



Sources of Funding for Entrepreneurial Ventures

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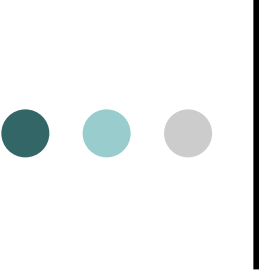
Simmons College

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Organizational Forms

- Profit (purpose: making money)
- Non-profit (purpose: social welfare)
- Principled profit (making money and social welfare)



Start-ups are different than mature organizations

- Established firms are managing their cost/revenue balance to generate profit, grow, or remain solvent
- Start-ups are managing their losses to move into solvency – by growth in revenue



Our objective

- To help you think beyond grant money to how you could launch your projects for the common good



How much money do I need?

- Start-up funding can range from \$1K to \$60M – it depends primarily on your:
 - industry
 - product/service
 - size and sophistication of your target market



Sources of Funds

- Gifts
- Grants
- Debt
- Equity
- Savings



Gifts

- Gifts are freely given with no strings attached.
- Most start-ups begin with money from the founder and her/his family
- Gifts are also awards



Grants

- Grants carry expectations around performance.
- Many grants come from government and private philanthropy
- Note: Small Business Innovative Research awards (technology)

http://www.flcnortheast.org/ContentObjects/Proceedings/August2004_FLC-CTC_Meeting/Wednesday/August2004_SBIR_STTR_Workshop_Kispert.pdf



Debt

- Debt is arranged via legal contract – a set amount of money is loaned to be paid back over time with interest.
- Debt often has “terms”: a regular payback amount, for a certain period of time, at a certain interest rate.
- Debt holders have first rights on your assets if you go bankrupt.
- Debt holders are yourself, friends, family, banks, investors.
- Debt for small business development can be “guaranteed” by the federal government.
- Many entrepreneurs finance early stage with personal credit cards and re-payment options carry higher interest but lower repayment amounts
- An entrepreneur may find debt difficult as the monthly payment cuts into their working capital.



Equity

- Equity represents shares of ownership in the business.
- Each business has a legally established set number of shares available for sale, and for future sale.
- Equity owners purchase “rights” to future profit streams.
- Equity owners are not guaranteed a return. They could make a 2000% percent return, or lose all their money!
- In mature firms, equity owners often receive a yearly and/or occasional “dividend” payment, but new firms can’t afford this
- All firms have an equity structure, but we hear most about that structure for firms that have “gone public”.
- Equity owners can be yourself, friends, family, corporations, business angels, venture capitalists, governments, individual investors.



Life Cycle of the Entrepreneurial Firm



- Launch: the business is founded
- Seed: product/service under development; under 18 months
- Start-Up: testing/pilot; perhaps early sales; under 3 years
- First and second stage = growth
- Mature: more or less stable sales; predictable expenses; a “cushion” for bad times
- Exit: many entrepreneurs plan exit strategies from the start. There are founder exit plans and organizational exit plans (acquisition, management buy-out, initial public offering).



Matching your start-up with the right financing strategy

- Debt is appropriate for every new venture
- at all stages
- different forms –
 - SBA loan guarantees
 - Working capital loan
 - Line of credit
 - Real estate mortgage
- Question: what is your collateral?



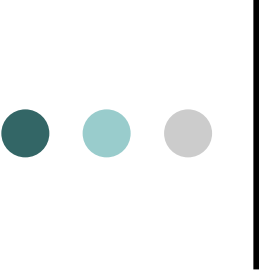
- Equity - Private

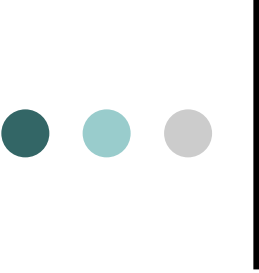
- Self, friends, family
- Angel investors
 - cashed out entrepreneurs; retired businessmen; inherited wealth (90% men)
 - Net wealth \$1M; income individual \$200K
 - \$10-50K avg; to 200K – consortium to \$2M
 - Invest via major milestones
 - Looking for companies with viable, steady growth
 - Expects 40-50% annual return within 5-7 years – looking for the “big hit” = 1000% return
 - Usually wants to participate in development of company; board seats
 - Geography effects

Note: in 2002 in the US, 300,000 business angels had \$30B invested; \$12B in new investments

<http://bostonharborangels.com/>

<http://www.goldenseeds.com/home/>

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- Equity – Private
 - Venture Capital
 - Early (some) and later stage
 - Organized by industry
 - Managing a portfolio for private investors – “funds” of \$3M-\$1B organized and committed for ~10 years with general and limited partners
 - Major industry adjustments post 2000 “internet bubble burst”
 - Late stage looking for average 300-600% return within 5 years
 - Geography effects – CA, MA, TX, MD
 - Corporate Venture Arms
 - Investing for return AND future acquisition



- Equity – Public

- < 5,000 public equity firms in U.S.
- Shares offered on public markets; anonymous
- A major growth vehicle for firms with great potential
- Firms can also stay private; but there is a limit on growth because of a limit on investment (in general)
- “going public” often an exit event for venture capitalists, angel investors, early investors, and founder/s

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EC.715 D-Lab: Disseminating Innovations for the Common Good
Spring 2007

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