

Session 13, 3/22/07

- Two guest speakers
 - Teresa Nelson, Professor of Entrepreneurship, Simmons School of Management
 - Mauro Nunez, Business Manager for the World Wide Web Consortium at MIT
- Introductions – Susan introduces the guest speakers and the class introduces themselves by giving their names and a one-minute team pitch, so that the guest speakers can know the types of projects in which the class is engaged.

Presentation by Teresa Nelson

- “Money is a tool to accomplish what you want”
 - If you know how to get it and use it, it will help you accomplish your dreams. This is how to make your projects real
- Sources of funding for entrepreneurial ventures
 - Organizational forms
 - Divisions:
 - Profit
 - Non-profit
 - Principled profit (making money and social welfare)
 - There are a variety of benefits given to each of these forms. It’s an important distinction that has to do with what kind reach and organization you’ll have.
 - Start-ups are different from mature organizations
 - Our objective
 - It’s unlikely that a grant or loan will be enough to support you entirely, so we’re trying to give you some more meat to be able to support yourself with.
 - Sources of Funds
 - Gifts
 - Freely given, no strings attached.
 - Awards can be gifts
 - Up to 10,000 from a relative, for example, is not taxed
 - Grants
 - Carry expectations around performance
 - Many grants come from government and private philanthropy
 - Debt

- You're given a set loan that lasts for a set amount of time at a set interest rate. You know the clear cut terms in which it's laid out.
- If your company fails, the first people who get paid back are your debt holders
- Small business administration guaranteed loan program
- You can also use credit card debt, if you're careful to manage it well
- Equity
 - Equity represents shares of ownership in the business
 - Equity generally only pertains to for-profit companies, but there are some similar arrangements that are sort of between debt and equity, existing for non-profits. Co-ops are an example of this.
 - Giving somebody is a higher risk, because you only get your money back if the company succeeds. Therefore the money you end up having to pay back if the company does succeed is larger than the interest you would have had to pay back if it were a loan.
 - All firms have an equity structure, but we hear most about that structure for firms that have "gone public"
 - Whoever owns 51% of the shares controls the company. Often, in order to get the resources to grow their company, founders have to give up their controlling share, and then they get pushed out as they grow. Most large companies are no longer controlled by their original founders, because they got bargained out at some point.
- Life cycle of the entrepreneurial firm
 - Different funding systems are appropriate at different stages in the growth of your company
- Sources of equity and funds
 - Private, early on
 - Friends and family
 - Angel investors
 - Private, later on
 - Venture capital
 - Public, much later (only very few companies ever make it to this point)
 - Shares are offered on public markets

Presentation by Mauro Nunez

- I was previously a professor at an MBA program in Chile
- Two main goals for today:
 - One: To demystify finance. Finance is very easy, and people like to make it complicated, but it's not, and there's no reason to be afraid of it.

- Two: Money itself is not bad. I am a radical person, like Teresa, and I choose to work in the non-profit world. One of the life-lessons I have learned is that money is like a hammer. You can use it to build things, or you can use it to break things down. But the hammer itself is not good or bad. If you want to bring a dream into reality, you need not only the will but also the means, and that entails money.
 - World Wide Web Consortium (www.w3.org)
 - We use a fee structure so that members pay a membership fee based on their own assets and ability to pay.
 - Founded here at MIT in 1994
 - Look at these financial articles on Wikipedia. Look up
 - “Financial statements”
 - “Income statements”
 - You can look at a company as an organism, and then money becomes the lifeblood
 - If you cut the money to a given department, then that department is going to die through lack of blood flow.
- You should all be able to build a financial statement for your project
 - Class pitches: everyone in this class has presented the brief outline of their projects in under one minute.
 - You need to have a plan for how you’re going to fund your project.
 - Consider a connected start up for-profit venture that funds your non-profit plan
 - OpenOffice.org: you can use open source software like this, so that your computer costs don’t become prohibitive.
 - Assignment: Everyone is expected to develop a budget for their project by next class.

MIT OpenCourseWare
<http://ocw.mit.edu>

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

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.