



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

OK! Welcome back, Segment 4.3. In this little segment, we're going to talk about seed and startup financing. That's the amount of money that you need when you are first getting your business launched. Some people make a distinction between the seed phase, which is the really, really, really early stage when you're just looking for your first financing, and the startup phase, which is just after the seed phase. In general, they usually involve the same sources of financing, same pluses and minuses. We're going to put them all together, and in many cases, people use them interchangeably in any case. The seed and the startup financing is the plan for today.

Notes

Summary



0m 07s

Week 4: Raising & Managing Money

Launching New Ventures: Entrepreneurship & Strategy for Technology-Driven Startups

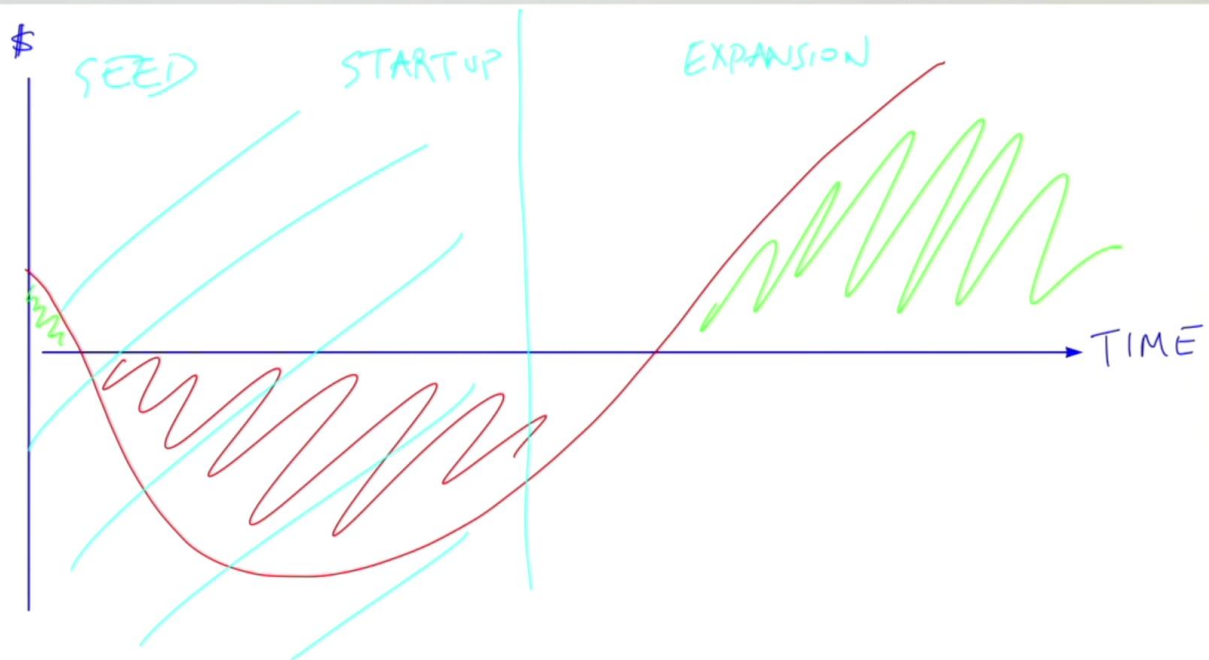
Prof. Chris Tucci and Prof. Marc Gruber

By now, you'll should be almost sick of our little graphic that shows the different timeline and the cash flow on a business, but let's just review it really quickly so we can discuss the various stages of the company. First, we have the X axis which just refers to the past of time. Then we have the Y axis which is the total amount of money, either positive, which means you have money in the bank, or negative, which means you are in deficit or you owe money. Then we have our famous graph that shows how you spend down your initial endowment, if you have any. Then you start spending more and more money until finally, you start earning money. In which case, where you have your own resources that you have available. This part in the middle is the part that you need to cover eventually through all of your financing, because it's the total amount of money that you'll be spending on your business. Then finally, once you break even, you recoup all of your prior investments, then you are making money again. Now, let's talk about the different stages of financing here. As we've previously discussed, you can break these into different stages. There's no hard and fast rule for when these stages occur.

Notes

Summary





Launching new ventures

Let's just say that a lot of people would tend to call this very early part the *seed stage*. Then they would call the next part the *start up phase*. Then they would call the third part the *expansion phase* or the growth phase. What we're looking at today is this early time period somewhere in here when you are trying to get your business launched.

Notes

Summary



2m 27s



- Friends and Family
- Crowdfunding
- Banks
- Foundations
- Startup competitions
- Angels and Angel Groups
- Family Offices
- Venture Capital
- Strategic Partners
- Nobody (“bootstrapping”)

Launching new ventures

Here's our big list of investors. We've already visited this in the last segment. We're going to focus now on the top of this list so friends and family, crowd funding, banks, foundations, startup competitions, and individual angels, and boot strapping, of course.

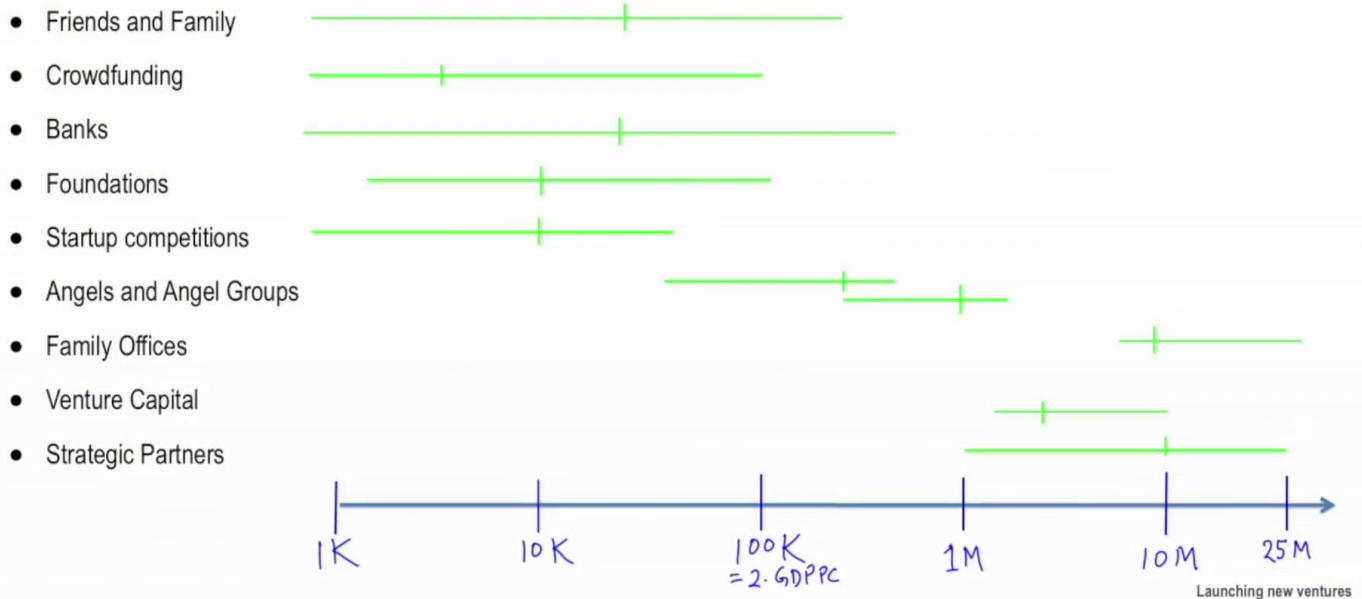
Notes

Summary



3m 09s

Investors—how much to expect



That's what we're going to talk about now. As you recall from the last segment, we made a list of each of the sources and roughly the range that you could expect of financing available which again should be calibrated to your own economy. For example, this middle of the range here is a 100,000 which in many industrialized countries, represents approximately two times the per capita GDP. Now, if you're in a country with a much higher GDP, then you could expect to raise more than that. If you're in a country with a lower GDP per capita, then you would expect to raise less than that. It would still be roughly in that line so you might be able to get a loan, a bank loan for roughly that amount of money, and you may be able to raise that amount of money from your friends and family, for example. Startup competition may be half that. Let's talk about each of these now and discuss what are some of the pluses and minuses of each of these things. First, we need to think about how are we going to evaluate all these various options that we have. Seems like there are so many things that we could do. So we need to be able to set some criteria up to the side between these various options.

Notes

Summary



How to analyze your options



Financial criteria
Management criteria
Additional criteria

Launching new ventures

Let's talk about how to analyze your options. When we look in all these various sources, we need to ask ourselves three main questions. First is: what are the financial benefits and cost of this? What are the management costs and benefits? What are the other intangible benefits and costs here? We're going to look at each of these in turn, and we're going to talk about each source and think about these different criteria for evaluating the source.

Notes

Summary



4m 51s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

In terms of the financial criteria, the first question is: how much money can you raise? Obviously, you may need more or less money to run the operations of your business. It might take more or less time. That's why we say how quickly are these things available. Then the time horizon on them. How soon do you need to pay back the investor or allow the investor to exit the business? Finally, are there actual costs to the source of financing? Then we look at the management criteria. For the management criteria, what we're looking for here is: can we get advice from the investor? Yes or no. It's not always going to be the case that you get advice, but you might need help in the founding process itself. The really early stages, it might be nice to get some advice about what to do and how to set up the business. Then the second point is: can you get advice or support in the ongoing management of the business once it's been established? Then the third one might be "What are sort of added value does the investor have?" Does an affiliation with the investor give you a boost to your own reputation because of your affiliation with this prominent investor?

Notes

Summary



0m 08s



Financial criteria

- How much money can you raise
- Availability (how quickly available?)
- Time horizon (short- vs. long-term)
- Cost

Management criteria

- Support in the founding process
- Support in the ongoing management
- Added value (e.g., reputation)

Additional criteria

- Independence
- Degree of separation between source and team

Launching new ventures

Then finally, the last criteria are the intangible criteria, independence versus control the business. Some of the sources, especially when you are selling equity in your business, then you are necessarily going to give up a little bit of your independence. You're going to give up a little of control over your business. You have to ask yourself how much is that worth to you to be completely independent versus to be partially independent. You're giving up a little bit of control. That'll become more apparent later on when we talk about expansion financing. Even now, even in the seed-startup stage, the independence issue is an important issue. Then finally, just the degree of separation between a source and a team. In other words, the source of the investment might be to a lesser or greater extent associated with the founder and the founding team. You might be close with them, which can be complicated as we're going to find out in a minute.

Notes

Summary



6m 48s



Financing Stages

on
today's
agenda

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Let's start with boot strapping. Boot strapping is when you finance the company's growth from the money that you gained in operating the company. As you can see, the range that you can raise this way is unlimited so that sounds great. Furthermore, you keep complete control over the company, and you don't have to share the decision making rights with anybody. However, boot strapping has a huge disadvantage, which is you must be running a profitable business now. If you're losing money, obviously, your business is not going to be throwing off the cash that you need to actually grow your business. You actually have to have a positive cash flow from the very moment that you decide you want to use this as a source. Of course, you also don't get any advice or input from anyone else because you're basically just running your company. OK, let's talk about friends and family now. This is where you ask your Aunt Matilda or your grandmother, or any of your friends, or other loved ones, or anyone else that you can think of to basically give you a gift, to give you money. If you can't get them to give you money, maybe you could get them to lend you money at a very reasonable interest rate so some kind of below market, cheap loan interest rate.

Notes

Summary



0m 11s



Financing Stages

on
today's
agenda

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

This is the most typical source of financing for a new company. This is possibly the easiest depending on your relations with your relatives. The amount that you can raise is up to 250,000 or five times GDP per capita depending on your economy. A typical amount would be, say, 25,000 or one half per capita GDP. It's quick. Can be done in a week or two. A time horizon is long because most of your friends and family aren't going to ask you to pay them back immediately. And you get to keep control of your business. You're not sharing decision with anybody. You maintain the ownership of your company. That sounds ideal, doesn't it? The problem is that there's actually several disadvantages to this, which is first of all, the amounts are on the smaller side. You're not going to be able to go very far with the friends and family investment. Plus, a failure can hurt your personal relations, right? You go to see on a holiday dinner with your Aunt Matilda. You've already asked her for her life savings, which she's given to you. Then she says, "Gee, I couldn't go. I had to sell my house and move into my apartment because I gave you all my money. So, how's your business going? It puts a lot of pressure on you.

Notes

Summary



0m 14s



- You ask your friends, family, and anyone else you can think of to give you a gift or a cheap loan
- Amount range: \$1-\$250K (5 x GDPpc), typical \$25K
- Time frame: 1-2 weeks
- Time horizon: Long

Advantages: Control

Disadvantages:

- Relatively small amounts
- Failure can hurt personal relations
- Usually can't help you much with input

Launching new ventures

If you turn around and say, "Yeah, sorry, my business didn't work out. Hope you enjoy your new apartment." You're basically putting your personal relations, You're kind of stretching them here: if you're not successful with your company. There's not a huge separation between the source and the founding team. Usually, if you're asking your grandmother for money or maybe your grandmother is a very successful entrepreneur so that's great. She might be able to give you advice about how to grow your business. But most of the time, your friends and family members are not going to be able to advise you on the business. So, as you can see, there are some very serious disadvantages to friends and family, along with many, many advantages.

Notes

Summary



11m 09s



Financing Stages

on
today's
agenda

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Now, we've already had a prior session in a prior module on crowd funding, on the mechanics of setting up a crowd funding proposal on a platform. But what we want to do in this particular segment is understand the plus and minuses of getting crowd funding money in the first place. As you recall, it's when you go on an Internet platform and you basically ask an anonymous crowd for money. In most case, it's a gift, but it could also be you pre-selling your inventory, you're pre-selling your prototypes occasionally, depending on the country. There's different rules about ownership of companies. How many people can possibly be investors at the same time before you need to be a public company? But occasionally, you will actually sell equity stakes to your crowd funding investors. The amount is usually on the order of a thousand to a hundred thousand, say, two times GDP per capita, but the typical amount is really very, very small on the order of 7,000. Of course, companies have raised millions in certain crowd funding campaigns. But those are relatively rare events. Usually, there was involved something that's almost really ready to go a production - that they're really pre-selling inventory on those cases.

Notes

Summary



0m 18s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

A timeframe here is about one to two months. The time horizon on all these things is relatively long, except in the case of pre-selling a prototype. We'll talk about that in a minute. It can be relatively short for receiving a product in your hand. On the other hand, if it's a gift or if it's an equity investment, they aren't long timeframe here. They're not looking to get repaid. They're not looking for an exit event in the near future. What are the advantages here? The advantages, you maintain control of your company, which is very nice. It gives you the possibility of testing the market. You have a concept. You have a prototype. You're not sure if people would be interested in it. Here's a chance for you to actually put it out there and get feedback on it and see if people are willing to pay for it. Because in many cases, they will actually pre-buy your prototype before you put it into production. The third advantage is you get a big audience. You get a lot of people noticing you, learning about your company, learning about your concept, and possibly helping you. Those are some very, very good advantages to crowd funding platforms.

Notes

Summary



0m 20s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Now, the disadvantages, the first one is – of course, you already mentioned it – it's a relatively small amount of money. Don't plan on using crowd funding campaign to this giant launch to cover all of your cost. It's going to get you some feedback relatively early. It's going to get you a relatively small amount of money to kind of keep you going through the next few months type of thing. If you don't execute, you can expect a major public relation problem because now, you've advertised to people on the Internet. If you don't do what you say you're going to do, then they're going to be complaining about you on the Internet. It's going to really hurt your reputation. There've been lots of stories of people who presold inventory. They didn't realize there's going to be some customs issues when they shipped it out of their own country. Then the people didn't receive it on time and started complaining, or they had to pay extra customs fees. Then they really, really were complaining. If you don't ship on time when you say you're going to, people don't forgive the production delays. They'll definitely come down and start saying bad things about you, and that's going to hurt the reputation of your company.

Notes

Summary



0m 22s



- You ask an anonymous “crowd” for money
 - usually a gift or pre-sale
 - occasionally, equity
- Amount range: \$1K-\$100K (2 x GDPpc), typical \$7K
- Time frame: 1-2 months
- Time horizon: Long

Advantages:

- Control
- Market testing possibilities
- Big audience

Disadvantages:

- Relatively small amounts
- If you don't execute, expect MAJOR PR problems
- Usually can't help you much with input

There's a risk here. There's a reputational risk. You have to be really, really ready and confident you can execute. Usually, the people making the investments in the crowd funding platform are not going to give you advice. So you're not going to learn about founding your company, how to take it to the next level, et cetera, from any of these investors. They're most anonymous crowd of investors that are basically giving you some resources you can work with.

Notes

Summary



15m 54s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Okay, let's talk about banks now. Banks is where you go where you want to take out a loan. The bank lends you money, usually small amounts of money on the order of a thousand. Of course, you can get up to 500,000 maybe or ten times GDP per capita, but your typical amount is going to be much lower than that, more on the order of 25,000 or one-half GDP per capita. It takes about one to two months to get a loan because the bank has to do all kinds of due diligence on you. They also want to make sure that you're going to pay them back or that you are going to put up something as collateral. The time horizon on a bank loan is usually relatively short term so talking about maybe five years or so. The bank is going to be expected to get an interest payment during the whole term on the loan and either amortize the loan. In other words, you start paying the principle down during the loan period or pay interest only and then pay back the whole loan at the end of the term. You're on the hook, and the bank's time horizon is generally relatively on a shorter side. What are the advantages of this? Of course, the control advantage is good. You don't have to share ownership or decision rights with anybody, and you keep control of your business.

Notes

Summary



0m 24s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

For the ones who actually get the loans, you could say that the conservative nature of the bank's due diligence process probably is some sign that they are – that you got a good company, that they're willing to lend to you because they're really conservative. Banks would only be conservative because they usually have to get the money back because they've lent the money out that they received through deposits. They definitely want to get repaid, which leads to the disadvantage, which is this commitment that you have is typically a monthly payment or a quarterly payment. This is a commitment that drains your cash. You are on the hook. If you don't pay back, they can start making your life difficult, take you to court, force you into bankruptcy depending on the country, etc. This is a real commitment. Once you borrow this money, you're on the hook to pay them back with interest on a regular basis over the terminal loan. The second is, generally speaking, you're going to have to put up collateral. You may not have to and you have to pay a much higher interest rate and a much lower term, much quicker term to pay back if you don't put up collateral.

Notes

Summary



0m 26s



- You ask a bank for a loan
- Amount range: \$1K-\$500K (10 x GDPpc), typical \$25K
- Time frame: 3-6 weeks
- Time horizon: 5 years

Advantages:

- Control
- Strict due diligence, conservative investors (?)

Disadvantages:

- Commitment drains cash
- Are you ready to put your house up as collateral?
- Usually can't help you much with input

The question is, are you really ready to put your house up as collateral for your business? Your business fails; you could be forced to sell your house or some other asset that you have to pay back the bank loan. This is a big commitment, I would say. Generally speaking, the bank officers, et cetera, the people who make the loans can't usually give you much advice on founding or managing your business. This is a purely financial transaction. You have to be fairly confident that you are going to be making money over the term to be able to pay back the loan in a good period of time. It's a major disadvantages here to a bank loan although as you can see, there are some advantages as well. A lot of people do try and get small loans at the beginning. Sometimes, there are other government loan type programs that might have a slightly more advantageous. They might give you some break for the initial period. Then you start paying back after some initial period. But there are a lot of disadvantages to taking a loan.

Notes

Summary



19m 07s



Financing Stages

on
today's
agenda

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Let's talk about foundations and public organizations. Now, these are the organizations that you go to when you are looking for a grant or a gift. The amount is usually on a smaller side, 5,000 up to 200,000 or so, which could be up to four times GDP per capita. A typical amount would be more like 10,000 so relatively small amounts of money. A timeframe is not so great on this. It might take you three to six months to hear back from them, not to mention you have to prepare yourself to get the grant. The overall timeframe is quite long on grant writing as a source of investment in your company. Time horizon, five to eight years, that's just to say that the foundations are giving you a grant, and they would like to see some results, and you may have to report back to them. Even if they don't ask for a financial return, you may have some pressure to perform, to show that you've accomplished what you said you want to do in your grant. What are the advantages here? The control, obviously, just like all the other grants and gifts, you may take control of your company. This could be helpful.

Notes

Summary



0m 30s



Financing Stages

on
today's
agenda

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

If you have a pro-social business, if you have social entrepreneurship business, then foundations could be a great source because they may be more interested than, say, a bank in helping a pro-social business. It's a very nice outlet for someone who is interested in social entrepreneurship. It gives you credibility. Receiving a grant from a big foundation is very good for your reputation. Of course, there's no cash drain because you don't usually have to pay back a grant. Now, the disadvantages here, as I already mentioned, it does take a long time to get a grant. Furthermore, you just can't apply to every single foundation that's out there. You have to really find a foundation that matches the mission of your startup. If you have some kind of pro-social motive that's attacking disease control in a certain part of the world or something like that, then you have to find a foundation that's also interested in disease control. You can't just apply to any old foundation. It's going to take a long time to find the right foundation to sometimes get to know the people that work there and to write something that's really, really targeted.

Notes

Summary



0m 32s



- You ask foundations for grants (gifts)
- Amount range: \$5K-\$200K (4 x GDPpc), typical \$10K
- Time frame: 3-6 months
- Time horizon: 5-8 years

Advantages:

- Control
- Helpful for pro-social businesses
- Credibility
- No cash drain

Disadvantages:

- Takes a long time
- Need to find foundation that matches mission

An only disadvantage here is that it's sending out a kind of a generic grant application is usually not considered to be a great recipe for success. It's really hard to convert on those and then actually get some money from a foundation. You have to really target it to the mission of the foundation. Again, relatively small amounts of money, of course, it's grants. It's nice for social entrepreneurship, but it's going to take a long time when you really have to tailor your message to the foundation or find a foundation that's tailored already to what you are interested in doing.

Notes

Summary



23m 00s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Now, we address an age-old question. Should you enter a startup competition? It's hard to answer this question. You enter a contest. You pitch your idea in front of a room full of people, usually other entrepreneurs and a jury which has some experts, entrepreneurs, or investors on it, and they evaluate your idea. They give you feedback. And if you're really, really good, you could receive a prize which is often in the form of a gift. It could also be a loan, could be an in-kind contribution such as office space. You could receive attention from the people in the audience. Sometimes, investors sit in on these, even if they're not on a jury. They actually can approach you afterwards and say they're interested in making an investment in your company. It's a nice way of getting exposure. The amounts are usually again relatively small. We're talking about 1,000 to 50,000 dollars which is roughly GDP per capita in whenever economy. Typical amount might be one-fifth that so, say, \$10,000. Timeframe is relatively short. You enter the contests. You go in, you make your pitch. Usually, this whole thing gets resolved within a month or so.

Notes

Summary



0m 35s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

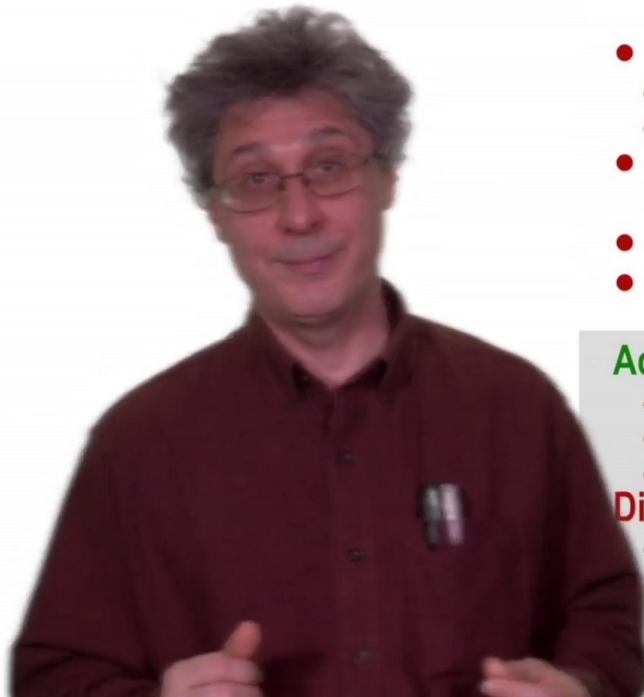
Time horizon is very long because they're not interested in necessarily a return, especially if you've won a prize. It's just to help you get the business launched. What are the disadvantages here? In the case of a real gift or a prize, you maintain control as we just discussed. Credibility and prestige, you get a lot of. When you win the things, it does say something. It can be impressive. It can be perhaps an entree into other investors. And you do get advice and input. You get advice right then and there from jury. Sometimes, people will approach you and give you unsolicited advice. You can actually test your ideas pretty well. A lot of people even enter this contest with some new idea just to test it, try it out, and see what that what the people in audience say. It is a very good source of input. The big disadvantage here is you advertise your idea. When you stand up there and you give your pitch and you're telling everybody what you're working on. Depending on how easy it is to copy your idea - we'll talk more about that in the next module - it may or may not make sense to broadcast what you're doing. On the other hand, just to play the devil's advocate, most entrepreneurs over exaggerate these issues.

Notes

Summary



0m 37s



- You enter a contest to “pitch” your idea
 - You can receive a prize (gift)
 - You can receive attention from angels or VCs
- Amount range: \$1K-\$50K (1 x GDPpc), typical \$10K
- Time frame: 2-4 weeks
- Time horizon: Long

Advantages:

- Control
- Credibility / prestige
- You receive advice / input

Disadvantages:

- You advertise your idea
- Founders often put much effort into tailoring the message to the competition, which might distract

Launching new ventures

They're very afraid of telling anybody their idea, whereas, serial entrepreneurs, people who have a lot of entrepreneurial experience, they would typically go ahead and tell the idea and then get the feedback because they know the feedback's going to improve the idea. Having an idea that's never tested on anybody because it's so secret generally, occasionally get lucky. Generally, it's usually a bad idea. Then it gets improved by talking with people. It is a disadvantage, though, in most entrepreneurs' mind. You have to discuss this and think about this amongst you -- amongst your founding team. One other disadvantage here is that a lot of founders will put a lot of effort into these business plan competitions. What I've heard is that these competitions can be a distraction if you spend too much time trying to tailor the message to the competition. So better just to go out there and make things, get things sold, get things done, get prototypes built than it is to focus on PowerPoint presentations for a pitch competition. There are some advantages and disadvantages to this. Most people I think are relatively happy they entered these competitions. On the other hand, you have to weigh the plus and minuses, the control, the credibility you get especially if you win versus the dissemination of what it is you're working on.

Notes

Summary



26m 43s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Here, we're going to talk about angel investors. We're going to distinguish between the angels and angel groups. We'll talk more about the angel groups in the next segment which is going to be on expansion and growth financing. Now, here, we're going to focus more on the seed financing and startup financing aspect of it, which is you are going to pitch your idea and sell a share of your company to a wealthy individual. Usually, it's somebody who's already been a successful entrepreneur who made money in their business and then who would like to help out other entrepreneurs. It's really a nice match between people who have already been successful and people who need financing. These are equity-based investments. That means you are going to sell a share of the company to the investor. The amount range is here, usually starting on the order of 50,000 and going up to 500,000, which is ten times GDP per capita. Typical amount might be half that maximum so around 200,000 or so, four times GDP. Usually, this can be accomplished in a month or two. And the time horizon that the angel has is relatively long, five to ten years. They don't necessarily want to cash out of their investment straight away.

Notes

Summary



0m 42s



Financing Stages

on
today's
agenda

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

But they do want to get a return on their investment at some point in the medium term. What are some of the advantages here? First one is you can receive input or advice from the angel. Now, it depends on where the expertise of the angel is. If you have a good match between your sector and the angel sector, then you could actually receive some very, very good advice or input on how to found your business, how to build your business, how to manage your business. There's no collateral. There's no interest payments. This is a pure equity investment. Angel investors could take large risks because they're going to make these investments in several companies. They may be willing to bet on somebody who's very ambitious, who got a very good idea. They may think they can help to get the business built up. There are a lot of advantages here for angel investors. A disadvantage is – relative to a lot of the gifts and grants and etc. that we've talking about so far – is you are going to now start relinquishing control. In general, of course, if you will sell equity, the more money you need for expansion for growth, the more control you're going to have to give up.

Notes

Summary



0m 44s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Also, the earlier that you start looking to raise larger amounts of money, the more control you're going to have to give up to entice the investors. because these early stage investments are highly risky. To entice the investor generally speaking, you have to give up more of your company in the early stages than you do in the later stages. You're going to have to give up some control now. You're going to share some decision-making power with the angel. The person may be on your Board of Directors. They already have a stake in your company and have a say in what you do. This is the psychological hurdle that a lot of entrepreneurs don't want to cross. But in many cases, it is worth considering especially if they can bring in the amount of money that you need to launch your business. Now, if the angel investor is inexperienced in your particular sector, this could be a big disadvantage. Aside from the fact that the advice may not be as good, it could actually be bad advice. This is something that you need to think about which is when you are raising money from an angel investor, it's highly preferable that this person be in the same sector as your business that understands a sector, has a prior exit, a prior company in the same area, roughly in the same areas that the person understands what you're going through and what your market looks like, et cetera.

Notes

Summary



0m 46s



- You sell a share of your company to wealthy individuals
 - Equity-based
- Amount range: \$50K-\$500K (10 x GDPpc), typical \$200K
- Time frame: 1-2 months
- Time horizon: 5-10 years

Advantages:

- You can receive advice / input
- No collateral or interest payments
- Angels can take large risks

Disadvantages:

- You relinquish (relatively) more control
- Angels can "interfere" if inexperienced in sector

If the person's very far away, a pretty big disadvantage is you start getting his advice, and the advice isn't really correct for your sector that can lead to conflict, problems, bad moves on your part, etc. These are some of the disadvantages to the angel investors. Although as we see before, there are plenty of other advantages.

Notes

Summary



32m 26s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

What we presented here is an overview of the sources of funding for seed and startup phases and the process that have to go through. It's basically on one page everything we just discussed. Now, what we did here is on the side, we put the source of financing. Then what we did is we wrote in red ink we thought things that the entrepreneur should be aware of and in green, we thought some of the things that could be the sum of the pluses involved. If you just look at friends and family, we're highlighting here the fact, well, these are relatively small amounts of money. Actually, that goes for pretty much all of these first five. If there's something wrong with your business, it could hurt your relationship. That's also related to the fact there's not much of a separation between the investor in your team. Basically, you know them. They're your relatives and friends. In terms of input, you're not going to get much input from your friends and family and probably not from the crowd funding investors, either. However, one thing that we see is about the independence, is that you basically keep control whenever you have a gift or grant. That holds also for the first five because most of these are involving grants, loans, and gifts.

Notes

Summary



0m 49s



Financing Stages

*on
today's
agenda*

- Seed: your very first financing
- Startup: just *after* the seed phase
- Growth or expansion

Launching new ventures

Therefore, you're not actually selling equity. In terms of crowd funding, we already discussed the amounts. You're not going to get a lot of input. And we just highlighted, if you recall, that it could be bad if you don't execute. In other words, reputation is good. You can save that you receive money on a crowd funding platform. However, especially if you're pre-selling, be careful because if you don't execute well, it could actually hurt your reputation. For banks, the key point here is that it drains your cash. You're on the hook to pay back that loan. On the other hand, there's due diligence process. It means that if you are successful in getting a loan, that means they probably believe that you are going to have a successful business. It's good for your reputation. Foundations, the big issue here is how long it takes to raise money for a foundation. Three to six months is a lot of time in a life of a startup company. And you have to find an organization with the same mission. Startup competitions are great, great advice. If you win it, you get a great prestige. Good for your reputation. On the downside, you are advertising what you're doing to the rest of world.

Notes

Summary



0m 51s

Overview of Funding Sources & Process

Source	How much?	How quickly?	Time Horizon	Cost	Support in Funding Process	Support in ongoing Management	Reputation	Independence	Degree of separation
Friends & Family	typically \$25K	1-2 weeks	Long term	Could hurt relationships		Little input		You have control	Not much
Crowdfunding	typically \$7 K	1-2 months	Long term			Little input	Could be bad if you don't execute	You have control	Crowdfunding Platform intermediary
Banks	typically \$25K	3-6 weeks	5 years	Drains cash; assets as collateral	Strict due diligence		Credible	You have control	
Foundations	typically \$10K	3-6 months	5 years		Find org. with same mission		Credible	You have control	
Startup Competitions	typically \$10K	2-4 weeks	Long term	Advertises idea		Advice / input	Prestige	You have control	
Angels	typically \$200K	1-2 months	5-10 years	Equity No collateral		Can get input		You relinquish control	

Launching new ventures

Then finally, with angels, of course, you can get input. That's key you give up equity, which is basically related to this idea that you need to relinquish control of your company. Not complete control because most angel investors are not going to take over your business or have a majority of your shares. However, you're going to give up some kind of control. On the other hand, they're not going to ask for collateral, and you are going to be able to put the money to good use. Let's now look at example of seed and startup financing. Then we'll see you very, very soon in the next segment which is about growth and expansion financing. Thanks a lot.

Notes

Summary

