

**VIVEKANANDA COLLEGE  
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**NAAC ACCREDITED 'A' GRADE**



**Topic: Resources for Startups**

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## **What Is a Startup?**

[Source: <https://www.investopedia.com/ask/answers/>]

A startup is a young company founded by one or more entrepreneurs to develop a unique product or service and bring it to market. By its nature, the typical startup tends to be a shoestring operation, with initial funding from the founders or their friends and families.

### **KEY POINTS**

- A startup is an entrepreneurial venture in search of enough financial backing to get off the ground.
- The first challenge for a startup is to prove the validity of the concept to potential lenders and investors.
- Startups are always risky propositions but potential investors have several approaches to determining their value.

One of the startup's first tasks is raising a substantial amount of money to further develop the product. To do that, they have to make a strong argument, if not a prototype, that supports their claim that their idea is truly new or a great improvement to something on the market.

## **Resources for Startups**

[Source: <https://www.upcounsel.com/funding-for-startups>]

It takes money to turn a great idea into a great product. Here are some of the best options.

### **1. Self-Funding / Bootstrapping**

Many entrepreneurs start with some level of self-funding (also known as bootstrapping) and, in fact, future investors likely will want to see that you have some "skin in the game". Even if you can only put in a little money, it is worth considering the benefits. For example, you don't have to worry about keeping investors happy. You also can keep more profits to yourself. You also can use your initial profits to bootstrap future growth instead of relying on future funding rounds.

### **2. Friends and Family Investors**

These investments generally are some type of loans or stock purchases and are something later investors will likely find to be a positive (i.e., if your family and friends don't believe in you, why should the investor).

However, to protect yourself and your relationships, make sure you have a clear written agreement that outlines how the money will be repaid. Also, remember that even if the arrangement is informal, you should confirm if any securities restrictions apply to the arrangement.

### **3. Crowdfunding**

Crowdfunding is quickly becoming a popular way to help fund a startup. In the traditional approach to crowdfunding, you offer a first-run product or some other incentive in exchange for a monetary contribution. Contributors receive no equity and are not entitled to be repaid.

In many cases, the process is essentially a pre-sale of your product and not an investment -- and not regulated by SEBI.

Equity crowdfunding is a newer option. Here the investors become shareholders. This includes voting and dividend rights as outlined in the shareholder agreement.

### **4. Incubators / Accelerators**

Incubators and accelerators generally provide groups of startups with workspace, business advice and training, and potential funding. They are often sponsored by universities, industry organizations, or individual companies.

Each startup gets support from the sponsor plus networking opportunities with the other startups. In exchange, the incubator or accelerator may take an equity stake especially if they provide funding.

### **5. Angel Investors**

Angel investors are generally high-worth individuals or small teams that invest their own money, usually at the earlier stages than venture capitalists.

The upside is often a closer personal relationship that includes heavy mentoring. The downside is that an angel investor will often ask for a large equity stake and possibly even a controlling interest.

### **6. Venture Capitalists**

Venture capitalists are professional investors who invest in startups and growing companies. However, you'll generally need to be past the earliest stages because the typical venture capital investment is \$1 million or more. It may also take many months to close the deal.

Make sure that your interests are aligned with a prospective venture capitalist. These firms often seek fast returns and push for rapid growth. This may go against your desire to build slowly and steadily.

Venture capitalists also seek, and regularly exercise, substantial control over a company. If you want to follow your own vision, venture capitalists may not be right for you.

It is further important to note that venture capitalists typically want to use their own investor agreement. As with any important contract, you should carefully review it to ensure it promotes your own interests and goals. Don't be afraid to negotiate changes or walk away if it doesn't.

## **7. Loans / Credit Cards / Debt**

New businesses can find it challenging to get a traditional loan from a bank unless they have business assets for collateral and/or are willing to personally guarantee the loan.

Some entrepreneurs also may utilize credit cards, microloans or venture debt to finance their companies. Once there is steady sales, you may be able to open a credit line against your accounts receivables (what customers owe you) (also referred to as "factoring") or use your business equipment as collateral for a loan (also known as an asset loan).

## **8. Small Business Grants**

Grants provided by the government or private organizations can provide free funding. To receive a grant, your company may need to be engaged in some sort of societal good or specialized area, such as education, medicine, or alternative energy.

If you do receive a grant, there may be limitations on how you can use the money, and this could create an additional accounting burden for you.

## **9. Barter**

Many businesses understandably prefer to be paid in cash, but there is still room for trade in the modern economy. Look for small businesses that can fulfill one of your needs and have a problem that you can solve. You may be able to trade your services in exchange for something you need (e.g., agreeing to do IT for a company in exchange for using their office). Even if you don't directly receive cash, the savings will allow you to further stretch your resources.

## **10. Partnership / Licensing**

Sometimes, a startup may want to create a partnership or licensing deal with an established company who can benefit from your product.

## **11. Commitment to A Major Customer**

If you can lock in a major customer, they may be willing to fund your development. In exchange, they may want to adapt your production process to their exact specs, receive exclusive distribution rights, or get dedicated support. This commitment may be tied into an early licensing deal or white-label agreement.

You'll also gain the advantage of reducing the risk of your investment by locking in a guaranteed minimum return.

## **12. Ask a Lawyer**

The best funding option is ultimately a personal decision based on your unique goals and risk tolerances. Consulting with an experienced business lawyer who has seen many businesses succeed and fail can help you make an informed decision about what's right for you.

### **Challenges Faced by Startups**

[Source: <https://creately.com/blog/culture/challenges-faced-by-startups/>]

#### **1. Fierce Competition**

The corporate world is quite fierce. There is always a competition going on between the giants. Competition poses one of the biggest challenges for the survival of startup businesses.

The competitive environment keeps the startups on their toes, as there is no margin of error available. In order to survive in this competitive business environment that covers both traditional and online businesses, the startups need to play aggressively, and punch above their weight to gain the much needed recognition amongst the clusters of ever challenging and expanding businesses.

#### **2. Unrealistic Expectations**

Success does not come alone. It brings expectations with it. Startups tend to face challenges when they set 'unrealistic expectations' following a booming success. Remember, success is short-lived and expectations never end. Sustainability is the name of the game. And sustainability requires consistent efforts.

In order to succeed in a competitive business world, startups need to have high but controlled expectations, keeping view of the resources available, the extent of growth potential, and other market factors as well.

#### **3. Hiring Suitable Candidates**

One of the most important factors that define organizational culture within a startup company is the synergy of the team. A team comprises of individuals with similar capabilities and identical focus. In order to develop a highly successful team culture, organizations in general – and startups in particular – need to hire suitable candidates.

#### **4. Financial Management**

Money begets money. Remember the fact that when income increases, the expenditures also increase. There is no doubt about it. One of the biggest challenges that startups face today relates to financial management.

## **6. Cyber Security**

Small startups – especially the ones operating online – to be super agile to counter the so called online security threats. Hackers are everywhere, and they are going to take advantage of any loophole within the systems installed within a startup firm.

In order to safeguard the all important online data, startups need to have robust and military-grade security systems in place. A virtual private network (VPN) connection serves the purpose of protecting a startup's information, and employee records, by offering the much needed encryption and data security to the startup's employees, thereby restricting unauthorized access to organizational data over the web.

## **7. Winning Trust of Customers**

Customers are the real force behind a startup's success. Their word-of-mouth power and their presence on social media can give tech startups an edge against all the traditional businesses.

To win customers' trust and loyalty, startups need to work aggressively to implement a customer-centric working philosophy, so as to enable them to succeed in their pursuit of attaining sustainable growth.

