REVENUE-BASED FINANCING

Funding you repay as a share of your monthly sales: how it works, what it really costs, and when it fits.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 8 MINUTES LEVEL: INTERMEDIATE

AT A GLANCE

- With **revenue-based financing (RBF)**, a funder gives you money now, and you repay a **fixed total amount** by sharing a **percentage of your monthly sales** until it's paid.
- Payments go **up in good months and down in slow ones**. You don't give up ownership.
- It can be **expensive** if you repay quickly. Always work out the true cost before you sign.

WATCH OUT

Some products that work like this, such as **merchant cash advances**, can be very expensive and are less regulated than loans. Read every term and compare the cost with other options.

Why it matters

RBF can help businesses with steady sales fund marketing, inventory or growth without giving up ownership or waiting months for a bank. But the cost isn't shown as an interest rate, so it's easy to underestimate.

How it works

Term	What it means	Example
Advance	The money you receive	$50,000
Repayment cap (or factor)	The total you'll repay, as a multiple of the advance	1.3 × = $65,000
Revenue share	The percentage of monthly sales that goes to repayment	8%
Term	How long it takes, depending on your sales	About 16 months in the example below

Example: Amara's skincare brand

> EXAMPLE
>
> Amara receives **$50,000** to fund inventory and ads. She'll repay **$65,000** total (a 1.3 cap) by paying **8%** of monthly sales. Her online sales average **$50,000 a month**.

- Monthly payment: 8% × $50,000 = **$4,000**
- Months to repay: $65,000 ÷ $4,000 = **about 16 months**
- Cost of the money: **$15,000** on $50,000

If her sales doubled, she'd repay in about 8 months. She'd pay the same $15,000 in a shorter time, which makes the cost much higher on a yearly basis. If sales slowed, payments would shrink and repayment would take longer.

> KEY POINT
>
> With RBF, the **faster you repay, the more expensive it is per year**. A fee that looks small can be equal to a very high annual interest rate if repaid in a few months.

When it fits

- Steady, predictable revenue, often online or subscription sales
- Good gross margins, so you can afford to share revenue
- A clear use that quickly brings in more sales, like inventory or proven marketing
- You want to avoid giving up ownership

When to be careful

- Thin margins: sharing 8% of revenue can wipe out your profit
- Uneven or seasonal sales
- Offers that require **daily** payments from your bank account
- Funders who won't clearly state the total amount you'll repay

Step by step

1. **Get the total repayment amount** in writing.
2. **Calculate the monthly payment** at your average sales, and at slow-month sales.
3. **Estimate the time to repay** and the yearly cost.
4. **Compare** with a line of credit, a bank loan or a microloan.
5. **Read the fine print**: personal guarantees, fees, default terms and what happens if you close.

Common mistakes

- **Only looking at the "factor."**
- **Stacking several advances** at once.
- **Using it to cover losses** rather than to grow sales.
- **Signing confessions of judgment** or terms you don't understand. Ask a lawyer.

Your checklist

- ☐ Get the total repayment amount in writing
- ☐ Calculate payments at average and slow-month sales
- ☐ Estimate repayment time and yearly cost
- ☐ Compare at least two other options
- ☐ Have a lawyer review the agreement

Key words, explained

Word	What it means
Revenue-based financing	Funding repaid as a share of sales.
Repayment cap / factor	The total you'll repay, as a multiple of the advance.
Merchant cash advance	A cash advance repaid from card sales, often costly.

Where to go next

- **R-07 Equipment Financing and Lines of Credit**
- **R-13 Debt vs. Equity: Borrowing vs. Selling Ownership**
- **R-23 Red Flags and Funding Scams to Avoid**

IMPORTANT
This guide is general education from the Project Underdogs Founder Library. It is not legal, tax, accounting, immigration or investment advice, and it is not an offer of investment or a promise of funding. Figures are general examples and ranges, not quotes. Rules change and every business is different, so check your situation with a qualified professional. Full terms: LIB-03 Disclaimer and Terms of Use.