DOWNLOAD PDF RAISING ENTREPRENEURIAL CAPITAL

Chapter 1 : Raising Entrepreneurial Capital - Ebook pdf and epub

Raising Entrepreneurial Capital will guide you through the intracacies and alternatives for raising money, growing, and harvesting your business venture. It offers practical guidelines and insightful cases that enhance your probability of success.".

Business services Engineering, accounting, research, management, and related services Membership organizations Associations, unions, etc. Personal services Cleaning establishments, hair salons, etc. Other services Figure 1. Each of those subcategories, in turn, includes many subcategories of its own. Here are the five categories with the largest number of small companies in the business services subcategory: Number of businesses Percentage of total Building cleaning and maintenance services Computer programming services Computer services other than programming Commercial art and graphic design Help-supply services staffing and personnel Other business services 54, 30, 29, 15, 14, , Before making this decision the entrepreneur needs to look down the road and think about what the need for capital will be and what ultimate outcome the entrepreneur would like for the business. Your choice of an organizational form will affect every Introductionâ€"In the Beginning 13 aspect of your business, including taxes, access to capital, growth opportunities, legal liability, and transfer of ownership. Is it your goal to stay private? Do you want to control and run your business until you retire? Do you anticipate raising capital externally? What is your strategy for creating value? Is capturing market share crucial to your strategy? All of these questions have implications for the way the business is organized. It pays to organize the business initially in a way that will facilitate your goals later on. If you have a business and have neglected to deal with the issue of organizational form, your business is organized as a sole proprietorship by default. Sole proprietorships have one owner, and the owner and the business are the same legal and accounting entity. There is no requirement to keep company books, and the profits and losses of the business are taxed at the personal level. While this single taxation is usually cited as a benefit of the proprietor form of organization, it can be a disadvantage at high levels of profit or if most of the earnings are retained in the business. This last fact is significant. Virtually all new businesses with growth aspirations are forced to retain all the money they can in the business to finance growth. The tale of the entrepreneur who operated for 2 years without a salary to get the business going is not at all uncommon. Talk about the worst of all worlds! Currently , the top personal tax rate for a married couple filing jointly is A look at the sample tax tables in Tables 1. The owner of a sole proprietorship has absolute authority and unlimited liability for his or her actions, the actions of employees, and any debt incurred by the company. They are at risk to satisfy unpaid debts, and they are at risk in the event of a lawsuit against the business. By definition it is not possible to accept external investment and retain the sole proprietorship form of organization. Investment equals ownership, and the proprietorship is restricted to one owner. Since the business and the owner are one and the same, the business ceases to exist when the owner retires or passes away. The lack of a requirement for separate financial statements in a proprietorship results in maximizing informational asymmetries between the owner and anyone doing business with the firm. There is often a tendency in sole proprietorships to mix business and personal expenses as well as assets the car, the golf membership. This makes it difficult to assess the true profitability and value of the business, which may limit opportunities, both strategic and financial, for the entrepreneur. The sole proprietorship form of organization is simple and inexpensive to implement. It is sufficient for only the smallest companies, with little risk Introductionâ€"In the Beginning 15 exposure and relatively slow growth aspirations. For the entrepreneurial ventures that are the subject of this book it should generally be avoided. Like the proprietorship, a general partnership is fairly simple and inexpensive to form. Unlike the proprietorship, the general partnership is a separate legal entity, although not in a tax or liability sense. Partnerships must file informational tax returns with the IRS, but profits or losses flow through to the partners and are taxed at the individual partner level. Partnerships can be based on an oral agreement between the partners, but it is a much better idea to draw up a formal partnership agreement specifying the rights and responsibilities of the individuals involved. The partnership agreement should specify who runs the business and what the role of the other partners will be. It is critical that a method for determining the value of partnership shares be specified and included in the agreement. Since partnership shares are not publicly traded, there will be no market to determine their value. It is extremely important to agree upon a formula for establishing that value prior to needing the information. If you wait until a partner is leaving the partnership and wants to sell his or her shares back to the partnership, it is inevitable that the exiting partner will establish a considerably higher value for his or her shares than that established by the remaining partners! The rules for transfer of ownership should be included in the agreement, as should specification of the division of profits and losses, compensation, and distribution of assets in the event of dissolution. Typically, new partners can be admitted to the partnership only after a vote of the existing partners. If the partners cannot agree, the partnership will be disbanded and a new entity will have to be formed. The partnership has most of the same disadvantages as the sole proprietorship and then some. Personal assets of the partners are at risk just as in a proprietorship. It is often possible in a partnership for one or more partners to block initiatives if their risk propensity is less than that of the other 16 Introductionâ€”In the Beginning partners. While transfer of shares in a partnership is possible, it is subject to the disagreements over valuation mentioned previously, as well as disagreements over the acceptability of new members. Capital raised is limited to the individual resources and borrowing power of the partners. Partnerships are relatively easy to form and are not subject to the same reporting requirements as a corporation, which makes them a less expensive form of organization to run than a corporation. In general, the same advice applies to a partnership as that applied to a sole proprietorship. If the business has minimal risk exposure and no significant need for capital for growth, the partnership form may be all that is needed. Most common in real estate investment trusts, limited partnerships are the preferred organizational form of venture capital firms. A limited partnership is characterized by a general partner who provides management and bears full legal liability for the actions of the partnership. Limited partners provide capital, are prohibited from being involved in the day-today business of the firm, and have limited liability exposure. All partners are taxed at the personal level on any income earned, the same as for a general partnership. Limited partnerships must be formally created and licensed under state law. It is common in venture capital to establish a new limited partnership for each round of funding that the firm undertakes. Articles of incorporation must be filed with the state, and rules for record-keeping are established. A corporation is considered a more secure organizational form for prospective lenders and investors since its methods of operation are well defined by the tax code. An S-Corporation has the limited liability of the corporate form but is a pass-through entity for tax purposesâ€”profits and losses are taxed at the personal rates of the owners. For many small businesses, the S-Corporation combines the tax advantages of a sole proprietorship or partnership with the limited liability and enduring life of a corporate structure. The S-Corporation is limited in its fund raising ability, however. Strict rules define who may be the shareholders in an S-Corporation. For example, the total number of shareholders in an S-Corporation may not exceed 75; shareholders must be individuals and U. Shares are transferable, without a vote of the other shareholders, but only one class of stock is allowed. If you anticipate seeking venture capital at some point, it pays to know that venture capitalists generally buy preferred stock, leaving the owners with the common stock of the company. Since only one class of stock is allowed under the S-Corporation, you will not be able to secure venture capital using the S form. While it is relatively easy to convert an S-Corporation to a C-Corporation, it is one more hassle to overcome when raising capital and should be dealt with prior to attempting to raise capital from other sources than individuals. If the entrepreneur violates any of the restrictions regarding shareholders while raising money, the corporation automatically becomes a C-Corporation. The C-Corporation will be discussed later, but a major difference between the two forms is the treatment of gains and losses. All profits and losses are taxed at the corporate level in a C-Corporation and do not flow through to the investors. In the process of raising capital for the new venture, the owners accepted money from professional investors organized as a trust. It pays to do your homework and always have competent tax and legal advice. The LLC is not a corporation in the strictest sense, but it offers many of the same advantages as the S-Corporation. The major advantage is that LLCs do not have the ownership restrictions of S-Corporations, making them ideal business structures for foreign investors and institutional investors. In an LLC, control does not necessarily equal ownership. Control is not tied to ownership and may be defined however the principals want it to be defined.

Special allocations of income or loss that do not correspond to ownership interest can be assigned. Like the corporation, articles of organization must be filed with the state. An LLC is a pass-through entity for tax purposes like an S-Corporation, and it has the limited liability feature of the corporate form. Since the LLC has the positive features of the S-Corporation, without the investor restrictions, it is destined to replace the S-Corporation as the preferred organizational form for early-stage companies. It is relatively easy to convert either an S-Corporation or an LLC to a C-Corporation if changing circumstances make the conversion desirable. This is a legal entity that is owned by an unlimited number of stockholders who are personally shielded from debts or obligations related to the business. The shareholders elect a Board of Directors to oversee the company, and actual management is delegated to the hired management team. The C-Corporation is the most costly form to create and maintain, but if high growth dictates a need for external capital or high levels of earnings retention, it may be the only appropriate form. Incorporation is governed by state law. Minutes must be kept documenting all decisions made by the Board. Articles of Incorporation must be filed with the state and appropriate fees paid. Regular shareholder meetings must be 7 A good beginning point for researching state incorporation rules is the site http: Introductionâ€"In the Beginning 19 held, and the shareholders must approve all major decisions. Records must be maintained of all shareholder votes. Besides the cost of incorporation and the ongoing costs of reporting requirements, the major disadvantage of the C-Corporation is the double taxation of dividends. Profits and losses are taxed at the corporate level. If distributions are made to shareholders, these distributions are again taxed at the personal level.

Chapter 2 : Raising Entrepreneurial Capital

Raising Entrepreneurial Capital begins where entrepreneurship books leave off. This book provides a broad, high-level discussion of the financing decisions that companies must make to achieve success.

Unfortunately, the need for capital never ends. This means that understanding how to find and shake the "money tree" is critical. And before you begin your search, there are a number of crucial questions you must ask yourself - and answer. Even an independent cell phone app developer has to eat until the application has been designed, programmed, and marketed before any revenues begin. If your startup business requires even minimal outlays for offices, equipment, or employees, the amount of capital needed before opening your doors for business is likely to be significant. Being Realistic Entrepreneurs are often wild-eyed optimists, an often necessary attitude to get their ventures off the ground. But instead of a unique product, record sales, and slow competitors they usually envision, the real world is quite different. A complete plan identifies and quantifies the capital that is likely to be required to reach break-even and beyond. It is absolutely essential when soliciting investors. You will get a better understand of your market and the competitors you will face You may avoid costly disastrous mistakes in the future You will have a realistic view of the capital needed to start your business and keep it alive until it can stand on its own Furthermore, bankers and potential investors generally evaluate entrepreneurs and the potential of their ability to deliver success on the quality and completeness of their business plan. Asking for Enough Money The most egregious, indefensible mistake an entrepreneur can make when seeking capital is asking for too little to have a chance at success. Lacking sufficient capital in the beginning is akin to starting a long journey with empty pockets, a broken-down vehicle, and a half-tank of gas; the odds that you will reach your destination are slim to none. When calculating the capital you need, plan that everything will take twice as long and cost twice as much as you expect. Figure that your worst-case scenario will occur, not your best-case. The most common source of startup capital is the business owner him- or herself in the form of credit card advances, home equity loans, and loans from family members. Federal and state governments sponsor numerous subsidized loans and grants for startups through the Small Business Administration and its counterparts on the state level. When these sources are exhausted or unavailable for some reason, entrepreneurs usually seek capital from private sources such as commercial and investment banks, groups established by private investors to exploit such opportunities, wealthy individuals, and venture capital funds. Their proposed investment is usually styled in the form of debt, equity, or a combination of each: The most common form of capital used by startups is debt, and it is secured by the assets of the company including the possible personal guarantee of the owners. As time goes by, the company repays the principal with interest from cash flow. If the business fails, the lenders foreclose and liquidate the assets for repayment, possibly seeking any deficiency from the owners. Lenders are not normally in the business of taking risks. Business valuation is an art, not a science; the conclusion is always subjective depending upon the perspective of the valuator. Entrepreneurs typically want as much money as possible for as little equity as acceptable; investors are the opposite, wanting as much equity as possible for as little money as possible. The final equity proportions and amount of money raised is generally a compromise based upon the eagerness of the investor to invest and the desperation of the entrepreneur looking for money. Delaying capital infusions from non-affiliated third parties as long as possible until you can prove the business concept and show revenues is always the best approach. What Is the Value of My Company? The value of a company is important because it is the basis for determining the "cost" of the new capital when seeking equity additions to the capital structure. Generally, a valuation considers four questions: How much is the company worth today? How much could it be worth in the future? How long will it take to create the future value? What is the likelihood of achieving success? There are a number of different methods used to value startup companies. Understanding how your company will be evaluated and being able to affect the valuation positively can enable you to get higher valuations and retain greater ownership of your company when the investment is funded. As the amount of funds needed increases, you will be required to access an increasingly sophisticated investor seeking maximum return for assuming the risk of a new venture. Family and friends are typically the first group sought by business owners seeking capital - they are less discriminating than professional investors, and are more likely to invest due to the relationship than the economics of the business proposal. On the other hand, family investors bring their own set of problems, including the possibility of strained relations if the investment fails. VCs and Angels Funding Are Rare While entrepreneurial magazines and websites promote the availability of angel investors and venture capital VC firms for capital, very few startup firms interest either type of investors or can survive the rigorous screening process. As a consequence, according to the Kauffman Foundation director of Private Equity and former venture capitalist Diane Mulcahy, VC is the exception, not the norm, for startups. Furthermore, many professional investors have less confidence in women than men to penetrate their intended markets. Internet sites such as WomanOwned. While the bill has attracted powerful critics worried about increased fraudulent transactions, most observers believe the Act will provide needed access to new funds for startup companies. Generally, business owners seeking funds from individual investors are required to provide forms and specific factual information in understandable language to potential investors so that they have the ability to evaluate the investment and determine whether it is right for them. While JOBS is intended to simplify the procedures, making it easier for small firms to access the equity markets, compliance with the relevant regulations is required. Failure to do so subjects the issuers of securities to punitive civil and criminal acts. Seeking and paying for competent legal advice when soliciting, negotiating, or contracting with investors or lenders is mandatory for prudent business owners. A funding event, whether for a startup or an ongoing operation, involves two parties: In some cases, there is a single investor; in others, multiple investors. In the latter case, such as a crowdfunding event, the investors participate as a unit, each sharing a proportion of the same investment. In some cases, funding is take-it-or-leave-it; in others, there is intense negotiation. In each case, the parties strive to reach an agreement that accomplishes their respective goals. Negotiations between investors and business owners involve, at minimum, the following factors: The Amount of Capital Invested. Funding may be a single amount or a combination of investments over a defined period. The Timing of the Investment. A specific sum is invested initially with future investments on specific future dates or when certain contingencies have been met. The Return on Investment. In equity, return is the proportionate share of future earnings directed to the investor. The Timing of the Return to the Investor. The Certainty of the Return. Since the return on capital will be in the future, investors are naturally concerned about the likelihood the projected results becoming reality. This "risk" increase is directly proportional to the period between investment and projected return, the size of the return relative to the investment, and the reliability of the underlying financial and operating assumptions. Investors usually require certain protections to minimize losses or to maximize gains when possible, including majority ownership of the company in the event of certain events. Business owners generally resist direct intervention into company operations, viewing it as a challenge to their authority and capabilities. Negotiation is a skill that can be learned and practiced. However, learning at the table across from a seasoned professional is usually expensive. Seek advice and assistance before you make an agreement you will regret. Final Thoughts Many financing professionals claim that the rigorous, stressful process of raising capital for a new venture ensures that only the best companies i. Persistence - the willingness to learn from rejection without losing enthusiasm - is critical. Every idea, every company can be analyzed and deconstructed to the point it is unworkable. What other advice can you suggest to those who seek to raise money for a small business? Michael Lewis is a former business executive and entrepreneur. He writes about business funding, money management, and technology on the popular financial blog, Money Crashers.

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Chapter 3 : Raising Entrepreneurial Capital - PDF Free Download

Raising Entrepreneurial Capital guides the reader through the stages of successfully financing a business. The book proceeds from a basic level of business knowledge, assuming that the reader understands simple financial statements, has selected a specific business, and knows how to write a business plan.

Chapter 4 : 6 Things You Need to Know About Raising Capital for a Small Business | HuffPost

Raising Entreprenuerial Capital begins the place entrepreneurship books depart off, assuming that the reader understands straightforward financial statements, has chosen a specific business, and is conscious of the easiest way to put in writing a business plan.