RAISING FUNDS

Raising start-up capital for a new business

When you have an idea for a new business and you're ready to start putting it into action, one of the first things you'll likely need to think about is raising capital to 'speed up the machine', i.e. rather than build it! In this article, we look at some of the main options for funding a start-up and how to approach your chosen investor with a winning pitch.

Where to find funding

Banks rarely make loans to brand new start-ups. Fortunately, there are numerous alternative sources of funding available to start-ups.

Bootstrapping

This effectively means launching and growing a start-up with resources that you already have, e.g. cash savings, credit cards, and pulling yourself up with a little grit and sweat equity! It means that the business is entirely under your control and ownership, but the downside is the risk to your personal finances. If the business doesn't succeed, it is possible to lose your entire investment.

Friends and family

You may have people in your circle who are willing and able to give or lend you the funds. This should always be done formally with legal documentation in place. Not only will this help prevent disagreements, but it also regularizes matters for tax and accountancy purposes and will be required by any future investors in the business.

A debt can be given based on repayment at a later, specified date, or in exchange for a share in the company or on the understanding that a share in the company will be given in the future.

Angel investors and super angels

Private high net-worth individuals (or groups) who are willing to invest in a business, normally in the early stages, in return for a share in the equity of a start-up.

Angel investments are high risk and, therefore, an angel will be looking for a high return on investment (ROI), often more than 25%. They may also want some say in the running of the business, as part-owners.

Crowdfunding

Crowdfunding can be a quick and beneficial way to find start-up capital. You will need to put together a convincing pitch, but it can be a good way of financing innovative ideas. Potential investors will provide feedback on your idea and may also be able to promote it via their own marketing channels.

This method does involve initial effort in building a following and creating sufficient interest in the idea, and you also need to ensure you have protected anything that might need a patent or copyright.

Accelerator program

These aim to speed up the initial building of a business from a couple of years to just a few months. Successful applicants will receive mentoring from other start-up executives, venture capitalists and industry experts as well as a small investment, in return for a small share in their new business.

Start-up incubator

An incubator is similar in concept to an accelerator program but is typically involved earlier in the process, while the business idea is being developed. Seed money is provided, typically along with a workspace, training and mentoring. As with an accelerator program, a share in the equity will be required, along with some say in the direction of the business. An incubator can be a beneficial way of getting a more innovative idea off the ground.

Venture capital

A venture capitalist invests money in young businesses in return for a share in the company. They may come with the benefit of teams of people who are able to help a start-up avoid problems along the way and offer expertise in many areas.

Money is often given incrementally, allowing a new business to receive funding when needed.

On the downside, there will be a certain loss of control, as well as having someone else own part of your business.

How to pitch

Once you've identified your target investor(s), it's time to put together your pitch.

Researching your target investor(s)

Before you spend time crafting a pitch to appeal to your chosen investor(s), take the time to research them thoroughly. Look at their profile and the sector in which they specialize to ensure that it is closely aligned with your own. Try to discover what they're likely to want in return for investment, including the size of equity they will seek and the level of control they will want. You should also look at what benefits they can bring, e.g. the size of any team available to help you and their areas of specialism.

Creating an engaging pitch

Your pitch should be concise and compelling, explaining clearly the consumer need that you will be satisfying or the problem you will be solving.

You will need to provide evidence of the size of the potential market and show that your product works, by way of market testing, prototype of your product and customer feedback.

A potential investor will also look for a top-quality business plan and whether you and any team you have put together demonstrate strength in your chosen area.

Presenting your pitch

Try and connect with the people you will be presenting to in advance, for example via LinkedIn, and look for anything you may have in common that might help you engage with them.

It is important to be familiar with the figures in your pitch so that you can explain any queries without difficulty. You will also need to know all relevant acronyms, such as IRR (i.e. internal rate of return) and WACC (i.e. weighted average cost of capital) and technical terms relevant to your area. You should also be prepared for questions about your potential customers, including who they are and how you will connect with them, as well as about your marketing plan.

In summary

Finding finance for a start-up can be hard work, but if you believe in your idea and you can find the right investor it will be a very exciting time as you see your new business take shape.

If you need help with any legal aspects of your new venture, we would be happy to advise you and assist you in making sure everything starts out on the right legal footing. For an initial chat, feel free to ring Henzie on +971 (0) 56 678 5251.