The Complete Guide to Funding your eCommerce Marketing

Introduction

Are you looking for ways to secure growth capital to help accelerate your online business? If so, this guide will help you figure out the best option to match your unique business situation. Let's help get your marketing budget the fuel it needs for next-level growth!

Have you just had a huge inventory order come in and are strapped for cash to expand your marketing efforts? Or perhaps you are still in your first year of launching your online store and haven't been able to grow your marketing as much as you'd like. Or maybe people are just not buying as much online these past few months because their local brick-and-mortars are fully operational.

Whatever the case may be, cash flow problems spring up for businesses at various growth phases. In fact, it's the number one problem early-stage eCommerce companies face and the main reason startups fail within their first few years.

With the holiday season looming, you might be looking for what options you have available to quickly fund your dried up marketing coffers to ensure this winter makes your year!

We've put together this complete guide that condenses the options available to eCommerce businesses to fund their marketing campaigns:

- Bootstrapping
- Crowdfunding
- Grants
- Equity Financing
- Debt Financing
- Revenue-based Financing

We'll go through the options and compare them all against each other so you can decide what solution best fits your needs. After all, what works for one company's unique business situation won't necessarily work for yours!

In a nutshell

We know you're busy running your business, so we've summed up the main points from this guide into a handy comparison matrix. Of course, we go into all the details on each funding option below, but here's an overview so you can pick out which of these you want to look into first:

	Applicaton Processing Time	Funding Amount	Repayment	No Personal Guarantor	No Equity Dilution	Minimum Operating Time
Bootstrapping	varies	varies	none	✓	✓	none
Crowdfunding	9 weeks*	$7,000*	varies	✓	rarely	none
Grants	annually	$500-$500k	none	✗	✓	1-2 years
Equity Financing	varies	varies	none	✓	✗	varies
Credit Cards	24-48 hours	varies	monthly	✗	✓	none
Term Loads	30 days	varies	monthly	✗	✓	1-2 years
Revenue-based Financing	24-48 hours	$10k-$10M	daily	✓	✓	6 months

*typical figures

These are the financing options that the vast majority of startups and all kinds of new companies take advantage of. While some may be more long-term with regard to payback time and total amount, others are more suitable for temporary cash flow dips.

Whatever your unique business situation may be, we'll go into detail on each of these options, along with the pros and cons, so you can decide what will suit your needs best. Let's dive into some of the ways you can grow your business!

Bootstrapping

A lot of successful businesses got their start by "pulling themselves up by their own bootstraps" or funding straight from the founders' savings accounts. Essentially, those who come together to start the company use their own personal funds, along with any cash flow the company itself may already be generating to get their inventory, assets, and marketing up and running.

Bootstrapping your business has obvious advantages over some other options, namely that the founders remain completely independent, don't need any external oversight, and don't have to subject themselves to time-consuming paperwork and inspection. They also retain complete ownership of the business themselves.

On the other hand, bootstrapping is a very finite and limited funding option--unless you're Jeff Bezos, that is! You can quickly run out of runway if you've underestimated startup costs, overestimated revenue, or had any unexpected expenses along the way. With this limitation on funds, you may not be able to afford to scale as quickly with bolder marketing campaigns or have the additional structural support partnering with experienced investors or outside organizations could potentially lend.

Pros:

- Immediately available funds
- No equity dilution
- Maintain control over the company
- No external oversight
- Sense of pride and independence

Cons:

- Tighter budget
- Personal savings at risk
- Limited growth opportunities
- No guidance from VCs or veteran investors

Expert tip:

This is for sure the quickest way to get started and demonstrates to future investors that you are committed to executing your idea. If you are enticing friends and family to come on board with you on the journey, make sure you are fully transparent about the risks and if possible put a written agreement in place around the conditions of the investment. In this way, even if your business idea doesn't work out, you'll still have some friends around!

Keith O'Reilly
CO-FOUNDER & CPO, OPTILY.

Crowdfunding

A fairly new addition to the funding family is getting a whole bunch of people to give you a little bit of money, which adds up to a lot. Crowdfunding is closely linked to the rise of social media and internet crazes, coming about in the mid-2000s with the start of IndieGogo and Kickstarter.

Founders typically create a prototype and present it in a promotional video to garner interest among a wide audience who then invests for perks like swag, preorders, or significant discounts on the product once it launches (and in rare cases equity).

A typical campaign usually lasts about two months and raises just under $10,000. It's important to note that if the campaign does not meet its goal, the money reverts back to donors. The success rate with this approach is about 50%.

One of the biggest benefits of crowdfunding over any of the other funding options is that it truly tests your market. If there is overwhelming interest in your product in the very early stages, then you're on the right track. Keep in mind, if there is huge interest and you've discounted too much at the start, you may have cash flow problems down the road when it comes to fulfillment.

On the flip side, if your Kickstarter campaign flops and doesn't meet its goal, then you're better off going back to the whiteboard and figuring out what went wrong.

This option is much more commonly used as a pre-seed round of funding, than for ongoing marketing campaigns. However, if you're launching a new type of product, an updated version of an old one, or some kind of accessory, then crowdfunding campaigns could work for you and serve as their own mini marketing campaigns if they catch on in social media circles.

Pros:

- Preorders help in inventory planning
- Product market fit test
- Early adopters make for good advocates

Cons:

- Opens you up to harmful negative word of mouth in early days
- Potential for cash flow problems during fulfillment
- Exposed to competition in early phases

Expert tip:

Running a successful crowdfunding campaign will often require a little investment to ensure you stand out. You've got a great product idea, but now you do need to invest time (and maybe money) in creating a compelling message that really sells the idea to your potential audience. Look at other successful campaigns and unpick the tactics they deployed. Get help if marketing and creative storytelling are not your strengths as these are worth doing right from the outset.

Ciaran Fitzgerald
CHAIRMAN, OPTILY.

Grants

Who doesn't like the idea of free money? Well, when it comes to funding your next marketing campaign you might be able to qualify for a grant. Keep in mind, it is free money so you're going to have to tick a lot of boxes and do a ton of paperwork. So not quite as "free" as you might initially think.

Grants are highly dependent upon your sector, location, and eligibility factors, such as if you're minority-owned, an emerging business, green, or others. They vary widely in terms of figures with grants starting from as little as $500 and going up to $500,000. Oftentimes, the application process requires a lot of work and can only be submitted once per year ahead of each grant's deadline.

Sometimes grants can be a bit like a popularity contest too, so if your sector isn't very "in" or your product isn't going to excite the press, you may have lower chances of being awarded.

Pros:

- No fees or payback required
- Visibility and free publicity

Cons:

- Time-consuming application
- Stiff competition
- Limited annual application window
- Oversight, reporting, and audits
- Some grants require you to match funds

Expert tip:

Grants are awarded by government bodies, non-profits or by big corporations, so make sure to familiarize yourself with who you're going to be pitching to and what exactly they're looking for. Then, practice your pitch, since you'll often be presenting to a panel-and practice again! Nail all your talking points, highlight your strategy, and don't forget to give it all some flair to ensure you stand out!

Nina White

CONTENT SPECIALIST, OPTILY.

Equity Financing

Equity financing is the main funding source for long-term investors. Basically, you sell percentages of ownership of your company for cash up front. Early investors are usually Angel Investors or Venture Capitalists (VC), but they can also be friends and family who want a bit more than to just help you with bootstrapping. In the later stages of a business, you might go public with an Initial Public Offering and be listed on the major stock exchanges.

Equity financing is generally very lucrative (of course, this depends on how good your valuation is), however, diluting your company equity for short-term cash flow problems might not always be the best option. It's going to have a long-term impact on your company's future, so it may not be the optimal choice unless your next marketing campaign is what's going to truly put your company on the map.

Whenever you give away a portion of your company, you dilute what is remaining for the founders and any other employees or investors that may come along. While you do need capital in your early days for big marketing pushes to scale your company, be very careful not to give away too much too early.

However, getting a great early investor or VC firm onboard can really help you and your team in terms of mentorship, crystallizing your vision, and leveraging their vast networks to help you grow. While bootstrapping and crowdfunding enable you to maintain full ownership of your company, equity financing may open doors and lead to business connections or paths to market that otherwise would not have been possible.

That being said, most VCs won't invest in companies that are too fresh, usually requiring a proven track record or highly qualified founders with great business history. Also when they do invest, they typically invest big and, therefore, take a commensurate percentage of ownership--typically 10%-30%.

Pros:

- Big sums of money
- Credibility and visibility
- Connections through investor networks
- Oversight and business guidance

Cons:

- Equity dilution
- Less control over business decisions
- High pressure for rapid growth
- Returns often valued over long-term company success

Expert tip:

If you can, find an investor who not only brings cash to the table, but who addresses some other gap that you have. It could be mentorship in some aspects of business growth that is not your strength. It could be connections with potential customers or partners. Giving up equity can be painful so getting into bed with an investor who can bring more than capital to the table is often worth holding out for.

Anthony Reynolds
OPTILY INVESTOR.

Debt Financing

Taking out a loan or charging it to a company card seem like quick and easy fixes for temporary ebbs in liquidity. While debt financing is a pretty common and clear-cut way to buy now and pay later, interest can start to rack up if you don't pay it all back as quickly as you'd planned.

Beyond the fact that some loans (and especially credit cards) tend to have high interest rates, you might have a tougher time getting approved if you're a newer business. While oftentimes having plenty of options for small businesses, lenders (usually banks) will generally still expect to see a solid company credit history. But if you haven't been around very long, they may look into the personal financial history of the founders. So, if you've been in operation for fewer than 2 years, you'll likely encounter more difficulties in securing a loan or high-limit credit card.

They'll generally want to see all of your financials, cash flow, along with your company assets. The latter will be especially important when it comes to asset backed loans, where your company assets, such as production equipment, would serve as collateral. For small business credit cards, unless your turnover is already in the millions, you'll likely be personally liable for the business expenses you rack up on the company card.

Another kind of loan we'd like to mention here that can be fairly common among small businesses are those with debt covenants. Basically, it's a loan with conditions. In order to unlock more capital, the company has to attain an agreed upon level of profitability or keep overheads within certain ranges.

That being said, once approved the terms are all laid out in your contract and there is generally no oversight of your day-to-day operations. And depending on which type of credit card you opt for, you may have any one of a wide variety of amazing credit card perks, like airport lounge access, cash back incentives, or frequent flyer miles.

Pros:

- Retain full ownership of your company
- Simplified expense tracking
- Builds up company credit history
- Tax-deductible expenses

Cons:

- High interest rates
- Repayment required even if business fails
- Difficult to qualify
- Often rigid repayment schedules
- Early repayment penalty

Expert tip:

Debt financing is typically the least popular option because traditional lending institutions are so risk averse and therefore the process can be slow and the costs can be high. Shop around and try to find a lender that will be flexible with you in the event that you need to delay repayments or change the repayment plan. Make sure you look at the T&C's for what happens when you may be struggling to repay the loan on time.

Hilary Knox
FINANCE DIRECTOR, OPTILY.

Optily ADVANCE

Revenue-based Financing

The new kid on the block when it comes to growth capital is revenue-based financing. Your company's financial data is plugged into fancy algorithms and machine learning which produce a series of investment options based on past performance.

Since the whole proposal calculation is based on the raw financial data, rather than a holistic view of your business plan and growth potential, there may be an overemphasis on short-term growth that boosts immediate revenue. As a result, revenue-based financing is often better suited as a way to jumpstart growth immediately with marketing campaigns and extra inventory.

The lending company (ClearCo and Outfund are two big names in this space) makes an advance offer-- anywhere from $10,000 to $10,000,000 depending on the provider-- and then calculates a percentage of the amount as the service fee. This is the total amount you'll need to pay back, no matter the amount of time it takes.

For example, you're approved for $50,000 to finance your upcoming Black Friday/Cyber Monday blowout sale marketing campaign across 6 different channels. You'll most likely get a credit card that's restricted to just the ad platforms, ad management software, and ad agencies. This ensures that you aren't out there putting a down payment on your new Tesla!

Say your agreed upon processing fee was 6% (which is pretty standard), you'll end up paying back a total of $53,000, typically over the course of 6 months. Payback time will depend on your daily revenues, but the total will not change even if it takes a little longer than expected.

The repayment is where this funding option really stands out. An agreed upon percentage of your daily revenues is automatically taken out as repayment. Meaning if you have a really amazing weekend of sales because you trended on TikTok, you'll pay back a bigger amount. However, if things slow down in a post-holiday slump for a few days, you'll end up paying back less since it's a fixed percentage.

Pros:

- Approval in 24-48 hours
- No equity dilution
- No personal guarantees
- Flat fee & total repayment based on daily revenues

Cons:

- Emphasis on short-term gains in the approval process

Expert tip:

Revenue-based financing is not new, but is seeing a resurgence amongst direct-to-consumer founder-led businesses as it requires no security or equity, plus the repayments are linked to your revenue. Shop around as the pricing and terms are competitive in this space and see what additional value these types of lenders can provide. For example, some of these lenders have partnerships with service and software companies that can bring a lot of additional value to how you manage your business.

Brendan Hughes
CEO, OPTILY.

How to make the most of your marketing budget?

Ok, so you've dipped into your savings, gotten a short-term loan, or been approved for revenue-based financing. Now what?

Since you need funding to grow your online business through marketing, a software that can help ensure you're spending your ad dollars in the right place sounds pretty good about now, right?

Optily's ad spend optimizer brings together your Facebook, Google, Instagram, and YouTube campaigns which have the same goal and instantly figures out which one is performing the best. You can then apply the budget change recommendations straight from the Optily dashboard, saving tons of time on ad optimization and maintenance.

What's better still, beyond the usual 14-day free trial, we're offering anyone who's approved for revenue-based financing with one of our partners a **free 3-month subscription** to our Accelerate plan.

Learn More about Optily Advance