Acumenology

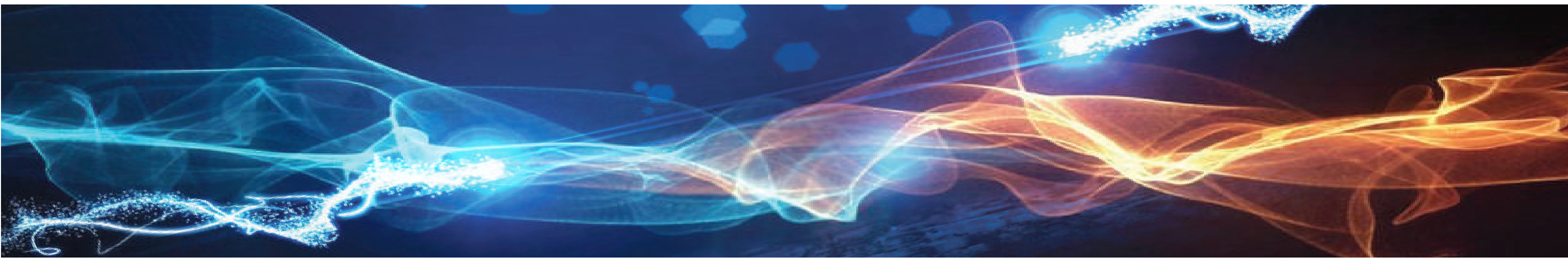
business support

FUNDING OPTIONS FOR STARTUPS

A look at funding options available for startups

An Acumenology Business Guide
Acumenology.co.uk

Contents



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Introduction

Developing a great business takes commitment, diligence, patience and in most cases, quite a great deal of money.

Finding financing for your start-up or new capital for your scale-up can prove to be a huge headache and extremely time consuming if you don't know where to look.
Thankfully, there are many ways to access capital for your startups with more solutions popping up every year.

However, before you start looking at the different types of funding you will need to determine what stage of the startup cycle your business is in as this will determine the type of funding available for you.

We've created this guide to help provide a starting point on your journey and it includes information on most of the forms of financing we could think of.

To further help you, Acumenology has produced a series of Business Guides on a range of relevant topics.
You can find these at: acumenology.co.uk/business-guides/

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Know your funding stage

Understand where you are in the funding cycle is essential if you're going to raise appropriate finance.

A typical start-up funding cycle is something like this:

- concept stage
- pre-seed
- seed
- early stage
- later stage
- initial public offering (IPO)

In each funding stage, the company receives money that focuses on specific growth points.

The concept, pre-seed and seed stages represent the initial capital required for developing the product or service, applying for patents and trademarks if appropriate, and researching the market, with emphasis on the feasibility of the business idea and preparing to commence operations.

The funds for this often come from the entrepreneur's own savings or from family or friends.

They can also come from government start-up grants like those available from **Innovate UK**

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Be clear on what your funding is for

Understanding the requirements for each funding stage. The funds you ask for will be appropriate to your business targets at every stage and should be clearly costed.

The funding cycle typically encompasses:

- exploration
- validation
- building
- launch
- growth
- maturity

At the exploration stage, you will be defining your concept;
At the validation or pre-seed stage you may look to government grants as well as family and friends;

During the build or seed/start-up stage you could look to crowd funding, angel investors or seed venture capitalists. The same is true for the launch or early stage of the business.
During the growth stage, you will look to venture capitalist rounds to raise money.
Whilst in maturity it is more likely that bank funding and eventually an IPO to invite public investment in your company.

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Target relevant investors

Your financing needs, current position and appropriate business milestones will determine the type of investors you can attract.

With each round of fundraising there are several options. Asking for the wrong amount at any stage is likely to damage your credibility with serious investors.

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Get the right funding at the right time

Identify how much funding you need to reach the next milestone in the growth of your business - be clear to investors why you need that level of investment and how you will use the funds raised.

Timing is everything in the success of a start-up.

Your team and the way they execute your business plan is the next most important factor influencing success.

The business idea itself comes next, followed by the business model.

The right funding at the right time – to support your launch, teambuilding, honing the idea and developing the business model will help you execute each stage of your business growth successfully and make it a long-term success.

Here is a look at the different funding options available during your business lifecycle.
Choose which one best suits your requirement.

DEBT FUNDING

Debt funding is a common and popular way of startup financing as it is a low-cost way of getting finance to start and grow your business without losing any control.

It will probably the most suitable option for most startups.

As you consider the best debt financing options that will suit you we recommend you read Why debt financing might be exactly what your company needs.

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Bootstrapping / personal investment

Bootstrapping is where founders use their own savings to invest in their startup.
It is deal for small scale enterprises and most startups are bootstrapped.

The good news is that bootstrapping allows you to develop a proof of concept whilst retaining equity.

If you are likely to raise money from investors in the future, they will expect you to have bootstrapped your initial stages of development.

Useful resources on bootstrapping

The Definitive Guide on How to Bootstrap your Business

A Step By Step Guide To Startup Bootstrapping By Self-Funding And Pre-Selling

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Friends & family

It's common in the early stages for friends and family to financially support your business.

This option is most suitable for businesses that need initial support to prove the concept can be successful, to the point where they can seek other funding.

The advantage this has is that it provides quicker funding with flexible terms.

However, mixing business with family and friends' finances can damage relationships if things go wrong.

You should assess the possible impact of failure before proceeding.

Useful resources on how to handle friends & family financing

[8 Best Practices to seek funding from friends & family]

[Avoiding the pitfalls of raising money from friends & family]

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Bank loans

Traditional bank loans are still a popular source of funding for many businesses and start-ups.

Make sure you do your research on the various types of loans, the terms and the interest rates that come with each option.

The advantage of this type of funding is that banks offer low interest rates, depending on your credit score and you won't have to give up any control over your business.

Useful resources on debt financing

[Why debt financing might be exactly what your startup needs]

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Government Startup Loans

Start-Up Loans is a government-backed financing scheme that aims to help entrepreneurs just starting out.

You can borrow up to £25,000 as a personal loan at a fixed 6% interest over 5 years.

The funding is per individual.
Thus, if there are 2 partners the business can raise £50,000.

In order to be successful, you should demonstrate the following

- Credit Worthiness - a good credit score
- Personal Affordability - demonstrate you can afford to make the loan repayments
- Business Viability - A good business plan and cash flow forecast
- Successful applicants also have access to 1yrs FREE

Useful resources on Startup Loans

[Startup Loans]

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Other Government funding

There is other government funding that may be applicable to your business.

R&D Tax credits
R&D tax credits is suitable for companies that have a technical component to their offering.

Companies can get 33% of what they have spent on eligible R&D activities as a repayment from HMRC after they have filed their yearly accounts.

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Companies can claim back sub-contractor, developer, engineering costs, direct staff costs, and related software and consumables.

Ineligible costs are infrastructure and everything that isn't directly involved in the R&D process.

Useful resources on R&D Tax Credits

How to DIY your R&D tax credit

Regional growth funds
There are numerous local growth initiatives across the UK, and we recommend you contact your regional growth fund programme manager to find out about eligibility criteria

Useful resources on regional growth funds

UK Government regional growth funds

Innovation grants
Innovation Grants are available for many emerging areas of science and technology

If you have a highly innovative technology that needs funding to be fully developed and go to market, the best way to explore innovation grants is through an advisor.

For a technological advance to be eligible for innovation grant funding, there has to be innovation present in the core aspect of the technology, not just in the fact that the new product or service is an innovation in a specific market.

Useful resources on Innovation grants

Innovate UK

Horizon 2020

Grant Tree Advisors

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Peer 2 Peer lending

P2P lending is becoming increasingly popular for SME financing offering secured and unsecured loans from a few thousand to quite a few million.

Companies like **Spotcap** and **Iwoca** can lend up to £200,000 and £250,000 respectively with rates ranging from 1-3%/month.

Useful resources on P2P lending

Peer to peer lending: What you need to know

Peer to peer lending

Funding Circle

Growth Street

Lending Crowd

Archover

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Crowdfunding

Crowdfunding platforms allow individuals to pitch their business ideas to a community of investors or people willing to support their idea.

An individual makes a business pitch on the crowdfunding platform and shares their business model and its potential for growth.

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The advantage crowdfunding offers is that it creates interest for your business and if it is successful validates your idea.

However, pitching is very time consuming and your business needs to have a very solid well thought out and compelling proposition.

There are two distinct types of crowdfunding:

- Rewards based crowdfunding
- Equity based crowdfunding

Rewards based crowdfunding
This is perhaps the best-know type of crowdfunding and includes the well-known platforms of Kickstarter and Indiegogo.

Rewards based crowdfunding involves individuals contributing comparatively small amounts of money to projects in return for some kind of reward.

The size of the reward is usually a reflection of the amount contributed.
Rewards can range from something simple such as a thank-you postcard to a production version of the crowdfunded product and at discounted price.

The main advantages of this type of financing are:

- You do not have to give up any equity
- It allows you to test the demand for your product
- You can get useful feedback

The disadvantages are:

- You need to put in a significant amount of time and money in creating a strong brand, a compelling proposition and a video.
- You need to promote it.

Rewards crowdfunding platforms

Kickstarter

Indiegogo

Fundable

Patreon

EQUITY FUNDING

Equity financing means raising capital through the sale of shares.
Through an equity sale, the company sells part ownership of their company in return for funding.

Equity funding can be complex so be wary, do your research and get expert advice.

In this guide we will provide some basic information on equity financing.

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Equity funding rounds

Pre-seed
Pre-seed refers to the founder's initial startup funding and would include friends, & family investment money.

VCs like Forward Partners now have pre-seed funds and if your company qualifies, they will do a lot of hand-holding until your idea becomes reality.

Seedcamp also offers a standard £100,000 at 7.5% target ownership in pre-seed, an incredible network and comprehensive support, even if all you have at the moment is an idea.

Seed
The Seed round refers to a series of investments up to around £2 million into a new company.

The seed stage is usually dedicated to building the foundations of the new company and is ideally based on the company having an MVP and showing some traction with clients.

The Seed stage provides access to seasoned investors and an important source of seed funding are Accelerators, Angels and specialised VCs.
Major banks and tech corporations also have an assortment of seed VC branches looking for the next big thing.

Useful resources on seed funding

Guide to seed funding

Series A
Series A funding comes from a smaller number of VCs and Angels who will invest £2-10 million.

Series A often demands high growth, which is why the main question to ask before going for Series A is: Does it scale?

Is the company's main growth constraint cash or is it that ideal product-market fit isn't quite there yet?

VCs will want to see that you know 'exactly' what you're doing and that you have the right foundations.
This usually means a proven track record with clients and a very credible plan on how to increase revenue.

Useful resources on Series A funding

The Founders Guide to Raising a Series A Venture Financing

Series B
While in a Series A the goal is to support a business model that works, scales and prove that the company can reach well defined goals, the Series B is to provides funds to accelerate that.

Companies that access Series B are usually starting to show a profit and their major challenge is scaling fast.
They may also be targeting international expansion or branching out into related product ranges.

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Angel Investment

Angel investors are usually high net worth individuals who invest in startups in exchange for equity or convertible debt.

Angel investors are savvy investor who will carry out comprehensive due diligence and understands what they are getting themselves into.

Angels usually invest their own money, in contrast to VCs who are essentially fund managers.
This gives them a more personal stake and allows for more flexibility in how the deals are constructed.

The risk borne by Angel investors is high and thus their target return on investment is usually 10x or higher.

Their investments are very early in the company's life cycle and the threat of losing the investment or dilution is a constant worry.

This makes Angel investment quite an expensive form of capital, as all these risks need to be mitigated and reflected in the cost of financing.

Useful resources on Angel Funding

The Hacker Guide To Angel Investing

The UK Angel Investment Network

The UK Business Angels Association

There also exist Angel syndicates.
These tend to be more risk-averse than single investors, but they also represent a bigger pool of money.

Angel syndicates fill the void between solitary investors and VC 's.

They often specialise in certain sectors and it It's not uncommon to have MedTech, FinTech or CleanTech Angel syndicates that only invest in businesses with that profile.

UK Angel networks & syndicates

[Startup Funding Club]

[Angels Den]

[Minerva]

[Q Ventures]

[Green Angel Syndicate]

[24 Haymarket]

[Enterprise 100]

[Newable]

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Venture Capital

VC's are managed pools of funds that are invested in start-up and scale-up companies with high growth potential.

VC Funds vary, but VC's often differentiate themselves in:

- Geography (ex. UK, European, Global)
- Stage (Seed, Series A, Late Stage)
- Sector (MedTech, IoT, CleanTech, Fin Tech)

Keep this in mind and importantly do a lot of research on the VC's and their current investments.

You'll save time and energy in the long run and your future investor will actually take you seriously if you do your homework.

The best way to start a conversation with a VC is through a warm introduction, so it pays to do some serious networking if you're planning on raising funding.

Useful resources on VC Funding

[A founders Guide to Venture Debt]

[The 100 Top Venture Capitalists]

[Venture Capital firms in the UK]

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Equity based crowdfunding

Equity crowdfunding is where people invest in an early-stage company in exchange for shares in that company.

A shareholder has partial ownership of a company and stands to profit should the company do well.

The advantage of equity crowdfunding is that founders retain significant control as they do not have to give away significant equity.

Investors do not have to be sophisticated to invest since most equity crowdfunding platforms pre-screen startups and do the necessary due diligence, making it easier for your startup to get funded.

Some investors also bring a wealth of knowledge and experience and are looking to 'get involved'. This can be hugely beneficial to the business.

On the negative side equity crowdfunding is time consuming and competitive which may require an initial investment to produce a high standard campaign with appropriate media content (explanatory videos, press releases, etc.).

Equity crowdfunding platforms

[Seedrs]

[Crowdcube]

[Crowdfunder]

[Syndicate Room]

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Accelerators and Incubators

Incubators are generally for earlier stage funding than accelerators.

Both provide advice, mentoring, often a coworking space and possibly some capital.

Incubators tend to work with startups at the earliest stages, sometimes at a point where the company is still refining its proposition and doesn't require capital yet.

Accelerators, work with later stage companies who have refined their proposition.

Often, the application process is fierce and for accelerators like Y Combinator or TechStars, only 2-3% of applicants are accepted.

Some Accelerators & Incubators

- Techstars
- Bathtub2Boardroom
- Emerge Education
- Level39
- StartupBootcamp
- Seedcamp
- Bethnal Green Ventures
- Fintech Innovation Lab
- Wayra
- Founders Factory
- The Bakery
- Launch 22
- RocketSpace
- White Bear Yard
- IDEA London
- Seedcloud
- Tech Hub
- Cylon
- FFWD
- IncuBus London

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Conclusion

We hope you have found the information useful.
As you have seen, there are a lot of funding options available, but which one is best suited for your requirements needs careful consideration.

Whatever route you decide to take Bootstrapping is undoubtedly the best way to start your business.

However, to truly stay competitive in the market, you must always interchange your funding sources.
This provides you with some level of flexibility and overdependence on one source of funding.

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