

# BE AN Entrepreneur

By  
Prof. Ahmed Alshumaimri



# Be an Entrepreneur



**Part 1:** The Entrepreneur  
Chapters : 1,2,3,4



**Part 2:** The Business Plan  
Chapters : 5,6,7,8



**Part 3:** The Enterprise  
Chapters : 9,10,11,12,13

# Chapter 9

## SECURE FUNDING



# SECURE FUNDING

**How to access  
funding**



**Types of capital**



**Where to  
Access the  
Funds**



# Chapter 9 overview



- ▶ The young entrepreneur may have winning plans and impressive projects, but he still needs to find the money to start the enterprise.
- ▶ The first and logical source of funding is personal savings and personal assets.
- ▶ Afterwards comes investment money from relatives or friends.



# Chapter 9 overview



- ▶ When funding comes from other people, you can distinguish between many kinds of external investors.
  - ▶ Some investors are kind and patient;
  - ▶ many are brutal and impatient.
- ▶ Venture capital (such as funds from angel investors) usually comes in at an early stage in the company's development.
- ▶ Later on, larger-sized private-equity investors come in to bring the company to a higher level.



# Chapter 9 overview



- ▶ After some years of successful operation, the company will be able to approach a bank for further financing.
- ▶ An aggressive bank can provide long-term capital on easy terms, based on an impressive business plan alone.
- ▶ At a later stage, the business owner may be able to sell some shares of stock to raise big money for a corporate expansion.

# Coverage of the Chapter



Part One: How to access funding



Easy or difficult?



Personal resources



Size of the initial financing



Steps from start to finish



Sources of funding



# Coverage of the Chapter



Part Two : Where to Access the Funds



Your personal money



Family as a source of funding



Friends & Contacts



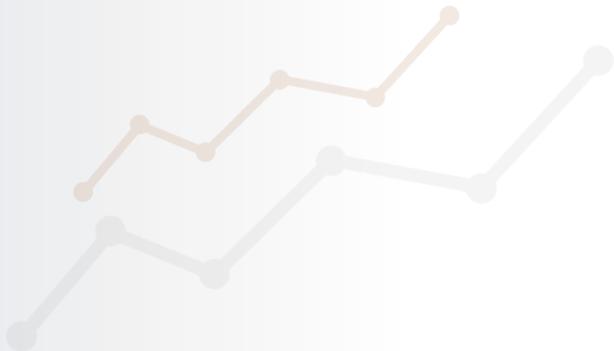
Angel Investors



Venture Capitalist



Private-Equity Fund



# Coverage of the Chapter



Part Three: Two general types of capital



Loans from banks and lending institutions



Stock Financing: from equity investors.

# Learning Objectives



**Learn**

Learn how to secure the financial resources to start a business



**Understand**

Understand the steps you must take to determine the necessary funding



Know where to seek the necessary funding



**Determine**

Determine if you can supply funding with your own money



**Discuss**

Discuss the pros and cons of using your personal money for business

# Learning Objectives



**Learn**

Learn the pros and cons of tapping your family as a source of funding



**Know**

Know how to make convincing presentations to venture capitalists to ask for funding



Understand the motivation of private-equity funders



**Understand**

Understand the types of debt financing: secured and unsecured loans.



**Understand**

Understand the pros and cons of stock financing

# Story from Real Life

- Starting a small business is a lot like having a new baby, just as business owner Mark Drager discovered.
- "Both consume all of your time, money and energy!" he says.
- Drager is President of Phanta Media ([www.phantamedia.com](http://www.phantamedia.com)), a Toronto-area multimedia company providing a full
- range of video, graphics, and interactive marketing services.
- The company helps businesses communicate with prospects, clients, and staff.
- Drager decided it was time to be his own boss in late 2006.
- He launched his media communications firm about the same time he had a daughter.

# Story from Real Life

- He also had to ask his mother for some money to start the business. "Borrowing money from family members is very motivating because failure is not an option...you have to pay them back!" recalls Drager.
- Drager did not regret giving up his career and predictable income. Although spending long hours building his company and raising a daughter at the same time is not easy, he says he is happier
- than ever before.
- "It's so rewarding to be focused on these things that matter so much to me," he says.



# How to Access Funding?



Sources of funding for your business include personal savings, loans, assets, money from relatives and friends, venture capital firms, private-equity firms, banks or lenders and other equity investors.



# How to Access Funding?



To get funding, you need to determine how much money you need, convince an investor that your company will be profitable, that it needs the amount you say it needs, offer him incentives, interest or collateral, and make arrangements to pay back the borrowed money or give cash dividends as return on investment.

# How to Access Funding?



## "Easy to Access" Sources of Funding

- Your personal savings
- Your personal loans
- Your personal productive assets
- Money from relatives
- Money from friends

## "Difficult to Access" Source Funding

- Angel investors
- Private-equity firms
- Venture -capital funds
- Other equity investors
- Bank loans, bonds

# How to Access Funding?



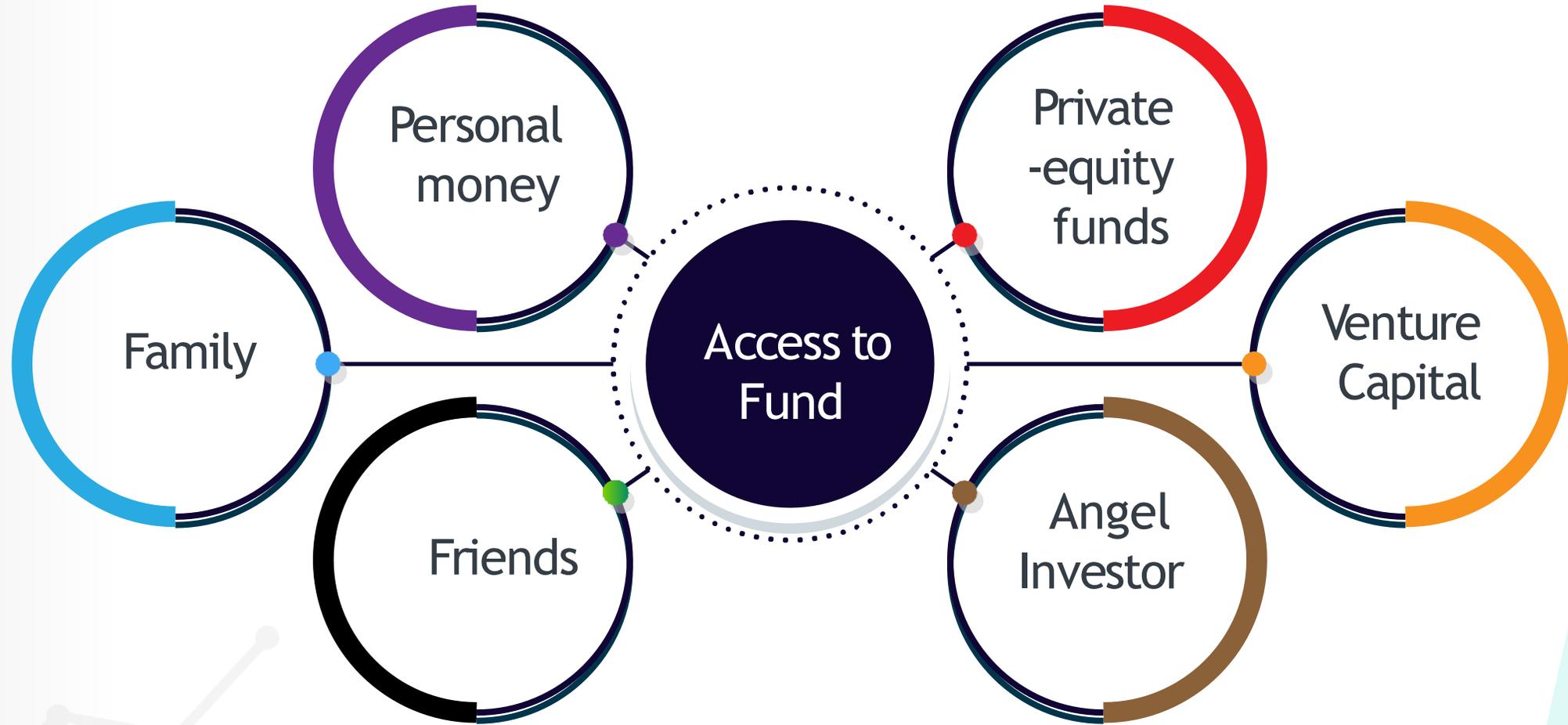
## High Initial Financing

- Permits you to survive unexpected setbacks and delays.
- Allows additional flexibility in taking advantage of new opportunities as they arise..
- Eases the problem of obtaining credit from suppliers and banks.
- Makes the entrepreneur feel secure in the critical initial phase.

## Low initial Financing

- Limited capitalization prevents major losses, something that will allow you to preserve long-term credibility with the financial community.
- Keeps attention and energies focused on the principal objectives
- If you sell too much stock, you may be selling too cheaply
- If you raise too much money you might spend it unwisely.

# Where to Access Funding ?



# Where to Access Funding ?

## 1 Personal money



For many entrepreneurs, the practical first source of funding for the new company is personal savings. You can mortgage your property. You can buy raw materials using a personal credit card. You can sell an item of value to raise cash, but there are pros and cons to using your own money.



# Where to Access Funding ?



## PROS

- Your own money is easiest to manage.
- Your money is instantly disposable. No need to wait long.
- No need to convince other people.
- The accounting process is simpler.
- You don't owe anybody else.

## CONS

- You may not have enough cash in the first place.
- The business may need more than you have.
- You may have cash, but it may already be committed to supporting a family, if the money is diverted to business, the family members may suffer.
- You may be understandably reluctant to put up everything you own. If you risk all you have and the venture does not work, what will you fall back on? You may get financially ruined.

# Where to Access Funding ?

## 2

### Family



Aside from being more accessible, funds from relatives cost a lower cost. You can easily raise the money and pay less of a profit sharing fee on the investment, or offer less equity than a bank or venture capitalist would require. Moreover, public sources of funding at the “seed” and start-up phases of your company's development may simply be unavailable, making funds from family and friends the most accessible and perhaps the only source of capital

## Where to Access Funding ?

### 3 Friends and contacts



Next to your family, the best people to turn to are friends and colleagues. Like your family, you will have to keep in touch with friends and be close to them at reunion and event.

# Where to Access Funding ?

4

Angel investor



An angel investor expects good payoffs from investing in unknown and unappreciated companies before they become known and appreciated. They like the fun of being involved in a small business with great potential.

They frequently mix personal goals with financial interests. For them, nurturing a business to life and grow is almost like being on a mission, or being a proud father.

# Where to Access Funding ?

## Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, in modern times typically via the Internet.

1

## Kickstarter

Kickstarter is another popular choice. As of 2021, since it was founded in 2009, Kickstarter has successfully funded nearly 200,000 projects, with more than \$5.7 billion pledged across all Kickstarter projects.

<https://www.kickstarter.com>

2

## GoFundMe

As of 2021, GoFundMe is the largest crowdfunding platform. Since GoFundMe was founded in 2010, the site has raised over \$10 billion through more than 150 million donations.

<https://www.gofundme.com/>

3

## Indiegogo

Indiegogo started in 2007. The Indiegogo community has helped bring more than 800,000 innovative ideas to life since 2008. 2021, its group of backers is more than 9 million strong, representing 235 countries and territories.

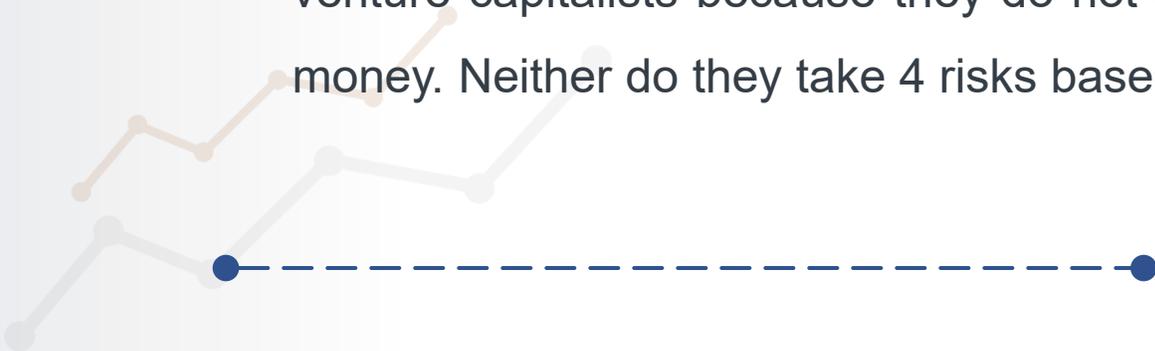
<https://www.indiegogo.com>

# Where to Access Funding ?



## Venture capital

Venture capital is money invested by individuals or venture capital firms in small and high—risk businesses. In return, they generally receive equity ownership in the companies in which they invest, usually in the form of stock. Friends, family, and angel investors are a subset of venture capitalists in the early stages. Banks and lending institutions are not venture capitalists because they do not accept equity in the companies to which they lend money. Neither do they take 4 risks based on business plan projections



# Angel Investors VS Venture Capitalists

## ANGEL INVESTORS

- Individual or group of individuals
- Invest own money
- Focus on early stages of business
- Investment may be tied to individual or group expertise

## VENTURE CAPITALISTS

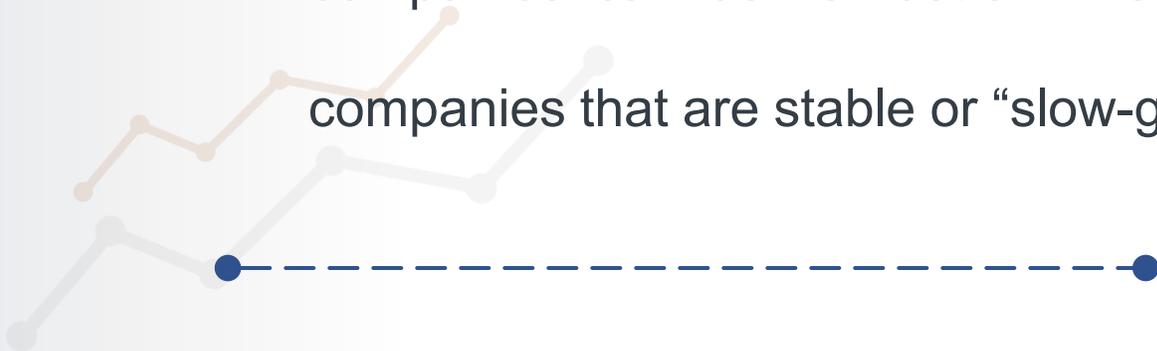
- Corporate entities
- Invest pooled money from range of investors
- All stages of development
- Investment may be tied to high-growth opportunities, with focus on technology and innovation

# Where to Access Funding ?

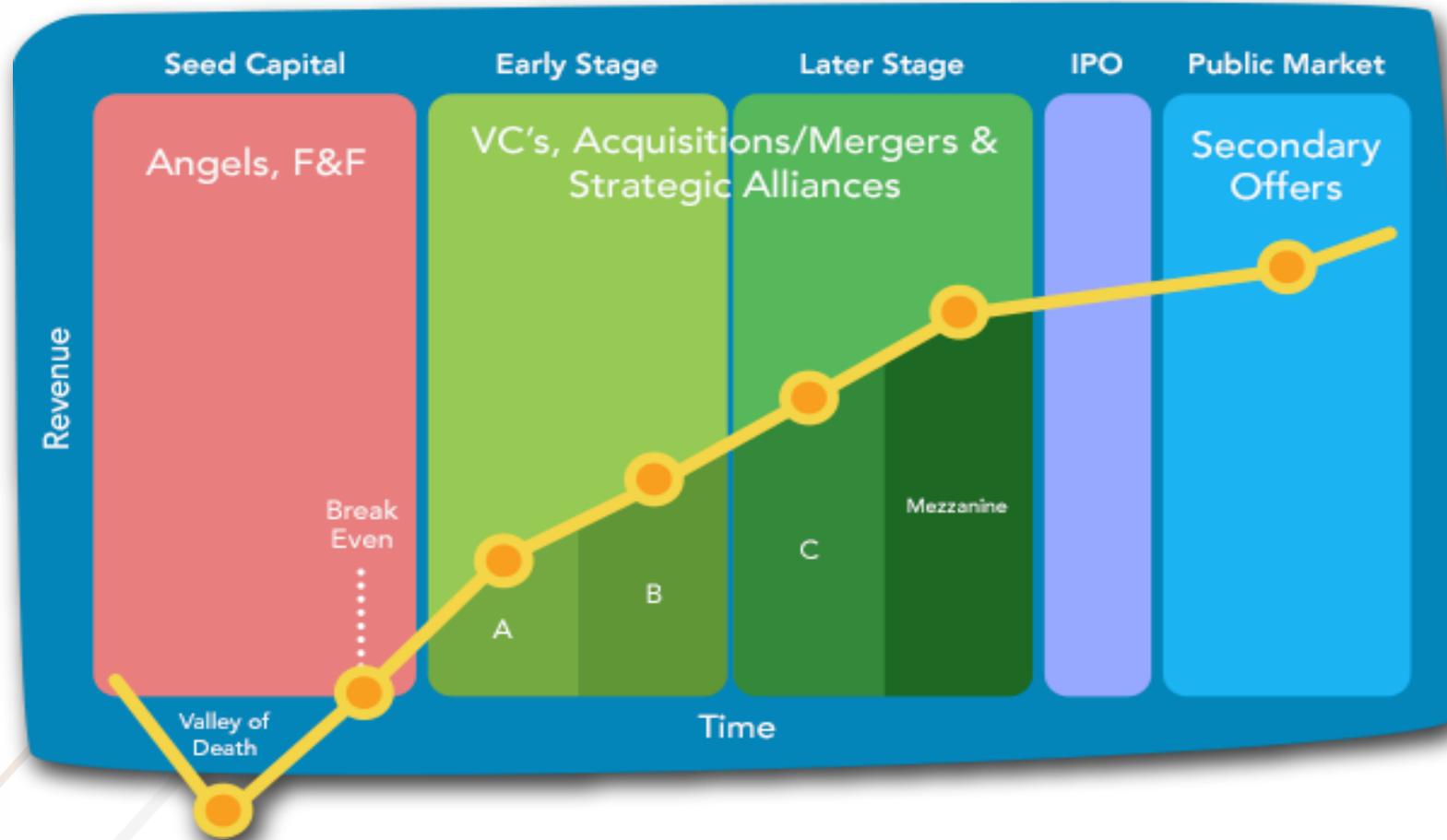


## Private-equity funds

Private-equity funds are collected sums of money that are intended for young and promising private companies. The aim is to capture the “high growth stage” in young companies. From experience, investments in young companies can deliver better investment profits than investments in large companies that are stable or “slow-growth?”



# Fund and Stage of growth



# A

## Fund and Stage of growth

### Series A funding



Businesses seek Series A funding or financing once they already have an established user base and consistent revenue. Series A funding is meant to help you further optimize your user base and product offerings as well as scale your product and introduce it to new markets.

### Typically, businesses in Series A rounds:



Raise between SR2 million and SR15 million



Have a valuation between SR10M – SR40M



Pull in SR100K to SR 250K per month in revenue



# B

## Fund and Stage of growth

### Series B funding



Series B funding is meant to help you significantly expand your market reach. At this stage, you've proven your business model so it's easier to establish trust with investors.

Series B funding helps you to expand your team, seek seasoned and experienced staff, and scale your overall business development efforts.



Raise between SR10 million and SR25 million



Have a valuation between SR30M – SR100M



Pull in SR350K to SR800K per month in revenue



Attract investors from traditional venture capital firms



# C

## Fund and Stage of growth

### Series C funding



Series C funding is meant for successful companies looking to develop new products or services or further expand into new markets.

Series C funding can even be used to acquire other companies, which in turn will give you access to new tools and staff that can help you expand your offering and reach.



Typically, businesses in Series C rounds:



Raise between over SR20 million



Have a valuation of over SR100 million



Pull in over SR1 million per month in revenue

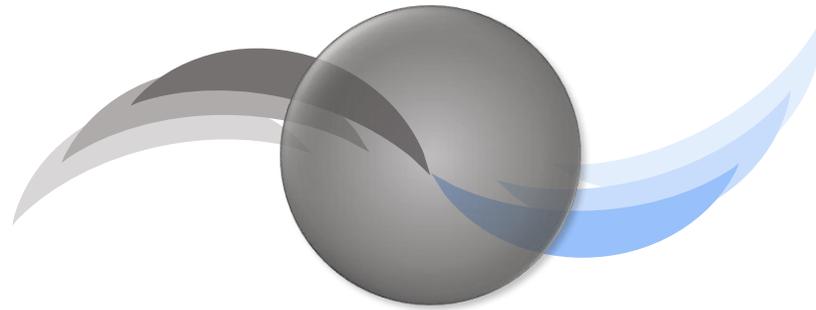


Attract investors from hedge funds, investment banks, private equity groups, traditional venture capital firms.

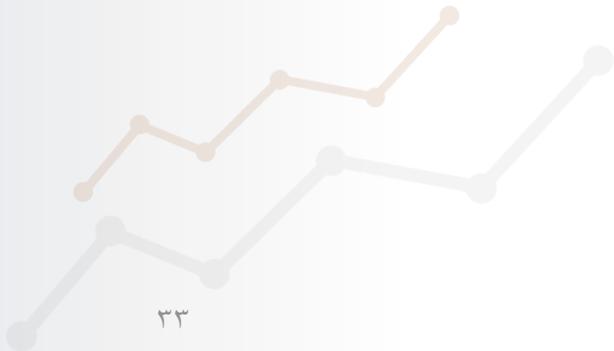
# Types of Capital

No matter what the stage of funding, there are essentially two major types of capital: Debt, in the form of loans, and liabilities. Money to be paid back. Equity representing part-ownership in the firm. Money of the owners.

**EQUITY**



**DEBT**



# Types of Capital

Source of funding

Type of capital

Characteristics

Debt

- Bank loans (also known as “senior” debt)
- Loans from investors, that are “subordinate” to the bank loans

- Banks have legal priority in terms of getting paid a profit-sharing fee, or getting their money back, in case anything goes wrong with the business.
- A loan to the company by a private investor can be paid back after the bank is fully paid.
- Since it has to wait until after the bank gets paid back, the private loan is called “subordinated debt”. The bank has priority. It has “seniority”



# Types of Capital

Source of funding

Type of capital

Characteristics

Equity

- Preferred shares
- Common Shares

- Preferred shares are investments that have a fixed annual dividend. They behave almost like loans that charge an annual profit sharing fee. They do not usually have voting rights.
- Common shares are investments that may not have a fixed annual dividend. In return for the lack of dividends, the value of the common shares can go up overtime, producing capital gains for the majority owner. Common shares have voting rights. Common shareholders are decision makers and members of the board.



# Types of Capital

## Stock Financing



If your business is a corporation, you may choose to issue common or preferred stock to finance the company. This type of arrangement allows the investing public to receive a share of the profits, yet permits the officers of the corporation to retain control over the management of the company.

# Types of Capital

The pros and cons of financing with common stock are as follows

## ADVANTAGES

- A corporation is not legally obligated to make dividend payments to stockholders, so long as the board of directors acts in the best interest of the corporation.
- Stock improves the credit rating of the company because it increases the amount of capital in the company.
- Listed shares of stock are attractive to some investors, because they generally have gains that are higher than inflation.

## DISADVANTAGES

- If the business owner sells common stock, the buyers will get corporate voting rights. If they have majority ownership, they can vote to kick out the entrepreneur from the company that he started.
- Shareholders can share in the profits of the company through dividends for many, many years. If the business owner wishes to keep these dividends to himself he should get a loan and pay it all back in a few years, instead of selling shares of common stock.

# Glossary

a rich individual who invests in early-stage companies in exchange for equity ownership in the business.

funds used to start operating your company.

certificates of part-ownership in a company. Common shares have voting rights.

Angel investor:

Capitalization

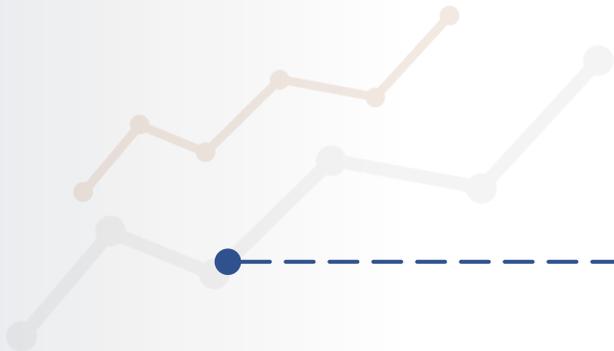
Common shares

Bankruptcy

Collateral

declaration that the company is unable to pay back its loans.

property or other belongings that the bank can confiscate if you fail to pay your loan.



# Glossary

With a convertible debenture, the venture capitalist makes a loan and then retains the option to convert the loan to shares in the company, at a future date.

ownership or part-ownership.

a company that has received investment money from an investor.

Convertible debenture

Equity

Investee company

Dividend

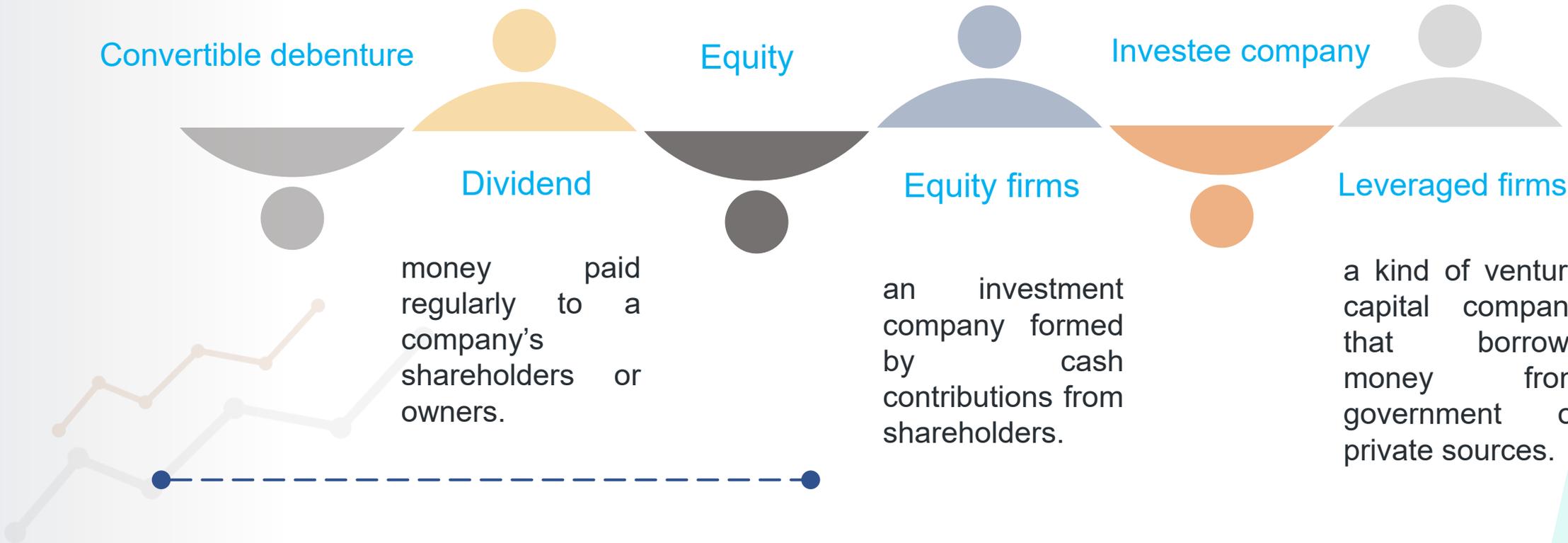
Equity firms

Leveraged firms

money paid regularly to a company's shareholders or owners.

an investment company formed by cash contributions from shareholders.

a kind of venture capital company that borrows money from government or private sources.



# Glossary

a loan based on the value of your house or your land. If you fail to pay the loan, the lender may confiscate your house or your land.

a mystery or contradiction.

when prices are falling, as if a bear was clawing them down.

Mortgage

Paradox

Bear Market

Niche

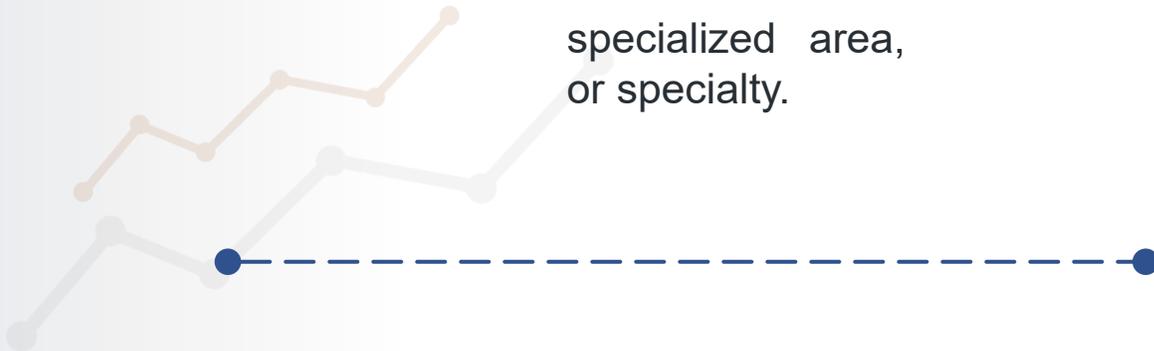
Pitch

Bull Market

specialized area, or specialty.

A presentation to investors for the purpose of obtaining investment funds

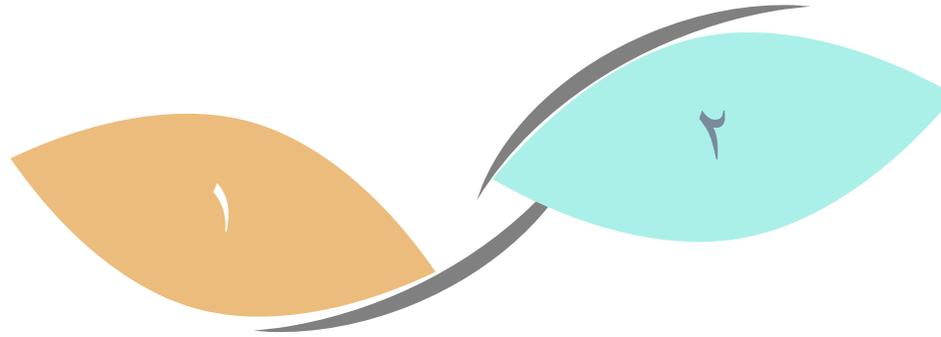
a market where prices have been rising for many weeks or months already, like a bull charging up a hill.



# Glossary

## Preferred shares:

- are investments that have a fixed annual dividend.
- They behave almost like loans that require an annual interest payment. They do not usually have voting rights.

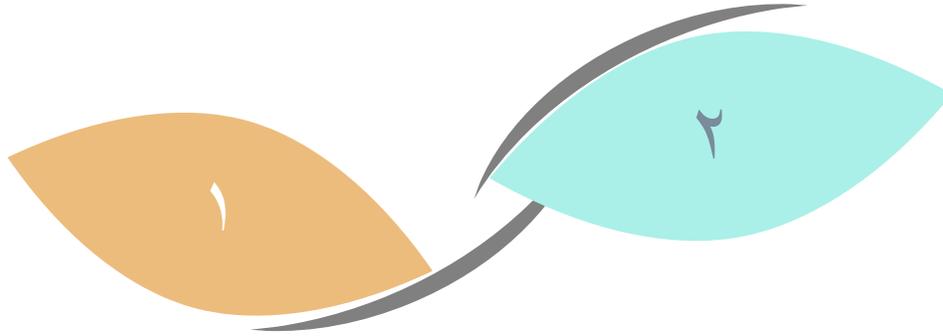


## Private-equity firms:

- Private-equity funds are collected sums of money that are intended to be invested in young & promising private companies.
- The aim is to capture the “high-growth stage” in young companies.

# Glossary

Subordinate:



Subordinated debt:

- less important than something “senior” as in “subordinated debt” or “senior debt.”

- debt that will be paid only after certain senior creditors have already been paid.



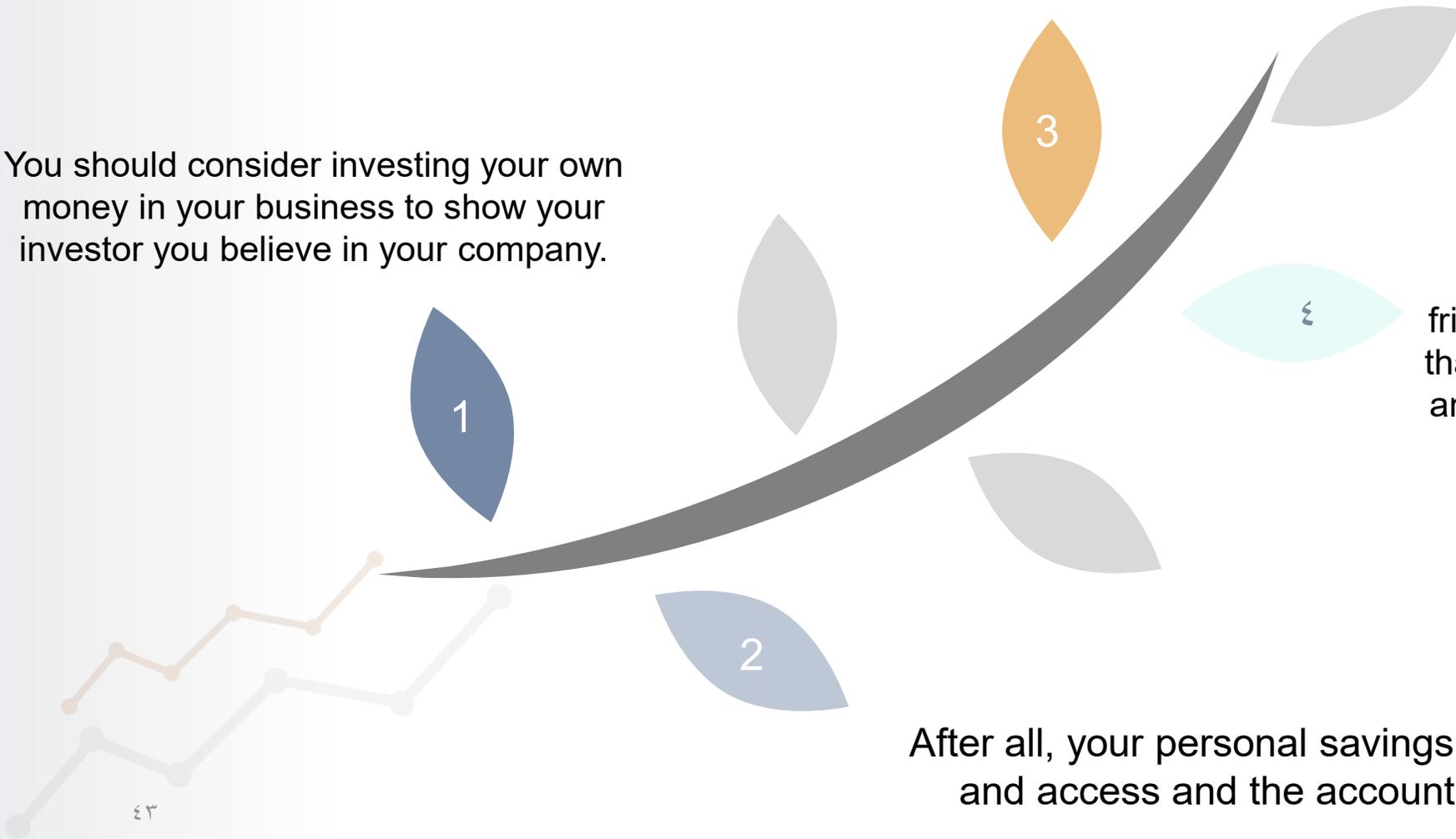
# Points to Remember

Disadvantage: you might not have enough, or you might need the money for yourself or your family.

You should consider investing your own money in your business to show your investor you believe in your company.

When tapping your family and friends for funding, the advantage is that their funds are easily accessible and they may charge lower interest.

After all, your personal savings is the easiest to manage and access and the accounting process is simpler.



# Points to Remember

Private-equity funds put money in small firms to capture the “high-growth” stage.

The problem with this method is the large probability of personal risk that when your business loses money, your relatives and friends may lose money too, and this might put a strain on your relationship.

Secured loans are backed up by collaterals like fixed assets or real property.

Angel investors put money in start-ups to enjoy the huge pay-offs and the sense of mission and adventure in supporting a company before it grows big.



# Points to Remember

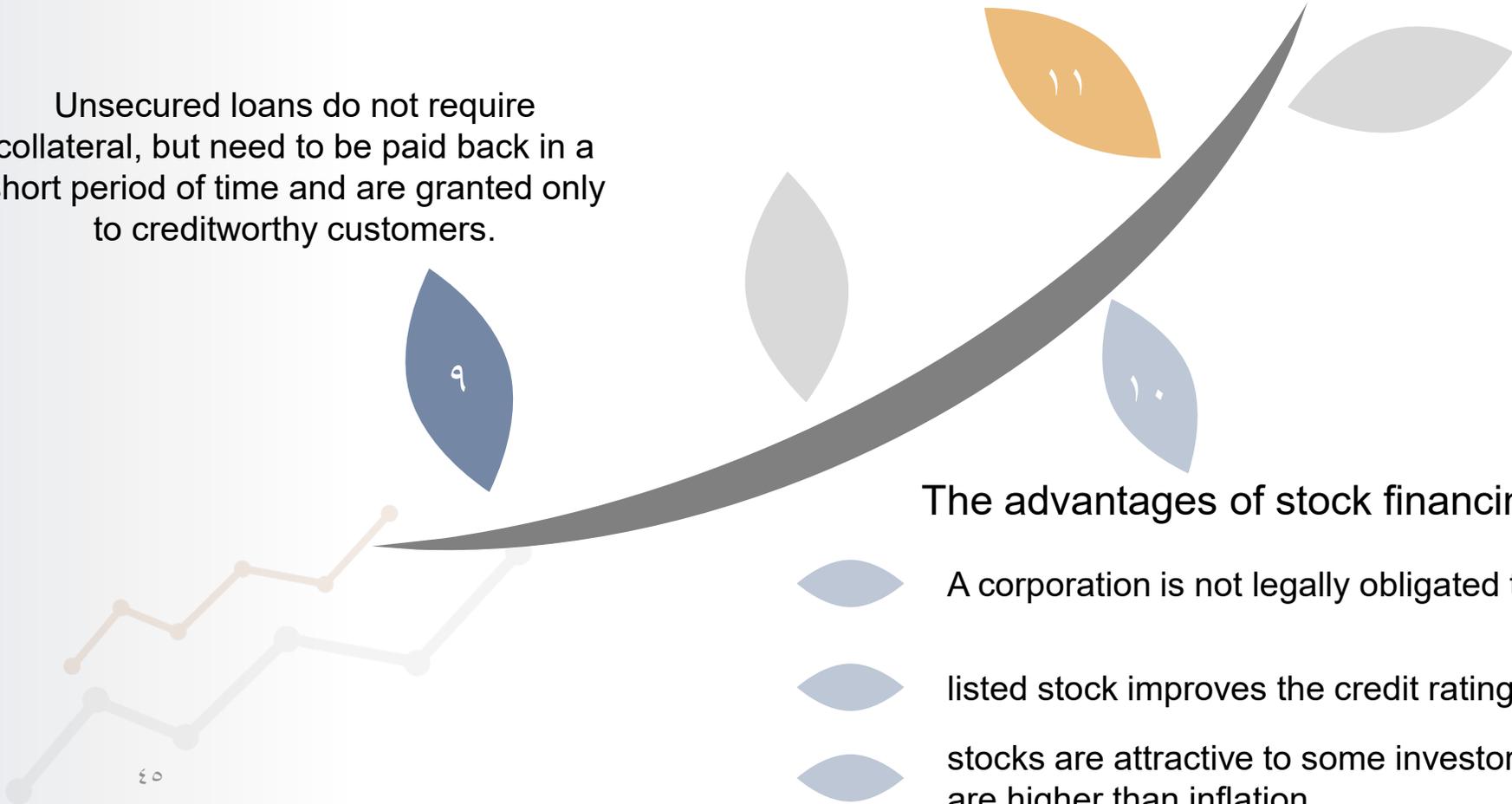
## Disadvantages of stock financing:

- common stock owners get voting rights. (They might vote against you.)
- Control over the company will be transferred to the new stockholders, if they have majority.
- Shareholders share in the profits of the company through dividends for a very long time.

Unsecured loans do not require collateral, but need to be paid back in a short period of time and are granted only to creditworthy customers.

## The advantages of stock financing are the following:

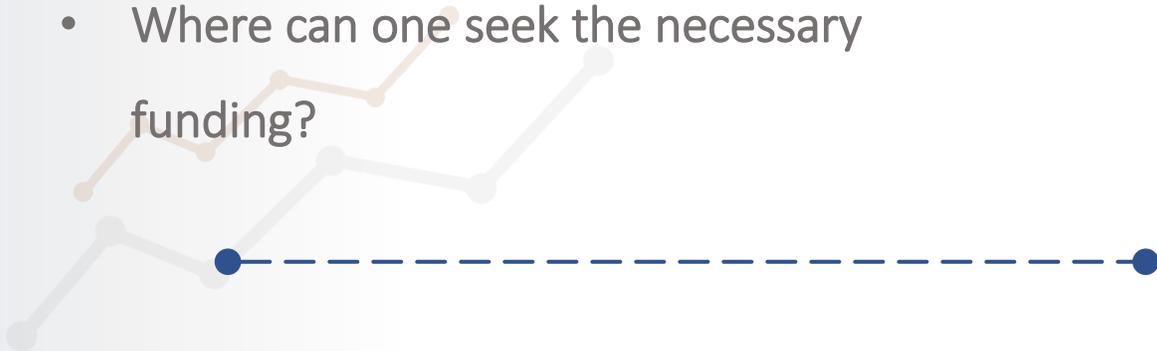
- A corporation is not legally obligated to make payments to stockholders;
- listed stock improves the credit rating of the company;
- stocks are attractive to some investors because they give capital gains that are higher than inflation.



# Review Questions

Why it is important to secure the financial resources to be able to start a business.

- What are the steps to take to determine the necessary funding?
- Where can one seek the necessary funding?



Can you supply funding from your own personal money?

- What are the pros and cons of using my personal money for business.
- What are the pros and cons of tapping your family as a source of funding?

# Review Questions



1

What are the reasons why angel investors invest in unknown start-up companies?



2

Will I be able to make convincing presentations to venture capitalists to ask for funding?



4

What are secured loans and unsecured loans?



3

What is the motivation of private-equity funders for making investments?



5

What are the pros and cons of stock financing?



# Case Study questions



What does this story say about the profits that can be made by investing in young companies?



Do you think it is more likely that William Simon raised \$79 million in private-equity investment?



What is a leveraged buyout?



Once it was revealed that the profits could be large, did many people follow William Simon's example in organizing leveraged buyouts?



**Party Supplies**

