**Startup/Business Funding- BOOTSTRAPPING**

Bootstrapping is when an entrepreneur starts a company with little capital, relying on money other than outside investments.

This is in contrast to starting a company by first raising capital through angel investors or venture capital firms.

Instead, bootstrapped founders rely on personal savings, sweat equity, lean operations, quick inventory turnover, and a cash runway to become successful.

**How to Bootstrap a Business;**

* Create a Business Plan - This business plan should include a financial budget that outlines the expected cash inflows and outflows for the next few years.
* Determine Revenue Retention Plan- An owner should decide upfront how that revenue will be used (i.e. to channel business growth, to "reimburse" the owner", etc.
* Identify Where Resources Will Come From- For example, the owner may decide to use their own cash, use their personal line of credit, use their own time to save capital, or adjust business practices to accommodate the growth period.

**Bootstrapping Strategies**

* Contribute Personal Equity - one of the most common form of bootstrapping is for the business founder to contribute personal capital as an initial financial investment into the company.
* Incur Personal Debt- If an owner or founder does not have enough capital on hand, they may decide to take out personal loans to finance the company. The company likely can't receive a loan (or receive nearly as favorable loan terms) because it does not have an established financial history as the founder has.

When the early days of a company, the owner may bootstrap by limiting what the company spends on. For example, the owner may personally deliver goods to customers in their local area instead of paying extra for delivery services. Evaluate business idea using methodologies taught.

* Form Business Relationships- A company may also decide to pull in third parties or other investors to help with the financing of the operations. For example, a third party may buy stock or issue debt to earn a short-term return.

Many times, a company bootstraps by temporarily limiting what the company can do. For example, it may only manufacture items upon a paid order.

**Pros of bootstrapping**

1. **Autonomy**: You retain complete control over your business. There's no pressure from investors or external stakeholders dictating decisions.
2. **Financial Control**: You're not indebted to investors or lenders, allowing you to manage your finances and profits as you see fit.
3. **Creative Freedom**: You have the freedom to experiment and innovate without the pressure of meeting investor expectations.
4. **Focused Growth**: Bootstrapping often encourages organic and sustainable growth strategies, focusing on building a solid customer base and revenue stream from the start.
5. **Lean Operations**: With limited resources, you're incentivized to operate efficiently, keeping costs low and ensuring a lean operation.

**Cons of bootstrapping**

1. **Limited Resources**: Self-funding means relying on personal savings or revenue generated by the business. This limitation can slow down growth and expansion, especially if significant investments or resources are required.
2. **Slower Growth**: Without external funding, scaling the business might take longer. Limited resources can restrict marketing efforts, hiring, technology upgrades, and other growth- driving initiatives.
3. **Risk and Uncertainty**: Personal financial risk is higher when you're investing your own money. If the business fails, you could potentially lose your savings or assets.
4. **Competitive Disadvantage**: Bootstrapped businesses might face challenges competing with well-funded competitors. They might have larger budgets for marketing, research, and development, giving them an edge in the market.

**Startup/Business Funding-Venture Capital**

Venture capital a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential.

A person who invests venture capital, is a venture capitalists. Venture Capitalists get a share /equity of your company.

**Types of Venture Capital**

1.**Pre-Seed** - This is the earliest type of funding, when founders are still developing a concrete business plan.

2.**Seed Funding**- Funding given when a new business is trying to launch into the market.

3. **Early-Stage Funding**: Once a business has developed a product, it will need additional capital to meet operational costs. The business will then need one or more funding rounds, typically denoted incrementally as Series A, Series B, etc.

**Pros of VC-Funding**

1. **Significant Capital**: VC funding offers a big cash injection for rapid growth and market expansion.
2. **Expert Guidance**: VCs bring expertise, networks, and mentorship to steer strategic decisions.
3. **Credibility Boost**: Backing from VCs lends credibility, attracting more customers, partners, and funding.
4. **Global Reach**: With VC support, businesses can scale internationally faster.

**Cons of VC-Funding**

1. **Loss of Control**: Founders might have less say in major decisions.
2. **Pressure for Quick Growth**: Expectations for rapid expansion can conflict with long-term strategies.
3. **Conflicting Priorities**: Visions between founders and investors may clash.
4. **Focus on Early Exit**: Emphasis on quick profits might disregard long-term sustainability.
5. **Equity Dilution**: Accepting VC means giving up a share of ownership.

**Startup/Business Funding- Business Loans**

**Types of Business Loans**

1. **Term Loans**: Traditional loans with fixed amounts and repayment terms.
2. **SBA Loans**: Government-backed loans for startups or specific needs.
3. **Business Lines of Credit**: Flexible credit lines for cash flow management.
4. **Equipment Financing**: Loans for purchasing or leasing equipment.
5. **Commercial Real Estate Loans**: For buying or renovating commercial properties.
6. **Invoice Financing**: Using unpaid invoices for immediate cash flow.
7. **Merchant Cash Advances**: Advances against future credit card sales.
8. **Microloans**: Small loans for startups or modest financial needs.
9. **Startup Loans**: Designed for new businesses with limited history.
10. **Business Credit** **Cards**: Revolving credit lines for expenses and rewards.

**Pros of Business Loans**

1. **Immediate Access**: Quick access to funds for various business needs.
2. **Control Retention**: No ownership or control relinquished.
3. **Predictable Payments**: Fixed repayment schedules aid financial planning.
4. **Credit Building**: Responsible repayment improves credit history.
5. **Tax Deductions**: Interest payments are often tax-deductible.

**Cons of Business Loans**

1. **Interest Payments**: Add to overall borrowing cost.
2. **Eligibility Criteria**: Meeting requirements can be challenging.
3. **Collateral Needs**: Some loans require business assets as collateral.
4. **Debt** **Burden**: Impacts cash flow and profitability.

**Startup/Business Funding - Crowdfunding**

Crowdfunding is the use of small amounts of capital from a large number of individuals to finance a new business venture.

**Types of Crowdfunding**

1. **Reward-Based Crowdfunding**: Backers contribute funds in exchange for non-financial rewards, such as early access to products, merchandise, or acknowledgments.
2. **Equity Crowdfunding**: Investors receive equity or ownership in the company in return for their investment, similar to traditional investors but on a smaller scale.
3. **Donation-Based Crowdfunding**: Contributions are made as charitable donations without any expected financial returns.
4. **Debt-Based Crowdfunding (Peer-to-Peer lending)**: Investors lend money to the business or project and receive repayment with interest over time.

**Pros of Crowd Funding**

1. **Access to Funds**: Enables funding without traditional investors or banks. **Validation**: Validates ideas or products by gauging public interest.
2. **Community Building**: Helps build a supportive community around projects.
3. **Diverse Funding**: Offers multiple sources beyond traditional routes.
4. **Limited Risk**: Backers' financial risk is often limited to their contribution.

**Cons of Crowd Funding**

1. **Competition**: Many projects vying for attention on crowded platforms.
2. **Campaign** **Demands**: Requires significant effort in marketing and management.
3. **Fulfillment** **Complexities**: Delivery of rewards can be challenging.
4. **All-or-Nothing Model**: Failing to meet funding goals means no funds.
5. **Costs and Fees**: Platforms charge fees, and campaigns incur expenses.