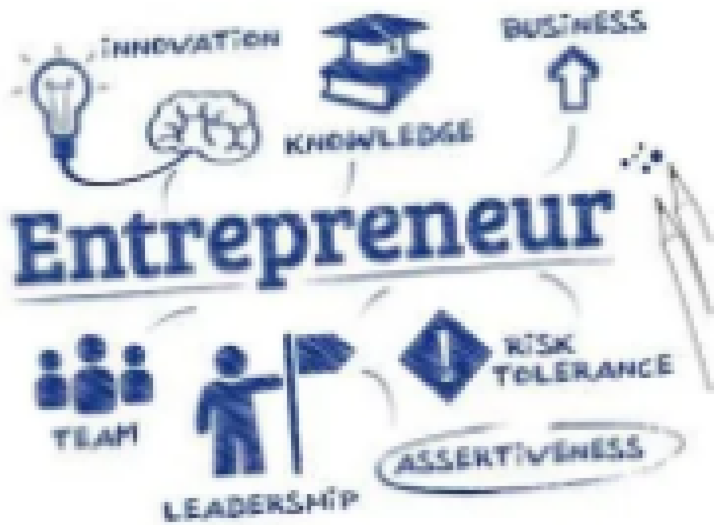
Sources of Entrepreneurial Support

Sources Of Funding New Age Entrepreneurs

Who is an Entrepreneur ?

An entrepreneur is an individual who creates a new business, bearing most of the risks and enjoying most of the rewards. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures.



What is funding ?

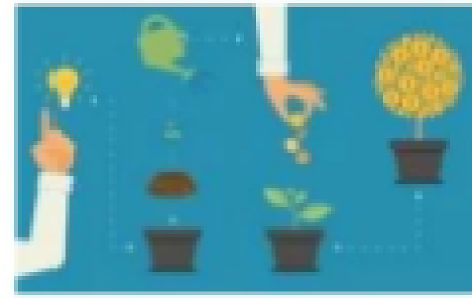
Funding is the act of providing financial resources, usually in the form of money, or other values such as effort or time, to finance a need, program, and project, usually by an organization or company.

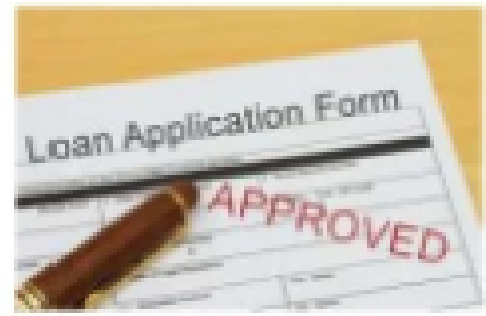
Why do Entrepreneurs need funds?

- To start their business.
- To run their business.
- To expand their business.

Sources of Funding New Entrepreneurs.

1. Personal source
2. Equity funding
3. Bank loan
4. Venture capital
5. Angle investor
6. Crowd funding
7. Government funding
8. Mutual Funding





Personal Sources

- Borrowing from friends and family
- Credit cards

- Personal Source of Finance is also known as Bootstrapping.

- Bootstrapping is the process of building a business from scratch without attracting investment or with minimal external capital.
- It is a way to finance small businesses by purchasing and using resources at the owner's expense, without sharing equity or borrowing huge sums of money from banks.

- A business that uses bootstrapping is characterized by a high dependence on internal sources of financing, credit cards, mortgages, and loans. In other words, bootstrapping is characterized by limited sources of financing.

Stages of Bootstrapping

1. **Beginner stage -** The beginner stage starts with some saved money or borrowed/invested money coming from friends. For example, the founder continues to work on their main job and, at the same time, starts a business.
2. **Customer-funded stage -** When money from customers/clients is used to keep the business operating and to fund its growth.
3. **Credit stage -** The credit stage involves the entrepreneur focusing on funding specific activities, such as hiring staff, upgrading equipment, etc. At the credit stage, the business takes out loans or tries to find venture capital for expansion.

Why do People Choose Bootstrapping?

- Lack experience in formulating business plans and entrepreneurship
- Lack skills for product promotion and contacts with suppliers
- Do not know how to raise financing
- Do not want to share income with investors
- Do not want to spend time searching for an investor

Advantages of Bootstrapping

- The "bootstrapper" reserves the right to all developments, as well as ideas that were used during the development of the business.
- The lack of initial funding makes entrepreneurs look for unusual ways to solve problems, create new offers on the market, and show creative thinking.
- Independence from investor opinions. An entrepreneur can make all the decisions independently, so he is able to create something unique, realize a dream, test strength, and be independent of the investors' instructions.
- Attracting external funding is challenging and can be a very stressful and time-consuming task. Bootstrapping allows an entrepreneur to fully focus on the key aspects of the business, such as sales, product development, etc.

Disadvantages of Bootstrapping

- Business growth can be difficult if demand exceeds the company's ability to offer or produce services or products.
- The entrepreneur takes on almost all financial risks instead of sharing them with investors who invest in supporting the company's growth.
- Limited capital and lack of investment: In the context of the specifics of bootstrapping, the attraction of large investments and fully implementing one's ideas can be extremely hard.
- Stress problems: The ability to handle stressful situations is regularly checked when unexpected problems arise.

Equity Funding

Venture Capital

- Venture capital is financing that investors provide to start up companies and small businesses that are believed to have long term growth potential.
- Venture capital generally comes from well-off investors, investment banks and any other financial institutions.
- However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise.

- Though it can be risky for investors who put up funds, the potential for above-average returns is an attractive payoff.
- The main downside is that the investors usually get equity in the company, and, thus, a say in company decisions.
- Because startups face high uncertainty, VC investment do have high rates of failure.

Government Funding

- Government grants is when the government gives an individual or business for a specific project or purpose
- A grant usually covers only part o the total costs involved. However, as long as you keep to any conditions attached to the grant, you will not have to repay it or give up shares in your business.

Advantages

- They can provide huge monastery rewards with just one proposal.
- Those who receive government grants find it easier to rise money from other government and private sector.

Disadvantages

- Government grants are usually on a reimbursement system, so if you are a cash strapped organization, you might face hardships.
- Preparing government grant proposals usually require hard work and tons of research and planning. They are not easy to write

Mutual Funding

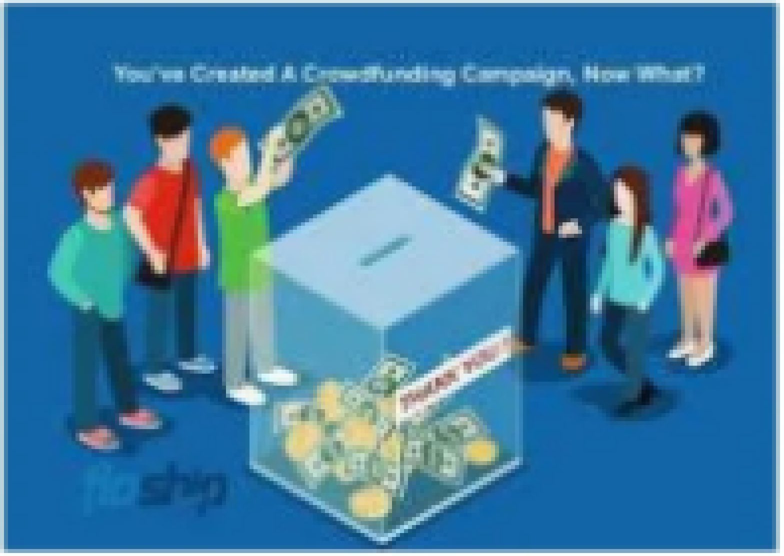
- A mutual fund is a common pool of money into which investors place their contribution that are to be invested in different types of securities in accordance with the stated objectives.
- An equity fund would buy equity assets-ordinary shares, preference shares, warrants etc.

Facts about Mutual funds

- Equity instruments like shares are only a part of the securities held by mutual funds. Mutual funds also invest in debt securities which are relatively much safer.
- Mutual funds are best solution or people who want to manage risks and get good returns.

Crowd Funding

Crowd funding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowd funding is a form of crowd sourcing and alternative finance



- Crowdfunding is a process by which you can raise money to finance your business or project from a large number of investors (a crowd, as the name suggests). The amounts given are relatively small depending on the capacity and willingness of the person making the contribution.

Crowdfunding platforms in India

- Catapooolt
- Fueladream
- Ketto
- Milaap
- Wishberry
- ImpactGuru
- Indiegogo
- Kickstarter
- Crowdera

1.Fundable: Focuses mainly on small businesses, you will find that this site features campaigns across various business sectors.

2. Kickstarter: As the first crowdfunding platform in India, this site is known to be popular for supporting creative projects like books, movies, etc.

3. Ketto: Funding related to health care of patients. This site has separate sections for tax relief, urgent funds, etc. The purpose of this site is to bring social change and raise awareness.

What Are The Different Types Of Crowdfunding?

1. Debt-Based Crowdfunding/Peer-To-Peer (P-2-P) Lending - In debt-based crowdfunding, individuals borrow small amounts of capital as loans from multiple individuals online with small to no interest and collateral. Early stage startups and businesses opt for debt-based crowdfunding as it is quicker than traditional banks and financial institutions, especially for those with no credit history

2. Reward-Based Funding - In the reward-based funding model, individuals receive funds from multiple individuals, however, the borrower returns the borrowed capital in the form of rewards, which can be tangible or intangible.

- **For example,** if an individual aims to start a news platform online, he/she will borrow a certain amount of capital from borrowers. Once the business takes off, the founder will repay its lenders by giving them a lifetime subscription to its news as a reward.

3. Donation-based crowdfunding - Individuals donate money to a cause in donation-based crowdfunding. This crowdfunding type is often used by business owners and others when funding unforeseen personal and professional hardships—and is rarely used to raise capital. Donation-based crowdfunding doesn't offer donors any compensation such as rewards, benefits, or equity. Funds might go toward expensive medical treatment or the cost of rebuilding after a fire or natural disaster to supplement insurance claims.

Angel Investors

- Angel investors are high-net-worth individuals who provide capital to startups or early-stage companies in exchange for equity ownership or convertible debt.
- Unlike venture capitalists, who manage pooled funds from multiple investors, angel investors typically invest their own personal funds.
- Their investments often come at a critical early stage, when the company might not yet be attractive to larger investors or banks, making them crucial players in the startup ecosystem.

Characteristics of Angel Investors

- High risk, high reward
- Personal Involvement
- Investment size
- Diverse Backgrounds

Bootstrapping

- Bootstrapping in entrepreneurship refers to starting and growing a business with minimal external funding, relying instead on personal savings, revenue generated by the business, and strict cost control. Entrepreneurs who bootstrap avoid taking on venture capital or large loans, instead focusing on self-sufficiency.