



19BAT618-FINANCIAL SOURCING MANAGEMENT

What Is Seed Capital?

Seed capital is the seed money or seed financing used for funding initial operating expenses and development before a company begins to make/take in revenue until it can support itself.

It is the money invested in a new business, with the hope of seeing a return on that investment. It can come from various sources, including individuals, venture capitalists, or even government agencies.

This can be in the form of investment, grants, or anything of value given to a new business. Much of these come from the entrepreneur and sometimes friends and family.

Types of Seed Capital

There are two main types of seed capital:

Equity financing is when the investor gets a piece of the company in return for their investment. This can take the form of common stock, preferred stock, or even warrants.

Debt financing is when the entrepreneur takes out a loan from a bank or other lending institution. They then have to pay back that loan with interest over a set period.

Debt financing is generally less risky for the lender because if the business fails, they can still go after the company's assets to repay what was borrowed.

Equity financing is riskier for the investor because they invest in a company and may not see any return on that investment if it fails.

Seed capital comes in different shapes and sizes. Here are some capital.

Venture Seed Capital

is the first type of seed capital that a startup will usually look for. It is what's used to help a company get from the idea stage to having a product or service that they can sell.

Crowdfunding Seed Capital

is when a company raises money from many people, usually through the internet. This has become a more popular option, as it does not require the business to give up any ownership or control over their company.

Government Seed Capital

often provides seed capital for businesses that fall into various categories, such as green technology or pharmaceuticals. This is usually in the form of grants, which are financial awards that do not require repayment.

Angel Seed Capital

are individuals who invest their own money in a startup, often in exchange for a stake in the company. They can help get a company off the ground, as they have the knowledge and experience to help with things like networking.

Accelerator Seed Capital

is a company or organization providing funding, mentorship, and office space to early-stage startups. They usually take a small percentage of the company in return for their help.

Who Needs Seed Capital?

Any new business will need seed capital to get started. This can be for things like hiring employees, buying equipment or furniture, and of course, marketing their product or service.

But it is usually needed by startups or organizations with a new business/product idea. They typically only have an idea, but no money for research and development, market testing, promotion/advertising, and other initial costs.

Thus, any startup company would need to have seed capital to turn an idea into reality.

For example, an individual would use seed capital to start a restaurant. They might use this money to get the location, rent, decorate the space, and purchase equipment like tables and chairs.

Another example is when someone starts their own company online with no physical storefront: seed money would be used for advertising to get people to purchase the products.

How Does Seed Capital Work?

Now that you know what seed capital is, let's look at how this works. In most cases, the entrepreneur will pitch their business idea to potential investors to get them interested in funding the venture.

If the investor is interested, they will then determine what type of investment they want to make and what percentage of the company they would like to own.

The entrepreneur will then usually have to give up some control of their company to get the seed money they need. This could mean giving up voting rights, board seats, or even making the company a subsidiary of the investor's company.

Steps to Take When You Need Seed Capital

These are some steps to take when you need seed capital:



Come up with a business/product idea

To get seed money, you need a business or product idea. This doesn't have to be a fully formed idea, but it should at least be realistic and pitchable to investors.

Research what type of seed capital is best for your company

Not all seed capital is the same. There are different types of investors, each with benefits and drawbacks. Do some research to see what would be the best fit for your company.

Pitch your idea to potential investors

This can be daunting, but remember that most investors are people too. They want to see businesses that have potential and are well-thought-out. Practice your pitch until you feel confident in presenting it.

Secure the investment and move forward with your business

Once you've secured an investment, put the pedal to the metal and get your business off the ground. This can be challenging, but with hard work and dedication, you can make it happen.

Show proof of seed money used

One of the advantages of having seed money is that it shows potential investors you're serious about your business. Make sure to keep track of all expenses and document everything so you can show proof of how you used the money.

Negotiate seed capital terms

Don't be afraid to negotiate the terms of your seed capital investment. You want to get a good deal for yourself and ensure investors receive a good return on their investment.

Pay seed investors back

Once your business is up and running, it's important to start paying back your seed investors. This could mean making regular payments or giving them a percentage of the profits your company makes.

Pros and Cons of Seed Capital

Now that you know what seed capital is, let's look at some of the pros and cons of this type of financing.

Pros:

- It provides money to help get a business off the ground
- It can give entrepreneurs a competitive edge
- It can help businesses grow faster
- It's a way to get started without giving up too much control
- It can be a good way to attract investors
- It can be a way to get around traditional lending

Cons:

- There is often a loss of control for the entrepreneur
- The terms of the investment may be difficult to renegotiate
- It can be tricky to find investors willing to invest in seed capital
- The entrepreneur may have to give up a large percentage of their company
- There is no guarantee that the investment will be successful
- The business may not be able to repay the seed money investors

The Bottom Line

When starting a new business, one of the most important things you need to think about is funding. There are many ways to obtain the money you need to get your business off the ground, but one of the most common is seed capital.

Seed capital is a good way for entrepreneurs and investors to network and build relationships, but seed money should be repaid as quickly as possible. Make sure to weigh the pros and cons carefully before making a decision.