



19BAT618-FINANCIAL SOURCING MANAGEMENT

How to raise capital: debt or equity?

There are two main methods of raising capital: debt financing and equity financing.

Equity financing

Equity financing is when a company raises capital by selling shares of company stock. These can be either common shares or preferred shares. The main downside of equity financing is that the company is effectively selling off little pieces of business ownership.

Debt financing

Debt financing - also known as debt raising - is when a company borrows money and agrees to pay it back later. This is often by way of a loan, but not always.

The other option is to sell corporate “bonds” to investors, which mature after a certain date. Before they’ve matured, the company must pay interest payments on the bond to the investors.

How to raise capital for a startup: 7 capital raising strategies

1. Fund it yourself

It might not sound ideal, but dipping into your personal savings is probably the easiest way to raise capital for a startup. Of course, funding the business yourself carries some risk. However, the fact that you have enough confidence in your business to invest in it can make investors or lenders more likely to commit funding to it too.

2. Business loan

Small business loans are still a major stepping stone on the road to success for many entrepreneurs launching a new business. However, loan approval is not guaranteed. You will need to meet specific requirements, like having an excellent credit score and being in business for a certain period of time.

3. Crowdfunding

Crowdfunding is the most recent capital raising strategy to make it onto the scene. Thanks to the internet, startups like Elevation Lab (makers of the iPhone dock) and Oculus (later acquired by Facebook) have become household names. Kickstarter, GoFundMe and Indiegogo are 3 of the best-known crowdfunding sites.

4. Angel investment

Angel investors are wealthy, accredited individuals that usually fund businesses alone but sometimes join other angel investors to do so. Ever seen the show, Shark Tank? This is what presenting to an angel investor can be like - so make sure you have a solid business plan and pitch ready, with all the key financial information at your fingertips.

5. Personal contacts

You might not feel comfortable asking friends and family members for money but according to Fundable, 38% of startup founders report raising money through their loved ones. Not only that, but friends and family reportedly invest the most - more than \$60 billion per year. However, mixing family and business may add more stress to the capital raising process than necessary.

6. Venture capitalist

Venture capitalists tend to invest in more mature companies than angel investors, and operate out of a firm, rather than working alone. Compared with angel investors, venture capital firms invest in a lower ratio of businesses that apply for funding - but when they do, they generally invest more money.

7. Private equity

Similar to venture capitalist fundraising, private equity fundraising is when private equity firms buy shares in companies on behalf of institutional and accredited investors. The main difference is that, while private equity is capital invested in a private company, venture capital is funding given to startups or other young businesses that show potential for long-term growth.

Looking to raise capital for your startup without giving up equity?

Here are 8 effective strategies:

Bootstrapping:

Start with your own funds and reinvest profits to grow your business.

Crowdfunding:

Use platforms like Kickstarter or Indiegogo to gather financial support from a large pool of individuals.

Grants and Competitions:

Explore grants and startup competitions that offer non-dilutive funding opportunities.

Business Loans:

Consider traditional loans from banks or alternative lenders to finance your venture.

Strategic Partnerships and Corporate Sponsorships:

Forge partnerships with established companies or seek sponsorships to secure financial backing.

Revenue-Based Financing:

Raise funds by sharing a portion of your future revenue with investors.

Vendor Financing:

Negotiate with suppliers or service providers for extended payment terms or financing options.

Invoice Factoring:

Convert outstanding customer invoices into immediate cash by selling them to a factoring company.

Raising capital for an acquisition

Raising capital for an acquisition involves a combination of debt and equity financing. If your company lacks sufficient funds for the acquisition, there are various options available. Third-party debt, such as bank loans, SBA loans, or private debt, can provide the necessary capital. Additionally, you can consider using owners' equity or exploring a line of credit to fund the acquisition. By exploring these avenues, you can secure the capital needed to facilitate a successful acquisition.