Funding from Entrepreneurs' point of view

Every startup needs to have two traits to be successful. First is the value the product adds to its user, and second is the ability of the startup to grow and reach out to more customers. In most cases, growth requires external funding, as a startup reaches a point where it must expand its outreach, either by opening new branches, buying new advertisements, expanding distribution system, opening a factory, etc.

The startup funding system has fundamentally changed over the past few years and it currently constitutes of different stages that progress along with the startup's growth. Indeed, there are other sources of raising capital than the mentioned below, yet these are the most common funding stages.

I. Pre-seed capital:

Pre-seed capital tends to cover the early stage in the life of a startup, and it has three main sources:

- i. **FFF (Fools, Family and Friends):** A way of starting a business with the support of family and friends.
- ii. **Business Angels:** They are typically a group of private businesses/ individuals that invest their capital in small businesses in exchange for equity or return of investment.
- iii. **Accelerators:** A well-structured program for startups, that provides them with not only funding, but also mentorship and office space usually for 3-months period in exchange for equity stake.

II. Seed Capital:

Seed Capital can be described as the necessary funds to start a company or the very first investment in the company. The main providers of this stage are business angels, super angels and early stage Venture Capital firms. They invest their money in exchange for equity stake. For example, the parent company of Google provided seed capital to the Center for Resource Solutions in 2015 for a project to implement renewable energy certification programs in Asia.

III. Venture Capital financing:

This stage of funding is typically used by companies that are already distributing their products or services especially if they are not profitable yet. If this is case, Venture Capital is usually used to offset the losses in exchange for equity stake. There can be multiple rounds of VC raising that take alphabetical letters (A, B, C, etc.) and are called rounds.

The different VC rounds reflect different capital valuations. For instance, if the company is expanding, the Series B round will value company stock higher than Series A, and then Series C will have a higher stock price than Series B.

The company can still get subsequent series-rounds if it is encountering losses, but the valuation will be lower than the previous series: this is known as a “down round”.

A very known example around the world about Venture Capital funding was Facebook’s $22B acquisition of WhatsApp in 2014. It was the largest private acquisition of a VC-backed company.

IV. Mezzanine Financing & Bridge Loans:

Companies resort to Mezzanine Financing or Bridge Loans to get over a crisis before an IPO to acquire additional funds through:

i. **Acquiring a major competitor**, e.g., Uber taking over Careem.
ii. **A Management Buyout:** When the company’s existing managers acquire a large part of the company, e.g., Steve Jobs reacquiring Apple after coming back in a management position.

V. Initial Public Offering (IPO):

When companies raise money through issuing stocks to the public. The IPO’s opening price is set with the help of the investment bankers who commit to selling a specific number of shares.

The privilege of IPO is the ability of the organization to raise additional funds through secondary offerings as it already has access to the public.

In a nutshell, the stages of funding allow the entrepreneurs to scale their startups and identify where they stand. Therefore, they would decide on their potential investors that might help them grow in the future.

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