MODES OF FINANCING

1. Grants and subsidies
2. Loans and lines of credit
3. Incubators
4. Angel investors
5. Venture Capital
6. Crowdfunding
7. Form a partnership

GRANTS AND SUBSIDIES

Abstract

Business grants are money you don't have to pay back, which means no interest payments, no late payments and no chance of losing any collateral. Subsidies, on the other hand, refer to direct contributions, tax breaks and other special assistance that governments provide to businesses. They can be highly competitive and come with specific guidelines/instructions on how to spend them. They can be issued by both public or private bodies.

General Description of the Specific Action

Grants and subsidies are amongst the main and most acknowledged sources of financing for businesses of any size. They are basically money you can be awarded by applying to specific calls, issued either by public or private bodies for specific purposes.
Grants are financial funds paid by entities like companies, foundations or governments under certain conditions. Applicants, in the form of organisations or individuals, have to prove their eligibility by filling out an application form, claiming to meet the specific set of requirements indicated by the issuing entity in the call for applications.
Most grants can be categorised as one of these two types:

General Purpose or Operating Support Grants
General Purpose Grants can be used to support the common expenses of operating your organisation, from specific programs to the bills. It normally reflects a deeper support in your activity and overall mission by the funding entity, who believes in your business.

Project Support Grants
Project Support Grants are paid to support a pre-determined and connected set of activities, with explicit time frames, costs and objectives. Normally, these grants are restricted and must be used only for accountable purposes strictly related to the project.

Some of the most common types of Project Support Grants include:

- *Planning Grants*, which support the initial project development work, allowing for research, assessments and project design;
- *Seed Money or Start-Up Grants,* helping businesses to go through their first years of activity (namely, during the start-up phase). These grants often decrease in amount after the first period, since the idea is to give the new company a strong push forward without encouraging them to avoid concerns about raising money;
- *Management or Technical Assistance Grants,* supporting the implementation of management activities of businesses which lacks the proper knowledge and expertise. Such activities may include marketing operations, fundraising, financial management, etc;
- *Facilities and Equipment Grants,* helping the applicant to buy a physical asset to be adopted in the long term, like offices, computers and equipment.

Subsidies are benefits given in form of payments or tax contributions/breaks. They can be awarded to both individuals or organisations, normally by governmental bodies for reasons of public interest (e.g. to

promote public good, culture, social well-being, etc). As such, subsidies are considered a privileged type of financial aid, designed to ease the burden placed on the shoulder of recipients and provide support for actions.
The fields of activity subject to subsidies often relate to particular sectors of a country's economy, which may be suffering from low rates of development or high competitive rivalries with other sectors.
Subsidies can be described as direct or indirect:

- *Direct Subsidies* entail an actual payment of funds to a beneficiary;
- *Indirect Subsidies* do not have a pre-determined monetary value and include measures like tax reductions and government-supported services.

Action Type

4. Actions that have prerequisites (other actions need to be implemented first) and require investment

Time required to implement a solution and when possible associated cost

Not applicable. Time frames are strictly related to the provisions of grants/subsidies call for applications, together with associated costs.

Positive and negative part of the solution

Positive: Financial support which you do not have to pay back, fully or partially. In many cases, grants and subsidies are specifically targeted for small businesses to help them grow.

Negative: Calls for applications can be highly competitive and specific. Selecting the wrong call to participate in may cause a waste of resources; therefore, it is of utmost importance to check the eligibility of the candidate entity before applying, gauging the chances of being successful.

Estimated exploitation

Higher cash availability and financial leverage for current and future investments to be exploited in the medium-long term, accompanying the business' growth and profitability.

ICT Competence

Basic

English Language Skills

Depending on the type of Grant/Subsidy
If national -> Basic
If international -> Proficient

Webshop level

N/A

Informative text (Sources)

1. Heibutzki, Ralph (2018), *What's the Difference Between a Grant & Subsidy?*, retrieved from https://smallbusiness.chron.com/whats-difference-between-grant-subsidy-39285.html
2. Hecht, Jared (2016, May 16), *3 Types Of Grants For Your Small Business To Consider*, retrieved from https://www.forbes.com/sites/jaredhecht/2016/05/16/3-types-of-grants-for-your-small-business-to-consider/#52e2aa763d11
3. OECD, (2015), *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*, retrieved from https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf

Additional Resources

Example of grant application form
https://ec.europa.eu/transport/sites/transport/files/themes/urban/grants/doc/2009_03_31/application_form_en.pdf

Grants vs Investment subsidies
https://economics.yale.edu/sites/default/files/files/Workshops-Seminars/Development/rai-011203.pdf

EU grants and subsidies
https://europa.eu/european-union/about-eu/funding-grants_en

Crossborder Remarks

Cross-border grants or subsidies are generally awarded by international organisations, which aims to foster and promote cross-border cooperation/partnerships. Applying for one of these measures implies an international scope within your range of activities.

LOANS OR LINES OF CREDIT

Abstract

Bank loans and lines of credit are the most commonly used source of funding for small and medium-sized businesses. All banks offer different advantages, but, in general, bankers are looking for companies with a sound track record and that have excellent credit. A good idea is not enough: it has to be backed up with a solid business plan. Start-up loans will also typically require a personal guarantee from the entrepreneurs. Accessing a business loan means going into debt: despite its negative perceptions, debt should not be avoided, as it is a good source of funding if you need quick remedies.

General Description of the Specific Action

Loans and lines of credit are generally options for borrowing money, available for both enterprises and individuals.

When you apply for a loan, you get money that has to be repaid in the future, within a fixed time-frame, as a lump sum or with a number of instalments. The amount to be repaid will equal the sum loaned plus interest rates and/or other financial charges. The terms of the loan between the two parties (e.g. the loaning bank and the business) shall be agreed in full before any transaction actually takes place. The provisions normally include a cap on the maximum amount of interest applicable and the length of time before the loan has to be formally repaid.

Loans can be either secured or unsecured:

- Secured Loans imply that a collateral is required, namely a property or asset that the borrower offers to the lender to secure the loan. Should the terms set for the loan not be met, the lender would be allowed to seize the collateral to recoup its losses. For this reason, secured loans have normally lower interest rates than the unsecured ones.
  The most common type of secured loan are mortgages, where loans are linked to a specific property purchase.

- Unsecured Loans, on the other hand, are not backed by any collateral, and for this reason they might have higher interest rates, as they put more risk on the lender. Credit cards may be considered the most typical form of unsecured loans, as they allow you to make cash advances.

Lines of credit are a particular type of loan, where you are provided with a limited amount of borrowed money that can be accessed at any time, as long as the predetermined terms are met. Making timely minimum payments is another common requirement. Lines of credit are normally unsecured, so their scope and purpose may be compared to those of a credit card. The advantages a line of credit has over a regular loan is that the line of credit does not have to be used for a specific purchase, and no interest is charged on the unused amount.

To get the best loan for your business, you may consider the following steps:

1. **Determine how much money you need and why**
   You should be ready to answer these questions, as they aim to disclose your purpose for borrowing money, depending on whether you want to get started with your business, invest in new equipment or have a safety net for your present and future operations.
2. **Decide which type of loan is best**
   If your business is already established, you will have many alternatives to get your activity funded. Many lenders, in fact, require you to be in business for a certain amount of time and meet a minimum annual revenue. If this is not the case, a good solution may be applying for a personal loan or a small business credit card.

3. **Check your credit**
   If your business is established and you've borrowed money in the business' name before, you may have a business credit score. Check your business credit report to get an idea of where it stands and what you can potentially do to improve it. If you don't have a business credit score or your score is fairly low, you may need to rely on your personal credit history to get approved for a loan.

4. **Gather financial documents and other relevant paperwork**
   Lending institutions need to check your business risk before giving you any money. Therefore, you'll need to put together your financial statements, including your balance sheet, income statement, and cash flow statement for the past year or two, plus your business plan and forecasts for the next 2-3 years.

5. **Determine your collateral**
   Business lenders in some cases may require a collateral to secure its interest. This may include buildings, equipment, land ownership, inventory or accounts receivable. If you don't have sufficient business assets, you may have to use your personal assets as collateral, such as your vehicles or home, keeping in mind that the bank may claim these assets if your business defaults on the loan.

6. **Look for the best business loan**
   Compare offers from several lenders: start by determining which lenders offer the type of business loan you want, then compare at least three or four lenders in that category. Look at the annual percentage rate (APR) they offer, as well as other terms, such as loan limits, repayment terms, fees, and penalties.

7. **Apply and close the loan**
   Go through the application process, submit all the documentation required and close the deal. Be aware that it normally takes a while to process a business loan application. Keep in contact with the lender throughout the process to make sure it's going smoothly, and as soon as the loan closes, create a strategy to pay it off.

Action Type

3. Actions that have prerequisites (other actions need to be implemented first), but require no investment.

Time required to implement a solution and when possible associated cost

Not applicable. Time frames are strictly related to the terms and conditions of specific loans or lines of credit.

Positive and negative part of the solution

Positive: Improve your cash availability, allowing for short-term payments and investments that can be paid back when you plan to have higher profits.

Negative: In some cases, terms and conditions set by the lender may be particularly tight and demanding. Interest rates may hide unexpected risk, especially when tied with the trends of financial markets. Careful research for the right loan or line of credit must be carried out in advance.

Estimated exploitation

Higher cash availability and financial leverage for current and future investments to be exploited in the medium-long term, accompanying the business' growth and profitability.

ICT Competence

Basic

English Language Skills

Depending on the type of Loan/Line of Credit
If national -> Basic
If international -> Proficient

Webshop level

N/A

Informative text (sources)

1. Shubhomita, Bose (2018, June 7), *What is the Difference Between a Line of Credit and a Small Business Loan?*, retrieved from https://smallbiztrends.com/2016/03/difference-between-a-line-of-credit-and-a-loan.html
2. Shiv Nanda, (2018, March 29), *Which Financing Option is Best for Your Small Business: A Line of Credit or a Term Loan?* , retrieved from https://www.business.com/articles/smb-loc-vs-term-loan/
3. Hughes, Ryan, (2018, April 9), *What Does It Really Take to Get a Small-Business Loan?* , retrieved from https://www.entrepreneur.com/article/311576

Additional Resources

What is the difference between a loan and a line of credit?
https://www.investopedia.com/ask/answers/110614/what-difference-between-loan-and-line-credit.asp

Line of credit vs term loan: which is the best for my business?
https://www.fundera.com/blog/line-credit-vs-term-loan-best-business

What's a line of credit?
https://www.youtube.com/watch?v=Z1x3MbiPlmI

Crossborder Remarks

N/A

INCUBATORS

Abstract

A start-up incubator is a company, university or other organisation that shares resources (laboratories, office space, consulting, cash, marketing) in exchange for equity in young companies when they are most vulnerable. Generally, the incubation phase can last up to two years. Once the product is ready, the business usually leaves the incubator's premises to enter its industrial production phase and is on its own.

General Description of the Specific Action

Incubators can have a disruptive impact on local communities. Business incubation may be defined as an entrepreneurial, economic and social development process designed to accompany business ideas throughout their establishment as a consolidated firm, thus accelerating their growth. Incubated firms have higher success rates than non-incubated ones, meaning that the first have higher chances to overcome the start-up phase and stay in business while scaling.

Business centres normally offer rental space, access to office equipment (computers, photocopiers, internet connection, etc) and meeting rooms. On the other hand, incubators provide a full range of business support to their clients, allowing them to develop their business with professional guidance.

Four different kinds of support can be listed:

1. Infrastructures, such as office spaces;
2. Administration and information services;
3. Financial information and support;
4. Mentoring/coaching services and access to networks.

The first step to get started with the incubation of your business is simply to get in touch with the desired incubator facility. Visit the incubator’s website and social media, track down the most relevant people you should speak to, attend dedicated events to start networking. In a few words, become familiar with the environment and the people, to understand if that is indeed the right place for you. Once the decision is made, you need to work on the value proposition of your business idea, that will form your successful strategy when applying for a place in the incubator. Conducting a SWOT analysis (*Strength, Weaknesses, Opportunities, Threats*) on your proposal will help you pitch your idea with a comprehensive and detailed picture of the aspects that you’ll need more support on. Storytelling approaches are often a suitable way to tell your story and make it compelling. The core of your story shall be the element that sets you apart from others, possibly validating it with reliable data and a sound business model. Show and prove the demand you want to cater for, backed by preliminary research and information from tests/pilot phases. In other terms, prove that your business is worthy.

Present your team and place focus on the skills and expertise that will enable them to build your product or launch your service. Everything should be in check for a successful application.
It is important to see business incubation as a learning process, although highly challenging and demanding. In some cases, it may even turn out to be disappointing, as the entrepreneur may realise that the envisaged business is not viable. Facing this situation entails two different options: either you find another way to reach the same goal, or you must stop and start from scratch on something new. Either way, you will have eventually learnt from your mistakes and you will gain confidence for your next business proposition.
Although it is important to enter any incubation program with a strong, clear idea of what you want your organisation to become, joining in the early stages of development is vital to maintain flexibility in your development process, designing in advance what the final product may look like. This is especially vital if it is your first venture, or you have a limited background in business. The challenges of collaborations between firms mostly regard their mindset, as they have different cultures, different attitudes about sharing intellectual property and different concerns about risk sharing. In order to make successful incubation possible, your company needs to open up and adapt to a certain degree, implementing new solutions where needed and being open to change. Otherwise, the collaboration might fail before it even begins.

Action Type

4. Actions that have prerequisites (other actions need to be implemented first) and require investment.

Time required to implement a solution and when possible associated cost

The incubation process normally goes on for 2-3 years. Costs may vary in accordance with the type of business proposed and the fees of the incubator facility.

Positive and negative part of the solution

Positive: The supply of knowledge, know-how and expertise to support the development of your business idea. Mentorship and coaching services providing daily feedback on the steps you are taking. Networking and database of contacts.

Negative: The application process can be rigorous and competitive. For most incubators, an applicant is required to submit a detailed business plan and disclose all business activities.

Estimated exploitation

At the end of the scheduled incubation time-frame (maximum 2-3 years), your business should be established and strong enough to go to the market.

ICT Competence

Intermediate or high, depending on the type of business incubated.

English Language Skills

Depending on the type of business

If national -> Basic If international -> Proficient
Webshop level N/A
Informative text (sources) 1. Riggins, Nash, (2017, 2 November), *What is a Business Incubator?*, retrieved from https://smallbiztrends.com/2017/06/what-is-a-business-incubator.html 2. Ray, Ramona, (2017, 9 May), *The business benefits of joining a small business incubator*, retrieved from https://wellsfargoworks.com/planning/article/the-business-benefits-of-joining-a-small-business-incubator 3. Khalil, Olafsen, (2010), *Enabling Innovative Entrepreneurship through Business Incubation*, retrieved from https://siteresources.worldbank.org/INFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/ChapterKhalil_Olafsen.pdf
Additional Resources *Business Incubation Models and Approaches in the Framework of Innovation Policy* *https://www.infodev.org/infodev-files/resource/idi/document/BI%20models%20%26%20Innovation%20Policy,%20Heinz%20Fiedler.pdf* *Business Incubation Definitions and Principles* *https://www.infodev.org/infodev-files/m1_traineemanual_20101029.pdf* *Literature Review on the Impact of Business Incubation, Mentoring, Investment and Training on Start-up Companies* *https://assets.publishing.service.gov.uk/media/57a08a21e5274a27b2000437/Literature_Review_on_the_Impact_of_Incubation_Investment_Training20.pdf*
Crossborder Remarks N/A

ANGEL INVESTORS

Abstract

Angels are generally wealthy individuals or retired company executives who invest directly in small firms owned by others. They are often leaders in their own field, who not only contribute their experience and network of contacts, but also their technical and/or management knowledge. In exchange for risking their money, they often claim the right to supervise the company's management practices, and in concrete terms this often implies a seat on the board of directors. Angels tend to keep a low profile: to find them, you have to contact specialised associations or search websites on angels.

General Description of the Specific Action

Business Angels are physical individual investors who provide financial resources to small firms at their very early stage, mentoring them through their process of growth. Apart from cash injections, their contribution includes field expertise, industry knowledge and valuable contacts to pass on to entrepreneurs. In exchange for their support, angel investors often take board positions in the companies in which they invest. This means that entrepreneurs might give up some control over their businesses. With the recent formation and growth of angel syndicates (or network, i.e. organised groups of peer investors which pool their resources to make investments based on a shared philosophy), equity from business angels is becoming increasingly important within European businesses.
Contrary to venture capitalists, which are normally more interested in how they will make money out of their investments, business angel investors tend to focus more on what the company actually does.
The three main criteria that will help you to attract angel kinds of investments (apart from the quality of what you actually produce) can be identified as follows:

1. Management team: since their investment is normally unsecured, an investor needs to become very comfortable with the people they are backing. They will assess your knowledge of the market, your decision-making process and your ability to implement the business plan.
2. Exit potential: angels, like other investors, don't want to stay 'locked' in a business forever. Their purpose is to get capital gain at the end of the investment, which must be set with specific time frames. For this reason, their exit is always planned in advance with detailed terms and conditions.
3. Revenue potential: you need to prove that your business is scalable enough to yield the significant return sought by an investor.

Like any business relationship, it is crucial to understand what a particular investor finds attractive. They all have different interests, meaning that if you get denied by someone this doesn't necessarily imply that your business is not worthy or won't be successful. On the other hand, there is a chance that you might have turned to the wrong type of investor.
A typical angel investment process, follows the steps described below;

Deal Searching
Most of the search from interesting and profitable deals comes from members, networks and interactions with other players in the field. It can be proactive or reactive.

Deal screening
The initial screening can be formal (if conducted by a syndicate or network following an application) or informal (conducted by singular investors on propositions made by entrepreneurs they had prior knowledge of).
Coaching
Companies passing the preliminary threshold may be contacted for an initial assessment of their business. In this regard, they might receive some coaching about the expectations of the investors and how to meet them.

Company presentation
Selected companies may be invited to present their company at dedicated events. Investor and entrepreneur may then discuss aspects of the company and potential of the deal, in a closed session.

Due diligence
Due diligence is the name for the process through which a potential acquirer evaluates a target company or its assets before buying equity or the whole ownership. This is a normal procedure, even in angel investments, and includes: a competitive analysis, validation of product and intellectual property, an assessment of the company's structure, financial and contractual details.

Terms and negotiations
Term sheets need to be prepared and the company value negotiated.

Investment
When the agreement is reached, finally the investment takes place. The final documents are drafted, and a lawyer is usually involved in the process, witnessing the formal signing of the contracts.

Post-investment support
After the investment has been triggered, investors continue monitoring, mentoring and assisting the company activities with their guidance and expertise. In some cases, they might start to work closely with the company to facilitate the process.

Action Type

4. Actions that have prerequisites (other actions need to be implemented first) and require investment.

Time required to implement a solution and when possible associated cost

The angel investment process normally takes 2-3 years to be capitalised.

Positive and negative part of the solution

<u>Positive:</u> Business angels are good for small to medium sized businesses, and they are often willing to invest on high-risk ventures that big banks normally turn down. Moreover, angels can provide capital in less time than financial institutions.

<u>Negative:</u> The average figures for the investment are not as high, or at least not suitable for a large-scale project. In addition, angel investors, on average, expect around 25% in return, which leaves your company to decide if you want to surrender that much of your company's profits to an investor.

Estimated exploitation

The supply of expertise and financial resources should lead to a steady growth of your business. In the start-up process, an angel investor should help to consolidate the firm and leave it with a fully established dimension.

ICT Competence

Medium

English Language Skills

Depending on the type of business

If national -> Basic

If international -> Proficient

Webshop level

N/A

Informative text (sources)

1. Peavler, Rosemary, (2018, 22 May), *What Are Angel Investors?*, retrieved from https://www.thebalancesmb.com/what-are-angel-investors-392985
2. Newlands, Murray, (2015, 6 July), *10 Ways to Find Investors For Your Startup*, retrieved from https://www.forbes.com/sites/mnewlands/2015/07/06/10-way-to-find-investors-for-your-startup/#22ac29712a13
3. Paljug, Katharine, (2018, 14 March), *Is Your Startup Ready for an Angel Investor?*, retrieved from https://www.business.com/articles/startup-ready-angel-investor/

Additional Resources

The Role of Business Angels in the Financial Market

http://www.fm-kp.si/zalozba/ISBN/978-961-266-181-6/234.pdf

An Introduction to Angel Investing

https://www.angelcapitalassociation.org/data/Documents/Resources/McKaskill_Intro_to_Angel_Investing.pdf?rev=CF33

Strategies for attracting angel investors

https://www.researchgate.net/publication/233551418_Strategies_for_attracting_angel_investors

Crossborder Remarks

N/A

VENTURE CAPITAL

Abstract

Venture capital is a type of financing provided to private businesses by investors (mostly private firms) in exchange for partial ownership of the company. Their business is to pool investment funds and find businesses that are going to provide their investors with high rates of return. Because these venture capital firms want higher return rates than other investments (such as the stock market provides), they typically invest in promising start-up or young businesses that have a high potential for growth but are also highly risky.

General Description of the Specific Action

Venture capital is a means of financing generally used to support promising start-up companies and small businesses. It is becoming a very popular source for raising capital for new companies or ventures lacking access to capital markets, bank loans or other debt instruments.

Venture Capitalist funds come usually from Venture capitalist firms, whose money comes from a variety of sources, including private and public pension funds, endowment funds, foundations, corporations and wealthy individuals, both domestic and foreign.

This kind of capital doesn't necessarily take a monetary form: technical or managerial expertise, as an example, can be considered valuable intangible assets provided at the same time.

Investing in start-ups or small business can be risky: these risks are generally compensated by very high rates - that can range from 20% to 50% annual rates of return, together with the ownership of company's shares. However, the bigger the risk, the higher the return, so this second opportunity is usually an attractive payoff. Applicable companies for venture capital funding usually share some features like a rapid, steady sales growth, a proprietary of new technology or a dominant position in an emerging market, a sound management team and the potential for being acquired by a larger company or going public through IPOs (*Initial Public Offering*). Venture capitalists can provide funding throughout the various stages of a company life-cycle: seed financing, start-up financing, second-stage financing, bridge financing, and leveraged buyout.

By holding shares of the company, investors enter a possibly lengthy relationship with their partner, lasting usually from five to ten years before any amount of money is repaid.

At the end of the investment, the shares are sold back to the company's owners at a price which will, hopefully, be significantly higher than the original investment.

The *Skyscanner* example might be cited as a relevant case study to understand how venture capital investments work in real life. The success of the website/mobile app allowing travellers to compare flight prices and find the best option wouldn't have been possible without the support and financial backing of private equity investors. Scottish Equity Partners (SEP), the largest stakeholder, helped, among others, Skyscanner's growth by holding board positions in the company, thus influencing its development strategy and providing the needed funding for development of the platform which is the core of the website success, allowing the company to extend its activities beyond the airlines sector (e.g. integrating car hire services). Thanks to this investment, the company revenues soared from 1 million pounds in 2007 to 120 million by 2015; 280 jobs were created across Europe, US and Asia, attracting new investors.

These new entries fostered innovation in other areas, and in January 2017 Skyscanner has been sold to the Chinese online travel firm CTRIP for 1.4 billion pounds, one of Europe's largest ever venture capital deals and a corresponding 60 times return on investment for SEP.

Action Type

4. Actions that have prerequisites (other actions need to be implemented first) and require investment.

Time required to implement a solution and when possible associated cost

A venture capital investment takes 5 to 10 years before being capitalised.

Positive and negative part of the solution

Positive: Obtaining venture capital financing can provide a start-up or young business with a valuable source of guidance and consultation. This can help with a variety of business decisions, including financial management and human resource management. Making better decisions in these key areas can be vitally important as your business grows.

Negative: With a large injection of cash and professional investors, it is likely that your venture capital partners will want to be involved in the decision-making process. The size of their stake could determine how much say they have in shaping your company's direction.

Estimated exploitation

Long-term upscale of your business. Higher revenues and steady growth rates.

ICT Competence

Medium

English Language Skills

Depending on the type of business
If national -> Basic
If international -> Proficient

Webshop level

N/A

Informative text (sources)

1. Manigart, Sophie, (2013, April), *Venture Capital*, retrieved from https://www.researchgate.net/publication/287249157_Venture_Capital
2. EduPristine, (2017, 7 December), *Venture Capital*, retrieved from https://www.edupristine.com/blog/venture-capital
3. Velayanikal, Malanika, (2014, 16 September), *Scale up your mind: What is venture capital funding and how does it work?*, retrieved from https://www.techinasia.com/how-to-get-venture-capital-funding-beginners-guide-startups

Additional Resources

Venture capital – European Investment Bank sector papers
http://www.eib.org/attachments/pj/vencap.pdf

The European venture capital landscape: an EIF perspective
http://www.eif.org/news_centre/publications/eif_wp_34.pdf

Skyscanner: a venture capital case study
http://thinkingaloud.aberdeen-asset.co.uk/en/thinkingaloud/investment-clarity/skyscanner-a-venture-capital-case-study

Crossborder Remarks

N/A

CROWDFUNDING

Abstract

Crowdfunding is the use of capital from a large number of people online to finance a start-up. This strategy has the potential to gain large amounts of capital for the development of a new start-up, enabling people to place their start-up projects online and to match them with a considerable number of potential investors, with a bottom-up approach.

General Description of the Specific Action

Crowdfunding allows a start-up to collect small amounts of capital from a large number of individuals to finance a new business venture. It makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together. This is a good way to increase and promote entrepreneurship opportunities for people who are not confident with banks, capital ventures and finance in general, or whose idea is not considered interesting or remunerative. Moreover, this source of funding allows the creator to keep control over its idea.
Crowdfunding gives everyone the opportunity to present their idea, even the strangest ones, to keen investors. There are more than 600 crowdfunding platforms in the world; however, Kickstarter is still the most famous and widely used. Since the day of its launch in 2009, more than 130,000 projects have been successfully funded on the crowdfunding website, with more than $3.5 billion dollars pledged across all Kickstarter projects.
On platforms like Kickstarter or Indiegogo, donations are sought in return for special rewards, that could take the form of free products or even a chance to be involved in designing the product or service.

Nonetheless, it is also possible to use crowdfunding to assemble loans and royalty financing. The site LendingClub, for example, allows members to directly invest in and borrow from each other, with the claim that eliminating the banking middleman means that "both sides can win" in the transactions. Royalty financing sites appear to be less common, but the idea is to link business owners with investors who lend money for a guaranteed share of revenues.

In order to start your crowdfunding campaign, you have to plan your steps in advance. This will allow you to give concreteness to an idea that until then has existed only in a hypothetic world and understand if it has solid chances of succeeding or not, perhaps with some adjustments.
After doing this, you can launch your fundraising campaign on the platform which best suits your needs.

First of all, you have to be clear about your goals: conduct targeted research and set your objectives. Then provide a realistic budget in order to show that your idea is reasonable and reasoned. A good exercise is to put yourself in the shoes of your potential investors: would you spend money on an out-of-the-blue project?
Provide concrete data and marketing research that will support your project. Why is it different from the others? Which needs does it address? Who is the target group? In other words, explain why your business idea has a good chance to succeed. People don’t like to waste their money, even if they offer it without asking for anything in return.
In order to reach this objective, you can present your goals by providing graphs or other visual material, like videos or good-quality photos. Storytelling is more important than ever: it shows that you believe in your idea and are devoting your time, effort and money to it. Remember that when launching your project, you will be asked to set a deadline to reach your goal: estimate a reasonable time considering what is needed to meet the commitment, build a supporting movement and an online/offline campaign strategy, using all available tools (email, newsletters and social media, etc).
If you follow these steps you should be able to reach your objective by the deadline you originally set.
Final step: remember to thank all the supporters and keep them informed about the following steps, even if the campaign doesn’t succeed.

Action Type

4. Actions that have prerequisites (other actions need to be implemented first) and require investment.

Time required to implement a solution and when possible associated cost

Time and costs may vary a lot, depending on the terms set by the crowdfunding platform and the nature of the project submitted.

Positive and negative part of the solution

Positive: Crowdfunding is beneficial because it saves you time and money, gives you access to capital with a smoother process, helps you establish a customer base, helps you organise your marketing strategy with pre-launch promotion and gives you control over how to reward your investors.

Negative: Crowdfunding works if the business idea is simple enough for the common people to understand. Complex or technical projects might have a poor appeal to funders. Some platforms, moreover, only release the funds from your campaign once your campaign achieves 100 percent or more of its funding goal; as such, you could be stuck in limbo if your campaign fails to achieve its target funding. Lastly, once you receive the funding you need, you cannot make drastic changes to your offering and any delays in timelines could damage your reputation and hurt your brand.

Estimated exploitation

By the end of the crowdfunding campaign, you should have gathered all the money you need to start your business and gradually establish it, with the support of a large customer base already engaged.

ICT Competence

Medium

English Language Skills

Depending on the type of business:

If national -> Basic

If international -> Proficient

Webshop level

N/A

Informative text (sources)

1. Nesta, (2012, July), *An Introduction to Crowdfunding*, retrieved from https://www.em-a.eu/fileadmin/content/REALISE_IT_2/REALISE_IT_3/IntroToCrowdfunding.pdf
2. Gerber, Hui, (January 2014), *Crowdfunding: Motivations and Deterrents for Participation*, retrieved from https://www.researchgate.net/publication/275961145_Crowdfunding_Motivations_and_Deterrents_for_Participation
3. Voelker, McGlashan, (2013, October), *What is Crowdfunding? Bringing the power of Kickstarter to your Entrepreneurship research and teaching activities*, retrieved from https://www.researchgate.net/publication/260192249_What_is_Crowdfunding_Bringing_the_power_of_Kickstarter_to_your_Entrepreneurship_research_and_teaching_activities

Additional Resources

Crowdfunding: how does it work?
http://www.undp.org/content/dam/sdfinance/doc/Crowdfunding%20_%20UNDP.pdf

Crowdfunding explained – A guide for small and medium enterprises on crowdfunding and how to use it
http://ec.europa.eu/DocsRoom/documents/10229/

Crowdfunding step by step
https://www.wikihow.com/Crowdfund

Crossborder Remarks

N/A

FORM A PARTNERSHIP

Abstract

A partnership is a business structure in which two or more subjects generally share the ownership of the business, together with all profits and losses, management authority and risks. In some cases, more established companies may have a strategic interest in helping to develop a new product or service, and they may be willing to provide advance funding to make it happen.

General Description of the Specific Action

A partnership is a formal arrangement in which two or more parties cooperate to manage and operate a business. There are different types of partnership arrangements, where all partners might share liabilities and profits equally or some partners may have limited liability.
Generally speaking, there are two types of partnerships: general partnerships and limited partnerships. In a general partnership, the partners manage the company and assume responsibility for the partnership's debts and other obligations, while a limited partnership has both general and limited partners. The general partners own and manage the business, assuming liability for the partnership, while the limited partners serve as investors only, without any control over the company.
This is the case for 'silent partners', who are not necessarily involved in the management and daily activities.
A partnership, unlike corporations, is not a separate entity from the individual owners. The partnership income tax is paid by the partnership members altogether, but the profits and losses are divided among the partners, and paid by the partners, based on their agreement.
An individual can join a partnership anytime, but the incoming partner must invest in the partnership, bringing capital (usually money) into the business and creating a capital account. The amount of the investment and other factors, like the amount of liability the partner is willing to take on, determine the new partner's investment and share of the profits (and losses) of the business each year.
Partnerships can be established, for example, by small and medium enterprises wishing to enter new markets but unable to face the investment risk alone, due to high entry and structure management costs.
In a real case, after conducting marketing research on the potential of the Japanese market, in 2000 a small Italian shoe manufacturer agreed with other peer manufacturers located in the same industrial district to set up a consortium to share the risk of opening up a showroom in Tokyo to gain visibility and support from national industrial representative agencies. This consortium was named *Angeli della moda* (i.e., fashion angels) and today is still active as a growing and global business.

When you decide to form a partnership, the first step to take is drafting a business plan to set out the implementation of necessary actions to start up and establish the responsibilities of each partner of the business whilst scaling, including who will be the head or the managing partner. The following step is to choose a captivating name that describes what the business is about, buy a domain and, sometimes, a trademark: this will allow you to identify yourself and protect your image.

Since in many countries understanding tax legislation can be very challenging, it is important to check tax obligations in advance, to choose the best partnership structure. After these steps, you will be ready to draft your agreement, which will clarify how income, deductions, losses and gains will be split. Remember to include rules about voting, admission of new partners, management process and legal representatives, as well as exit strategies and means for the settlement of dispute in case any issues occur. The truth is that a partner will look at the partnership agreement until the day they decide to leave.

Action Type

3. Actions that have prerequisites (other actions need to be implemented first), but require no investment.

Time required to implement a solution and when possible associated cost

Highly variable

Positive and negative part of the solution

Positive: Complementary skills and additional contacts of each partner can lead to the achievement of greater financial results together, than would be possible apart. Shared risks and expenses, balanced by mutual support and motivation.

Negative: You do not have total control over the business. Decisions are shared, and differences of opinion can lead to disagreements, failures or even one partner buying out the other. Moreover, partners in a general partnership are jointly and individually liable for the business activities of the other.

Estimated exploitation

- Network effect with your partners
- Pool risks and costs
- Benefit from diverse expertise and know-how
- Wider territorial coverage
- Potential for higher impact on the market

ICT Competence

Medium

English Language Skills

Depending on the type of business
If national -> Basic
If international -> Proficient

Webshop level

N/A

Informative text (sources)

1. Wood, Meredith, (2018, February 7), *21 Must-Knows Before Starting a Small Business Partnership*, retrieved from https://www.fundera.com/blog/small-business-partnership
2. Small Business BC, (2015, February 12), *Partnerships: A Recipe for Small Business Success?*, retrieved from https://smallbusinessbc.ca/article/partnerships-a-recipe-small-business-success/
3. Spadaccini, Michael, (2005, June 2), *The Legal Ins and Outs of Forming a Partnership*, retrieved from https://www.entrepreneur.com/article/77980

Additional Resources

How to structure a partnership
https://www.inc.com/guides/structuring-partnerships.html

Successful partnerships – a guide by OECD
https://www.oecd.org/cfe/leed/36279186.pdf

Sample partnership agreement
http://lergp.com/wp-content/uploads/2017/01/Sample-Partnership-Agreement.pdf

Crossborder Remarks

N/A