Class 7
Business Finance

Learning Objectives

01. **Understand basic financial management concepts and the importance of money for business**

02. **Gain knowledge to read and create basic financial statement**

03. **Identify various sources of financing for business**

Introduction to Financial Management

Why financial management is important

As the saying goes: "cash is king". This is the reality of businesses, and without capital as the lifeblood of your company, practically, it will be difficult to go anywhere.

You have learned about the need to project your startup expenses and business model in the previous module. In reality, however, many businesses underestimated their calculations and relied on their product to sell and cover all the costs.

Here are some of the facts about early stage businesses in recent years:

1. The median SMEs has less than one month of cash runaways days, meaning that with no additional funds injected, the company can only survive for the next 27 days (JP Morgan Chase).
2. Around 64% of Indonesia's startups experience challenges in financial reporting and place the issue as critical (Indonesian Institute of Accountants).

A financial management is, as much as market analysis and MVP testing, serves as reality check. Without this plan, you don't have a business.

Why financial management is important

The rule is clear: **to make money, you need money**.

Therefore, business financing is important for these two core reasons:

1. **Failing in managing cash flow could easily sink the company.**

   You need to predict the budget required to set up a new product as well as how much you need to run the product each month. Knowing how much running a product may cost can help you identify the sources of capital to support the company.

2. **Allowing you to be predictive and strategic.**

   For businesses that are short on cash and desperate to keep the company afloat, oftentimes they take drastic measures, such as borrowing additional bank loans, spending personal savings, laying off employees,etc. Should you have prepared sound financing to face those business challenges, they could avoid taking drastic measures that could pose higher risk for the company and yourself.

Why financial management is important

Recall what you've learned in the previous module about **one-time and recurring startup expenses**. As we've learned, defining your startup cost does good to investors as much as it does to the internal of your company.

Here are some other terms most commonly used in early stage businesses and startups related to cash management:

1.

Gross burn rate

The burn rate is used by companies and investors to trace the amount of monthly expenses that a company spends before it starts generating its own revenue.

2.

Cash runway

Refers to the amount of time a business can remain solvent provided they don't raise any additional funds. Solvency means that the company can pay debts and financial obligations such as salary and tax.

Why financial management is important

Simple Illustration:

Startup A currently has US$ 2 million in assets and it spends US$ 250,000 a month without any revenue. Its **burn rate** is the $250,000 and its **cash runway** is projected to be 8 months, calculated as $2,000,000 divided by $250,000, which equals 8.

Startup A which starts its calculation on 1 April 2021 can then say to its investors that they have a cash runway until the end of November 2021. This means that they will be able to operate at a loss (no profit) until November. To be able to continue its operations beyond that, they need to raise additional capital.

Whether it's aimed to secure financing from investors or banks or simply to keep the business alive in its first year, understanding your company's financial health is the basic ingredient for success.

The best way for you as an entrepreneur to accomplish this is by preparing a comprehensive analysis of your financial report.

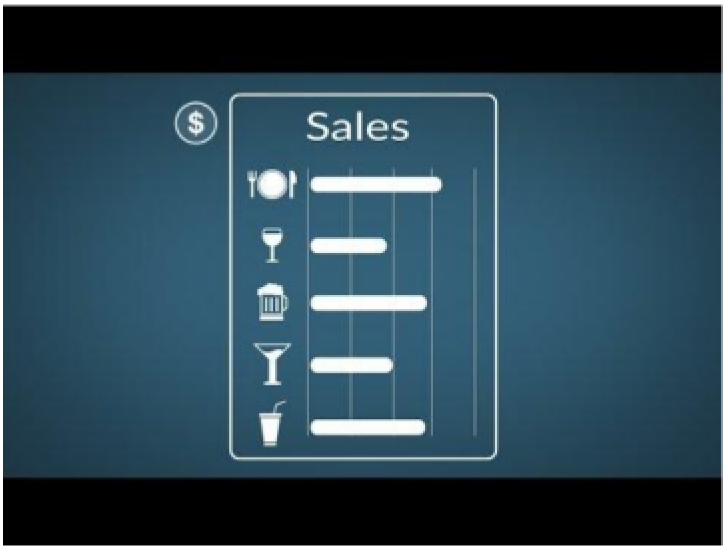
In the end, financial management is not about predicting the future but presenting a structured analysis of your current situation that could be the key to your company's success.

Understanding Financial Statement

Measuring operational profitability using Profit & Loss statement

As we've understood the importance of financial management in a business, one way to convey your company's business activities and financial performance is by preparing a **Profit and Loss (P&L) Statement** or also called as "Statement of Operation".

The report measures your business revenue (income or sales) and expenses (costs) during a specific time period.



Source: [Toast, Inc.]

The importance of understanding a P&L Statement

Chances are you've seen a company's P&L report. This is because a profit and loss (P&L) is the most commonly used financial statement to indicate a company health.

There are benefits that you can reap by preparing a comprehensive P&L statement, including:

1. Helps you monitor your operations. The report should measure your business revenue and expenses during a given time period.
2. Understands the business's net income or loss, which can serve as grounds to make informed decisions and operational adjustments.
3. Assist investors or banks to better evaluate your company's performance when you're looking for additional investment/loan.

A P&L statement is straightforward and anyone can analyze a P&L statement with some practice.

[Company Name] Profit and Loss (P&L) Statement [USD $ millions]	JAN	FEB
Revenue stream 1	-	-
Revenue stream 2	-	-
Returns, Refunds, Discounts	-	-
Total Net Revenue	-	-
Cost of Goods Sold	-	-
Gross Profit	-	-
Expenses		
Advertising & Promotion	-	-
Depreciation & Amortization	-	-
Insurance	-	-
Maintenance	-	-
Office Supplies	-	-
Rent	-	-
Salaries, Benefits & Wages	-	-
Telecommunication	-	-
Travel	-	-
Utilities	-	-
Other Expense 1	-	-
Other Expense 2	-	-
Total Expenses	-	-
Earnings Before Interest & Taxes	-	-
Interest Expense	-	-
Earnings Before Taxes	-	-
Income Taxes	-	-
Net Earnings	-	-

Reading the components of a P&L Statement

Timeline

P&L statement is prepared for a certain period of time in order to compare results, e.g. monthly/yearly.

Income from Operation:

Revenue/Sales from all of your product categories.

Other Income:

All capital gains that don't come from your products' sales, such as:

- Interest on business bank accounts
- Sale of unused equipments
- Rental income if other companies rent their workspace from you
- **Does not include** investors' investment/fundings

Expenses:

The cost of operating your company, including:

- Cost of Goods Sold (COGS)
- Marketing and Advertising
- One-time expenses
- Employee salaries and benefits
- Insurance
- Consulting fees
- Interest expense (cost incurred for borrowed funds, e.g. bank loan)
- Depreciation
- Taxes

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Other Expense 1	-	-
Other Expense 2	-	-
Total Expenses	-	-
Earnings Before Interest & Taxes	-	-
Interest Expense	-	-
Earnings Before Taxes	-	-
Income Taxes	-	-
Net Earnings	-	-

Reading the components of a P&L Statement

The Formula to Determine Your Result:

Revenue
- **COGS**
- **Expenses**
+ **Other Income**
- **Interest**
- **Tax**

= **Net Earnings OR Net Loss**

Understanding Cost of Good Sold (COGS)

Source: Corporate Finance Institute, 0:00 - 1:11

Your product sales comes with the cost of actually building the product.

As such, when a product is sold, the revenue you received is still marked as a "total income", not "gross profit".

To find "gross profit", you need to determine the **COGS**, which consists of **all the expenses associated with producing the goods or providing the services.**

The goal of finding COGS is to calculate the "real cost" of product sold, and eventually to determine your gross profit.

Understanding Cost of Good Sold (COGS)

COGS number depends on the industry you are operating in.

If you are operating in a consumer goods industry, your COGS will be influenced by **variable costs** such as raw materials.

Example: If you're producing 5 Bluetooth-equipped helmet for US$ 25 each, and you're able to sell all 5 helmets at US$ 50 each, then:

Sales/Revenue	: $50 x 5 = $250
COGS	: $25 x 5 = $125
Gross Profit	: $250 - $125 = $125 (50%)

A P&L statement only records goods or stocks that are sold. Unsold goods will be recorded in other type of financial statement, which is *balance sheet*.

This course serves as an introductory lesson for you to be able to understand the terms and read a financial statement. Explore further accounting courses to learn more about this financial reporting.

Understanding Cost of Good Sold (COGS)

Does software-as-a-service (SaaS) company incur COGS?

Even though these companies don't require raw products or manufacturing costs, Internet-based businesses also have COGS calculation that are related to the sold product and outside of the day-to-day operating fees. **This includes the costs for:**

- Customer support and account management costs that are successful to deliver the product
- Software license fees that are integral to the sold product
- Hosting fees
- Third party solutions such as for security and cloud-based that are integral to the delivered/sold product

Understanding Depreciation

Source: The Economic Times.

The assets that you purchase: printers, laptops, cars, equipments, or machineries—all have ***useful life values* that can support your operations.**

These fixed assets need to be paid and has value over its usage period. If you write down their cost entirely 100% on the P&L statement in the time that you buy those assets, then your statement will incur large cost and your bottom line will be adversely affected. As the asset has useful live value, you'd want to spread the cost by the asset's usage period.

Understanding Depreciation

That is why that it is advised to spread out that assets' cost (its initial purchase value) over the useful lifetime of the asset (referring to the time the asset can help generate revenue), which is called **depreciation**.

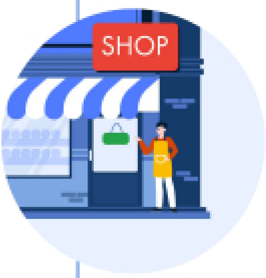


Illustration:

A retailer purchased a sign board for its shop at a cost of US$120,000 and let's assume the depreciation period for that asset is 10 years. Over the course of the 10 years, the retailer can depreciate its worth deducting $1,000 per month using a straight line depreciation method (i.e. $120,000 divided by 120 months to result in depreciation value of $1,000 every month), during which the sign board is placed to attract customers. However, if the retailer does not depreciate the equipment in monthly basis, it will lose US$ 120,000 worth of value right away.

A company's financials should **reflect the value of its assets over time and not just in the time they were bought**. Assets, except generally land, do wear off and eventually broken down, but throughout their lifetime, assets have value for business activity.

Identifying Sources of Capital

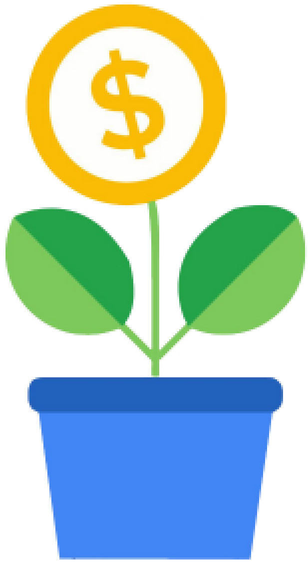
Identifying source of cash for business financing

3 most common ways to raise cash for your business financing:

1. **Cash from operation**
   The cash source is from your own assets or from operational profitability. If the asset comes from your own pocket, it is often referred to as **bootstrapping** the company.

2. **Cash from financing (Debt)**
   Debt is simply as you know—borrowing money from an individual or an institution and pay back that amount with interest.

3. **Cash from investment (Equity)**
   Equity is quite a different way to raise capital. In this case, you get money from people or institutions, but in exchange of that money, you give up a portion of your company's shares—a portion of the ownership of your company.



Cash from Operation

Building a company without outside investment is often referred to as bootstrapping the company.

It means doing a difficult task without any outside helps. Difficult as it may seem, in reality, 57% of startups are funded largely by the entrepreneur's personal savings. Even prominent brands like Facebook and Apple started out by bootstrapping.

Using your existing resources is definitely a viable option to start your business. Find out the upsides and downsides of bootstrapping.

Pros	Cons
Full company ownership and decision making authority; no pressure from investors or other stakeholders as you retain full ownership	Might put personal assets at risk
Focus on products and customers	Slower growth as limited spending on promotion/activities for growth
Start slowly by bringing in revenue and establishing a safety net in business	Lack of credibility and network back up from investors to make your business reliable

Example of successful bootstrapping

GitHub

GitHub, a web-based hosting service for software development projects that uses the Git revision control system, was founded by Tom Preston-Werner, Chris Wanstrath, and PJ Hyett.

This started as a weekend project, with the founders covering the costs involved to buy a domain, and when the decision was made to bring GitHub into full time operation they funded the setup costs themselves. This platform for developers—which functions as a social network, portfolio space, and co-working space—took off. By 2013, GitHub had hit the 3 million user mark.

As the platform became accepted by programmers, requests for private repositories, or safe places to store their codes where others couldn't view or steal them, were being received. After this, the founders left their day jobs and focused full-time on the business by working various hours and locations, and began to release products that may not have been perfect at the start, but with customer feedback, they corrected the issues and the business grew. As of April 2020, 50 million developers worldwide use the company's software development platform. In 2018, Microsoft closed on a deal to acquire GitHub for $7.5 billion.

Example of successful bootstrapping

Dell

Michael Dell started out his journey by creating PC's Limited at his dorm room when he went to the University of Texas at Austin. After receiving a loan worth $1,000 from his family, he dropped out of college to focus full-time on his fledgling business. The small loan was soon turned into $30 million in four years.

His visionary understanding of the computing process that he learned from his dorm room enterprise has paved the way for him and his company to become a major player in the computing market.

Through the help of his family, who certainly didn't provide a large sum of money, Dell allowed the company to grow independent and has shown that human capital and bootstrapping can work out.

Cash from Debt / Loan

Debt is borrowing money from an individual or an institution, such as bank, and pay back that amount with interest. Here are the upsides and downsides of debt:

Pros	Cons
Get additional outside money to support your business' growth	The money from debt financing has to be paid back
Keep full decision making authority/maintain control	Interest rate varies and is usually higher for new business that is categorized as risky
Tax deduction	Need a lot of paperworks to fulfill
Once the debt is paid, there is no longer an obligation	Might put your assets at risk

Loan options for SMEs in Indonesia

Peer-to-Peer Lending or Crowdfunding Lending (eg. Modalku, Investree)

These platforms guarantee small business owners to receive the lending they need quickly without needing any collateral and with relatively low interest rate. There are some steps and requirements to be eligible to get the money:

1. The business needs to run at minimum 6 months to 1 year with positive financial track record.
2. After the lending request is approved, the platform will post the company's financial statement and lending requirement information to allow the general public to invest in.
3. After the money is gathered from the lender (investor), the debtor (you who borrow the money) will receive the money.
4. After the tenor (due date), debtor will pay back the money they borrowed along with interest rate that soon will be distributed back to the lender.

The platform is not receiving revenue from the interest but from the fix management fee paid upfront by the debtor.

Working capital lending: Used to finance any working capital (company's short term operational needs) requirement for the SMEs without requiring collateral. The interest rate varied from 6% - 12% per year (based on debtor's financial performance) and loan amount starts from IDR 3 million to 2 billion. Loam terms start from 3 - 12 months.

Loan options for small business in Indonesia

Invoice Financing: Invoice Financing is a working capital loan aimed for SMEs that have business relationships with corporations such as state-owned, multinational, or government agencies. SMEs that need financing can use their unpaid, ongoing invoice against a company to obtain loans from lenders. The invoice will then become a collateral for the loan. The debtor can receive financing at maximum 80% from the invoice amount and will need to pay interest starting from 12% - 20% per year (based on the client's credit risk) and can choose to pay back the loan within 30 - 180 days.

Investment Loan: This is a loan type to help business owners buy assets that can support operations and increase company's productivity, such as land, building, or machinery. The duration of the loan is up to 15 years and the interest rate ranges from 10 - 11% per year.

Additional fees to get loan from banks in Indonesia

Other than interest fee, there are also some other fees if you get loan from banks:

- Appraisal fee for loan guarantee
- Provision for having the loan approved
- Administrative fee
- Notary fee
- Fee for faster repayment

High-liability funding options — personal loan

There are some other lending options available to you and the general public. However, these alternatives put your personal wellbeing and the wellbeing of your relatives at risk, but still are part of the fundraising landscape and therefore, deserve to be described for completeness.

Credit Card Loan
Utilizing your credit cards to get the capital you need, usually carry very high interest and longer to repay.

Personal Loan (With Asset)
The loan that you can get if you own an asset as a guarantee and have paid back a portion of the loan.

Personal Loan (Without Asset)
Commonly known as KTA or the loan that is offered from banks. Debtor needs to pay monthly installments along with the interest.

Family Loan
It is getting money from your relatives such as friends and family, it might need paperworks or not to repay the loan, depends on your agreement with the person. You have to keep the same responsibility to repay them, although they might be your closest ones and are supportive of you.

How loan interest rate is defined

The interest rate for credit card is fixed based on the agreement between you and the bank. However, for other types of lending from financial institutions, the interest/approval rate varies based on **how risky the investment for the bank is**. This risk is defined by a **credit score**.

Notes: Detailed calculation of how credit risk is measured is different for each financial institution.
The following illustrates a high level credit rating criteria determined by a bank for a small business.

1. Duration of business — the longer a company has been established, the credit scoring will be higher.
   Point Calculation:
   1 = < 2 years
   2 = 2 - 5 years
   3 = > 5 years
2. Self-financing amount — the more the business owner has put their personal money, the credit scoring will be higher.
   Point Calculation:
   1 = < 20% self-financing / loan request
   2 = 21% - 50% self-financing / loan request
   3 = > 50% self-financing / loan request

How loan interest rate is defined

3. Relations with the bank — If the company has a track record of being a debtor that has paid off the debt well, the credit scoring will be higher.

   Point Calculation:
   1 = < 2 years
   2 = 2 - 5 years
   3 = > 5 years

4. Type of Industry - if the company is from an industry that is currently in the growing state, the scoring will be higher.

   Point Calculation:
   1 = sunset
   2 = stable
   3 = growing

5. Loan guarantee - if the debtor offers better asset guarantee, the credit scoring will be higher. This is only available for bank lending and not applicable for P2P Lending.

   Point Calculation:
   1 = < 100% asset value / loan request
   2 = 100% - 124% asset value / loan request
   3 = 125% asset value / loan request

How loan interest rate is defined

6. SLIK *(Sistem Layanan Informasi Keuangan)* Checking - If the debtor has a track record of scale 3 - 5 in Bank Indonesia clearance checking, most financial institutions will not approve any loan request.

The following is the credit performance score order according to Bank Indonesia (SLIK Checking)
Scale 1 = No dues for any current loan.
Scale 2 = Credit with Special Mention which are loan that has not been paid for 1-2 months.
Scale 3 = Loan has not been paid for 3-6 months.
Scale 4 = Doubtful Credit, which are loans that has achieved its payment period but have not yet been paid
Scale 5 = Bad Credit, the debtor is identified as being not able to pay even though many restructured attempt has been made

Point Calculation:
1 = Scale 2
2 = Scale 1

How loan interest rate is defined

7. Debt + interest payment ratio
   Referring to Interest expense + current portion long term debt (long term debt that will be due this year). The higher the ratio, the higher the credit scoring is.
   Point Calculation:
   1 = < 1.2
   2 = 1.2 - 1.5
   3 = > 1.5

At the end of these measurements, the institution will add up all of your credit scores to determine whether they will approve the loan or not. One way to determine it is:

Less than 12 points	= Rejected
Between 12 - 18 points	= Considered
More than 18 points	= Approved

Nonetheless, tt has to be emphasized again that the way credit score is measured vary between institutions.

<u>Treat this calculation as an example, not the rule.</u>

Cash from Investment (Equity)

Equity is selling a portion of your company's shares in exchange of the capital you're raising. This means that you're giving up some parts of your ownership.

Here are the ups and downs of raising funds through equity:

Pros	Cons
No Interest Payments – You do not need to pay your investors interest, although you will owe them some portion of your profits as your company grows.	**Loss of control** – Equity investors own a portion of your business, and depending on your equity agreement, investors will have a say in your day-to-day operations and strategic decisions.
No Liability – If the business doesn't succeed, the investors are the ones who take the hit – not you or your family.	**Takes time** — Approaching investors and being investment-ready is demanding. Your business may take the hit if you spend too much time on planning investment strategies. Even when you've secured investment, the money isn't necessarily transferred to your account overnight.
No Monthly Payments – You probably won't need to make monthly payments until you make a profit – which keeps more cash in your pocket while you get things up and running.	
Chance for rapid growth – Business needs money to grow fast. With huge amount of money, a company will have flexibility to market and scale their products by having huge amount of marketing budget or hiring the best employees.	**Difficult to obtain for most SMEs** — Investors take a risk when they invest money. As 90% of startups fail in their first two years, investors are prioritizing companies that can achieve hyper growth.
Get a new expert business partners – Aside of money, investors usually bring advice and mentorship, on top of industry network and potentially customers.	

Equity Funding Sources

Venture Capital & Angel Investors

People who invest their money in companies that have long-term growth potential.

A VC is usually a firm, while Angel Investors are individuals. A VC or angel investment can occur in any funding stage.

Accelerator Program

An intensive and time-bound program to get startups ready for investment quickly.

Accelerator programs offer combination of education, mentorship, working space, and even investment to young startup companies.

Crowdfunding

A way to raise capital for your company through a large number of investors.

Each investor is called backer, who invest a relatively small amount of money, but collectively can amass a lot of funding.

Getting to Know Venture Capitals

Often we hear that many startups have successfully been funded by a **“venture capital”**.

In a nutshell, VCs are businesses that aim to generate higher returns on the investment money they give. In return of giving you an initial cash investment, they will have a share of ownership in your company (called an “equity”).

Once your company has become profitable, you will need to liquify (pay out) the profits to the shareholders, thus the VC will get their money back, or even higher than what was invested as your company has grown and raise the value of their initial investment.

Getting to Know Venture Capitals

Understanding how VCs operate.

Take a look at a venture capital firm that operates in 10-year investment cycle for a company they will invest:

1. The VC will raise capital from “Limited Partners”—wealthy people, investment banks, or corporations that expect high return on their investment. The VC’s ability to raise fundings from LPs will be based on their past investment portfolio.
2. Once capital is collected, the VC will identify and invest in startups that has growth potential and should prove to be very rewarding in the future. They then put in the investment into the startups.
3. They participate in the management of the companies they invested in, usually as being members of the board. They provide counsel, advice, and at times decide on strategic matters.
4. When the company has grown, it is time for the VC to reap the return of their investments **by exiting the companies** they invested in through the sale of their shares through Initial Public Offering (entering stock market) or Merger and Acquisition.
5. The VC returns the expected return on the 10-year investment cycle to the LPs.

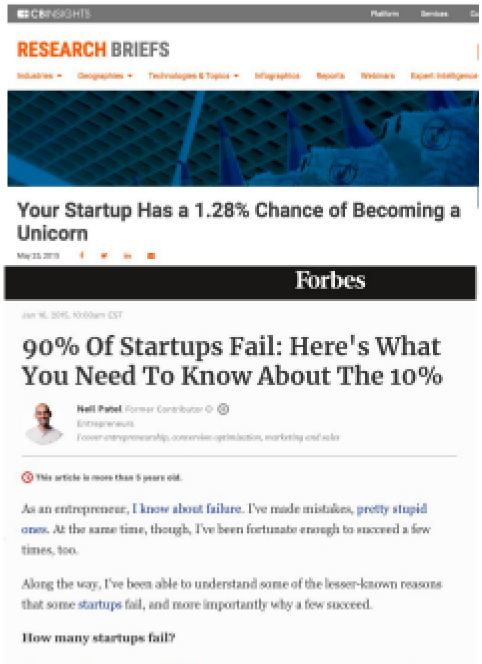
What do VCs look for in a startup?

As you have learned, VC's reputation to Limited Partner depends on how successful the companies they invested are.

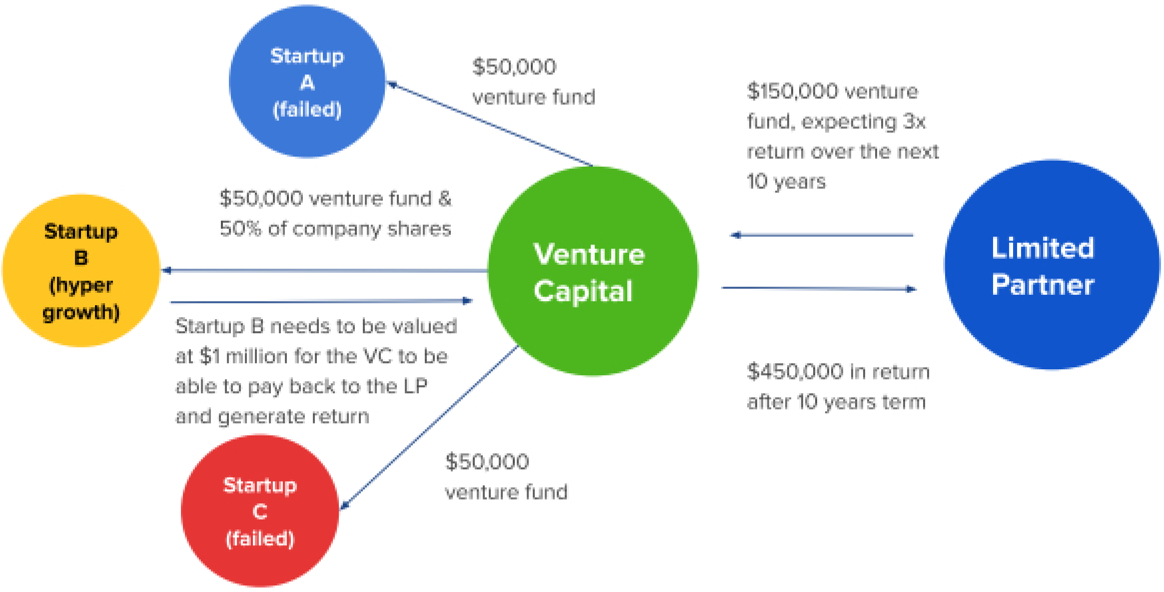
Despite all of their thorough analysis, experience, and methodology, the majority of startups fail. They are aware that out of list of companies they will invest in, only a small portion will be successful, and they don't know which one will yield result.

The rule of thumb is that each company they invest in should yield a potential success and, therefore, be expected to generate a return that will cover for all the failures of the other companies. People would usually expect 30% or at best 50% ROI; VC's will expect a 10x to 30x multiplier of the company's original value in an investment cycle.

In every project they assess, VCs are looking for the next Google or Facebook, in the sense that the companies have to possess great potential to grow significantly and capture a large audience.



VC Investment, illustrated



> This is a simplified process of how a VC investment proceeds. The reality will be a lot more complex than this, and we don't expect you to be engaged in a VC investment right away. But through this mathematical process, you have a basic understanding of how VCs work and help you value your product's impact, user base, and saleability on the market.

Getting to Know Angel Investor

Who are Angel Investors?
Just like the name, they are usually a high net worth individuals, who, provides financial backing with their own money for early-stage startups which may only have as little as an idea. Just like VCs, they also generally provide funds in exchange for ownership equity in the company.

Rather than focusing solely on the product's viability, angels have been attributed of helping entrepreneurs to take their first steps, providing not only funds but also relevant experience that might help you take a leap in your journey.

DID YOU KNOW?
There are 141 angel investors who reside in Indonesia, visit https://angel.co/indonesia/investors to get to know them.

Accelerator program (Business Incubator)

Accelerator programs are short-term intensive growth programs, often between 3 to 6 months, that gives developing startups access to education, mentorship, network, and financing that help them to accelerate their development and scale up their company.

Many accelerator programs accept companies that may be pre-revenue or even pre-product, meaning that even an idea may be able to find support from an accelerator program. Participating startups will have the opportunity to pitch their company during the demo day. The programs will generally offer the participating companies a seed funding ranging from $20,000 to $200,000. In return, the investors will receive an equity between two and 10% ownership in that company.

For a business in need of expert guidance, financing and growth, a startup accelerator is a great option. But to get into one, ensure that you exhibit the drive and commitment to grow.

Example of Accelerator Program

Y Combinator (YC)

It is one of the most popular accelerator program from Silicon Valley, which has history of investments in over 2,000 companies. At the end of Y Combinator is a demo day event where the startups in the program are given a few minutes to pitch an audience that includes investors from all over the world. Pitching at a demo day for a top tier accelerator like YC often paves the way for receiving faster investment.

Successful portfolios:

Airbnb, Stripe, DoorDash, Dropbox, Instacart and Coinbase

Example of available incubators in Indonesia

Google Startup Accelerator for SEA

This is a 3-month online accelerator program that help high potential seed to series A tech startups grow. This is an equity-free program that provides mentorship and personalized support from Google's mentorship network.

Find out more: Google for Startups Accelerator: Southeast Asia

1000 Startup Digital

Started since 2016 by the Ministry of Communication and Informatics RI, 1000 Startup Digital focuses on empowering early-stage startups in various industries, such as: agriculture, health, education, and many more. It has since overseen the rise of more than 1000+ startups through the program.

Find out more: 1000 Startup Digital

Indigo Creative Nation (ICN)

ICN is initiated by Telkom Indonesia in 2013 and has held regular batches twice every year. Selected startups will be given early stage funding and mentoring at coworking spaces like Bandung Digital Valley.

Find out more: Indigo Creative Nation

Crowdfunding

What is crowdfunding?

Crowdfunding is a method to raise money for a company through a large number of people. Individually, each investor is called a backer, and they will invest small amount of money but collectively it can reach, or even exceed, your desired amount.

For companies with limited connection to the investment world, crowdfunding can be your starting line.

If your campaign succeeds, you won't just have the capital; you'll also have the first group of customers who are already waiting for you to deliver results. These people are watching you, so you need to keep your promise.

Crowdfunding platform example: Kickstarter, GoFundme, Indiegogo.

Crowdfunding

How to successfully get funded through crowdfunding campaign.

1. Understand how much you need for your operations.
2. Prepare marketing materials. Convey your vision and product in a simple and effective way to get your potential backers excited.
3. Choose the platform: On which platform is your audience located? Does your product target the general public or specific to particular interests?
4. Offer attractive reward structure.

Example of Successful Crowdfunded Company

Oculus Rift VR

Oculus, the virtual reality headset company, was launched on Kickstarter seeking US$ 250,000 to develop its signature product, Oculus Rift Headset. Within four hours, the campaign reached its target by US$ 2.4 million. The company was eventually purchased by Facebook for $2 billion.

Its success was attributed to its communications strategy, which aims to bring a game-changer in the gaming industry. This value resonated among the community, and the rest is history.

The process of raising capital

You have learned about the various alternatives to business financing.

There is no one fixed strategy of raising capital. One company's journey will be different than the others.

Nonetheless, there is a **common sequence of events to raise the capital you need for your company.**

1. Fund as much as possible with your own money.
2. Identify as much loan money as you can afford to carry and strive for growth to pay those loans
3. Obtain the rest of the fundings you need through equity: offering your company's shares.

As an entrepreneur, your best interest is to maintain control and ownership of your company as much as possible. This is because if you have a great product and have a chance to be successful, you'd prefer to split the profits with as few people as possible. If you have the means to finance your own business, equity and investment usually comes as the last option.

Final words

Regardless of your role within a company, you need to have some basic understanding of financial literacy.

The success or failure of the business will **depend on the choices made by people at all levels** and these choices will have implications for the finances of the organization.

Introducing a new product feature, buying new software, hiring new employees, looking for investments—all these decisions impact the financial health of the company and understanding how this happens will allow you to **understand the nature of cost and ways to reduce cost.** In turn, it **helps you to contribute more effectively and make better decisions**.

For example, if you want to buy a package for your PC at work, there has to be system for buying new software and a budget for software, and the company needs to consult their financial management to find out if they can afford it.

Being financially literate doesn't mean being free of mistakes.

But being financially illiterate only makes those mistakes dire and regrettable.

Thank You