

Tutorial Notes

Class: B.Com (Hons.) Semester VI (DSE3)

Subject: New Venture Planning

Topic: Entrepreneur' Capital

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Entrepreneur' Capital

1. Personal sources:

Borrowing from friends and family: Arranging money from Friends and family who are supportive to the business idea can be quicker and cheaper. Interest and repayment terms, if any, may be more flexible than a bank loan.

2. Equity funding:

If an entrepreneur is willing to share ownership of business, equity financing is one of the option of raising funds. Equity financing is a wide term which includes financing from friends and family by giving them some shares in the company, to giant initial public offerings (IPOs). Founders of Dropbox and Airbnb exchanged somewhere between a 7% and 10% stake to receive a small amount of funding.

3. Bank Loan

Banks follow strict criteria in granting loan and to Startups; they never take risk no matter how exciting the idea is, until and unless any collateral security is provided to them in shape of land, building or any other asset of the owner or of the company. Bank also looks the existence of business in market, financial records, liquidity of an enterprise before granting any loan. Therefore for Startups, Banks will almost never provide funding.

4. Venture capitalists:

Venture capital firms comprising of professional investors that understands the intricacies of financing and building newly formed companies or startups. A venture capital organisation take high risk by putting money in an enterprise, if the enterprise fails all money invested by them may be lost. They finance new startup which are

often considered both high-growth and high-risk potential. It might take a long time to the institution investing money, before any profits and returns materialise.

Entrepreneurs often turn to venture capitalists since traditional forms of financing, such as banks loans, aren't readily available. Venture capitalists while investing in the business expect a high return to compensate for the high risk as well as shares in the company.

5. Angel investors

These Investors are normally friends or acquaintances of the entrepreneur. They buy equity in the firm and influence the decision of the owner. As in our real life finding an Angel a difficult task, same is the case in finding of Angel investors. Indian Angel Network in India is an example of Angel Investor which contributes equity in early-stage businesses.

6. Crowd funding:

Crowd funding is a form of alternative finance, which has emerged outside of the traditional financial system. Monetary contributions are raised from large number of people i.e., (i) from the project initiator who proposes the idea of business, (ii) the other individuals or groups who support the idea and (iii) a moderating organisation that brings the parties together to launch the idea.

7. Government funding

Pradhan Mantri Mudra loan Yojana is one of the examples of government funding. Small Business Segment which comprise of proprietorship, partnership firms shopkeepers, fruits/vegetable vendors, truck operators, small industries, food processors, repair shops, machine operators, are provided assistance under Mudra. Its cover loan amount, starting from Rs. 50,000 upto 10,00,000.

The government also provides finance to companies in shape of cash grants as part of its policy for developing national economy. The government especially provide grant to high technology industries and to the business that set up their industry in rural areas where there are high level of unemployment.