program and ask for help or clarification from the program officers.

Improving and growing a business with innovation

Many business owners raise capital to foster innovation. Innovation may help to gain market share, introduce new products and increase profits—however, it may also require additional capital.

Business owners can fund innovation from a variety of sources:

- Ongoing cash flow
- Business loans from commercial or private sources
- Government grants
- The business owner's own resources, or financial support from family and friends

There is a network of accelerators, incubators and hubs that allows entrepreneurs to work with experienced mentors in supportive environments and can also assist in attracting funding. For example, Y Combinator[4], a community of over 4,000 founders, supports startups with a standard initial investment of $500,000. SCORE is a large U.S. network of volunteer, expert business mentors and is dedicated to helping small businesses get off the ground, grow and achieve their goals. It is a resource partner for the U.S. Small Business Administration (SBA).

Assistance in finding coaching, mentoring and training across the country can be found on SCORE's website[5].

Putting your plan into action

Seek out and take advantage of all that is out there to help build a business—not only sources of funding, but also the invaluable knowledge and learning from experienced business owners that have been there before.

Speak with a BMO financial professional to learn more about options for raising capital.

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[1] BMO Wealth Management, *"Angel Investing: When Hearts and Minds Converge,"* 31 January 2025, https://uswealth.bmo.com/insights/angel-investing-when-hearts-and-minds-converge Accessed July 21, 2025

[2] Clyde & Co LLP, *"The role of a Shareholders' Agreement in corporate governance,"* 21 October 2024, https://www.clydeco.com/en/insights/2024/10/the-role-of-a-shareholders-agreement Accessed July 21, 2025

[3] U.S. Small Business Administration (2025), *"Grants,"* https://www.sba.gov/funding-programs/grants, Accessed July 21, 2025

[4] Y Combinator (2025), *"The Y Combinator Deal,"* https://www.ycombinator.com/deal, Accessed July 21, 2025

[5] SCORE (2025), *"About SCORE,"* https://www.score.org/about, Accessed July 21, 2025

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