Introduction To Start-up and Finance

What is Start Up?

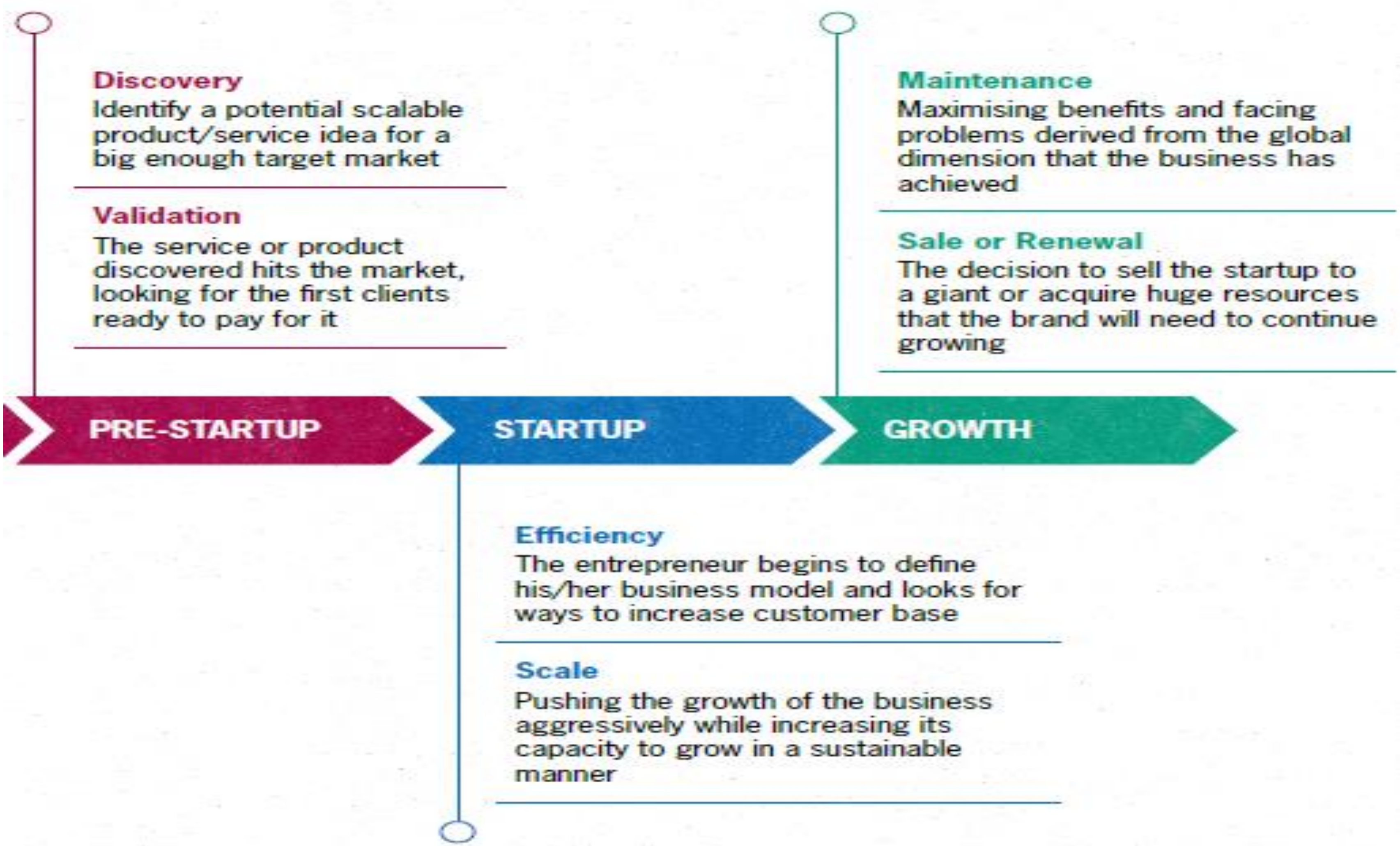
- A startup is a young company that is beginning to develop and grow, is in the first stages of operation, and is usually financed by an individual or small group of individuals.

- A startup is a young company which could be an entrepreneurial venture or a new business, a partnership or temporary business organisation designed to search for a repeatable and scalable business model.

What is Start Up?

- A startup is a young company that searches for a an unknown business model in order to disrupt existing markets or create new ones .
- A startup is a young, dynamic company built on technology and innovation wherein the founders attempt to capitalize on developing a product or service for which they believe there is a demand.

Stages of Start-Up Lifecycle



Introduction To Start-up

- Although there is no typical life cycle for a new venture, firms often go through five main stages:
  - Development,
  - Start-up,
  - Earlygrowth,
  - Rapid-growth,
  - and Exit.

Venture Financing

- Funding is critical to the success of a start-up firm, yet the earlier the stage, the harder it tends to be for the entrepreneur to acquire funding due to the high risks involved.
- Figure in next slide shows the type of financing available at each stage.

Venture Financing

Sources of new venture financing

	Development	Start-up	Early Growth	Rapid Growth	Exit
Bootstrapping					
Friends and Family					
Angel Investors					
Venture Capital					

Red shading indicates main form of financing available. Gray shading indicates secondary sources for financing.

Venture Financing - Bootstrapping

- In the early stages of the venture, self funding (also known as bootstrapping) will be the most common form of financing available.
- This means that the entrepreneur will need to invest private funds which include savings, credit cards, second mortgages, and personal loans

Venture Financing - Bootstrapping

- Advantages of Bootstrapping
  - holding more equity
  - more bargaining power
  - allow the entrepreneur to put all of his or her time and resources into growing the firm instead of spending lots of time in trying to attract investors

Venture Financing- Family and Friends

- The amount of money attained from this source is usually a small sum that can be used to help "finish the business plan, create a prototype, or conduct validating research" .
- Furthermore, the money provided is often referred to as "love money" because their investments are made out of affection rather than based on the merits of the venture.

Venture Financing

- Once the business plan is written, the market research is conducted, and a prototype is developed, the entrepreneur’s venture has passed the development stage and resides in the startup stage.
- Unfortunately, new businesses rarely show profits when operations first begin.

Venture Financing – Angel Investing

- Generating sales takes time and sale receipts are usually not enough to offset start-up costs and expenses.
- Because of this, the entrepreneur needs money to help the company grow.
- That’s where an angel investor comes in.

Venture Financing - Angel investor

- "An angel investor is a person who provides capital, in the form of debt or equity, from his own funds to a private business, which is often an early-stage company but not exclusively, owned and operated by someone else, who is neither a friend nor family member" (Shane 2009, 14).

Venture Financing- Angel investor

- They are often thought of as an entrepreneur's best friend because they are by far the most important source of capital for early stage ventures.
- In addition to providing entrepreneurs with capital, they often divulge their business knowledge, industry expertise, contacts, and ongoing support.
- For this reason, the best type of angel investing is a relationship rather than simply a capital investment.

The reasons why angels invest

The main reasons angels invest can be summed into three main categories:

- opportunity for financial gain,
- playing a role in the entrepreneurial process,
- and certain nonfinancial factors.

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  - Most business angels are very motivated by financial gains. These
  - angels hope to realize high gains within a few years.

The reasons why angels invest

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- playing a role in the entrepreneurial process,
  - In addition to seeking high financial returns from investing in start-up companies, angels are motivated by the opportunity to get involved in the building process of a new venture.
  - These angels may not want to go through the hassle of starting another venture of their own.
  - Being an angel allows them to “stay in the game”, without all the time and sweat that goes into developing a successful company.

The reasons why angels invest

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- and certain nonfinancial factors
  - Other angels are motivated by their desire to learn new things.

    Whether its learning about new technology before it reaches the market or learning how companies get started, many angels simply like the challenge of learning something new.

Type of angel investing

- The funding that angel investors provide come from three types of angel investing.
- The first type is an individual angel, in which an angel investor is investing on his own behalf.
- Angel investors like these are wealthy individuals who tend to regularly invest in entrepreneurial ventures with their own money in sums typically ranging from at least \$25,000 to over \$1 million, and sometimes much more

Type of angel investing

- The second type is when angel investors invest as part of an Angel Network.
- Like an angel investor investing on his own, angel investors that are part of an Angel Network can invest individually.
- However, they have the added advantage of working collectively in the screening process and reviewing deals, and having the option of investing together in new ventures.

Type of angel investing

- The last type of angel investing is called an Angel Fund. In an Angel Fund, angel investors pull their resources together but act as one investor.
- This means as a whole they decide on each investment and no individual investments are made. By doing so, each venture that receives funding will receive a much larger sum.
- Being able to pull capital resources together is beneficial because it prevents the entrepreneur from needing to seek further outside financing from other sources such as venture capitalists.