# Startups turn to alternative funding strategies as venture capital shrinks in 2025



With venture capital becoming increasingly difficult to secure in 2025, startup founders are embracing a variety of alternative funding strategies designed to navigate a tighter investment landscape. Data from Carta reveals that new venture capital investments in 2024 fell to their lowest level since 2018, with just 5,743 deals closing—a 7% decline from the previous year—and venture fund raises dropping by 46% in the U.S. This trend underscores a sharp shift in the VC environment, where investors now demand stronger track records, validated product-market fits, and clear scaling potential before committing capital. Consequently, traditional venture funding may no longer be the most viable or advisable route for many early-stage startups.

One increasingly popular method for raising early-stage capital is through convertible notes. These instruments function as short-term loans that convert into equity during a later priced funding round. The key advantages of convertible notes are their speed, simplicity, and flexibility, allowing startups to raise funds quickly while postponing the challenge of valuation discussions. Such notes often include investor-friendly terms such as discounts on future equity rounds, valuation caps, and modest interest rates typically ranging from 4% to 10% per annum. According to detailed analyses, convertible notes are especially suited to pre-seed or seed rounds and environments with significant market uncertainty. However, founders should be wary of potential downsides, such as complexities arising from multiple notes causing over-dilution or complications if the timing for conversion remains unclear.

Beyond convertible notes, startups are exploring other innovative approaches that avoid relinquishing too much equity prematurely. One strategy involves exchanging equity for services, offering shares to skilled contributors like designers, developers, or advisors who work part-time or on specific projects. This equity-for-service arrangement can be a cost-effective way to access critical talent while aligning team members’ incentives with the company’s success. Founders are advised to implement clear vesting schedules and employ professional tools like Carta or Pulley for meticulous equity tracking even in early phases.

Another evolving avenue lies in engaging family offices—private wealth management firms for high-net-worth individuals—which are increasingly interested in direct startup investments that reflect their investment philosophy and values. By leveraging platforms such as PitchBook or Crunchbase, startups can identify family offices with a focus on early-stage innovation and tailor pitches accordingly to enhance alignment and interest.

Crowdfunding remains a viable option, particularly for consumer product startups. Platforms like Kickstarter, Indiegogo, or StartEngine enable founders to raise capital from the public through product pre-orders or small equity raises, simultaneously validating market demand and generating early revenues. A strong brand narrative, transparent delivery timelines, and compelling founder stories are critical to maximizing crowdfunding success.

For startups with a social, research, or innovation focus, non-dilutive grant programs offer an attractive source of capital without equity loss. Opportunities include government grants like SBIR and STTR, philanthropic foundations such as the Gates Foundation, corporate initiatives like Google for Startups, and university innovation hubs. While time-intensive, grant applications can provide essential funds with fewer strings attached, making dedicated team resources for grant research worthwhile.

Some founders opt to bootstrap by funding their startups through income from a parallel day job. This approach mitigates early financial pressure, allowing entrepreneurs to test and refine their ideas while setting tangible milestones—such as monthly recurring revenue targets or customer acquisition goals—to determine when to commit full-time.

Lastly, aiming for early profitability is an increasingly attractive path. Startups that concentrate on building revenue-generating models with low overhead can retain greater ownership and control, creating more sustainable enterprises. Profitability also serves as a strong leverage point if external capital is sought later, offering investors a clearer picture of business viability.

The current shifts in the venture capital landscape, while challenging, are fostering a generation of more disciplined, resilient startups. By diversifying funding strategies beyond conventional venture capital, founders can preserve equity, maintain control, and build businesses that are well-positioned for long-term success.

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* Paragraph 1 – [[1]](https://www.entrepreneur.com/growing-a-business/struggling-to-raise-vc-these-7-startup-funding-tactics/497478)
* Paragraph 2 – [[1]](https://www.entrepreneur.com/growing-a-business/struggling-to-raise-vc-these-7-startup-funding-tactics/497478), [[2]](https://www.gilion.com/basics/convertible-notes), [[3]](https://www.angelschool.vc/blog/what-is-a-convertible-note), [[4]](https://www.kiplinger.com/investing/early-stage-startup-deals-how-convertible-notes-work), [[5]](https://www.gilion.com/basics/convertible-notes), [[6]](https://www.gilion.com/basics/convertible-notes), [[7]](https://www.gilion.com/basics/convertible-notes)
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## Bibliography

1. <https://www.entrepreneur.com/growing-a-business/struggling-to-raise-vc-these-7-startup-funding-tactics/497478> - Please view link - unable to able to access data
2. <https://www.gilion.com/basics/convertible-notes> - This article provides an in-depth overview of convertible notes, explaining their function as short-term loans that convert into equity during future funding rounds. It discusses when to use them, highlighting their speed, simplicity, and flexibility, especially in early-stage fundraising. The piece also outlines scenarios where convertible notes are particularly useful, such as when raising pre-seed or seed capital, moving quickly with minimal legal work, and operating in volatile markets. Additionally, it addresses situations where convertible notes may not be ideal, like uncertainty about the timing of the next priced round or multiple notes leading to over-dilution.
3. <https://www.angelschool.vc/blog/what-is-a-convertible-note> - This guide explains the concept of a convertible note, describing it as a short-term debt that converts into equity at a future date, typically during the startup's next funding round. It outlines the benefits of using convertible notes, including ease and speed of raising funds, postponing valuation discussions, and providing investors with equity. The article also highlights investor-friendly terms such as discounts on future rounds, valuation caps, and interest rates. It is particularly useful for angel investors seeking to understand the mechanics and advantages of convertible notes in early-stage investments.
4. <https://www.kiplinger.com/investing/early-stage-startup-deals-how-convertible-notes-work> - This article delves into the mechanics of convertible notes, detailing how they represent a debt owed by the startup to the investor. It explains that the investor provides a loan in exchange for a convertible note, which accrues interest annually and has a maturity date. Upon reaching this date, the startup must either repay the loan with interest or convert it into shares. The piece also distinguishes convertible notes from SAFEs (Simple Agreements for Future Equity) and discusses key provisions such as maturity dates and interest rates, typically ranging from 4% to 10% per year.
5. <https://www.gilion.com/basics/convertible-notes> - This article provides an in-depth overview of convertible notes, explaining their function as short-term loans that convert into equity during future funding rounds. It discusses when to use them, highlighting their speed, simplicity, and flexibility, especially in early-stage fundraising. The piece also outlines scenarios where convertible notes are particularly useful, such as when raising pre-seed or seed capital, moving quickly with minimal legal work, and operating in volatile markets. Additionally, it addresses situations where convertible notes may not be ideal, like uncertainty about the timing of the next priced round or multiple notes leading to over-dilution.
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