UBIQUITY UNIVERSITY

IE – Business Economics Fundamentals – Lesson 6 – Funding basics 1– Video

Key question: How much money will it take to launch your business to the point that it can sustain itself? This requires careful thinking – raising money and then learning you need more because you run out unexpectedly can kill the whole effort. The process of thinking this through is your "capital strategy."

Your capital strategy depends on your vision for the business. How big will it become? Is it meant to be a business that you (and your family) retain primary ownership of? Is it meant to provide an 'exit strategy' that generates significant cash returns for the business, either through acquisition or public offering? I assume most people taking this class envision and hope for a healthy small business that has no exit strategy. If this is true for you, external investors are compensated by some kind of revenue sharing or dividend payouts over time.

One more thing to consider: should this business be a for-profit or a non-profit? A non-profit can get capital through grants from foundations and/or governments that a for-profit cannot access. The primary difference between a for-profit and a non-profit is a non-profit doesn't have owners who sell the business as an asset – it can be profitable, but it pays no dividends. Profits are re-invested into the mission of the business. Funders for non-profits typically look at the financial viability of the business, so they don't always have to support you as well as your ability to deliver the benefit they are seeking. It is not easier, it is just different.

Social capital is an emerging kind of investing into for-profit that take into account the value you create for certain needs and values, but these investors still will look at how they will recoup their investment and make a profit for the risk they take.

A new business typically will struggle to get a loan (unless you find a government program that backs the loan). At a minimum, you will need to provide collateral that the bank can sell if your business cannot repay the loan.

It is critical that you let the nature of your business itself drive your capital strategy – don't force a business to seem like it's something it's not. Most investors will see the illogic of a plan that exaggerates a business's potential and stories of a forced capital strategy. Raise money based on the reality you most believe is attainable.

The typical ways a business can raise money:

Ways to raise money:

- Non-profit grants
- Friends and family
- Angel funds
- Venture capital
- Private equity

- Most startups must raise initial money from friends and family. They may or may not want a detailed business plan based on their trust of you.
- Angel funds – once you've reached some level of execution and accomplished some key milestone, smaller amounts of money can be raised by angel investors - very early stage investors. They typically want a lot for their investment because the business is still at a very risky stage.
- Venture capital firms are the next stage of investors. They seek businesses that have attained real traction – they have revenues, perhaps are profitable and can expand.
- Private equity firms typically invest in businesses that have laid solid groundwork and who now are poised for significant growth.

Reflection Task:

What are your basic funding needs? What are the basic parameters to your capital strategy?