Introduction

Part I: Venture Opportunity and Strategy

Part II: Concept Development and Venture Formation

Part III: Intellectual Property, Organizations, and Operations

Part IV: Financing and the Leading the Enterprise

Appendices

Chapter 18: Sources of Capital

Entrepreneurs can estimate the capital required for their new business by reviewing the financial projections they prepare using the methods detailed in Chapter 17. In examining the projections and the cash flow statement, it becomes clear how much capital will be needed and when. This chapter addresses the task of attracting investors to a new business and creating an investment offering that will meet the firm’s needs and the investors’ requirements for an attractive return. In this chapter, we describe the funds that may be available from various sources.

The entrepreneurs may provide some of the required capital, and friends and family may help with modest investments. Government grants, bootstrapping, and crowdsourcing can also supply necessary capital to launch a venture. Debt financing from a bank or other financial institution may be another option.

Most high-growth ventures that expect to grow to a significant scale will need outside capital from professional investors, such as angels and venture capitalists. Typically, several stages of investment will be required over the life of the business. The entrepreneurs also must determine what percentage ownership is offered to the investors. This determination is based on the valuation of the new business at each stage.

Mature ventures use an initial public offering (IPO) to raise additional growth capital and to offer early
investors a means of harvesting the value created in an emerging firm. Preparation for an IPO can be an important milestone for a firm with solid growth potential.