VIT
Vellore Institute of Technology
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Course: MGT1022 Lean Start-up Management
Winter Semester 2021-22
Digital Assignment 3

Maximum Marks :25
Due date: 8th April 2022

Task –

1. What are funding options available for start- funding? Compare these funding options in terms of eligibility, fund value available and procedures required?
[15]
2. Now recall your start-up idea from your Assignment 1 and explained which of these mentioned funding option is suitable for your start-up idea and why?
[10]

Question 1

It's an exciting time when you decide to start a business. However, maintaining that momentum and passion as you go on your quest to make your company ambitions a reality is difficult. One particularly perplexing annoyance that can sap the wind from your sails as you start a small business?

Raising cash can be a confusing and intimidating process with so many fundraising alternatives available. To make matters more complicated, the type of finance you seek will be determined by your company's specific needs, its stage, and the exact milestones you expect to attain.

According to a recent survey, about 94 percent of new firms fail in their first year. One of the most common reasons is a lack of funds. Money is the lifeblood of any company. The long, arduous, but exciting journey from idea to revenue-generating business necessitates the use of capital as a fuel. As a result, entrepreneurs ask themselves, "How can I finance my startup?" at practically every step of their business.

When you'll need money is mostly determined by the nature and style of your firm. However, if you've determined that you need to raise funds, the following are some of the several financing options open to you.

Here is a detailed guide that outlines 5 startup funding choices that will assist you in raising funds for company

1. **Starting a business on a shoestring budget:**
   Self-funding, often known as bootstrapping, is a good approach to get money for a startup, especially if you're just getting started. Without any traction and a plan for possible success, first-time entrepreneurs have a hard time securing capital. You can invest from your personal money or enlist the help of relatives and friends. This will be simple to raise due to less formalities and compliances, as well as lower raising costs. In most cases, relatives and friends are willing to work with you on the interest rate.

Because of its benefits, self-financing or bootstrapping should be considered as a first funding alternative. When you have your own money, you are inextricably linked to the corporate world. Investors will consider this a beneficial aspect at a later period. However, this is only appropriate if the initial requirement is limited. Some firms require funds from the start, and bootstrapping may not be the best solution for them.

2. **Crowdfunding As A Funding Option:**
   Crowdfunding is a relatively new method of financing a startup that has recently gained a lot of traction. It's the equivalent of getting a loan, pre-order, contribution, or investment from multiple people at the same time.
   This is how crowdsourcing works: An entrepreneur will use a crowdfunding platform to post a detailed description of his firm. Consumers can read about the business and donate money if they like the idea. He will state the aims of his firm, strategies for turning a profit, how much funding he needs and for what reasons, and so on. Those who donate money will make online commitments in exchange for a chance to pre-order the goods or make a donation.
   Why should you consider Crowdfunding as a source of funding for your company?
   The best part about crowd funding is that it may also stimulate interest, which aids in product marketing as well as financing. It's also helpful if you're not sure if the product you're working on will be in demand. By putting money in the hands of ordinary people, this technique can eliminate professional investors and brokers. If a company conducts a very successful campaign, it may also attract venture capital investment in the future.
3. **Obtain Angel Investment for Your Startup:**
   Angel investors are individuals who have extra income and a strong desire to invest in new businesses. They also collaborate in groups of networks to screen proposals jointly before investing. In addition to funding, they can provide mentoring or advise.
   Many well-known companies, such as Google, Yahoo, and Alibaba, were founded with the support of angel investors. This type of investment is most common in a company's early phases of development, with investors expecting up to 30% equity. They would rather accept more risks in their investments in exchange for higher profits.
4. **Obtain Venture Capital for Your Company:**
   This is where the big bets are made. Venture capital funds are professionally managed funds that invest in high-potential businesses. They frequently invest in a company with their own money and depart when the company goes public or is acquired. VCs give knowledge, coaching, and serve as a litmus test for where the company is headed, assessing the company's long-term viability and scalability.
   A venture capital investment may be ideal for small enterprises that have moved past the startup stage and are already profitable. Fast-growing companies that have a plan in place for exiting can make tens of millions of dollars, which can be utilised to invest, network, and expand their business swiftly.
5. **Incubators and accelerators can help you get funding.**
   Incubator and accelerator programmes can help early-stage enterprises get funding. These initiatives, which can be found in almost every large city, help hundreds of new firms every year.
   Despite being used interchangeably, there are a few key distinctions between the two names. Incubators are similar to a parent to a child, nurturing the business by providing shelter, resources, training, and a network. Accelerators are similar to incubators, however an incubator helps a business walk, whereas an accelerator helps a business run/take a great jump.

These programmes typically last 4 to 8 months and demand time commitment on the part of the business owner. Using this platform, you will be able to connect with mentors, investors, and other company founders.

Question 2

Recall The Idea from Assignment 1

ARCELIA will be a specialised cycling store that sells five different types of high-quality, high-performance bicycles through web. Our bicycle company will give excellent client service, including accurate bike fittings, usage instructions, and safety advice. Repairs, upgrades, adjustments, and tune-ups are available for all types and sizes of bicycles. ARCELIA will also have a large selection of the top cycling components, accessories, clothes, and shoes available in the business.

In 2019, the worldwide bicycle market was valued at USD 65.43 billion. COVID-19 has had an unprecedented and devastating worldwide impact, with bicycles experiencing a positive demand shock across all regions as a result of the epidemic. According to our calculations, the worldwide bike market will expand by 48.55 percent by 2020. In the period 2020-2027, the market is expected to increase at a CAGR of 6.1 percent, from USD 97.20 billion in 2020 to USD 147.24 billion in 2027. The abrupt drop in CAGR is due to this market's demand and growth, which will recover to pre-pandemic levels once the pandemic is ended [1].

For a smart bicycle start-up like **ARCELIA**, I and my founders would be most inclined with the option of funding our startup with either a venture capital or an angel investor.

Venture capital financing is funding provided to companies and entrepreneurs. It can be provided at different stages of their evolution, although it often involves early and seed round funding. These funds manage pooled investments in high-growth opportunities in start-ups and other early-stage firms and are typically only open to accredited investors. They have evolved from a niche activity at the end of the Second World War into a sophisticated industry with multiple players that play an important role in spurring innovation.

A high-net-worth individual who funds enterprises in their early stages, frequently with their own money, is known as an angel investor. For many firms, angel financing is the principal source of capital since it is more enticing than other, predatory sources of funding. Angel investors' backing for businesses encourages innovation, which leads to economic growth. These are high-risk investments that typically account for less than 10% of an angel investor's total portfolio.

The objective of the founders is to become an UHNWI and scale ARCELIA to the rifts of AMAZON. So our strategy would be first to raise a round from Seed Capitals, maybe another round like say round B.

Then when our business starts to show any promise, we'll start expanding. And here's the plan how I think I'll need the money.

Venture capital round can help ARCELIA get the money it needs to expand itself. Certain businesses, such as low-risk high-return start-ups, require a significant amount of capital to advance to the next level. Of course, we'll have to be careful with this money and make the greatest possible use of it.

Another advantage of going with venture capital funding is that it will expand our resources. We can now take advantage of the venture capital firm's capabilities, such as its extensive network of contacts and current knowledge. This could involve marketing resources and industry knowledge.

Then further down the line, when everything goes as expected and when there's room to expand, we'll go ballistic like Amazon.

Angel investors' investment terms are often far more beneficial than those offered by other investors, as an angel investor will have lower expectations based on the size of their investment compared to larger investments such as series funding or venture capitalists. Angel investors have shown to be crucial in the startup environment, boosting entrepreneurs in achieving success. Many businesses are cash-strapped in their early stages of development and may not be ready to raise financing through a series of loans. a source of funding (which is a type of fund-raising initiative that focuses mainly on taking a strong startup and seeking capital through interested investors looking for explosive growth).

Going into the game-plan, when we reach the stage of having a wonderful company's vision concept but don't have the funds to implement it, this is a great way to get financing. We qualify for one of these investments, the terms are usually excellent and do not require the use of personal assets as collateral. Because these investments do not earn income, the risk of receiving such funds is reduced. These investments can be dangerous for angel investors, but they are frequently made out of goodwill, which is only possible because the money offered are typically lower than those provided by venture capitalists. Hence, the opportunity will give us the medium of explosive growth for our company ARCELIA.

In summary, we first go with venture capital and then after our gamble shows promise we'll source our fund from an angel investor.