

LAUNCH HACK: BUSINESS FUNDING



27% of start up businesses can't get the funding they need to succeed.



So, how do I fund my business? Let's start with the basics and look at how a hypothetical startup would get funding.

BOOTSTRAPPING

Many entrepreneurs begin by funding their own ventures. This may be the easiest way to get started without taking on debt or losing control of the business. On the downside, personal funding can be limited and may slow growth.

THE BORROWING PATH

You may elect to take out a loan to fund your business. Like bootstrapping, this allows you to maintain control of your business without taking on additional partners. On the other hand, loans can be difficult to get and it costs money to borrow money - a loan from the Small Business Association typically charges between 3 - 5% interest.

THE EQUITY PATH

Via this path, you are offering partial ownership of your company to investors in exchange for funding. This path usually takes place over several rounds of fundraising:



SPLITTING THE PIE: The basic idea behind equity is the splitting of a pie. When you start something, your pie is really small. You have 100% of a really small, bite-size pie. When you take outside investment and your company grows, your pie becomes bigger. Even though you won't have the whole pie anymore, your slice of the bigger pie will be bigger than your initial bite-size pie.

- **Friends and Family Round:** You may receive early funding from people you know (aka friends and family), accredited investors (someone with a net-worth of \$1,000,000+ or who has had an income of \$200,000 for at least the last two years), or start-up crowdfunding sites such as Wefunder, Angellist, CircleUp and Fundable (check out www.sec.gov for requirements to raise funds on these platforms). It is illegal to receive funds from the general public for private companies - known as "public solicitation."
- **Angel Round:** You may opt to join an accelerator or incubator program, where you are provided a work space, funding and access to advisers. You may also receive funding from angel investors - individual accredited investors who specialize in early phase businesses.
- **Venture Capital Rounds:** Once your company is fairly established with a successful financial track record, you may seek funding from Venture Capitalists (VCs). VCs are funds that pool together money from accredited investors and then seek out the best opportunities. VC funding is raised in rounds or series - Your first VC round is your series A, your second is B, etc.

You can go on to have more series - but at some point one of these three things will happen:

1. You will run out of funding and no one will want to invest, so your company dies
2. You get enough funding to build something a bigger company wants to buy, and they acquire you
3. You do so well that, after many rounds of funding, you decide to go public through an IPO

An IPO, or initial public offering, is just another way to raise money, this time from millions of regular people.

The basic steps are:

1. The company hires an investment bank to help them set up all of the structures.
2. The company must get approved by the SEC.
3. The company can sell stocks (equity) on stock exchanges and any member of the public can buy them.

LET'S PRACTICE: BUSINESS FUNDING

You've decided to start your own business and you need to raise some capital to get everything up and running. Pick one of the businesses below as your own and answer the questions to get started!

By the way, can you believe these are real businesses??

PICK YOUR ENDEAVOR

Rent-a-Chicken

For \$400, Rent-a- Chicken will hand-deliver two egg-laying hens, a coop, food and water dishes, and 100 pounds of chicken feed for a four-month rental period. They currently operate in 18 states and have plans to expand.

Dirty Rotten Flowers

Love left you forlorn? Got dumped for the yoga instructor? Yet another forgotten anniversary? Or, maybe you just want to have a little fun... "Oh, you shouldn't have..." will resonate surprise when your recipient opens their elegant box of Dirty Rotten Flowers. Let DRF help you say "thank you" when you really want to say "thanks for nothing."

Potato Parcel

Founded in 2015, Potato Parcel is an American company and website for delivering potatoes with personalized messages, which are limited to 140 characters or one picture.

Reserve a spot in heaven

You can purchase a place in heaven for you or a loved one through this website. The best part? If you don't get into heaven, you'll receive a full refund, though how the refund gets to you when you're dead, the company has not disclosed.

1. Pick your business from above: _____

2. You need \$250,000 to get started. How will you fund your business (hint - think about the options provided on the front of the sheet)?

3. What are the pros and cons of your method of fundraising?

4. When fundraising, it's important to be able to explain how you will use the money for the business. How do you plan to use the \$250,000 raised for your business?

5. What is your ideal exit strategy? Continue to run business as a lifestyle business (aka - it makes enough to fund your lifestyle)? Get acquired by a larger business? IPO?

BUSINESS FUNDING

THE GOAL

- Learn the different ways in which a business can be funded.
- Be able to articulate the pros and cons of the various funding methods at a high level.

THE LOGISTICS

- Ask the participant(s) what they know about raising funds to start a business. What are the different methods? Record responses on a white board or flip chart. Ensure that the methods listed on the Launch Hack are covered. Ask what the pros and cons of each method are.
- If there are more than 3 participants, split them into groups. Ask each group to look at the businesses listed on the activity sheet and pick one to be their own start-up. (Note - these seemingly ridiculous businesses are real!)
- Have the groups answer the questions related to funding their business on the workshop.
- Ask each group to present their business and how they plan to fund it. If time permits, the groups can prepare posters or prototypes for their presentations.
- Ask: Were there different approaches to funding the businesses? How did each group plan to use their funds?

THE ITEMS

- Launch Guide (one per participant)
- White board or flip chart and markers
- Posters for presentations (if time permits)

THE WRAP

After figuring out your business idea and writing your business plan, determining your funding source is the next big step to making your dream a reality. There is no "right way" to fund a business - it's important that you understand the pros and cons of each pathway and decide based on what's best for you and your longterm goals for the business.