

4.7 How much money do you need?



(Chris Tucci) Hello and welcome back. This is segment 4.7 which is the week's summary. So will make a very quick work of this summary right now just recalling what we covered in this week. The first thing we talked about was how much money do you need, and as you recall, we went through lots of different calculations showing, basically, the full amount of money that one would need to have; plus we even talked about on a year-by-year basis, how much money would you need in each year based on your own cost and revenue projection, which you should do, and should update frequently.

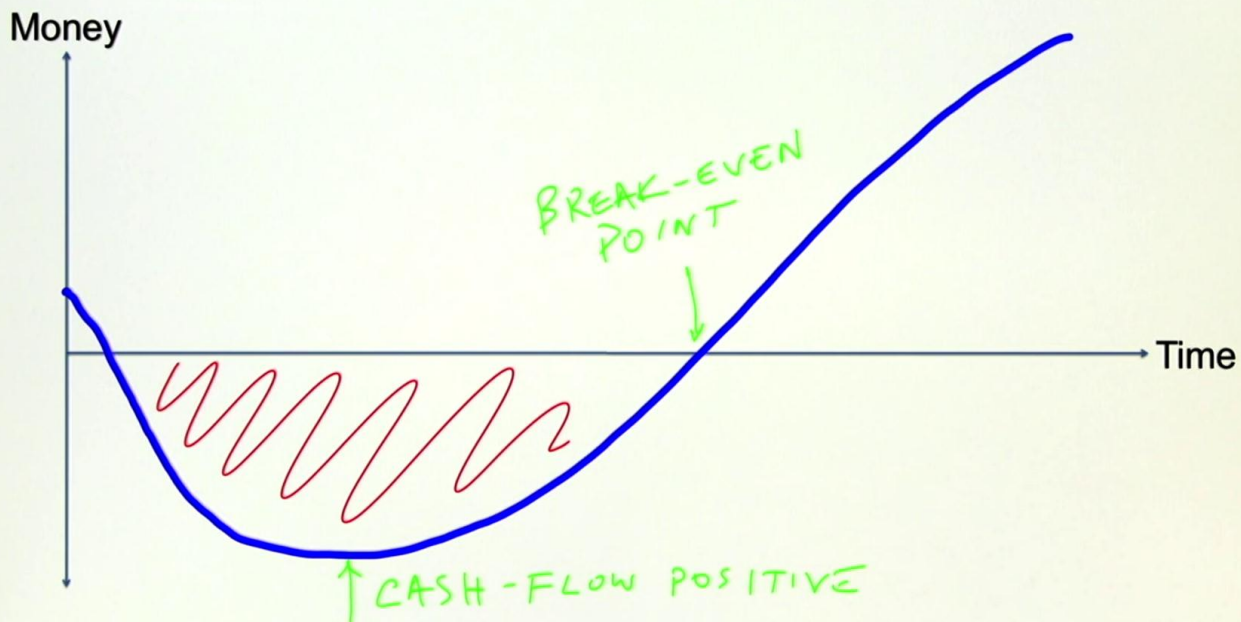
Notes

Summary



0m 08s

Stages of venture financing



Launching new ventures

So on this graphic, as you can see, this is the one, you're probably sick of this graphic by now, showing the amount of money that one would expect to need, and the cash flow positive point, the breakeven point, and the initial endowment. We also talked about the stages of venture financing which refers to, at different points in time, over which you will need to finance. The points on the left side of this graph we call the seed or start-up stage, and the points on the right hand side, are as time goes on, and you start selling things and having a real product then you would expect to raise some growth or expansion financing. So we kind of drew a distinction between those things.

Notes

Summary



0m 49s

4.2 Navigating the funding universe

Types of financing

- Gifts / donations
- Debt
- Equity
- Convertible debt



Investors

- Bootstrapping
- Friends and Family
- Crowdfunding
- Foundations
- Startup competitions
- Angels
- Banks
- Angel Groups
- Family Offices
- Venture Capital
- Strategic Partners

Launching new ventures

We then went on to discuss different types of financing. For example, a gift, a donation, issuing debt, issuing equity, or sharing part of your business, the ownership and control of a part of your business, and we also talked briefly about convertible debt. And then, we went through a list of all the different kinds of investors that you might encounter, and we walked through some of the pluses and minuses of each of them.

Notes

Summary



1m 34s



- **Financial criteria**
 - How much money can you raise
 - Availability (how quickly available?)
 - Time horizon (short- vs. long-term)
 - Cost
- **Management criteria**
 - Support in founding process
 - Support in ongoing management
 - Added value (e.g., reputation)
- **Further criteria**
 - Independence
 - Degree of separation between source and team

And as you recall for each of these, we also went through a range of expected amounts and a typical amount that you might expect to receive. We also remembered that this was calibrated towards, you know, an industrialized economy where the GDP per capita is around 50,000, so these would need to be re-calibrated depending on your own country's GDP per capita. But in any case, what we have here is a range for each source, a typical amount for each source, and we also draw the distinction between more or less, the left side, which is really seed and startup financing, and the right-hand side, lower right corner, which is really for expansion and growth. And then for each source, we analyzed some of the pluses and minuses of each source based on three primary criteria. The first one being financial: How much money can you raise? What is the availability, time horizon, cost etc.? The management criteria, which is the support they can give you in the founding process, on management, or reputation value they can add; or further criteria, which is how independent the source from you or your founding team. So I think I hear Marc coming in now. I think he's going to join me on this next bit, and we're going to finish out the rest of this week's summary.

Notes

Summary



2m 05s

Overview of Expansion Funding Sources & Process

Source	How much?	How quickly?	Time Horizon	Cost	Support in Funding Process	Support in ongoing Management	Reputation	Independence	Degree of separation
Angel Groups	typically \$500K	1-2 months	5-10 years	Dealing with many investors	Can get Input	Can get Input	Good	You relinquish some control	
Family Offices	typically ~\$8M	1-3 months	5-10 years			Can get Input		You relinquish some control	
Venture Capital	typically ~\$2M	2-3 months	5-7 years	Equity position	Be careful!	Can get Input Can get Input	Credible	You relinquish more control	
Strategic Investors	typically ~\$10M	2-5 months	8-10 years	Time		Can get Input	Good	You relinquish some control	

OK, so what we've done now with this, if you recall, is we mapped those criteria onto the different sources of financing. (Marc Gruber) This is a quite helpful overview because it tells you about the timing, about the money you can expect, etc. We don't want to go into the details of the slide because we discussed them. We already did it. (laughter) This is just the summary, but I think it's worthwhile keeping this in mind, and you can print it out, and have it as a reference tool further on, and we had another slide-- Same thing for the expansion financing. So what we have here the summary and how the expansion financing maps onto the different decision criteria.

Notes

Summary



3m 36s

Financial Gains



- Can be a great source of seedfunding
- Backers generally take no equity
- Entrepreneurs obliged to use funds to execute project according to plan & fulfill backer rewards

Two types of funding schemes

- Fixed (« all-or-nothing »)
- Flexible (« keep-it-all »)

One of the most recent forms of funding that is quite attractive to entrepreneurs is crowdfunding because it is happening on the web, and you can get an audience that is international to fund your venture. Right. So what we talked about this week was some of the financial aspects of crowdfunding. So as we noted, it could be a great source of seed funding. Generally speaking, backers don't get equity, although we did discuss in the segment itself when they do get equity, and how different countries are shifting the rules toward equity financing. You can use the funds to execute your project according to your plan. But you're obliged also to do that, because you're collecting the money. People expect something of you, and you better should follow up because otherwise there could be all kinds of legal problems if you do not keep your promise. Actually, It's even worse for your reputation if you don't keep your promise. -Exactly. -That's for sure. We also talked about the types of funding schemes, and here we can differentiate between the fixed ones where you basically make a plan to raise X amount, and you have to raise at least X or you don't get anything, or the flexible ones where you get to keep as much as you raise up until whatever point that you stop, and some of the pluses and minuses of that.

Notes

Summary



4.7 How much money do you need?



So the final element we discussed this week with you is the burn rate. It's the cash management because as we've said, the cash in your company is the air that you breathe, like a human being, and if you do not have the air you breathe, you suffocate. And as you do not have cash in a company, you go bankrupt. So, in essence, managing your cash is highly important, and there were three points in particular that you pointed out. These are just time to out of cash. How to calculate that. We went through that, and that gives you some idea about how long you can continue the status quo. It also helps you plan your fundraising because you need to know when you need to raise money, and you need to know the terms that you're going to raise the money on. And finally, your burn rate also points out potential weaknesses in your revenue model to make sure that you need to have recurring revenues if possible rather than simply one off revenues. So in a way, it makes you think about what you planned as a revenue model, and that there might be better ways out there.

Notes

Summary



0m 08s



- **Time to out of cash gives an idea on how long you can continue the status quo**
 - Helps with decisions on growth and scale
 - Be careful when you have less than six months to go!
- **It helps you plan your fundraising**
 - Focuses attention on speed of fundraising
 - Signals potential investors what you are looking for
- **It points out weaknesses in your revenue model**
 - Prefer recurring revenues
 - Vulnerabilities exist when outflows are constant and inflows are punctuated

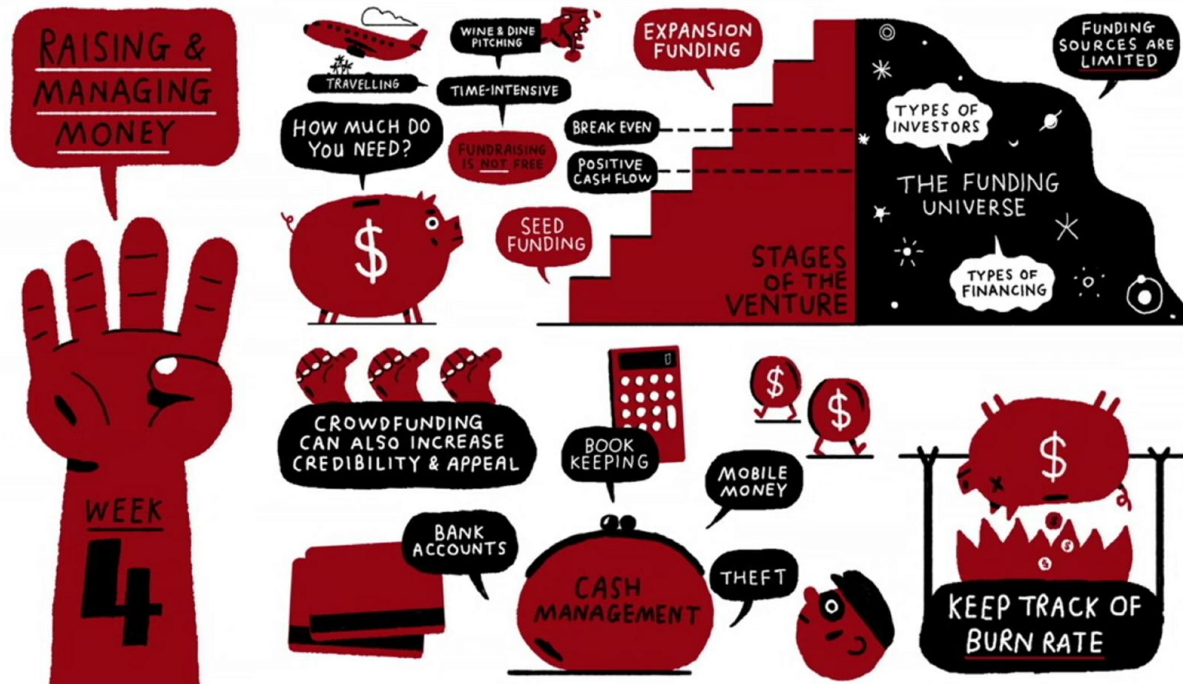
And it comes back to the discussion about the entrepreneurial mindset that we already have because the good entrepreneurs are good at looking at the venture from multiple aspects, and being flexible, and trying to understand different ways of, in that case, constructing a revenue model which might be superior to the one you're currently thinking of. We're going to talk more about that next week in module five as well.

Notes

Summary



6m 25s



So this brings us to the end of week four already. I know month has gone by. Time moves quickly. Time moves quickly, we're having fun. But this is four fifths; 80% of the MOOC done, there's one week to go. That'll be the week on value capture and growth, and actually we will take up some of these topics of modifying your business model a little bit. Growing, plans with growing, etc., so we look forward to that and stay with us. Till next week, stay tuned.

Notes

Summary

