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Shelf Space: ‘Til Debt Do Us Part: Why CPG Startup Founders Should Reconsider Early-Stage Debt Financing

“Debt” can be a very scary word for founders in the consumer-packaged goods (CPG) space. But should it be? Research shows that startups that use debt financing have seen valuation uplifts of nearly 50% compared to equity-only peers — so why aren’t more early-stage CPG founders exploring debt as a funding option?

Many consumer brand founders worry that taking on debt will scare away venture capital investors, weaken margins or create restrictive terms. All are reasonable fears; but on their own, they shouldn’t be enough to dissuade founders from looking at debt as an alternative early-stage capital solution.

This case study unpacks the top three founder concerns about debt, and why the right structure might be a signal of strength, not weakness.

Should CPG Startup Founders Worry about Paying Back Early-Stage Debt?

To start with the obvious: yes, debt needs to be repaid. And yes, early-stage debt — whether in the form of inventory financing, factoring some other structure — can be expensive. But if a founder is looking forward to a nine-figure exit, the cost of the debt may pale in comparison to what’s handed over in equity. If early investors came in with low caps or heavy preferences, the math at liquidation starts to look downright friendly.

So, the real question for founders is this: in your current cap table and growth plan, could short-term debt repayments protect more long-term equity value than giving it up now? If the answer is yes, debt might not be a drag; it might be leverage.

Will Startup Debt Scare Venture Capital Investors?

What about the VCs? In most cases, venture investors in a preferred financing doesn’t want their capital being used to effectively refinance a loan. They want that money to help grow the company. But that doesn’t mean early-stage debt is a dealbreaker.

When structured carefully — and not tied in full, or even in part, to a “qualified financing

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threshold” — debt repayment can be managed without affecting future raises. If the terms of the debt are carefully negotiated, and the partner is familiar with the growth trajectory and cash needs of a CPG startup, then what initially seems like a burdensome debt service eventually becomes an afterthought, once the company is churning sales.

Founders should challenge themselves to consider that having debt might not be a red flag for investors. A founder who protects equity early and avoids the oft-perceived inevitability of “the next round” can be attractive — especially to early investors looking to preserve their seniority, convert to common and make a killing later.

How Restrictive are Debt Covenants for CPG Startups?

Lender covenants for a startup borrowing capital will, of course, be restrictive. But there are plenty of lenders in the space who understand the realities of early-stage growth and tailor their term sheets accordingly. Covenants are negotiated points; they don't have to be death devices.

Compared to equity terms, like protective provisions or “preferred director approval” rights, debt covenants are often simpler, shorter-lived and easier to unwind. Once the debt's repaid, they go away. Poof.

In other words, the covenants you negotiate will tell your story — and that story doesn't have to take place on Elm Street. Debt — even if it is expensive, even if it means covenants, even if it means margin pressure — can be used to prevent dilution, encourage growth and demonstrate fiscal responsibility.

The Takeaway: Early-Stage CPG Founders Shouldn't Overlook Debt Financing

Of course, every story is different, and each fundraising need should be bespoke to the company.

But we've all heard stories of a founder landing multiple term sheets but no commitments or going deep into diligence with multiple funds — only to see them back out. Whether it was too early, too crowded a market or too much risk, VCs can back away for many reasons.

But debt is there. And debt can be more forgiving. And might just be the tool that — executed properly — brings those VCs back into the fold when the company has been derisked and the founder can validate a higher price of equity.

Ready to explore how debt can strategically enhance your fundraising efforts? Schedule a conversation with us on Shelf Space today through this short form and discover how we can help you unlock new opportunities and bring VCs back to the table with confidence.