RAISING CAPITAL

Presenter: Presenter: Evan Burfield, Co-Founder, 1776

Entrepreneurship

Video Transcript

[TEXT: YOUNG AFRICAN LEADERS INITIATIVE
ONLINE TRAINING SERIES]

[TEXT: Entrepreneurship
Raising Capital]

[TEXT: Learning Objectives
1. Identify the types of capital.
2. Understand the process of engaging investors.
3. Estimate the timeline for raising capital.]

[TEXT: Evan Burfield, Co-Founder, 1776]

How to raise capital.

There are three learning objectives for this module — identifying the types of capital, understanding the process of engaging investors, and estimating the timeline for raising capital.

Perhaps the most common question that new entrepreneurs ask is, "How do I raise capital?" Unfortunately, the unsatisfying answer is that when your business is ready, it's actually not that hard to raise capital. And if your business isn't ready, then it can be almost impossible. With that said, there are definitely more effective ways to go about the process of raising capital.

One of the most important things to understand before you start to raise capital is the different types of capital that may be available to your business depending on the type of business, the maturity of the business and the market in which you operate.

If you have an idea, but have yet to build a product or have any real usage that can validate your business model, then you're probably looking for friends and family to invest in you. Friends and family doesn't literally mean only your friends or family members. It means that you're approaching people with whom you have a trusted relationship and asking them to believe in you — with minimal evidence that you'll be successful other than their prior experiences with you. One of the unfair elements of life is that some entrepreneurs have access to friends and family with a lot more capital than other entrepreneurs. Regardless, for almost every entrepreneur, the money you raise from your friends and family is precious, so make sure you spend it carefully.

If you have a product — or at least a working prototype — and strong evidence that customers will use it and ideally pay for it, then you can approach seed investors.

The term “seed” refers to startups in the earlier stages — more than just an idea, but not yet a fully developed business. Seed investors may be professionals who spend all their time investing and helping their investments to succeed. Or they may be “angels” who often have another full-time occupation but invest in startups as a pastime and a passion. Smart seed investors look at a lot of potential startups for every one investment they actually make. They’ll know to ask tough questions and dig into your data, so you need to be prepared.

Many entrepreneurs dream about raising venture capital. Venture capital generally comes from firms — groups of professionals that specialize in finding promising companies ready to grow rapidly, making investments in those companies — often over a number of years — then helping those companies grow as fast as possible. Venture capitalists will often need to see a mature product and compelling evidence that you have a great way to make a lot of money and grow very quickly.

As a simple rule of thumb, friends and family invest in you and your idea. Seed investors invest in your process of experimentation to find a great business model. Venture capitalists invest in great business models to help them grow.

Of course, there are other types of capital that might work for you, depending on your product. Some products work great for crowdfunding through sites like KickStarter or IndieGoGo. Borrowing money from banks might work for other types of solutions.

Once you’re confident that your business is ready to raise a particular type of capital, then you really need to work to develop your pitch, or the story you tell investors about your business model and how you will grow a big business quickly. While you’re developing your pitch — which should take weeks or even months of diligent practice to get right — you should also be connecting with potential investors. A great way to engage an investor is to let them know you’ll be raising soon, but would like to start by getting their advice. This gives them an opportunity to get to know you over time and signal their interest before a formal pitch.

Once your business is ready, your pitch is strong, and you’re confident that you have a good pool of interested investors, then you actually go forward with a formal capital raise. The raise itself may only take a few weeks to a few months, but the overall process of raising capital should take as long as six months to do right.

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