cultart
cultural management academy

CULTART Training programme

Training Module 5: Fundraising

How to Finance your Business Growth

Co-funded by the Erasmus+ Programme of the European Union

The European Commission support for the production of this publication does not constitute an endorsement of the contents that reflects the views only of the authors, and the Commission cannot be held responsible for any use that may be made of the information contained therein. Project number: 2021-1-BG01-KA220-YOU-000028537

A.I.P. Plovdiv | Foundation Plovdiv 2019 | EduCenter Skopje| ICSD | CAN Lecce | cc Vienna

Declaration on copyright:

Disclaimer

The CULTART training program has been developed as a blended training program, combining e-learning (independent study relying on online learning resources) and in-person classroom activities facilitated by a qualified trainer.

The units of this module are designed to provide learners with the most important insights regarding the subject matter of the module, in accordance with the findings of the analyses conducted in the framework of Intellectual Output 1 of the CULTART project.

The learning content provided here is intended to serve for independent learning and does not pretend to cover all possible aspects and related issues in terms of the subject matter covered.

Users are solely responsible for ensuring that they have sufficient and compatible hardware, software, telecommunications equipment, and Internet service necessary for the use of the online campus and modules.

Training description

This module refers to access to finance for starting up a business, from idea realization to growing up a business. It refers to access to new market and greater business growth of Cultural and Creative Industries (CCI) with origin in individual creativity and potential for wealth and job creation through the exploitation of intellectual property. A common factor across this sector is an emphasis on the talent and creativity of the people involved with these businesses. It is well-recognized fact that many Creative Industry Businesses (CIBs) are therefore highly innovative and among the fastest-growing ones. However, in many cases this upscaling is not feasible without **raising funds**. Thus, first of all, we will focus on the “Plan to get finance”, as a starting point that should take us to the final station - the finance inflow. Then, once we make the plan and know where we are, the next thing is to learn how to measure the growth/profitability of the business so that we can estimate whether we need additional resources to realize some idea or to provide sustainability. Furthermore, you will find out what you need to keep in mind before making a decision to fund your business, what types of finances are available to you and finally, to discover the creative financing opportunities and choose the right source of funding according to your needs and prospects.

There are a variety of alternatives, but they are not easy to be accomplished. The most successful entrepreneurs are the ones who think creatively, not only about their offering, but also about how to acquire cash, and never say never. Creative industries really need creative funds because…

THE GREATER CREATIVITY LEADS TO BUSINESS GROWTH

Creativity

Thinking new things

↓

Creative Financing

Realization of Ideas and creating opportunities for permanent growth cycle

↓

Sustainable Business Growth

Strengthened finance structure and long-term progress

Objectives of the training module:

- Increased ability and knowledge of CCI in making suitable financial decisions;
- Improved access and usage of creative sources of finance for achieving sustainable business growth in CCI.

Target groups

- Members and stakeholders which operates into CCI,
- CCI freelancers,
- Start-ups in CCI sector,
- Regional multipliers.

Competencies and skills after finishing this module

After studying this Module, you will be able to:

- Make your plan for funding your business;
- Identify in which stage your business is and which financing source would bemost appropriate for that phase;
- Understand how to measure your business growth and to accurately predict your finances (diagnose whether you need new funds);
- Make a funding decision and what to keep in mind before making decision;
- Understand the alternative and creative sources of financingin the sector you operate and their advantages and disadvantages; and
- Increase your skills how to communicate with investors, to give them a good impression and make good deals.

Training method

CULTART learning philosophy promotes a unique engaging training method, based on the following aspects:

- Short-burst learning sessions that feature very well structured learning content.
- A deep sense of involvement and merging of action and awareness.
- A sense of control and dealing with the task that you will find at the end ofthe module.
- Enjoyment and provoking further interest.

CULTART focuses on an interactive training approach:

- The modules as a training material for self-learning.
- Using the interactive **CULTART** online training platform: moodle.Cultart.eu for facilitated training sessions in a group with a professional trainer.

Unlike the lecturers into the face-to-face classroom that provide their students with guidance and some additional directions, you have to take the responsibilities for the time management and for the control of your learning progress.

Training content

Unit 1. Plan to Get Financed

Tags:

Finance, Financial, Planning, Business Plan, Lifecycle, Stage, Measure, Indicator, Statement, Ratio

Unit 1 - Introduction

Through this Unit we will focus on a few points that should help you in the process of planning your finances. You have to know in which stage of the lifecycle is your business, what problems are you likely to face, how to avoid them and how to measure your business performances if you manage to get out of them and start to grow.

Idea Stage. The initial stage of business lifecycle typically begins with just a thought or an idea. The entrepreneurs from CCI have big ideas and they are bursting with energy at first. They are usually creating something from nothing. This is the phase of the startup's birth when the nascent idea is generated and the funding options are very limited.

Pre-seed stage. This funding stage is commonly known as bootstrapping. Simply said, this is actually the research and development stage when you create and launch your product, when you assess the viability of an idea, see if anyone has done anything similar before, determine what it might cost, formulate a business model and strategy, defining your value proposition and validating your market and generally where to get started growing your seed of an idea into a business. This stage offers the greatest variety of funding options of any of the startup stages.

Figure 1. The Financial Planning Strategy, Source: https://www.freepik.com

1. Stages of Development and Relevant Financing Source for Each Stage

Once you decide to start a business, you are in the "business lifecycle". During the operation and growth of the business, the company will go through several stages relate to the business cycle and will face different challenges that require different sources of funding.

The financial needs and difficulties in access to finance vary significantly along the different stages of the business development cycle. That is so because, as the business matures, operations and priorities will change therefore requiring business financing to also change as well. You will have to be flexible in your thinking and adapt your financing strategy as you move along. It can seriously help to anticipate potential challenges and obstacles, but also to meet growth opportunities. That is why an awareness of what stage of the business lifecycle you are currently in can be helpful.

The usual business lifecycle is not different for CCI businesses. They can be summarized as follows:

Idea Stage. The initial stage of business lifecycle typically begins with just a thought or an idea. The entrepreneurs from CCI have big ideas and they are bursting with energy at first. They are usually creating something from nothing. This is the phase of the startup's birth when the nascent idea is generated and the funding options are very limited.

Pre-seed stage. This funding stage is commonly known as bootstrapping. Simply said, this is actually the research and development stage when you create and launch your product, when you assess the viability of an idea, see if anyone has done anything similar before, determine what it might cost, formulate a business model and strategy, defining your value proposition and validating your market and generally where to get started growing your seed of an idea into a business. This stage offers the greatest variety of funding options of any of the startup stages.

Seed Stage. Startup is born and really start executing against the idea. At this point, entrepreneurs are searching a correct formula to go bigger. Their products or services are in production and they have to start to acquire and establish customer base, market presence along and to settle on the basic direction of the business. Startups on this stage may continue bootstrapping or begin seeking other opportunities to secure funds. The main challenge here, is not to burn through little cash.

Early Stage. Also called Series A or seed-plus stage. The business is successfully breaking through and his idea is no longer just a dream. You finally begin to envision a more stable business with established and constant strategies. You have hit this stage when you know that you have a repeatable sales model, an established go-to-market strategy and you will probably be looking for the great infusion of capital you need to rise up spending and grow even faster.

Growth Stage. Also, this may call an expansion stage. Startups that have reached this phase, already have demonstrated an envious developmental business progress. The company has also built the growth machinery and can prove all the operations it executes. It has more and more customers, the revenues are rising steadily and there are greater prospects for new and constructive spending in direction of getting even greater value to the business. However, while profits have increased, competition is catching up. Once the company has reached this point, the funding options will become much more limited.

Mature Stage. Passing through the growth or expansion stage, year after year, sales and profits has to be stable. While some companies continue to grow the top line at a decent pace, others struggle to enjoy those same high growth rates. However, competition remains fierce. Innovation and investment support are required to ensure the business/organization's future. The objective is to maintain this phase by making the right decisions and remaining innovative and entrepreneurial. In this stage of the lifecycle, the entrepreneurs will be challenged by dropping sales, profits and negative cash flow, so a decision to push for further expansion or to exit the business is needed. The biggest issue is how long the startup can support a negative cash flow and how to find a way to bring it back to positive and to sustained it.

Please note: when you start a business, do not be so quick to jump in early or growth stage, because if you have nothing to offer, you will more quickly give up. If you play the game right, in accordance with the plan and you are able to cross all the stages and to grow, you will have definitely more control of your products and finance situation in general, instead of skipping two or three stages.

Businesses in CCI have **different needs in different stages**. The stages of a typical CCI business from idea to growth and some of its funding source options available at each of these milestones are as shown below:

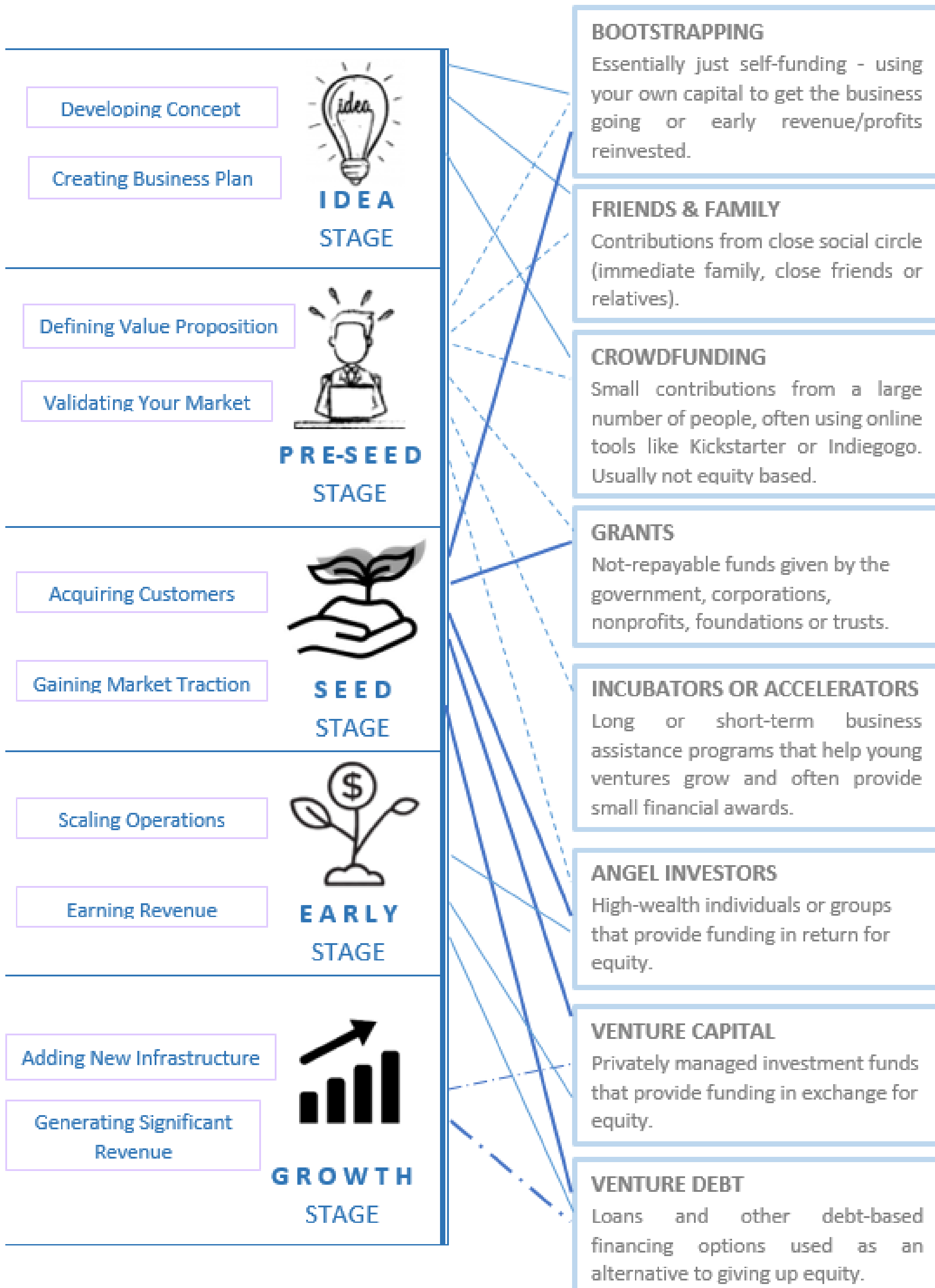

Figure 2. CCI Business Stages and Funding Source Options, Source: https://www.jumpstartinc.org/ - reworked

Have you already started your own business? If the answer is “Yes”, it is very much expected to face the intimidating “Valley of Death” before it becomes profitable.

What means the ‘Valley of Death?

Slang phrase in the startup world, referring to the period of time spanning from when the startups receive an initial capital contribution to when it begins generating revenues.	Very early phase before new product or service is bringing in revenue from real customers and additional financing is usually scarce, leaving them vulnerable to cash flow requirements. The startup is in the little risky point because if they do not raise the next round they die.

The next round is more difficult to get by far than the round before.

What is the KEY TO SURVIVE? It is not avoidance, but preparation. By planning ahead with the right business growth management, you can minimize the time your business spends in the Valley and get back on track to profitability.

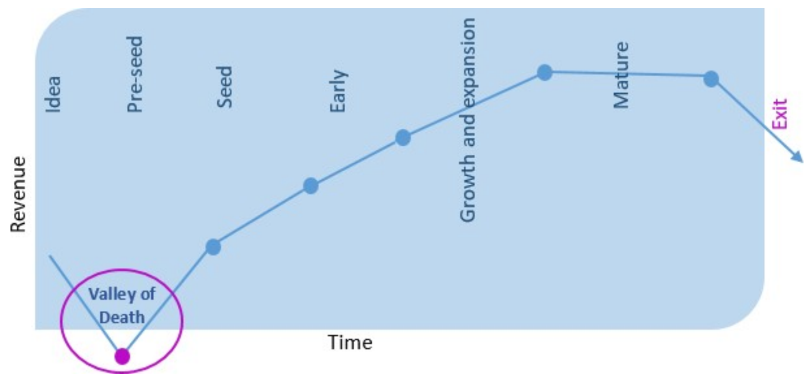

Figure 3. The “Valley of Death” Phase

The point of the “Valley” illustrates that successfully launching and selling a product does not guarantee profitability and business growth. A successful product does not equal a successful business. You must have a **strong strategy for funding the business** while it is in the “Valley” in direction to survive and prosper.

Here are some tips for surviving the “Valley of Death”:

1. Accumulate some resources before you start
2. Keep your day job until revenue starts to flow
3. Solicit funds from friends and family
4. Use crowd funding beneficiary
5. Apply for contests and business grants
6. Get a loan or line-of-credit
7. Join a start-up incubator
8. Barter your services for their services
9. Joint venture with distributor
10. Commit to a major customer

“Valley of Death” tests the commitment, determination, and problem solving ability of every entrepreneur. It is the time when you create tremendous value out of nothing. It’s what separates the true entrepreneurs from the wannabes. Yet, in many ways, this starting period is the most satisfying time you will ever have.

Are you ready to start?

1. Measuring Business Growth

To be successful and remain in business, both **profitability and growth** are important and necessary for a company to survive and remain attractive to investors and analysts. If there is one number every founder should always know, it is the business' growth rate.
Growth rate is a key performance measurement for a startup. If you do not know that number, you do not even know if you are doing well or badly.

Herein a list of most important metrics that you should track for your success:

Revenue and active users, Turnover ratio, Key performance indicators, Key financial statements.

Revenue and Active Users

> "The best way to measure the growth rate is revenue. The next best, for startups that is not charging initially, is active users. That is a reasonable proxy for revenue growth because whenever the startup does start trying to make money, their revenues will probably be a constant multiple of active users", *according to Paul Graham, Y Combinator* *https://startups-know-active*.

Revenue. By including revenue alongside your product and behavioral analytics, you will be able to identify who your most valuable customers are, how valuable they are, and the revenue impact of changes you make to your product and customer experience.

In practice, the most meaningful metric is the **Monthly Recurring Revenue** (MRR). Simply put, this is the income that a business can count on receiving regularly, every single month. How to calculate it? You simply multiply your total number of paying users by the average revenue per user (ARPU).

MRR = SUM (Paying customers monthly fee)
MRR = ARPU * Total # of Customers

For instance, if you have 50 customers that paid 100EUR each month, the MRR would be 5.000EUR.
You can also use cohorts to measure customer lifetime value (LTV), and then segment your customers to understand how LTV differs across demographics or referral sources, and even how it differs across specific actions peopletake on one of your channels, such as liking a post on your Facebook Page oron the YouTube Channel.

Sources: https://www.google.com/search?q=fac https://www.google.com/search?bi

Active users are the total number of people that engage with your product or business on a given day or month. Many businesses measure how their daily active users (DAU) and monthly active users (MAU) grow and change over time as they tweak their product and launch marketing initiatives. Since active users is a measure of both growth and retention, it provides a great way to measure the overall success of your business.

For instance, if someone visits your website on their laptop, and then uses your app on their mobile phone, you probably will count this as one active user.
Example for Types of Active Users:

- New users,
- Existing users,
- Dormant users,
- Reactivated users.

Image 1. Website visitors, Source: https://www.freepik.com/

Turnover Ratio

One measure of growth is your business turnover. A growing turnover implies many things about your business. It is a clear indication that your market position is improving, that you are gaining more contracts and purchase orders, and most of all, that your business service or product is gaining further traction and improving. The generation of turnover, even small amounts, is a fundamental element of analysis and confidence for any investor: as long as some cash is not generated by the sale of the product or service at the heart of the business, and except in the case of R&D or pure innovation, investors are less inclined to follow demand.

Finance can be used to increase your turnover and lead to these characteristics of a thriving business. Is turnover growing? This can be seen from the income statement, which is explained below.

$$\text{Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

Source: https://wwwAssets+Turnover

The largest total turnovers per industry, as you can see in the chart pie below, are:
FASHION, DESIGN AND RADIO & TELEVISION

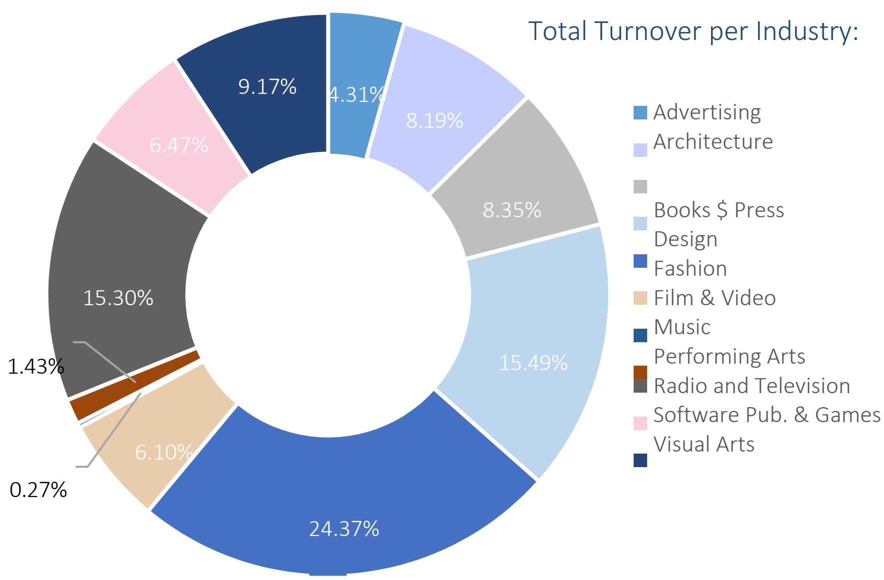

Chart 1. Turnover per Industry, Source: Eurokleis 2009, statistical analysis

Key Performance Indicators

A Key Performance Indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives. Those elements of the plan are expressions of what you want to achieve by when.

KPIs are the heartbeat of the performance management process. They tell you whether you are making progress. And ultimately, we want to make progress referring to your strategy.

Businesses usually use KPIs to evaluate their success at reaching targets. High-level KPIs may focus on the overall performance of the business, while low-level KPIs may focus on processes in departments such as sales, marketing, HR, support and others. How to define your KPI?

As an example, let’s say your objective is to increase sales revenue this year. You are going to call this your **Sales Growth KPI**. Here is how you might define the KPI:

	Raw #’s	Progress	Change
Measure	# of new customers	% complete	% increase in sales
Target	1.000	100%	20%
Source	CRM	Project Plan	P&L
Frequency	Monthly	Quarterly	Monthly

Table 1. Defining Sales Growth KPI

Key Financial Statements

Have you recently drunk Coca-Cola or Pepsi?
Coca-Cola uses large markets in China, Russia and South America to offset weak sales growth in the United States. Nevertheless, the growth of the company's shareholding in the period from 1997 to 2005 was only 28% or an annual increase of 2.8%.
PepsiCo, on the other hand, achieve better results. The company, not only sells drinks, but also food as Doritos, Tostitos and Cheetos. When to all these will be included the sport drink Gatorade, a strong production mix is obtained. Its earning per share increased by 136% in the period 1997-2005 or an annual increase of 11.3%. Without the accounting tracking of these important figures, financial managers, investors and banks would be blind. The same can be said about IBM, General Motors, Microsoft or other large companies.

Source: Bartley, R. Danielsen; Stanley, B. Block; Geoffrey, A. Hirt. (2009). Foundations of Financial Management (chapter 2, p.24). McGraw-Hill Irwin; Thirteenth Edition.

In this part, we will take a look at the basic and also the most important types of financial statements through the prism of which it is easier to assess the prospects and the success of the business.

Balance Sheet

- A "Snapshot" of your business at a particular point of time;
- Shows Assets (what is owned), liabilities (what is owed by the business) and Shareholders funds;
- The total liabilities represent the sources of finance used to fund the assets used;
- Shows whether your company's level of debt is sustainable or whether you owe too much already, and it would be more advantageous for you to hold back on a major purchase you're considering.

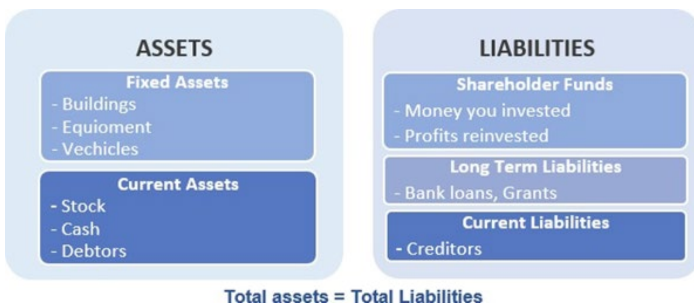

Figure 4. Balance Sheet

Income Statement

- Shows all incomes and expenditures that the business produces during its operation;
- Difference between incomes and expenditures represents the financial result(Gross profit/loss, P&L);
- Each sale is recorded as income, and each expense as an expense item, such assalaries for employees, costs for marketing, rent, etc.

Key Messages from the Income Statement (P&L)

- Is turnover growing?
- How well you are managing product direct costs (benchmark your gross margin vs. competition)?
- Overhead cost management – staff and other overhead costs as % of sales;
- Trends of sale for certain products, markets, sales channels
- Marketing spend – Are we spending more than we should be on advertising without getting value for money?
- Whether your company can reasonably handle new expenses?

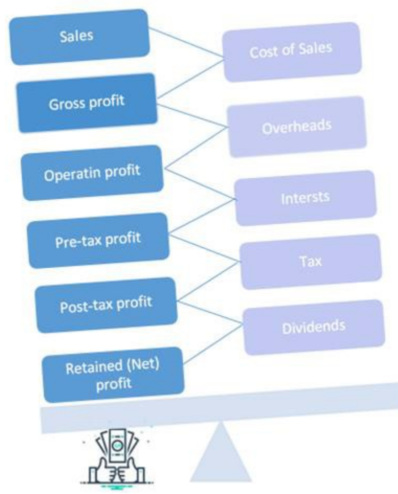

Figure 5. Income Statement (P&L) Items

Cash Flow Statement

- Shows where the money gone;
- Shows cash in and cash out as well as a simple analysis of where the cash came from/went;
- How much cash is available to the business and how much it needs to function and when?
- Where the business receives inflows and where it makes outflows of cash?
- How incomes and expenditures of a business affect the necessary cash for business growth The 3 basic parts of the cash flow statement are:
  1. Cash flow from operations - generating/spending money for normal operations
  2. Cash flow from investment - buying or selling long term assets
  3. Cash flow from financing activities - raising money from the outside world or paying off debts.

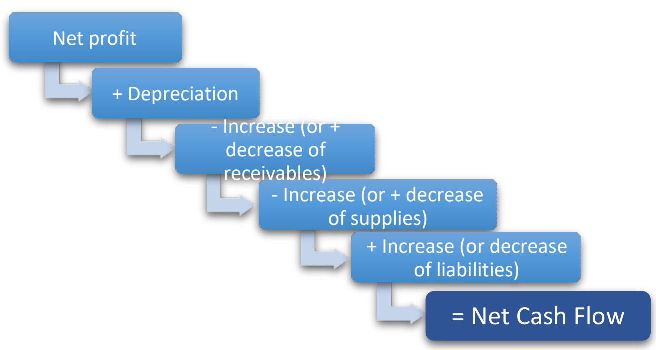

Figure 6. Steps to Prepare a Cash Flow

Recommendations for further reading

When you find yourself in the "Seed Stage" and your startup is born and really start executing against the idea, it is time to establish your visual identity in order to set your company apart from its competitors. Therefore, we recommend taking also *Training programme "Creative thinking for innovation", Blended Training Module 3: "Visual Branding", Unit 2: "The Logo"*, whereas you will learn what a logo is and what its features and main functionalities are. You will be introduced to some hands-on tips and tricks that will enable you to quickly sketch a new logo for your start up that would communicate your main mission and vision among your target audience.
It is advisable to take also *Blended Training Module 2*: "*Business planning", Unit 1*: "*What is a business plan? Why do you need one?",* which would help you to obtain knowledge and learn more about how to create a business plan.

References for Unit 1:

1. Bartley, R. Danielsen; Stanley, B. Block; Geoffrey, A. Hirt. (2009). Foundations of Financial Management. McGraw-Hill Irwin; Thirteenth Edition.
2. Neil, C. Churchill; Virginia, L. Lewis. (1983, May). Harvard Business Review, Entrepreneurial Management. [The Five Stages of Small Business Growth]. Retrieved from: https://hbr.org/1983/05/the-five-stages.
3. Understanding Funding: The Stages of a Typical Startup Company & Its FundingOptions [Blog post]. (2018, April 23). Retrieved from: https://www.jumpstart.
4. Zwilling, M. (2013, February 18) 10 Ways For Startups To Survive The Valley OfDeath, Retrieved from: https://www.forbes.com/sites/.
5. Europen Commision. (2016). Good practice report, Access to finance for the culturaland creative industries (CCI). Luxembourg Publication Office of European Union, 2016. Retrieved from: https://publications.europa.eu/en/publication.
6. Funding Options; How to finance your business growth? Retrieved from: https://www.fundingoptions.com/.
7. Zarezankova-Potevska, M., Polenakovic, R., Danailova, I. (2009, January). How to Become an Entrepreneur and The Steps to Start Your Own Business. Nikoloski,I.
8. European Commission. (2018). The Role of Public Policies in Developing Entrepreneurial and Innovation Potential of the Cultural and Creative Sectors - Report of The OMC (Open Method of Coordination) Working Group of Member States' Experts. Luxembourg Publication Office of European Union, 2018. Retrieved from: https://op.europa.eu/en/publication-detail/
9. De Voldere, I., et al. (2017). EU Publications: Mapping the creative Value Chains, A Study of the Economy of the culture in the digital age. Luxembourg Publication Office of European Union, 2017. Retrieved from: https://publications.europa.eu/en/publication-.

Unit 2. Decision for New Finance Sources – Investment Readiness

Tags:

Investment Readiness, Challenge, Sources, Financial Needs

Unit 2 - Introduction

Now it is time for finance decision. How ready are you?

When you already know the stage in which your business is, which opportunities are available according to the phase you are in, and what you need to know to measure the growth and profitability of your business, you should be ready to determine much easier the appropriate financing you need and whether you need it at all. Therefore, in this Unit you should understand how much you have to devote yourself and what to pay attention to make a financial decision.

Investment Readiness - commonly used in the context of raising external equity finance and typically concerns the inevitability of those businesses that seek external finance. Investment readiness provides the financial and fundraising capability that investors and funders expect from entrepreneurs, thereby significantly increasing the chances of being funded.

How to prepare and what challenges you may face? In continuation…

Challenges Faced Up by CCI in Accessing Finance

The one of the critical obstacle faced by entrepreneurs and enterprises in the CCI is:

- **How to Locate the Funds to Finance Their Endeavor?**

Finding financing in any economic climate can be challenging, whether you're looking for start- up funds, capital to expand or money to hold on through the tough times. At a time when banks and other finance providers are more risk averse, this uncertainty may present particular funding challenges for businesses in CCI's. In particular, this uncertainty may lead to problems of adverse selection. Finding the right type of financing support CCI is a real challenge.

They usually made a short-term span of financial planning. The financial needs and difficulties in access to finance vary significantly along the different stages of the business development cycle. The usual cycle is not different for CCI enterprises, as we confirmed before, but that's not a case with access to finance.

CCI may be more likely to feel discouraged from applying for external finance due to the perception that they have a higher likelihood of rejection. These perceptions may result from a feeling that the nature of their business (dependence on intangible assets) would make finance providers particularly risk averse towards them. The creative entrepreneur combines traditionally tangible information with intangible information products, cultural qualities and media content.

However, intangible assets such as novelty, soft innovation, copyright and creativity are often not reflected in accounts. CCI's often turn to private banks when seeking finance, but are usually turned down. Hence, financial institutions such as banks often fail to adequately identify their economic value. Thus…

CREATIVITY really means
maximising non-bank financing

1. Determine your Financial Needs

Keeping track of your finances is increasingly difficult as your company grows. If you want to remain profitable, however, it is also important that you effectively manage the increased flow of money through your business.

What are the logical obstacles that can prevent you? Always the same reason: **you do not have enough money**

WHY DO YOU NEED MONEY TO START A BUSINESS? Most startups need financing. Cash flow is different from profits, so profits do not guarantee money in the bank. There is financing needed at any time to manage starting costs, inventory, waiting to get paid, and other issues. Much of that is what we lump together as "working capital" - a key aspect of any business' financial health that enable them to fulfil their growth ambitions.

There is no equal "starting" investment to start a business, so, different businesses have different needs. It is important first to calculate how much money do you need before starting to look for alternative financing methods for the business. And not only for start. It is better accepted that **cash is used also for growth and not to fill cash holes**. It is therefore necessary to anticipate rather than seek funding when situation becomes hard in terms of cash. Creating a **fund for growth** is very important thing preserve your business.

There are also other questions which you certainly need to have a clear answer (Please see the next page illustration).

CHOOSE AN APPROPRIATE SOURCE OF BUSINESS FINANCE Yes, it can be a difficult and time-consuming task. Finding the right support is a huge challenge.

That is due to the facts that for many creative entrepreneurs, finance is not their forte. They are driven by a creative passion and find financial management is boring or confusing - or both.

Creative people are often not primarily motivated by money, yet financial management is an essential part of any enterprise, creative or not. Therefore, an understanding of financial matters can quickly pay dividends. Most people think of financing as debt, borrowed money. In this context it also includes investment capital. Either debt or investment is outside financing that helps a business meet expenses and grow. However, entrepreneurs need to be prepared before they approach investors in order to master their options and gain credibility. Investors are looking to invest in people that can do hard things. They want to invest in entrepreneurs that can work around obstacles. They do not take "no" for an answer.

The other point has to be emphasized, is that the entrepreneur must be able to explain how he will use the funding: on which expenditure items, on which hires, to do what, how, why, etc. In fact, a strategic action plan, which must be defended by the entrepreneur, is necessary.

Question:
1. Purpose - Why do you need funds?
2. Amount - What is the correct amount needed for such purpose?
3. Interest rate - What is the borrowing rate?
4. Repayment - How will the funds be repaid, from which sources?
5. Term - When the funds will be repaid?
6. Integrity - Is the customer trustworthy?
7. Security - What is the security, garantee of the repayment?

Answer:
1. You must have a solid understanding and justification for why you need funds for your business. Take a hard look at your business' financial situation and be prepared to defend your reasoning on why you need a fund.
2. You must know the exact amount of the loan you want to take and which will be sufficient for the purpose you aim to accomplish.
3. The interst rate plays a plays a major role in determining whether it is worth to take a loan or not, whether the loan will be expensive or inexpensive.
4. P&L, CF, income & expenditures.
5. The first step in finding the right finance for your business requires you to think about your timeline. Am I looking for short or long-term finance?
6. Maybe it takes a longer period to build it, but it is always necessary to constantly work on the integrity; creditors and customers will be interested in your business history.
7. What is the second way out? Different kinds of guarantees are used for different business settings. In fact, it is always more prefered to be very liquid.

Figure 7.What should you need to keep in mind when thinking about financing your business?
Sources: https://www.freepik.com/premium-vector; https://www.freepik.com/premium

Recommendations for Further Reading

Planning is the first step in the process of the entrepreneurial journey. Therefore, we recommend *Blended Training Module 1: "Planning, organizing and managing – visualizing the entrepreneurial journey"*, Unit 2: "Planning" which will introduce you in the basic steps of planning including Situational Analysis, Value Chain, Value Proposition and Action Planning.

References for Unit 2:

1. HKU (2010). The Entrepreneurial Dimension of the Cultural and Creative Industries: Appendix 2 K2M Ltd and Euro leis S.r.l., for the Education & Culture DG of the European Commission. Retrieved from: https://www.creativeeuropeireland.eu/.
2. Antal, I. (2018, July, 18). How can businesses prepare for investment-readiness? [Blog post]. Retrieved from: https://green-win-project.eu/project-.
3. Investor Readiness Check. (2017). Retrieved from: https://www.chairosconsulting.com.

Unit 3. Financing Strategies and Its Strategic Relevance

Tags:

Capital Structure, Internal Financing, External Financing, Debt Financing, Equity Financing, Business Financing, Financing Risks, Short-Term, Long-Term

Unit 3 - Introduction

Successful financing of your business activities will hereinafter be referred to as Business Financing. Please do not be deterred by this term It is nothing more than a terminus techniques describing content. It goes to the heart of modern-day profitability management and enables all organizations and its stakeholders to pursue their operating goals. Without such financial products as equity financing and debt financing, the global marketplace would experience reduced productivity, and monasteries would find it harder to fund their commercial product activities. Anyhow, in order to grow your business, it is important to invest in it. This means that you need access to financing sources. Consequently, you have to understand the basics of internal financing, debt financing and equity financing, which will be briefly summarised in the following sub-chapters.

Business Financing Instruments

In the global marketplace, the business-finance debate often revolves around the best option one can use to fund its activities. Some observers contend that so called equity financing shields firms from unfavorable situations that often come with high indebtedness and interest rates. Others opine that issuing debt products protects organizations from the relentless demands of external investors and shareholders, especially those who place short-term profitability and dividend distributions ahead of long-term business administration.

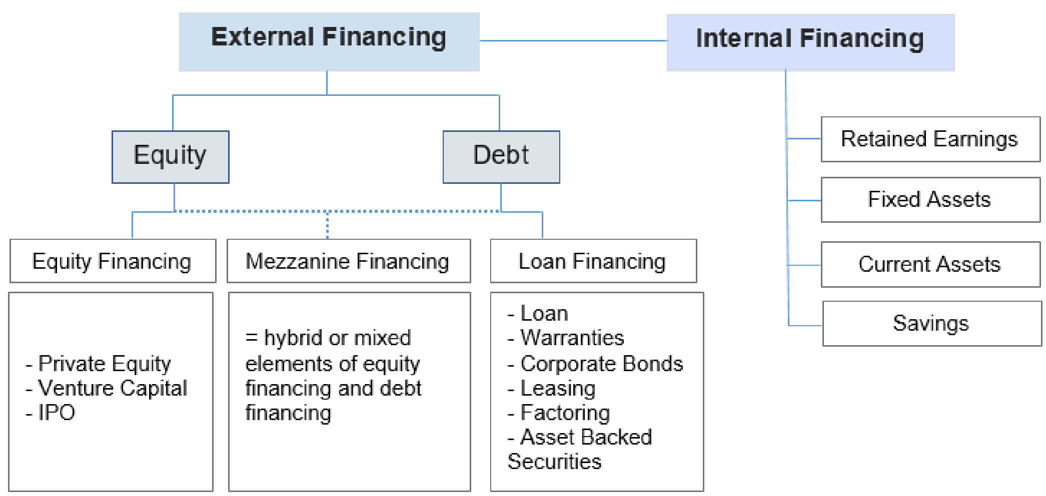

Figure 8. Overview on Business Financing Instruments, Source: INI-Novation GmbH

A smart way to settle the dispute might be to issue mixed, or hybrid, products -- such as the so-called mezzanine financing instruments. Unfortunately, external sources of financing — sponsors, donators, lenders or investors — are often skeptical, especially in the case of smaller businesses like those which you will most probably steer in your monastery. This can leave you to rely on internal sources of finance for investing in your business. Accordingly, please see the overview on Business Financing instruments below:

Business financing has direct implications for financial accounting and reporting. Financial managers report corporate debts in the statement of financial position, also known as a balance sheet or statement of financial condition (please compare unit 2 above). Equity is part of two statements: balance sheet and statement of shareholders' equity.

Internal financing

When you use the mechanism of internal financing you fund the development of new products with liquidity, the so called cash flow, which is already available within your organization's assets: this may be personal savings or money available in your bank accounts or even money that may be available in a very short term through a so-called liquidation of assets. However, selling assets decreases the value of the institution. Internal funding keeps all assets in the institution and incurs no additional expenses beyond the cost of the project itself.

Applying those mechanisms of internal financing prevents you from paying interest to the bank or sharing ownerships, profits and dividends with an equity investor. Using internal funding offers the advantage of keeping control in the hands of the company's founders. You also donot have to go through an application process for public grants. Especially, in the cultural and religious sector, your business may qualify for governmental grants under certain circumstances. However, the application process can be lengthy and expensive. The preparation of the grant documentation can be very time consuming and even cost consuming, in cases that you have to hire and pay external expertise. You have to win the approval of the agency giving the grant, and this can involve many individuals and committees.

With internal funding available, you can start on your product development project immediately, with no approval required other than that of your management. Here are some options for internal funding:

Retained earnings are an easy source of internal financing to use because they are liquid assets. Retained earnings are the portion of net income that you have retained in your business and not paid out. In a small business, retained earnings are usually paid out to the owners, who often do not draw a budgeted salary. Instead of paying out retained earnings, you can reinvest them in production and marketing of your monastic products.

Fixed assets are those that are not easily converted to cash. Typically, these assets include equipment, **property** and factories. Because these assets take time to convertto cash, they cannot be relied on for short-term access to finance. If you have the time, however, you could, e.g., sell off some equipment or even property to invest in your business.

Current assets consist of cash or anything that can easily be converted into cash. For example, if your monastery has stock holdings in other companies or property, you can sell them and use the income as a source of financing. You should be careful,however,not to decrease your current assets to levels less than your current liabilities, as this may prevent you from paying off your debts.

Savings are the backbone of many craftsmanship's businesses. If your business doesn't have the assets to finance your activities, you may still have finances that you can contribute to the business. This provides an alternative to seeking external donators or loans and allows you to retain control over your business.

The Capital Structure

Capital Structure is a business finance term that describes the proportion of an organization's capital, or operating money, that is obtained through debt and equity. Since capital is expensive for small businesses, it is particularly important for creative industries and craftsmanship's to determine a target capital structure for their organizations. Capital structure decisions are complex ones that involve weighing a variety of factors. Debt includes loans and other types of credit that must be repaid in the future, usually with interest. Equity involves selling a partial interest in the company to investors, usually in the form of stock. In contrast to debt financing, equity financing does not involve a direct obligation to repay the funds. Instead, equity investors become part-owners and partners in the business, and thus are able to exercise some degree of control over

how it is run.
In general, organizations that tend to have stable sales levels, assets that make good collateral for loans, and a high growth rate can use debt more heavily than other organizations. On the other hand, organizations that have conservative management, high profitability, or poor credit ratings may wish to rely on equity capital instead. Please see figure 2 below summarizing the sources of funding compared to the business risks:

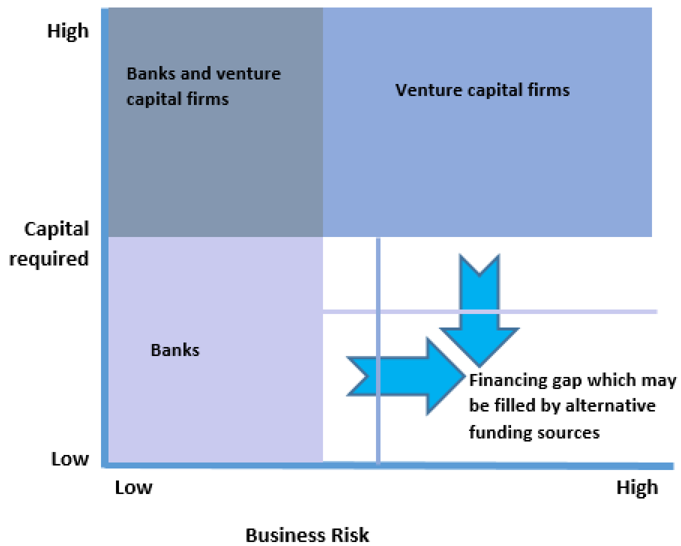

Figure 9. Sources of Business Financing in Relation to Business Risks, Source: INI-Novation GmbH

With debt financing an organisation may fund its product development and sales operations by borrowing on financial exchanges or reaching out to private or public lenders. This includes various debt instruments, from traditional bonds and commercial papers to such obscure products as dual-currency debentures and convertible bonds. Organizations reaching out to such private lenders as banks and insurance companies can receive funds through loans, overdraft agreements and lines of credit.

Equity financing enables an organisation to fund its product activities while maintaining a clean credit profile. The organisation raises money by selling co-ownership. In modern economies, equity funding often gives way to a long-term shareholder-oriented strategy. Buyers of equity, the so-called shareholders, may receive dividend payments in cash or stock. They may also enjoy another monetary benefit when stock prices rise on financial markets.

Advantages and Disadvantages of Financing Options

Both, **debt and equity financing** offer small businesses, craftsmanship's and creative industries a number of advantages and disadvantages. The key for the organisation is to evaluate their particular situation and determine its **optimal capital structure**.

Advantages of debt and equity financing

The primary **advantage of debt financing** is that it allows the owners and the management to retain ownership and control of the organisation. In contrast to equity financing, the responsible actors are able to make key strategic decisions and also to keep and reinvest more organization's profits. Another advantage of debt financing is that it provides owners and management with a greater degree of financial freedom than equity financing. Debt obligations are limited to the loan repayment period, after which the lender has no further claim on the business, whereas equity investors' claim does not end until their stock is sold (so-called "exit strategy of equity investors"). Debt financing is also easy to administer, as it generally lacks the complex reporting requirements that accompany some forms of equity financing. Finally, debt financing tends to be less expensive for organizations over the long term, though more expensive over the short term, than equity financing.

The main **advantage of equity financing** for organizations, which are likely to struggle with cash flow initially, is that there is no obligation to repay the money. Equity financing is also more likely to be available to concept and early stage businesses (i.e. new product developments) than debt financing. Equity investors primarily seek growth opportunities, so they are often willing to take a chance on a good idea. But debt financiers primarily seek security, so they usually require the organizations to have some sort of track record before they will consider making a loan. Another advantage of equity financing is that investors often prove to be good sources of advice and contacts for small business owners and management.

Disadvantages of debt and equity financing

The main **disadvantage of debt financing** is that it requires an organisation to make regular monthly payments of principal and interest. Often they experience shortages in cash flow that may make such regular payments difficult, and most lenders provide severe penalties for late or missed payments. Another disadvantage associated with debt financing is that its availability is often limited to established institutions. Since lenders primarily seek security for their funds, it can be difficult for unproven businesses to obtain loans.

The main **disadvantage of equity financing** is that the owners must give up some control of the business. If investors have different ideas about the organization's strategic direction or day- to-day operations, they can pose problems for the original decision maker. In addition, some sales of equity can be very complex and expensive to administer. Such equity financing may require complicated legal filings and a great deal of paperwork to comply with various regulations. For many small institutions, therefore, equity financing may necessitate enlisting the help of attorneys and accountants.

Basic	Internal Sources	External Sources
Meaning	Generated within business	Sources outside a business Lenders & Investors
Examples	Collection of receivables	Borrowing from commercial bank
Purpose	Limited needs of businesses	Large amount of money can be raised
Cost	Low	Usually High
Security Required	Not required	Required

Table 2. Distinguish Between Internal & External Sources of Raising Funds

3. Short-Term and Long-Term Funds

Within the abovementioned finance sources, you have to know either the following:

- **Short-term** finance sources - must be paid back within 12 months;
- **Long-term** finance sources - allowed to be paid back over many years instead.

All things being equal, short-term financial planning involves less uncertainty than long-term financial planning because, generally speaking, market trends are more predictable in the short term. Likewise, short-term financial plans are more easily amended in case something goes wrong.

These are some characteristics of the funds types by term:

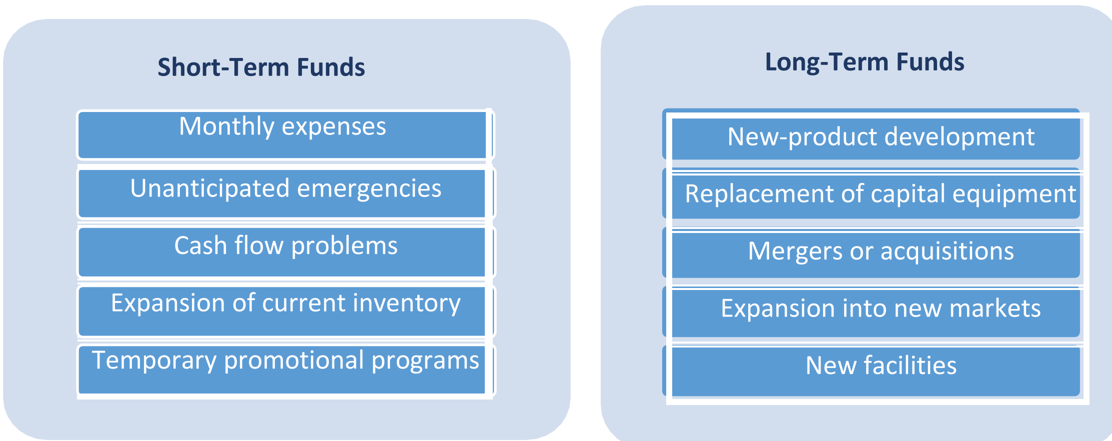

Figure 10. Characteristics of Short-Term and Long-Term Funds

Recommendations for Further Reading

To choose the right financial instrument and to scale-up your business, you must also know how to manage it. How are you going to compete and what strategies are you going to use? As your start-up grows into business what will be the basic tools for managing performance? You can find the answers in the Cultart strongly recommended *Blended Training Module 1: "Planning, organizing and managing – visualizing the entrepreneurial journey"*, Unit 4: "Managing", referring to the basics of management and being competitive on the market.

References for Unit 3:

1. Brealey, Richard A., and Stewart C. Myers. (1991). Principles of Corporate Finance. 4th ed. McGraw-Hill.
2. Brigham, Eugene F. (1989). Fundamentals of Financial Management. 5th ed. Dryden Press.
3. Kochhar, Rahul, and Michael A. Hitt. (1998, June) Linking Corporate Strategy to Capital Structure. Strategic Management Journal.
4. Lindsey, J. (1986). The Entrepreneur's Guide to Capital. Probus.
5. Mishra, Chandra S., and Daniel L. McConaughy. (1999). Founding Family Controland Capital Structure. Entrepreneurship: Theory and Practice.
6. Romano, Claudio A., et al. (2001, May). Capital Structure Decision Making: A Modelfor Family Business. Journal of Business Venturing.
7. Sources of Finance: Internal and External Industries, Retrieved from: https://www.businessmanagementideas.com

Unit 4. Routes to finance: Financing Instruments/Options/Institutions

Tags:

Financing, Ecosystem, Creative, External, Funds, Idea, Startup, Support, Loans, Investor, Resources

Unit 4 - Introduction

In this Unit, we will focus on the funding journey. Here, we will try to briefly explain and bring to you the alternative financing opportunities according to the industry in which you operate, as well as the benefits of such creative funding. You have to start to think creative; not only for your products and services, but also for the way you get the necessary funds. All this, with one goal: providing sustainable growth to your business

1. Financial Ecosystem in CCI

Ecosystem is typically defined as a system of network of interconnecting and interacting parts. The Financial Ecosystem in CCI includes part that are:

- internal to CCI businesses (financial situation, assets, know-how, skills, business plan and goods or services), and
- external (finance providers and supporters, demand for the business' goods or services, market dynamic and demand, and the regulatory and policy framework within which the business operates).

Figure 11. Financial Ecosystem in CCI, Source: Good practice report, Access to finance for CCS; https://publications.europa.eu/en/publication

2. Creative Financing Options

Creative businesses need creative financing. While most people pursue the traditional avenues, you have other options

Creative financing has proven to be:

- More profitable;
- Less risky;
- Much easier and flexible than traditional bank sources;
- With lower interest rate;
- Without personal responsibility (Most of the creative financing deals have nopersonal liability. The property itself is the only collateral);
- With opportunity to do numerous no-money-down deals.

There are multiple alternative creative financial options. Alternative finance is any type of business funding that does not come from a traditional institution such as a high street bank. Traditional finance is a good fit for many businesses, but banks often have requirements which startups and smaller businesses cannot meet, forcing them to look for other options. Therefore, now we will go through some of them:

1. FRIENDS, FAMILY AND FOOLS

Family members and friends who like your business idea may be willing to lend you funds. It makes feel awkward, but you can put their doubts at ease with a stellar business plan and a promissory note – legal document that business owner signs to formalize borrowing money.

Early-Stage Startups need Friends, Family, and Fools. Do not be afraid to ask for this kind of help. But, CAREFULLY

2. OWN FUNDING (BUSINESS'RESOURCES)

Revenues, Profit, Assets

This is the number one form of financing used by most creative business startups. In fact, future investors probably will want to see that you have some "skin in the game".

- No matter in which stage your business is, the positive results of operations, revenues and profits are the most commonly used finance sources in the process of growing business.
  These sources do not require debt, capital sharing and other costs. They are **just yours**
- Assets include savings accounts, equity in real estate, retirement accounts, vehicles, recreational equipment and collections. You may decide to sell some assets for cash orto use them as collateral for a loan.

Design, Architecture, New Media, Advertising are mostly private or self-financing sectors.

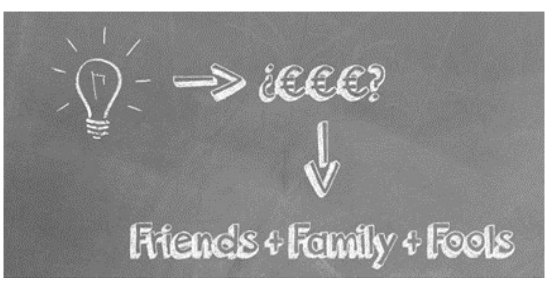

Image 2. Friends, Family and Fools.
Source: www.firsttuesday.friends-family-fools

"Being from a Big Family Helped Me as an Entrepreneur"

Marek Fodor, a renowned entrepreneur and business angel, wrote about this kind of financing in his Spanish blog. He said that the FFF financing had allowed him to launch the online travel agency Atrapalo and other startups that he participates in. We can see how important FFF's can be

Source: www.passionforstartups.com/

3. LOANS

<table>
<tr>
<td>Bank loans. Although we discussed this type of funding earlier in the module, it is good to consider it as an option. Traditional bank loans are generally the most difficult and slowest way to get money for your business. To get a loan from bank, you generally need a high net worth, real estate with equity that can be used as collateral for the loan and airtight business plan and credit score.
If you meet all these qualification, congratulations That is difficult to achieve.</td>
<td>Micro loans from nonprofit lenders. These organizations usually give out loans to people from disadvantaged communities. A microloan is exactly what it sounds like – small loans for small businesses made by designated lenders. These are great for startup business owners who do not have great credit or a lot of other options. To get a micro loan, you should be prepared to have a cosigner or show a significant source of income independent of your business like a full-time job or spousal income. It’s generally easier to qualify for a microloan than for a traditional business loan.</td>
</tr>
<tr>
<td colspan="2">Peer-to-Peer loans. People with extra money lending to individuals or businesses through online services that match lenders with borrowers. This is the way to get financing from strangers. P2P lenders enable borrowers to get a three to five-year loan by filling out a loan application online and finding investors willing to lend their money. Since peer-to-peer lending companies offering these services generally operate online, they can run with lower overhead and provide the service more cheaply than traditional financial institutions.
Getting a P2P loan depends entirely on the state of your personal finances and credit score.</td>
</tr>
</table>

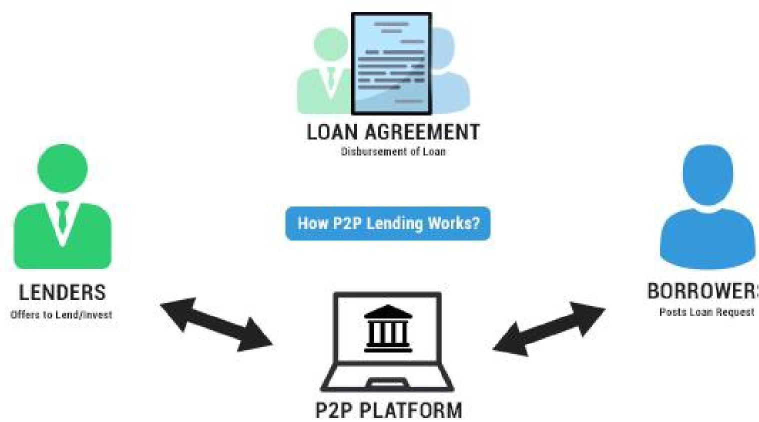

Image 3. P2P Financing Platform,
Source: https://www.lendenclub.com/future-of-peer-to-peer

4. INNOVATION CENTERS

Accelerators and Incubators

For early stage startups, accelerators and incubators offer great ways to grow their businesses. Some of Accelerators and incubators both offer entrepreneurs good opportunities early on.

Founders get help to quickly grow their business and they often better their chances of attracting a top venture capital (VC) firm to invest in their startup at a later point.

They tend to focus on providing startups with mentorship, advice, and resources to help the startups succeed, including a Demo Day, a day to focus the attention of the startup investor community on the startups through hosting a series of investments pitches from the startups to startup investors. The goal is to go out and open up your own office, your own operation. These organizations provide all these services in exchange for 5% to 10% of equity.

Accelerators "accelerate" growth of an existing company, while **incubators "incubate" disruptive ideas** with the hope of building out a business model and company. Thus, accelerators focus on scaling a business while incubators are often more focused on innovation.

What Accelerators offer you? What the practice says?

Accelerators start with an application process, but the top programs are typically very selective. **Y Combinator** accepts about 2% of the applications it receives and Techstars usually has to fill its 10 spots from around 1,000 applications. Aaron Harris, a partner at Y Combinator, said he's not sure that accelerators necessarily work as a whole, but Y Combinator's success is due to the way it approached incentives. *Source: https://www.techrepublic.com/article*

Examples from Europe:

Creative Bridge – CodeBase, the UK's largest Technology Accelerator. Creative Bridge is part of Creative Informatics, a partnership between the University of Edinburgh, Edinburgh Napier University, Creative Edinburgh and CodeBase. This is an accelerator programme running over ten consecutive weeks, designed for creatives from all backgrounds to learn start-up best practice and hear creative entrepreneurs' stories of how they made something amazing happen, or how they failed. *Source: https://www.thisiscodebase.com/*

betahaus – Find your space in Berlin - a platform where you can create your own life's dream; a community-driven organization that creates collaborative spaces. Spaces for people to work together. Spaces for teams to collaborate. betahaus is for people who want to work on their own projects while exchanging knowledge, ideas, and inspiration with others; to help to open doors and expand possibilities; to foster entrepreneurship, creativity, rapid prototyping and innovative product development. *Source: https://www.betahaus.com/*

Tech Parks, Hubs/Labs

Tech Parks are models to capitalize on knowledge in national and regional development. These are effective instruments in the transfer of technology, creation and attraction of companies with high added value. The purpose to create a tech park is to encourage innovation and the creation of products or services that generate significant added value.

Wall-Mart

This company is the world's largest company by revenue, according to the Fortune Global 500 list in 2014, and has long been an early adopter and intensive user of technology in its operations. The company's innovation center and "skunk works", Wal-Mart Labs, with 6 labs around the world, has had a presence in Silicon Valley for about a decade, and has its HQ in San Bruno (south of San Francisco). The innovation center has worked on projects related to current and emerging technology in mobile, website and social media. Wal-Mart Labs has been aggressively hiring engineers and developers in Silicon Valley but has also acquired many startups in technology areas of interest, including: TastyLabs (a software applications business that connects people via social software), OneOps (which enables continuous lifecycle management of complex, business-critical application workloads on any cloud-based infrastructure), Cosmic Vooodoo (a digital streaming service), Kosmix (which has developed a search engine that tried to determine a user's intent), Tobit (site-speed optimizer), and Inkiru (predictive analytics platform).

Source: http://siliconvikings.com/

Hackathons

Whether they are called hackathons, hackfests, hackdays, or codefests, these usually 48 hours' marathon brainstorming sessions sponsored by companies, nonprofit groups, universities, and other organizations, are great way for startups succeed. Some companies hold them internally; others are open to the broader public. Hackathons usually bring together developers, engineers, designers, project managers musicians, artists, entrepreneurs, inspiring minds and hackathon enthusiasts with experienced mentors from the largest tech companies to turn big ideas into a working product in Creative Industries. Participants have a unique opportunity to meet like- minded people from different countries, gain new knowledge and learn valuable skills from experienced mentors. The hackathon offers a chance to take your ideas off the ground with professional help. And, of course, in the end one concept, app, robot, or website is declared the winner.

Prototron is **startup prototyping fund in Europe** providing equity free funding and mentoring to build tech-idea prototype. Founded in 2012 by Swedbank, Tallinn Technical University and Tallinn Science Park Tehnopol. They finance teams with high growth potential in areas of Greentech, Electronics, Mechatronics and ICT.

HackSheffield JUNCTIONX BUDAPEST Hack Kosice Garage48

1. PUBLIC FUNDS FOR CREATIVES

Public support (direct subsidies, tax incentives, public grantee schemes, loans by public authorities) is very important for the CCI. Money that is generated by the government to provide goods and services to the general public.
Grants are non-repayable funds or products disbursed or given by one party (grant makers), often a government department, corporation, foundation or trust, to a recipient, often (but not always) a non-profit entity, educational institution, business or an individual. In order to receive a grant, some form of "Grant Writing" often referred to as either a proposal or an application is required.

Most grants are made to fund a specific project and require some level of compliance and reporting. The grant writing process involves an applicant submitting a proposal (or submission) to a potential funder, either on the applicant's own initiative or in response to a Request for Proposal from the funder. Other grants can be given to individuals, such as victims of natural disasters or individuals who seek to open a small business. Sometimes grant makers require grant seekers to have some form of tax-exempt status, be a registered nonprofit organization or a local government. Project-related funding involving business, communities, and individuals is often arranged by application either in writing or online.

Specific points regarding public grants for start-ups:

1. Formal (often bureaucratic) application process;
2. You will have to prove that you will help the Government realize their goals;
3. The goals are different from grant to grant (also administrated by different public bodies);
4. You will have to co-invest – so prove that YOU also want to do it. They normally never fund 100% of projects/activities.

The EU provides funding for a broad range of projects and programmes covering areas such as:

- Regional & Urban development,
- Employment & Social inclusion,
- Agriculture & Rural development,
- Maritime & Fisheries policies,
- Research & Innovation, or
- Humanitarian aid.

Funding is managed according to strict rules to ensure there is tight control over how funds are used and that the money is spent in a transparent, accountable manner. The main source for research and innovation funding is the so called EU Horizon 2020 programme. It is a so called funding framework, which will be continued by the European Commission also from 2020 to 2027 under the new name "Horizon Europe":

EU Horizon 2020 SME Scheme: R&D Grants

The EU Horizon SME instrument helps high-potential SMEs to develop ground-breaking innovative ideas for products, services, or processes that are ready to face global market competition. Highly innovative SMEs with a clear commercial ambition and a potential for high growth and internationalisation are the prime target.

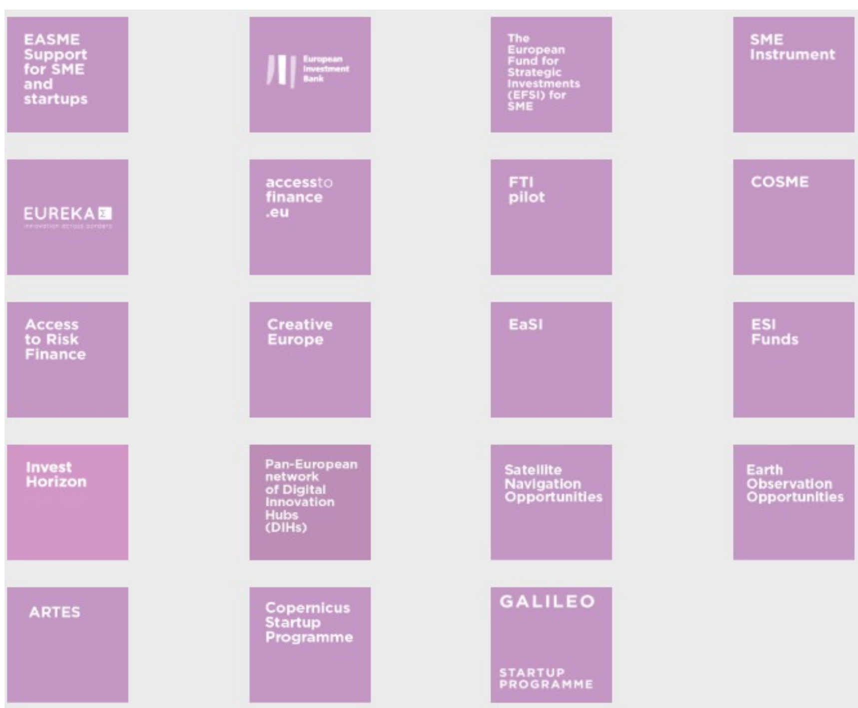

Image 4. Startups Funding Opportunities from EU FUNDS and SUPPORT Screenshot from the source: http://startupeuropeclub.eu/eu-funds-and-support/

6. BUSINESS ANGELS AND VENTURE

Venture capital generally comes from a company or firm. By its nature, it means, invests in new businesses with high potential for growth but also an amount of risk substantial enough to scare off banks. A venture capitalist (VC) is an investor that provides capital to firms exhibiting high growth potential in exchange for an equity stake. This could be funding startup ventures or supporting small businesses that wish to grow but do not have access to equities markets.

Venture capitalists are willing to risk investing in such companies because they can earn a massive return on their investments if these businesses prosper. VCs experience high rates of failure due to the uncertainty that is involved with new and unproven businesses.

Thus, if you decide to take this route, be prepared to give away a portion of your business. However, that is not always a bad thing.

For instance, well-known venture capitalists include Jim Breyer, an early Facebook (FB) investor, Peter Fenton, an investor in Twitter (TWTR), Peter Theil, the co-founder of PayPal (PYPL) and Facebook's first investor, Jeremy Levine, the largest investor in Pinterest, and Chris Sacca, an early investor in Twitter and ride-share company Uber.

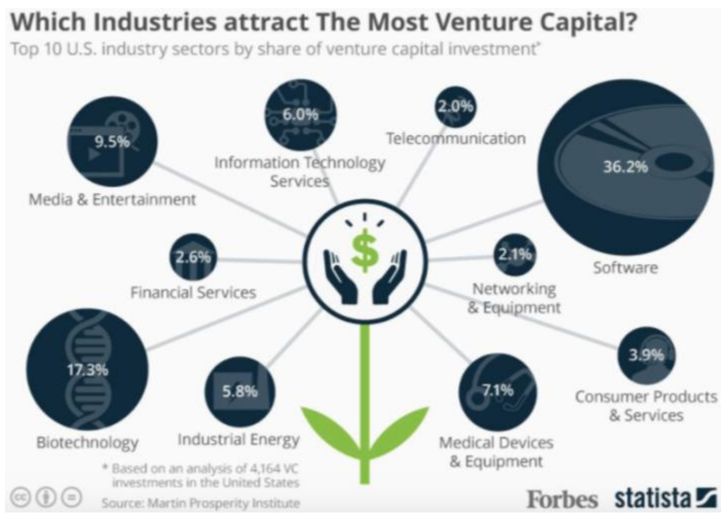

Image 5. The Most Attractive Industries for Venture Capitalists

On the other hand, angel investors are usually wealthy individuals acting on their own. However, with both, you can raise money debt-free, but it is important to establish upfront and contractually how much control they will have in your company. If you have a solid business plan with financial projections and you are confident that your business can provide 10 x return in investment, business angels or venture capital might be the right option for you.

- Angel investors can take an equity share of your startup in exchange for their investment
- Money is their motivation
- It is more common for angel investors to supply funding to businesses when they are still in the early stages, whereas VCs typically look to get involved a little bit later.

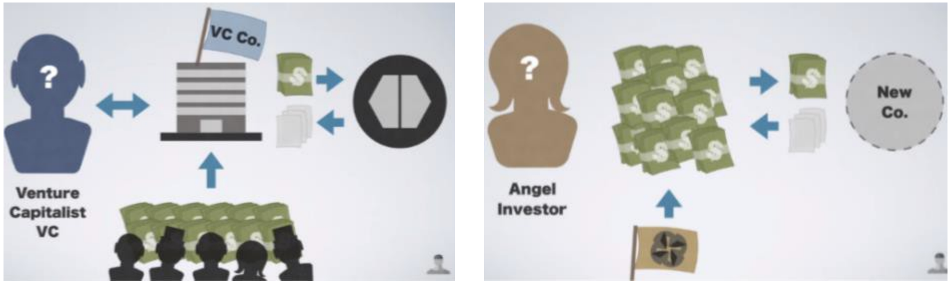

Image 6. Venture Capitalist VS Angel Investor
Screenshot from the source: https://www.youtube.com/watch?v=677ZtSMr4-4

7. CROWDFUNDING

One of the most popular way to fund a business, debt-free. Crowdfunding is the process of funding a venture or project by raising small amounts of money from a large number of people's platforms via internet, like fundable **Kickstarter, IndieGoGo, rochetHub, Seedrs** etc. that connect entrepreneur product with world. Crowdfunding consists in funding a project (such as **a new work of art, an album recording, a concert tours, a film making**) or a venture by collecting small amount of funding directly from multiple investors using social media and internet channels.

There are many different types of crowdfunding. Some of them are the following:

1. Reward-Based Crowdfunding – when people pledge money in exchange for a certain benefit or package (like platforms: IndieGoGo and Kickstarter)
2. Equity-Based Crowdfunding - when investors receives a portion of the company in return for their investment (like platforms: Crowdfunder, CircleUp, and OurCrowd)
3. Donation-Based Crowdfunding - when supporters freely donate money without any reward or monetary incentive (like platforms: GoFundMe and JustGiving)
4. Peer-to-Peer Lending – when people borrow money outside of traditional bank loans (explaned in the point no.3 Loans); (like platforms: Lending Club and Prosper)

Crowdfunding has raised over $34 billion globally.

Image 7. Steps for Crowdfunding,
Source: https://www.freepik.com/premium-vector/crowdfunding

Crowdfunding has changed the **music industry**, particularly on the music production side. Recording, mastering, and producing music is an expensive proposition. Uploading an album to Spotify and other music streaming services can cost $20 or more, with physical CDs and vinyl releases costing even more. But, crowdfunding helps offset these costs for musicians while providing donors with a value-add in support of their favorite acts.

Most significant projects launched on the Kickstarter platform prior to the date of publication:

- Musician Amanda Palmer raised US$1.2 million from 24,883 backers in June 2012 to make a new album and art book. An average of nearly $50 per person. Not bad atall.
- The "Coolest Cooler" raised a total of $13,285,226 from 62,642 backers in July 2014.The cooler features a blender, waterproof Bluetooth speakers and an LED light.
- Zack Brown raised $55,000 from over 6,900 backers in September 2014 to make a bowlof potato salad. Noteworthy is that his initial goal was only $10, but his campaign went viral and got a lot of attention. Brown ended up the owing a potato salad party with over 3,000 pounds of potatoes.

https://www.seedrs.com/

www.crowdfunder.com/rockethub

https://www.kickstarter.com/

https://www.fundernation.eu/

https://www.ulule.com/

https://www.fundingcircle.com/uk/

Recommendations for Further Reading

Once you are familiar with different financing opportunities according to the industry in which your business operates, it is advisable to learn more about how to define your Unique Selling Point (USP) and Emotional Selling Point (ESP). Therefore, Cultart recommends taking *Training programme "Creative thinking for innovation", Blended Training Module 6: Problem solving and critical thinking, Unit 1 Brand Awareness.* In this unit, you will understand how to build up an effective brand awareness for your company by defining your Unique Selling Point (USP) and Emotional Selling Point (ESP). In order to develop your critical creative thinking, it is essential to understand that brand awareness is important, especially when launching new products and services, and it drives consumers' decisions when differentiating between competing companies.

In addition, you can take also *Unit 3. Financing strategies and its strategic relevance from this Module.*

References for Unit 4:

1. Bartley, R. Danielsen; Stanley, B. Block; Geoffrey, A. Hirt. (2009). Foundations of Financial Management. McGraw-Hill Irwin; Thirteenth Edition.
2. Europen Commission. (2016). Good practice report, Access to finance for the culturaland creative industries (CCI). Luxembourg Publication Office of European Union, 2016. Retrieved from: https://publications.europa.eu/en/publication.
3. Creative industries – Routes to Finance, A guide to sources of funding and investment for arts, cultural and creative organisations. (2015). ICAEW, Corporate Finance Faculty. Retrieved from: https://www.thecreativeindustries.co.uk.
4. De Voldere, I., et al. (2013). Survey on access to finance for cultural and creative sectors. European Union 2013. Retrieved from: https://ec.europa.eu/.
5. Law, J. T. (2019, October, 4). Everything You Need to Know About Crowdfunding in 2019, The Complete Guide to Crowdfunding: The What, Why, Where, and How [Blog post]. Ecommerce Tips & Tricks. Retrieved from: https://www.oberlo.com/blog/complete-guide- crowdfunding.
6. The Hackathon Handbook. Retrieved from: https://www.hackerearth.com/hackathon/.

Unit 5. Investor Deck Tasks: Business Case and How to Communicate with Investors

Tags:
Pitch, Presentation, Investor, Impression

Unit 5 - Introduction

The importance of this unit is enormous as the previous ones. But, in the end, nothing will be beneficial if you do not have the necessary skills and abilities to present yourself and your business successfully to the investors and convince them that your idea is very promising, and the financing for its accomplishment is essential.

Undoubtedly, it is of the paramount importance to learn how to pitch your idea well—both to potential investors and even more importantly, to your early customers.

What is a Pitch Deck and how to create it for Investors?

A Pitch Deck is usually a 10 slide presentation that should give a short summary of your startup, your startup vision and business plan. There are different purposes why a Pitch Presentation Deck can serve you - from trying to get a meeting with a new investor, to presenting in front of a stage, and each one of them should follow a different structure. This is the very first impression an investor might get on your business and it should look stellar.
A demo day presentation, for example, should be very visual and contain little text. It's going to be seen from afar and you're going to do all the talking. On the other hand, a pitch presentation that you're planning to email should be content fulfilled and completely self-explanatory. It's going to be seen on a laptop monitor, so small font is not so bad.

Generally, every pitch deck follows this structure:

➢ **INTRO:** PRESENT YOUR CASE, YOUR PROBLEM PREMISE, AND YOUR PROPOSED SOLUTION	➢ **WHY WE'LL MAKE YOU RICH:** PROVE WHY ARE YOU ARE GOING TO MAKE THEM REACH	➢ **WRAP UP:** CAPTURES PEOPLE'S ATTENTION FOR THE REST OF THE PITCH
A Cover The Problem The Solution Product Demo	Market Size Business Model Competition Underlying Magic Go-to-Market Plan Team	Traction / Milestones Fundraising Info

<u>For instance</u>, **Guy Kawasaki** is a renowned presentation evangelist. He was an advisorto the Motorola business unit of Google and chief evangelist of Apple. BOOM

Kawasaki's take is very strict on the number of slides; he emphasizes there should be 10 slides. We don't necessarily agree with this, because you probably want more, for example 20 nice and clean slides vs 10 crammed up slides, but hey, he's the expert.

His presentation structure contains: **Title**, **Problem/Opportunity**, **Value Proposition Underlying Magic**, **Business Model**, **Go-to-Market Plan**, **Competitive Analysis**, **Management Team**, **Financial Projections and Key Metrics**, **Current status, accomplishments to date, timeline and use of funds (really, all in one slide?).**

What we do agree with is the overall structure and storytelling of the deck. You see, it is organic to start talking about the problem you are solving, move to the solution, talk about how you are going to execute it and why you are THE best person to do it.

Source: https://slidebean.com/blog/startups-what-is-a-pitch-deck-presentation

Recommendations for Further Reading

It is advisable to take also *Blended Training Module 8: "Powerful presentation and pitching skills", Unit 2: "How to pitch ideas",* which would help you to upgrade your knowledge and learn more about how to create a successful pitching and how to sell yourself first and then your idea. When investors are listening to your pitch, they want to know how good the product/service is going to be.

References for Unit 5:

1. Caya. (2019, March,4). How to create a pitch deck for investors? – Fundraising for Startups [Blog post]. Retrieved from: https://slidebean.com/blog/startups-how-to-create-a-pitch-deck.
2. Robinson, R. (2019, April, 25). 18 Pitching Essentials: How to Pitch an Idea toInvestors (and Early Customers). Retrieved from: https://www.ryrob.com/how-to-pitch/.
3. Harroch, R. (2017, March, 4). How to Create A Great Investor Pitch Deck For Startups Seeking Financing. Forbes. Retrieved from: https://www.forbes.com/sites/allbusiness.

After introducing the different forms and unique features of the financing possibilities available, it is obvious that various financing opportunities and financing models for different steps and stages in the product development and sales initiation phases exist. The authors of this module hope that your professional approach to finance your business growth will enable you to be one of those that receive the funds they apply for. Let's hope that this will open your doors to success:

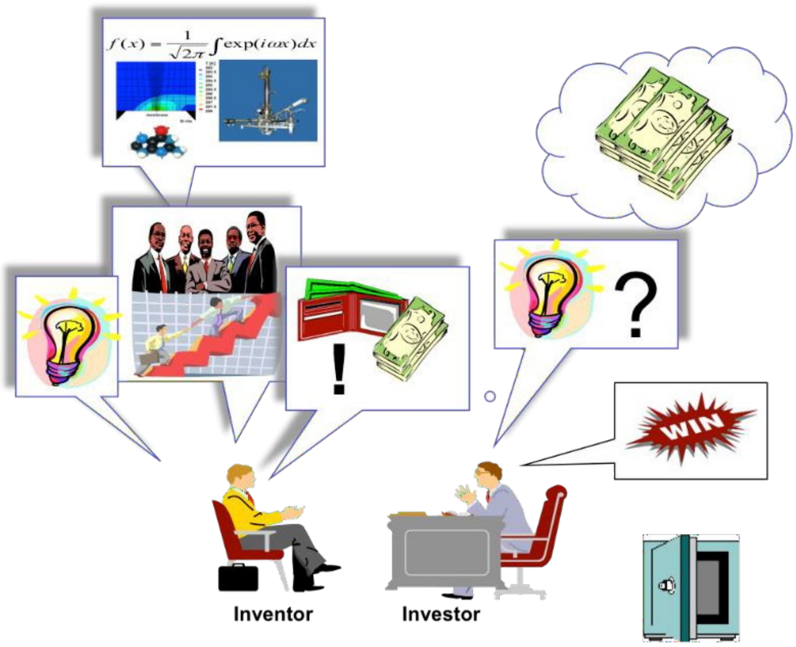

Image 8. Negotiation for Funding, Source: INI-Novation GmbH