Innovation and Entrepreneurship:Lecture 34

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Syllabus

Course Content:

Unit I: Introduction to Entrepreneurship: Entrepreneurs; entrepreneurial personality and intentions - characteristics, traits and behavioral; entrepreneurial challenges.

Unit II: Entrepreneurial Opportunities: Opportunities. Discovery/ creation, Pattern identification and recognition for venture creation: prototype and exemplar model, reverse engineering.

Unit III: Entrepreneurial Process and Decision Making: Entrepreneurial ecosystem, Ideation, development and exploitation of opportunities; Negotiation, decision making process and approaches, Effectuation and Causation.

Unit IV: Crafting business models and Lean Start-ups: Introduction to business models; Creating value propositions-conventional industry logic, value innovation logic; customer focused innovation; building and analyzing business models; Business model canvas, Introduction to lean startups, Business Pitching.

Unit V: Organizing Business and Entrepreneurial Finance: Forms of business organizations; organizational structures; Evolution of Organisation, sources and selection of venture finance options and its managerial implications. Policy Initiatives and focus; role of institutions in promoting entrepreneurship.

OUTLINE OF LECTURE 34

- Sources of venture finance options
- Selection of venture finance options
- Managerial implications of venture finance options

Sources of Venture Finance Options

Best Common Sources of Financing Your Business or Startup are:

1. Personal Investment or Personal Savings
2. Venture Capital
3. Business Angels
4. Assistant of Government
5. Commercial Bank Loans and Overdraft
6. Financial Bootstrapping
7. Buyouts

Financial Bootstrapping

- **Bootstrapping is** building a company from the ground up with nothing but personal savings, and with luck, the cash coming in from the first sales.

- The term **is** also used as a noun: A **bootstrap is** a business an entrepreneur with little or no outside cash or other support launches.

Financial Bootstrapping

- Here the goal remains to build a sustainable business comprising of committed employees as well as a growing customer community without having to seek out the assistance of a bank loan.

- Various examples of financial bootstrapping are sweat equity, owner financing, joint utilization, minimization of accounts payable, delaying payment, minimization of inventory, subsidy finance etc.

Sweat Equity

- **Sweat equity** is a party's contribution to a project in the form of labor, as opposed to financial **equity** such as paying others to perform the task.
- **Sweat equity** has an application in business, for example, where the owners put in effort and toil to build the business

Sweat Equity

What is sweat equity and how does it work?

- **Sweat equity** is the unpaid labor employees and cash-strapped entrepreneurs put into a project.
- Real estate investors can use **sweat equity** to **do** repairs and maintenance on their own rather than pay for traditional labor.

Is sweat equity a good idea?

- Offering **sweat equity** can also offer startups the opportunity to attract a co-founder or key employee of a calibre they wouldn't otherwise be able to afford.
- Gaining shares in a business that is full of promise has value, particularly to someone who sees their own ability to increase that value.

Selection of Venture Finance Options

- The various types of **venture capital** are classified as per their applications at various stages of a business.

- The three principal types of **venture capital** are early stage **financing**, expansion **financing** and acquisition/buyout **financing**.

What is venture capital financing?

- Venture capital is a form of private equity and a type of financing that investors provide to startup 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.

What VCs look for in a startup?

- **VCs look** for a competitive advantage in the market.
- They **want** their portfolio companies to be able to generate sales and profits before competitors enter the market and reduce profitability.
- The fewer direct competitors operating in the space, the better.

Is it better to finance with debt or equity?

- **Equity financing** refers to funds generated by the sale of stock. The main benefit of **equity financing** is that funds need not be repaid.

- Since **equity financing** is a greater risk to the investor than **debt financing** is to the lender, the cost of **equity** is often higher than the cost of **debt**.

What is the difference between finance and financing?

- The **difference between finance and financing** is that
  - **Finance** is the management of money and other assets
  - **Financing** is a transaction that provides funds for a business.

Managerial implications of venture finance options

Good Managerial Implication of VC:

- **Business expertise.** Aside from the financial backing, obtaining venture capital financing can provide a start-up or young business with a valuable source of guidance and consultation.
- **Additional resources.** In a number of critical areas, including legal, tax and personnel matters, a VC firm can provide active support, all the more important at a key stage in the growth of a young company.
- **Connections.** Venture capitalists are typically well connected in the business community. Tapping into these connections could have tremendous benefits.

Managerial implications of venture finance options

Bad Managerial Implications of Venture Capital

- **Loss of control.** With a large injection of cash and professional – and possibly aggressive – investors, it is likely that your VC partners will want to be involved. The size of their stake could determine how much say they have in shaping your company's direction.
- **Minority ownership status.** Depending on the size of the VC firm's stake in your company, which could be more than 50%, you could lose management control. Essentially, you could be giving up ownership of your own business.