

VUSSC/Content/Entrepreneurship/Planning for the Business/Funding for the enterprise

8. Funding for the Enterprise

Some questions you may need to ask yourself about funding; that is the amount of money required to start your business will have to be:

1. How much capital/funds will I need?
2. What type of capital/funding will I need?
3. Where can I get these funds?

Study the list below and try to determine which of these will best help in providing the funds you need to start.

Traditional sources of Venture capital:

===Seed Financing:=== Refers to a small amount of personal funds - this include money saved from other forms of income. This is often referred to as ownership capital/owners equity.

===Relatives and Friends:=== Relatives and friends may agree to give or lend you money to start your business venture. However, this form of funding usually generate trouble as the business progress. Often, persons recall their funds at times when the buisness is least able to return those funds or they may demand a greater or additional involvement in the venture which was not a part of your plan.

===Partnerships:=== There should be a written Agreement between the partners listing duties, responsibilities, amount of capital one has to contribute and also the proportion of profit sharing. This will help if differences shold arise regarding who should do what and who should get what out of the business.

===Commercial Banks and Other Financial Institutions:=== A main souce of finances, not only to business entrepreneur, but also to the community at large for what ever purpose intended. Loans are offered at different rates of interest. You must ascertain your interest rate and repayment schedule. Here, a comfortable payment scheduld must be worked out. The entrepreneur must decide the repayment intervals and how much he/she will be able to pay at each interval. That is how often will you be able to make a payment on your loan and how much. EG. will you pay weekly, monthly, quarterly?

===Sale of Capital Stock:=== Stocks, or owership shares, issued in exchange for funds needed to operate the business. An entrepreneur may opt to sell shares on the open market. These shares wil then be purchases by interested parties/persons. In this way, the entrepreneur gets the needed capital. The parties/persons buying the shares become shareholders and must be assured of some returns on the money they have put into that business venture.

===Venture Capital=== Refers to funds that are invested in new or higher risk enterprises, by outside investors. Venture Capital investments usually are high risk investments, however, they offer the potential of very high returns. The new entrepreneur seeking venture capital investors have he option of seeking the support of others who have had the experience of using venture capital. This person does not only have the experience in acquiring/finding venture capital; but, can also provide the new entrepreneur with support and direction concerning starting up.

===Corporate Partnership:=== A form of venture businesses, larger companies can keep up with fast-pased developments, a technique referred to as *windowing* in on recent entreneurial developments.

Pros:

- Heightened credibility with customers and bankers;
- Expert managerial assistance;
- Continuing source of financing;
- small burden of risk.

Government Sponsored Agencies:

1. Small business Administration loans;
2. Special Government Programmes;
3. Small Business Investment Company loans;
4. State and Regional Development Companies.

===Trade Credit:=== Credit extended by Suppliers.

===Equipment Loans and Leases:=== Equipment can be bought on an installment basis. A 25% to 35% down payment is required with a loan period of 3 to 5 years.

Advantages of leasing equipment are:

- Flexibility with equipment needs and payment schedules;
- Smaller capital requirements;
- the leasing company offers maintenance service for equipment;
- Leasing offers a way to beat the obsolescence problem.

Cons:

- Loss of substantial equity;
- Investors make most of the decisions;
- Risk of takeover.

Disadvantages:

- Absence of depreciation as a non-cash outlay;
- Higher total cost compared to purchasing the equipment.

Introduction | Learning Objectives | Legal requirements for your type of business | Opportunities in your environments | Competition (SWOT Analysis) | Supply and Demand | The Market | Funding for the enterprise | The Business plan | Summary

Article Sources and Contributors

VUSSC/Content/Entrepreneurship/Planning for the Business/Funding for the enterprise *Source:* <http://wikieducator.org/index.php?oldid=180525> *Contributors:* Cheryl Evans, Davidlj7, Faalafis, Phsi, 31 anonymous edits

License

Creative Commons Attribution Share-Alike License
<http://creativecommons.org/licenses/by-sa/3.0/>
