

COVENANT UNIVERSITY



# Startup Funding

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# Funding Overview

Fundraising is a crucial part of the journey of a start-up. While there are a few lucky entrepreneurs who can rely on funding to come from their own savings, or have wealthy friends or family members who can afford to inject capital, most business owners will need to go out of their way to raise funds from outside investors.

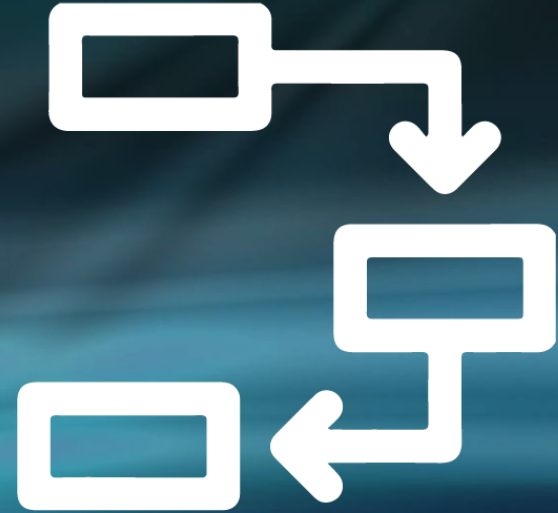
There are a number of things every entrepreneur needs to do before he or she thinks about fundraising.



# Funding Overview

The steps will vary depending on the start-up's sector, location, etc.; but in general, the process leading up to getting investors looks like this:

- Generate a great idea
- Begin networking (Potential partners and Investors)
- Build your team
- Conduct Market research
- Developing your business/revenue model
- Create an early version of your product
- Gain traction
- Develop your pitch deck (continually update)
- Raise funding



# Funding Instruments: GRANT

Type of funding that typically does not obligate the recipient to repay the funds (Pitch competitions, Government, International Organizations)

## ADVANTAGES

- 'Free' money in the sense that there is no equity or interest to pay
- Funders have little influence in day to day operations of business

## DISADVANTAGES

- Little support besides funding – hard to grow networks or get targeted mentorship
- Long applications
- Post-funding reporting is sometimes extensive
- Grant makers can be inflexible in accommodating startups that need to pivot from one business strategy to another

# Funding Instruments: **DEBT**

Type of funding that founders borrow and need to repay, usually with interest (More suited for businesses with stable cash flow)

## ADVANTAGES

- No need to give up ownership in company

## DISADVANTAGES

- Often lenders will ask for collateral
- Interest payments can be difficult to make for cash-strapped start-ups

# Funding Instruments: EQUITY

Type of funding that founders need to give up a portion of their company to obtain. (FFF, Angel Investors, VCs). Prior to making an investment, equity investors go through a detailed screening process, commonly referred to as due diligence.

## ADVANTAGES

- No interest payments to pay back
- Investors have incentive to be as helpful as possible:
- Mentorship, advice, connections

## DISADVANTAGES

- Sometimes misaligned time horizons: startups building for the long term, while investors want to exit quickly
- Control mechanisms can mean entrepreneurs are less in charge of their business



# Funding Instruments: **BRIDGE**

Type of funding that combines debt and equity features (Convertible notes)

## ADVANTAGES

- Mitigates risk for investors, meaning better funding terms than straight equity
- Can delay valuation of start-up which is imprecise in early stage companies

## DISADVANTAGES

- Entrepreneurs may need to make regular payments to funders
- Can be overly complex and expensive to arrange

# Investor Overview

- Incubators and Accelerators
- Angel Investor Networks
- Corporate Investors
- Foundations (Omidyar)
- Impact investors
- VCs (PRE-SEED, SEED, Series A,B,C)
- Crowdfunding
- Public Funds (World Bank)
- Banks
- Private Equity (> 100 Million USD)





# Different stages of startups and typical funding needs at each stage

STAGE	IDEATION	BUILDING	PROTOTYPE	PROOF OF CONCEPT	SCALE
Description	Pre-product and revenue, only idea	Working on developing a product or service, hiring team	Finished prototype in users' hands, getting feedback	Refining product, reaching larger audience	Early market success, expansion and growth to new geographies or new products
Approximate Funding Needs	N0 – N7.2m (\$0 – \$20 K)	N7.2m – N18m (\$20k – 50k)	N18m – N54m (\$50k – 150k)	N36m – N180m (\$100k – 500k)	N180m – N720m+ (\$500k – 2m+)
Potential Investors	Angel investor networks, incubators, friends / family members, grant-making foundations	Accelerators, angel investor networks, Crowdfunding platforms, public / semi-public grants, foundations	Seed-stage venture capital firms, impact Investors, crowdfunding platforms, corporates, public / semi-public grants	Seed-stage venture capital Firms, corporates, crowdfunding platforms, impact investors	Venture capital firms, private equity firms, banks, impact investors, public / semi-public funders

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