

Entrepreneurial Financing



New Venture Financing: Considerations and Choices

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Lecture 1

ENT 632

Entrepreneurial Financing



- a) Identify types of financing that are associated with each of the following stages of new venture development: research and development, start-up, early growth, rapid growth, and exit.
- b) Why are the following important factors when choosing among financing sources: immediacy of financing need, the size of the need, the permanency of the need, and the cumulative need?
- c) What, besides providing financial capital, are the advantages to a new venture of attracting angel group financing? Venture capital financing?

Introduction

- The automobile, the microchip, satellites, and the Internet are inventions that have transformed markets and changed the course of history.
- But how are such great ideas and inventions financed and brought to market?
- Financing needs vary considerably depending on the underlying technology.
- **Automobile manufacturing, for example, is extremely capital intensive, whereas many mobile apps can be produced at little cost.**
- The stage of development also affects the menu of available financing options.
- **A pre-revenue venture has limited options and cannot, for example, access traditional debt markets**, but a later-stage company may well consider debt as an option.

• السيارات والرقائق الدقيقة والأقمار الصناعية والإنترنت هي اختراعات حولت الأسواق وغيرت مجرى التاريخ. ولكن كيف يتم تمويل هذه الأفكار والاختراعات العظيمة وطرحها في السوق؟ تختلف احتياجات التمويل اختلافا كبيرا اعتمادا على التكنولوجيا الأساسية. فصناعة السيارات، على سبيل المثال، كثيفة رأس المال للغاية، في حين يمكن إنتاج العديد من تطبيقات الأجهزة المحمولة بتكلفة قليلة. تؤثر مرحلة التطوير أيضا على قائمة خيارات التمويل المتاحة. مشروع ما قبل الإيرادات لديه خيارات محدودة ولا يمكنه، على سبيل المثال، الوصول إلى أسواق الديون التقليدية، ولكن قد تفكر شركة في مرحلة لاحقة في الديون كخيار.

Introduction

- The choice of financing method is pivotal to whether an idea or product reaches the market quickly and successfully. Financing decisions during early stages of development also dramatically affect the value the entrepreneur can derive from the endeavor. **The choice of exit financing (e.g., acquisition vs. IPO) can also dramatically affect value.**

• يعد اختيار طريقة التمويل أمرا محوريا لما إذا كانت الفكرة أو المنتج يصل إلى السوق بسرعة ونجاح. تؤثر قرارات التمويل خلال المراحل المبكرة من التطوير بشكل كبير على القيمة التي يمكن أن يستمدّها رائد الأعمال من المسعى. كما يمكن أن يؤثر اختيار تمويل التخارج (على سبيل المثال ، الاستحواذ مقابل الاكتتاب العام) بشكل كبير على القيمة.

- In this chapter, we provide an overview of financing sources for new ventures and the regulatory considerations that relate to financing choices. In addition to introducing the institutions and terminology, we examine determinants of the choice.

There are four important questions to keep in mind as we survey financing choices:

1. Is the need for financing immediate (urgent) or is there time to shop the alternatives?
 2. How large is the near-term financing need?
 3. Is the near-term financing need permanent or transitory?
 4. How does the near-term financing need relate to the cumulative need?
- The answers depend on the development stage of the company.
 - A profitable later-stage venture **with stable revenue growth has different options than a very early-stage company with high growth and negative cash flow and net income.**
 - مشروع مربح في مرحلة لاحقة مع نمو مستقر في الإيرادات لديه خيارات مختلفة عن شركة في مرحلة مبكرة جدا ذات نمو مرتفع وتدفق نقدي سلبي وصافي دخل.

- **Capital intensity** is important as well. As an illustration, over the last decade, start-ups gained the ability to take advantage of outsourced cloud-based computing instead of making large capital investments in hardware and storage.
- At the same time, the availability of early-stage financing by VCs increased dramatically.
- The **innovation in cloud computing significantly reduced financing needs for start-ups that rely on these services compared to the financing needs of more asset-intensive ventures like biotech and driverless cars.**
- أدى الابتكار في الحوسبة السحابية إلى تقليل احتياجات التمويل بشكل كبير للشركات الناشئة التي تعتمد على هذه الخدمات مقارنة بالاحتياجات التمويلية للمشاريع الأكثر كثافة في الأصول مثل التكنولوجيا الحيوية والسيارات بدون سائق.
- The changes in financing choices to the technological shift marked by the introduction of **Amazon Web Services (AWS).**
- AWS and competitors have allowed cloud-based start-ups to economize on physical space and development tools and allowed them to scale as needed rather than buying or developing their own hardware and software.

The sequence of New Venture Financing

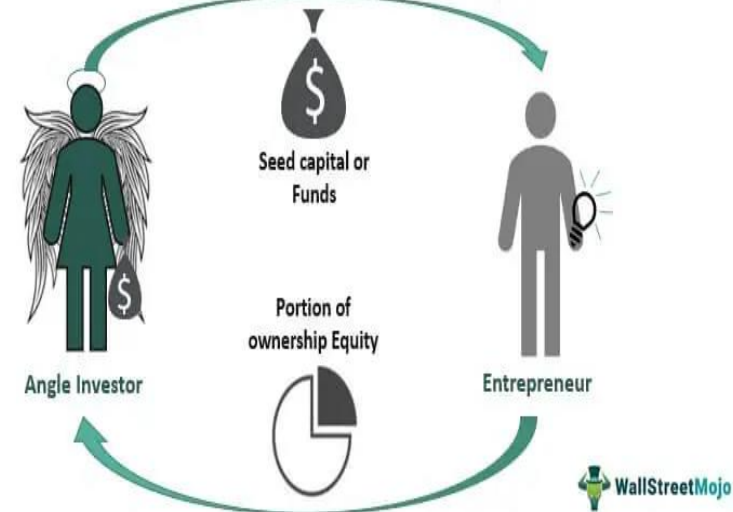
- At an early stage, the entrepreneur looks for ways to finance the venture from **bootstrap sources** such as personal savings and borrowing sources that **do not rely** on venture success.
- In some cases, development efforts are subsidized through **grant-based financing** from government programs directed to universities and other research organizations.
- As development progresses, the entrepreneur may look to **other sources of financing**, including angel investors and VCs.
- Customary venture financing terminology reflects the correspondence between feasible financing choices and development stages.
- The **earliest external financing** is known as seed financing.
- **Seed financing** consists of **small amounts of money** to support exploration of a concept. It may cover such **things as the cost of assessing market size and customer validation**.
- For high-technology ventures, seed financing may provide initial funds for R&D.
- In cases where R&D efforts are expensive and protracted, **R&D financing** could be required beyond what is typically regarded as seed financing.

Angel Investor

يُعرف أيضاً بالمستثمر الخاص (Private investor) أو مستثمر المرحلة الأولية (Seed investor) أو ممول ملائكي أو خيّر ((Angel funder)، وهو الشخص الذي يقدم دعماً مالياً لشركة ناشئة في مراحلها الأولى من أجل دفع الشركة للنجاح، وعادةً ما يكون ذلك مقابل حقوق ملكية في الشركة. من الممكن أن يكون المستثمر الملاك فرداً من العائلة أو صديق أو أي شخص آخر. وقد يقوم بتقديم دعمه لمرة واحدة لمنح المشروع دفعة إلى الأمام، أو على شكل ضخ مستمر للتمويل لمساعدة الشركة على النهوض في مراحلها الأولى. ويُعنى هذا النوع من المستثمرين بمساعدة الشركات الناشئة في اتخاذ خطواتها الأولى أكثر من سعيهم وراء الربح المحتمل لاستثمارهم، وهذا هو وجه الاختلاف عن المستثمر المغامر (Venture Capitalist).

Angle Investors

"Angle Investors are wealthy individuals who provide capital to promising early-stage business entities usually in exchange for a portion of their equity."



- **Start-up financing** covers activities around the initiation of sales.
- Generally, **start-up financing** is provided **when a concept appears to be worth pursuing, key members of the team are in place, and most of the risks related to initial development have been resolved.**
 - عندما يبدو أن المفهوم يستحق المتابعة ، يكون الأعضاء الرئيسيون في الفريق في مكانهم الصحيح ، وقد تم حل معظم المخاطر المتعلقة بالتطوير الأولي.
- **Start-up financing** includes such things as investment in infrastructure related to **manufacturing** and financing of inventory.
- **For software companies** it includes **financing for investment in platforms and systems for distribution of products**.

- **Later-stage financing** is associated with the early-growth and expansion stages of development.
- VCs **sometimes refer to financing rounds by number**, such as “round 1 financing,” “round 2 financing,” or by letter, such as “A-round financing,” “B-round financing.”
- We refer to later-stage financing as encompassing **two** general types of financing:

1. Financing provided to a company that is generating revenue but (normally) has not yet achieved profitability.

- The firm has a marketable product, but substantial uncertainty remains as to achievable sales and profitability. الشركة لديها منتج قابل للتسويق ، ولكن لا يزال هناك قدر كبير من عدم اليقين فيما يتعلق بالمبيعات والربحية التي يمكن تحقيقها.
- The critical element of risk is whether the venture can reach a level of sales sufficient to attract and compensate investors in an exit.

2. Financing to support the continuing growth of a venture that is operating around the breakeven point of profitability.

- Many profitable ventures are not yet generating sufficient cash flow to support anticipated expansion.
- Uncertainty about ultimate market potential and profitability.

- In practice, a venture may go through many rounds of growth financing.
- **The limiting factors on the number of times** the venture can “go to the well” are practicality and the desire of the investor to maintain a close monitoring relationship.
- **The downside of increasing the number of rounds**, particularly if the investments are being made by a VC or someone else with fiduciary responsibility, are that each negotiation can be a distraction from pursuit of the venture and each round requires a valuation.
- One venture with which we are familiar went through 16 rounds of VC-backed financing, with a valuation at each stage!
- The **exit stage** is where the founders and other investors attempt to harvest their investments.
- **Harvesting techniques** include taking the company public with an IPO, arranging for an acquisition or management buyout (MBO), and other approaches discussed later.

	Development	Start-up	Early growth	Expansion	Exit
Entrepreneur					
Friends and family					
Angel investors					
Corporate strategic partner					
Venture capital					
Government programs					
Asset-based lender					
Venture leasing					
Franchising					
Trade credit/vendor financing					
Factoring					
Commercial bank lending					
Mezzanine lender					
Public debt					
IPO					
Acquisition, LBO, MBO					

Figure 2.1 sources of new venture financing

Dark gray shading indicates primary focus of investor type; light gray shading indicates secondary focus, or focus of a subset of investors

Sources of New Venture Financing

Self, Friends, and Family

- **Bootstrap financing** does not depend on investor assessment of the merits of the opportunity or whether venture assets are sufficient to secure a loan.
- **Bootstrap financing** includes financing from personal resources, family, and friends.
- **Family and friends** generally have years of experience with the entrepreneur and probably have a sense of the entrepreneur's reliability, trustworthiness, and ability to handle adversity.
- They may be incapable of assessing the merits of the opportunity and are investing because they believe in the entrepreneur or feel compelled by family relationships.
- The obvious starting point for the entrepreneur is to use personal resources to advance the project to a point **where outside financing is feasible**.
- The **entrepreneur's resources** include **not only** personal savings and assets **but also** debt capacity.
- Stories of entrepreneurs whose earliest financing was achieved by taking out second mortgages on their homes and "maxing out" credit card borrowing are common.

- **A study of nascent entrepreneurs indicates that personal savings is the most important early financing source.**
- The evidence indicates that:
 - more than 90% of entrepreneurs rely on personal savings,
 - followed by personal loans and credit cards (28%) and
 - loans from friends and family (7%).
- Approximately 5% rely on equity investments by friends and family.
- In dollar terms, **entrepreneur-backed bank loans, such as home mortgages, represent the primary sources of financing during the first year.**
- Bootstrap sources rely on the entrepreneur's reputation and credit history and **not on** the merits of the venture.
- Accordingly, personal debt capacity gives the entrepreneur access to capital **without the need** to convince investors that the opportunity is worth pursuing.

- Many ventures are legendary for their success in spite of getting started with bootstrap financing.
- Steve Jobs and his partner, Steve Wozniak, sold a Volkswagen and a programmable calculator to raise the \$1,350 they used to build the first Apple computer.
- Bill Gates started his venture with Paul Allen from Gates's dorm room in 1975 and later relocated to a hotel room in Albuquerque. They funded the start-up from savings and built a shoestring operation into Microsoft, a company with more than \$110 billion in 2018 sales.
- But many more ventures begun by bootstrapping have failed miserably.
- Some undoubtedly were **based on good ideas** but were **underfinanced**.

Accelerators and incubators

- **Accelerators** offer aspiring entrepreneurs' workspace, mentoring, networking opportunities, and relatively small amounts of funding (typically \$25,000 to \$150,000), in exchange for equity (usually 4–8%).

توفير مساحة عمل لرواد الأعمال الطموحين ، والتوجيه ، وفرص التواصل ، ومبالغ صغيرة نسبيا من التمويل

- **Access to accelerators is competitive** (e.g., Y Combinator, DreamIt, and Techstars);
- **accelerators are cohort based, offer involvement for a fixed amount of time (3–6 months), and usually culminate in a “demo day”** where participating entrepreneurs have an opportunity to pitch their ideas to potential investors and others.

- تعتمد المسرعات على الأتراب ، وتوفر المشاركة لفترة زمنية محددة (3-6 أشهر) ، وعادة ما تبلغ ذروتها في "يوم العروض" حيث تتاح لرواد الأعمال المشاركين فرصة لعرض أفكارهم على المستثمرين المحتملين وغيرهم.

- Most accelerators are attracted to technology-based, early-stage ventures with high-growth potential that do not require large investments.

- تنجذب معظم المسرعات إلى المشاريع القائمة على التكنولوجيا في المراحل المبكرة ذات إمكانات النمو العالية التي لا تتطلب استثمارات كبيرة.

- **Accelerators have proliferated in recent years, increasing from very low numbers to over 500 worldwide.**

Accelerators and incubators (Cont.)

- **Incubators** also offer resources for early-stage entrepreneurs.
- They, too, have competitive selection, **but** they work with a broader array of ventures.
- They offer longer-term assistance (1–5 years) than accelerators and may offer workspace, access to networks, assistance with rounding out the management team, and help with obtaining external equity financing.
- **They are distinct from accelerators in several ways:**
 - with the primary distinction being that incubators usually **do not invest directly in the company**, although they may take an equity stake for their efforts and consulting services.

عادة لا تستثمر الحاضنات بشكل مباشر في الشركة ، على الرغم من أنها قد تأخذ حصة في الأسهم مقابل جهودها وخدماتها الاستشارية.

Crowdfunding

- It is important to distinguish between donation-based crowdfunding and equity crowdfunding.

Donation-based crowdfunding:

- Platforms like Kickstarter and GoFundMe are donation based.
- They are **designed to enable people to support projects in which they are interested, most commonly artistic endeavors like music, film, video games, or unique product ideas.**
- Financial support is provided **in exchange for tickets to prospective performances or merchandise.**
- **Donation-based crowdfunding** **can function as a means of validating the level of interest in a venture that would help attract angel or VC funding at a later stage.**
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Crowdfunding (cont.)

Equity crowdfunding :

- Crowdfunding has evolved to offer funding and marketing exposure for a broader array of early-stage ventures in exchange for equity.
- It allows a large number of online investors to contribute small amounts of money to a company in exchange for equity.
يسمح التمويل الجماعي لعدد كبير من المستثمرين عبر الإنترنت بالمساهمة بمبالغ صغيرة من المال لشركة مقابل حقوق الملكية.
- They can do so through online platforms approved by the Securities and Exchange Commission (SEC) such as AngelList and CircleUp.
- As explained shortly, there are regulatory constraints on the fund-raising and issuing equity through such sites, including investor maximum investment amounts and minimum wealth restrictions.
- هناك قيود تنظيمية على جمع الأموال وإصدار الأسهم من خلال هذه المواقع ، بما في ذلك الحد الأقصى لمبالغ الاستثمار للمستثمرين والحد الأدنى من قيود الثروة.

Initial Coin offerings (ICOs)

- An initial coin offering is a new kind of capital-raising approach that is similar to crowdfunding.
- It is difficult to generalize about ICOs because the approach is evolving rapidly.
- Currently, **ICOs are not generally used for raising equity but rather are used for building a network or ecosystem of users for platform based business.**
- Such ventures could include those focused on a **software utility**, such as a blockchain technology or a platform to assign and transfer cloud storage capacity.
- The ventures seek to use an ICO **to build a network of users** and can use an ICO to **raise funds for working capital** to support early development efforts and to **provide information about the extent of interest in the idea.**
- They do that by offering utility tokens to be used on the platform.
- **In contrast to an IPO**, where the offering document is a prospectus, an offering document of an ICO often is a Simple Agreement for Future Tokens (SAFT).

Initial Coin offerings (ICOs)

- **Tokens** are normally tradable rights to use the utility the entrepreneur seeks to develop.
- The agreement is for “future tokens” because at the time of the ICO the utility normally is still in development (and development success is far from certain).
- **In contrast to ownership shares,** utility tokens convey usage rights.
- In many ICOs, purchasers of tokens can pay either currency or cryptocurrency, such as Bitcoin.
- ICOs in the U.S. are regulated by the SEC but the nature of the regulation is still evolving, as the SEC is catching up with this new approach to funding entrepreneurial activity.

- **Asset-Based Lending.** الإقراض القائم على الأصول
- Asset-based lenders provide debt capital to ventures that have tangible or intangible assets that can serve as collateral.
- **The lender is not relying on the venture's cash flow for repayment but on the ability of the venture to liquidate business assets, if necessary, for debt servicing.**
- لا يعتمد المقرض على التدفق النقدي للمشروع للسداد ولكن على قدرة المشروع على تصفية الأصول التجارية ، إذا لزم الأمر ، لخدمة الديون.
- **Loans may be secured by accounts receivable, inventory, equipment, real estate, royalty rights to intellectual property, or other assets with verifiable market/liquidation values.**
- Taking the collateral is not something the lender wants to do.
- Accordingly, asset-based lenders can also be expected to be concerned about the financial health of the venture. Based on the Commercial Finance Association's Annual Asset-Based Lending and Factoring Survey, 2016 U.S. commitments from responding lenders totaled \$199 billion. The actual number is likely to be much higher because of nonresponses.

Debt financing and Business Development Companies (BDC)

- **Venture debt** is a form of early-stage financing represented by loan agreements between early stage ventures and the providers of the loans.
- These loans generally **are not collateralized** as they are with asset-based lending.
- **There are four categories of providers of venture debt:**
 1. private debt funds,
 2. direct lenders,
 3. business development companies (BDCs), and
 4. enterprise banks like Silicon Valley Bank.
- The loans are complementary to equity investments in that they sometimes fill gaps in funding between rounds of equity so that the firm has funds to enable it to reach the next milestone.

القروض مكمله لاستثمارات الأسهم من حيث أنها تملأ أحيانا فجوات في التمويل بين جولات الأسهم بحيث يكون لدى الشركة أموال لتمكينها من الوصول إلى المعلم التالي.

- The loans can work like mandatory redeemable preferred stock with a premium since the provider is making a bet that the firm will be able to get future financing or operating cash flow that will enable the debt to be paid off.
- يمكن أن تعمل القروض مثل الأسهم المفضلة الإلزامية القابلة للاسترداد مع علاوة لأن المزود يراهن على أن الشركة ستكون قادرة على الحصول على تمويل مستقبلي أو تدفق نقدي تشغيلي يمكن من سداد الدين.
- The interest on the debt can accrue or be paid off each month.
- The loans can be short- or long-term.
- The loans usually include warrants, but these normally represent a tiny fraction of the capitalization of the company.
- One attractive feature of the financing is that **a reputable provider can help the borrower with introductions, networking, and so on. Many such loans can be restructured if the borrower runs into trouble.**

Business Development Companies (BDC)

- BDCs are active participants in this market. They were authorized by the U.S. Congress in 1980 under a modification to the 1940 Investment Company Act to provide funding to small and medium-sized enterprises, especially during early stages of development.
- BDCs are set up as closed-end investment funds and many are publicly held firms, with shares traded on major stock exchanges. يتم إنشاؤها كصناديق استثمار مغلقة والعديد منها شركات مملوكة ملكية عامة ، مع تداول الأسهم في البورصات الرئيسية.
- The investments that BDCs make in emerging firms are a mix of debt (primarily), equity, and hybrid securities like convertible debt.

Business Development Companies (BDC)

- BDCs, like VCs, are closely involved with providing advice to their portfolio companies, which are usually private firms.
- To qualify as a BDC, an investment company must invest at least 70% of its assets in U.S. firms with market values less than \$250 million.
- BDCs are pass-through investment vehicles that are able to qualify as tax exempt as long as they distribute over 90% of their profits to BDC shareholders.
- BDCs comprise a small fraction of the total market for new venture financing.
- As of 2017, the Closed-End Fund Association reports that there are 52 publicly traded BDCs with a total market value of approximately \$35 billion.

Revenue-Based Financing.

- **For firms that are growing rapidly and have solid income statements**, revenue-based financing has emerged to fill the gap between bank debt and VC.
- Loans for this category are generally in the \$4–\$10 million range.
- More traditional forms of venture debt and bank debt generally include liquidity covenants, which may not be appropriate for start-ups or growing firms, both of which will almost certainly have liquidity issues.
- وتشمل الأشكال الأكثر تقليدية لديون المشاريع والديون المصرفية عموماً تعهدات السيولة، والتي قد لا تكون مناسبة للشركات الناشئة أو الشركات النامية، وكلاهما سيواجه بالتأكيد مشاكل في السيولة.
- **VC, in contrast**, involves the investor taking an equity stake in the firm.
- Recognizing a gap in the financing menu, revenue-based financing emerged as a new vehicle offered by limited partnerships that are organized like VC firms, but where the portfolio companies are growth firms with (relatively) predictable revenue growth and are not the typical high-growth-potential firms that VCs pursue.
- Revenue-based financing is a structured debt instrument where the investor does not receive equity or warrants.

Venture leasing

- Venture leasing is *an alternative to* asset-based lending.
- In asset-based lending, the venture owns the asset, and the asset serves as collateral on the loan.
- In venture leasing, the lessor continues to own the asset and the venture leases it.
- The periodic lease payment is a substitute for debt service.
- Unlike most leases, **leases to ventures are often subject to considerable risk.**
- To compensate for potential loss, the lessor's return may be tied to the financial performance of the venture, so that if the venture does well, the lessor realizes more than the expected return, and conversely.
- للتعويض عن الخسارة المحتملة ، قد يتم ربط عائد المؤجر بالأداء المالي للمشروع ، بحيث إذا كان المشروع يعمل بشكل جيد ، فإن المؤجر يحقق أكثر من العائد المتوقع ، والعكس.

Venture leasing (Cont.)

- Venture leasing usually involves assets that are key to the operation of the venture.
- For example, in past years a number of ventures were launched to provide whole-body computerized tomography (CT) scans.
- The entrepreneurs in these ventures had to buy or lease a CT scanner, which, if purchased, was a multimillion-dollar investment.
- With venture leasing, the entrepreneur's initial investment is **reduced**, but some of the upside is shared with the lessor.
- Normally, **the providers of leases** are the companies that produce and distribute the equipment, as they are the ones who can most easily redeploy them if the venture fails.

Venture leasing (Cont.)

- There can also be tax advantages to leasing as compared to owning, especially for a venture that has yet to reach a profitable level of operation.
- Depending on its organizational form, if the venture were to purchase, it might not have sufficient income to be able to realize the tax benefit of recording depreciation expense related to the outlay for the equipment.
- اعتمادا على شكله التنظيمي ، إذا كان المشروع سيشتري ، فقد لا يكون لديه دخل كاف ليكون قادرا على تحقيق الفائدة الضريبية لتسجيل نفقات الاستهلاك المتعلقة بنفقات المعدات.
- In contrast, a profitable lessor who buys the machine and leases it to the lessee can realize the tax benefit of depreciation.
- في المقابل ، يمكن للمؤجر المربح الذي يشتري الآلة ويؤجرها للمستأجر أن يحقق الفائدة الضريبية للاستهلاك.
- If lessors compete to supply the equipment, some of the tax benefit should make its way to the venture in the form of more favorable lease terms.
- إذا تنافس المؤجرون على توريد المعدات ، فيجب أن تنشق بعض المزايا الضريبية طريقها إلى المشروع في شكل شروط إيجار أكثر ملاءمة.

Government Programs

- Many countries have established **government-supported programs** to provide loans and other financing for start-ups, small firms, and firms with growth potential, and to support R&D.
- البرامج التي تدعمها الحكومة لتوفير القروض وغيرها من أشكال التمويل للشركات الناشئة والشركات الصغيرة والشركات ذات إمكانات النمو ، ودعم البحث والتطوير.
- In the U.S., Congress created the **Small Business Administration (SBA)** in 1953 to foster innovation and growth of small businesses.
- The SBA is primarily a guarantor of loans made by banks and other financial institutions and does not lend directly to small businesses.
- In addition to the SBA programs described here, **government supports innovation** in other ways such as grants to support scientific research, research labs, and even incubators.

Government programs in other countries.

- Most developed economies provide government-based assistance grants and other means to facilitate creation and growth of new businesses.
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- Prominent examples include Canada's Small Business Finance Centre and the U.K.'s Department for Business, Energy and Industrial Strategy (BEIS).
- Among the programs of the BEIS is a multimillion-pound equity finance program, **Enterprise Capital Funds**.
- The program is designed to provide up to £5 million of initial funding for ventures that require funding within what some have termed the equity gap—more than what angel investors generally supply but less than what VCs would consider.

Summary

- Investing in new ventures is very different from investing in the shares of a public company.
- Because of the high degree of uncertainty about the potential for survival and success, financing commitments tend to be made in stages that are related to development of the venture.
- Customarily, development is described in terms of hypothesis testing and milestones that correspond to resolutions of significant uncertainty.
- Related to this approach to entrepreneurship, maximum value for the entrepreneur will not be achieved by raising all of the anticipated financing needs at one time.
- As business model hypotheses are tested and validated, the riskiness of successful ventures declines, and staging can produce higher expected value for the entrepreneur.
- Appropriate forms of financing depend on the stage of new venture development. Financing typically begins with bootstrapping (tapping the resources of the entrepreneur and friends and family).
- Seed capital normally is external financing, such as angel investment, although angel investment can go beyond seed financing.
- High-tech ventures with long development stages may require specific R&D financing.
- Start-up financing provides funds to initiate operations.
- Financing options, such as VC, are used to finance growth before the venture is profitable or during the early growth and expansion stages.



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