Module 4 Entrepreneurial ideas into reality

Purpose - In this module, we will look at the final steps to turn ideas into reality. The first stage is to get to know the possibilities of financing entrepreneurial ventures. Finally, to conclude the module, we will focus on Business Plan development.

Skills and competences - This module aims to introduce entrepreneurs to financing possibilities, growth strategies, and the business plan. • Entrepreneurs will be able to find out the best financing options for their project. • Entrepreneurs will be able to develop the business plan.

TOPICS:
1) Financing entrepreneurial ventures Introduction of the financing strategies, their characteristics, benefits, and drawbacks. 2) Drawing a Business Plan.

1. Financing entrepreneurial ventures.

Regardless of how viable one's business idea is, one critical component of startup success is the ability to secure adequate money to launch and develop the company. The process of making financial decisions for new companies is known as entrepreneurial finance. Entrepreneurial finance is defined as the study of resource allocation and value, which is applied to new companies or startups and ventures. Accoding to A.Sharma, 2021, there are many sources of funding available for entrepreneurs. Which one is the best for your company? Entrepreneurs face numerous questions such as: "how much money do we need," "when should we raise the money," "who will we receive the money from," "what will the payment conditions be," "what are the valuation charges for a startup," and so on. It is critical to understand who to approach for funding. While many people fund their new businesses with their own money or by borrowing from family or friends, there are alternative solutions. However, business entrepreneurs must realize that getting startup capital is never straightforward and always takes longer than expected.

Sources of startup financing. Startups receive funding from various types of investors that meet the venture's requirement of the resources and expertise required on the basis of their position in the lifecycle. As the new startups progress their financing preferences may vary from what they were earlier. Overall, there are two main sources of startup financing (Sharma, 2021):

- Equity financing (Banton, 2020). The process of raising capital through the selling of shares is known as equity financing. The benefit of equity financing to a business is that the money received doesn't have to be repaid. If the company fails, the funds raised aren't returned to shareholders. In exchange for this benefit, the business must give them a percentage of ownership in the company—which may also include some decision-making control. The business also shares a portion of its profits with its equity investors.

- Debt financing (Chen, 2021). When a company generates funds for working capital or capital expenditures by selling debt instruments to individuals and/or institutional investors, this is referred to as debt financing. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid. Borrowers will then make monthly payments on both the interest and the principal, as well as put up certain assets as collateral to reassure the lender. Inventory, real estate, accounts receivable, insurance policies, and equipment are examples of collateral that might be utilised as repayment if the borrower fails on the loan (Chen, 2021).

Types of Equity Investments

Angel Investment - Angel investors (also known as seed investors) are individuals who make investments in the early phases of a company's growth. Often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages. As a result, angels take on far more risk than later-stage investors.

Crowdfunding - Crowdfunding is the use of small amounts of capital from a large number of individuals (usually from social media) to finance a new business venture. Most crowdfunding systems are reward-based, with users contributing money to the creation of a product in exchange for a finished version after the project is completed.

Accelerator and Incubator Programs - Incubator programs are designed for startups refining their business plan as they navigate challenges from the idea stage through the growth stage. Incubators are heavily focused on regional economic development and funded through a combination of public sources and private grants. Accelerators function as a catalyst for high growth among startups by providing professional levels of promotion, education, and capital that might otherwise take years to achieve independently. Accelerators frequently have clearly defined start and end dates, lasting no longer than one year and typically anywhere between three and six months.

Venture Capital - Venture capital (VC) is a sort of private equity and a type of funding provided by investors to startups and small firms that are thought to have long-term development potential. Venture investment is often provided by wealthy investors, investment banks, and other financial organisations.

Private Equity - Private equity (PE) firms generally specialise in purchasing privately held companies, improving their financial health, and then selling them for a big profit. Private equity describes investment partnerships that buy and manage companies before selling them. Private equity firms operate these investment funds on behalf of institutional and accredited investors.

Mutual funds and Hedge funds - Mutual funds and hedge funds combine huge quantities of money and invest it in a diverse range of securities in the aim of generating a significant overall return for their investors. These investment vehicles often allocate a predefined percentage of the total fund amount to particular asset classes depending on the associated risk with each form of investment.

Types of Debt Financing

Commercial Bank Loans - Commercial banks are usually more cautious in their lending because of rigorous regulatory restrictions. Startups of adequate size and financial soundness, like most other companies, can qualify for commercial financing. Unfortunately, many early-stage businesses may be unable to get typical commercial loans due to negative cash flow and a lack of collateralizable assets. As a result, startups may struggle to get loan financing.

Venture Debt Firms - Venture debt firms specialise in lending money to enterprises with greater risk profiles than a commercial lender would be willing to accept. A venture debt loan functions similarly to a typical loan, with the principle due at the maturity date and a certain amount of interest accumulating each fiscal quarter.

Bridge Financing - Bridge loans are a form of short-term convertible debt that is used to provide money until more permanent funding can be obtained. The bridge loan gives the company with enough cash to keep operations running while it seeks further equity financing. When the startup gets more funding, the conditions of the bridge loan arrangement dictate how the debt is repaid.

Entrepreneurs have to be aware of their venture lifecycle once they begin the journey with startup and be able to find out the financial mechanisms, that would help to accelerate sustainable grow. A successful venture lifecycle consists of mainly 5 stages beginning with the developmental stage and ending in the maturity phase. 1)Development stage: The enterprise evolves from an idea to a viable business prospect during the development stage. The majority of new businesses start with a concept for a prospective product, service, or process. 2) Startup stage: The startup stage of a successful company's life cycle occurs when the venture is structured, developed, and an initial income model is established. 3) Survival stage: During the survival stage, earnings begin to rise and assist in covering some, but not all, of the expenditures. Borrowing or enabling others to hold a portion of the enterprise bridges the gap. Lenders and investors, on the other hand, will only offer funding if they believe the venture's cash flows from operations will be sufficient to repay their investments and generate extra returns. 4) Rapid-growth stage: The rapid-growth stage is the fourth stage of a successful venture's life cycle, during which revenues and cash inflows rise at a quick pace. Cash flows from activities expand significantly faster than cash outflows, leading in a significant increase in the venture's value.

5) Early-maturity stage: The fifth stage in the life cycle of a successful venture is the early maturity stage, when revenue and cash flow growth continues but at much slower rates than in the rapid growth stage. Although value continues to rise modestly, the majority of venture value was created and recognised during the rapid-growth stage. The picture below (by Sharma, 2021) allows to understand the financing at different stages of venture lifecycle.

2. Drawing a Business Plan as an Entrepreneur

A business plan is crucial to anyone who is starting a business. The business plan will serve as a guide to help entrepreneurs stay on the right track towards their goals and at the same time, to make potential investors. Developing a business plan requires a lot of time, effort, and planning. The length of a business plan varies greatly from business to business. No two business plans are the same. Nonetheless, they tend to have the same elements. Here are some of the elements to cover creating a business plan for your business idea.

Executive Summary

The executive summary is an outline of your business' goals and purpose. This section outlines the company and includes the mission statement along with any information about the company's leadership, employees, operations, and location. It includes a brief description of your products and services, a summary of objectives, a justification for viability, a description of the market, growth potential, and an overview of funding requirements. This section of your business plan is crucial. Your executive summary must clearly describe how your business can provide solutions to a particular problem.

Objectives & Overview

As an entrepreneur, for this part, you only need to summarize your current operation, which is easy. Put it into detail including your products and services, how you make them, how you deliver them, how you manage them, etc. For an existing business, this section is longer compared to new businesses. Make sure to emphasize all the important aspects of your products and services that make your business unique. Other factors that may go into this section include production and manufacturing processes, any patents the company may have, as well as proprietary technology. Information about research and development (R&D) can also be included here. Make sure to add in the full scope of what you do and what you don't do.

Business Environment

Your business plan must have a clear explanation of the business environment. Share an analysis of your current and upcoming competitors, how you compare to them, and any regulations that govern your business. You may also highlight your current or anticipated industry changes.

Financial Statements

As an entrepreneur, you should be able to include at least three to five years of financial statements. Financial statements, balance sheets, and other financial information may be included for established businesses. New businesses will include targets and estimates for the first few years plus a description of potential investors. Furthermore, this section of your business plan must also contain the current analysis of profit and loss and cash flow. This becomes increasingly important if your business plan requires finance in the forward periods. With lenders being restrictive in lending to businesses, to increase your likelihood of successful funding having well documented financial statements will allow the bank to appropriately understand your risk profile and likelihood to meet your lending obligations.

Growth Strategy

This section is important to investors because it will tell them how you plan to grow and the work that you plan to do to achieve the growth that you want. Detail here how your business will grow to capture market opportunities and how your business is changing to meet the marker's new opportunities.

Recommendation. *The best business plans aren't generic ones created from easily accessed templates. A company should entice readers with a plan that demonstrates its singularity and potential for success.*

While starting your business plan you should answer the questions raised:

1)Are my goals well-defined? (personal aspirations, business sustainability and size, tolerance for risks);
2)Do I have the right strategy? (clear definition, profitability and potential for grow, durability, rate of grow);
3)Can I execute the strategy? (resources, organizational infrastructure, the founders' role).

Developing a business plan for an existing business may seem easy at first, but it needs dedicated time and effort to create a business plan that will captivate investors and financial institutions. Not only that, continuously updating your business will let you see the growth of your business and areas for improvement that will allow you to develop better strategies.

Assignments

1 assignments

Explain Equity financing and Debt financing peculiarities.

2 assignments

Please detail how much investment is needed to start your business?

3 assignments

Create/ write/draw your own business plan, please keep in mind the following structure:

- Draft an executive summary
- Describe your company
- Perform a market analysis
- List your products and services
- Perform customer segmentation
- Make a financial plan
- Define a growth strategy

#1 Questions for the discussion?

1. Who do you think could invest in your idea?
2. Could you calculate how much investment would be required?
3. How difficult or easy do you think it is to attract investors?
4. Could you argue why they should invest in you?
5. Could you implement the idea with your own funds?

#2 Useful links

- https://onlinemasters.ohio.edu/blog/entrepreneur-business-plan/
- https://hbr.org/1985/05/how-to-write-a-winning-business-plan
- https://www.investopedia.com/terms/b/business-plan.asp
- https://www.sciencedirect.com/science/article/abs/pii/S0166497218307892?via%3Dihub
- https://doi.org/10.2991/aebmr.k.210121.028
- https://ijsmr.in/doc/ijsmr04_55.pdf

#3 Become a co-author

This handbook is unique in that we invite everyone to co-author it. If you are an expert and work in the field of entrepreneurship, if you want to share useful information with the readers, if you are a creator of unique tasks and believe that you can contribute to entrepreneurship in one way or another, we invite you to share your information and we will add a new chapter to the handbook that you have created.

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