MKTG 306
FUNDAMENTALS OF ENTREPRENEURSHIP

Session 7 – **Resource Acquisition & Sources of Funding**

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Session Overview

- Having discussed business plan in the previous session, every entrepreneur needs to think of acquiring the needed resources. No business can operate without adequate resources. This session will explore the various resources needed by any entrepreneur.

Goals and Objectives

- **At the end of the session, the student will:**

1. Determine the capital needs of entrepreneurial activities.

2. List and discuss the various sources of financing.

3. Mention and discuss what considerations the entrepreneur must take into account when it comes financing the business.

Session Outline

The key topics to be covered in the session are as follows:

- Topic One: Resource Acquisition
- Topic Two: Social Capital (Networking) As A Resource
- Topic Three: Financing The Venture/Sources of Funding

Reading List

- Pages 226 to 236 of the main text –
- **Buame, S.C.K. (2012).** Advanced Entrepreneurship: Enterprise Culture, Venture Creation, Promotion & Management of SMEs in Ghana --- **MAIN TEXT**

Topic 1

RESOURCE ACQUISITION

Resource Acquisition

- In the previous session you were introduced to business plans.

- However, after writing a business plan you have to a make a decision to start the business if it is worth the effort, or to think of something else because you might have learned during the process of writing the business plan that it you would be better off not starting that business.

- If you intend to go ahead with the business then you need to acquire resources.

Types of Resources

- Depending upon the type of business, entrepreneurs need a combination of resources. These resources are reduced into the *mnemonics* of 7Ms. This is to make it easy for you to remember.

- Resources are any assets that are required by the entrepreneur in order to create wealth. The resources can be hard, like buildings, and any physical assets or soft, such as labour, talents and any intangible resources.

Types of Resources – 7Ms(cont'd)

- **M**oney (funding) – the most crucial
- **M**aterials
  - premises (land)
  - machinery
  - equipments
  - inputs
- **M**en (labour)
- **M**arket (the clientele base)
- **M**anagement (the decision-maker, entrepreneur himself)
- **M**inutes (time)
- **M**ethods (how things are to be done)

Topic 2

SOCIAL CAPITAL (NETWORKING) AS A RESOURCE

SOCIAL CAPITAL (NETWORKING) AS A RESOURCE

- **Essence of Social Capital – used to gain access other resources**
  - Personal and Economic Networks
  - A worldwide phenomenon – Ghana, China, Russia etc.
    - Ghanaians call it ***connections*** (except for its negative connotations), Russians call it ***blat***; and Chinese call it ***quanxi*** or ***guanxi,*** and the Japanese call ***kone or tunagari***

SOCIAL CAPITAL (NETWORKING) AS A RESOURCE (cont'd)

- Bases: Any occasion for Social Interactions
  - Old Boyism
  - Clubs
  - Associations, etc
    - *It is nurtured by exchange of greetings/cards, mutual good will, concern for each*

Topic 3

FINANCING THE VENTURE/SOURCES OF FUNDING

Financing the Venture

- Equity: own source of funding
  - Personal savings
  - Publicly traded shares

- Debt: borrowing from different sources
  - loans from banks, friends, etc

contd

Sources of Financing

- Many entrepreneurs struggle to find the capital to start a new business.
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- There are many sources to consider, so it is important for an entrepreneur to fully explore all financing options.

- He also should apply for funds from a wide variety of sources.

Sources of Fund

1. Personal savings
2. From family members/relatives
3. Bootstrapping
4. Business incubator
5. Bank Loans
6. From Friends
7. Crowdfunding
8. From Money Lenders (Rural ”kulaks”) from business angels

Sources of Fund (cont'd)

9. Venture Capital Trust Fund (Venture Capital Act (2004) Act 680)
10. Mortgage Property
11. Govt. guaranteed loans: Micro Finance Fund, NBFIs etc.
12. Suppliers' credit
13. Susu and Cooperatives sources
14. Strategic Partners
15. Initial Public Offering

contd

Personal savings

- Experts agree that the best source of capital for any new business is the entrepreneur's own money.

- It is easy to use, quick to access, has no payback terms, and requires no transfer of equity (ownership).

- Also, it demonstrates to potential investors that the entrepreneur is willing to risk his own funds and will persevere during hard times.

Cont’d

- **Bootstrapping**
- Bootstrapping is finding ways to avoid the need for external financing or funding through creativity, ingenuity, thriftiness, cost-cutting, or any means necessary. (The term comes from the adage “pull yourself up by your bootstraps.”)

- It is the term attached to the general philosophy of minimizing start-up expenses by aggressively pursuing cost-cutting techniques and money-saving tactics.

Cont'd

- **Bootstrapping**
- There are many well-known examples of entrepreneurs who bootstrapped to get their companies started. Legend has it that Steve Jobs and partner Steve Wozniak sold a Volkswagen van and a Hewlett-Packard programmable calculator to raise $1,350, which was the initial seed capital for Apple Computer

- For example, renting space in a community incubator or building where other start-ups are located, rather than working from home, may be worth it if it provides entrepreneurs access to a network of people who can be relied on to provide social support and business advice.

Bootstrapping (Cont'd)

- Buy used instead of new equipment
- Coordinate purchases with other businesses
- Lease equipment instead of buying
- Obtain payments in advance from customers
- Minimize personal expenses
- Avoid unnecessary expenses, such as lavish office space or furniture
- Buy items cheaply, but prudently, through discount outlets or online auctions such as eBay, etc.
- Share office space or employees with other businesses
- Hire interns

- **Business Incubator**
- Business incubator are organizations geared toward speeding up the growth and success of startup and early stage companies. They are often a good path to capital from angel investors, state governments, economic-development coalitions and other investors.
- Incubators vary in their strategies. Some are located in an actual physical space meant to foster networking among entrepreneurs and their coaches. Others operate on a virtual basis.
- Incubators sometimes call themselves accelerators instead, often when they are geared toward jumpstarting businesses that are more developed.

Business incubator (cont'd)

- Commonly, incubators will invite future businesses and other fledgling companies to share their premises, as well as their administrative, logistical, and technical resources.
- For example, an incubator might share the use of its laboratories so that a new business can develop and test its products more cheaply before beginning production.
- Generally, the incubation phase can last up to 2 years.

Business incubator (cont'd)

- Once the product is ready, the business usually leaves the incubator's premises to enter its industrial production phase and is on its own.

- Businesses that receive this kind of support often operate within state-of-the-art sectors such as biotechnology, information technology, multimedia, or industrial technology.

Friends and family

Friends and family

- These people believe in the entrepreneur, and they are the second easiest source of funds to access.
- They do not usually require the paperwork that other lenders require.
- However, these funds should be documented and treated like loans.
- Neither part ownership nor a decision-making position should be given to these lenders, unless they have expertise to provide.
- The main disadvantage of these funds is that, if the business fails and money goes lost, a valuable relationship may be jeopardized.

Banks

Banks

- Banks are very conservative lenders. As successful entrepreneur Phil Holland explains,
- "Many prospective business owners are disappointed to learn that banks do not make loans to start-up businesses unless there are outside assets to pledge against borrowing."

- Many entrepreneurs simply do not have enough assets to get a secured loan from a lending institution.
- However, if an entrepreneur has money in a bank savings account, she can usually borrow against that money.

Banks & Venture investors

- If an entrepreneur has good credit, it is also relatively easy to get a personal loan from a bank.
- These loans tend to be short-term and not as large as business loans.

Venture investors

- ❑ This is a major source of funding for start-ups that have a strong potential for growth.
- ❑ However, venture investors insist on retaining part ownership in new businesses that they fund.

Venture investors

- Formal institutional venture funds are usually limited partnerships in which passive limited partners, such as retirement funds, supply most of the money.

- These funds have large amounts of money to invest.

- However, the process of obtaining venture capital is very slow Several books, such as *Ghana's Venture Capital & Private Equity Directory*, may give detailed information on these funds.

Venture investors

- Corporate venture funds are large corporations with funds for investing in new ventures.

- These often provide technical and management expertise in addition to large monetary investments.

- However, these funds are slow to access compared to other sources of funds.

- Also, they often seek to gain control of new businesses.

Angel investors

- **Angel investors**
- Angel investors tend to be successful entrepreneurs who have capital that they are willing to risk.
- They often insist on being active advisers to businesses they support.
- Angel funds are quicker to access than corporate venture funds, and they are more likely to be invested in a start-up operation.
- But they may make smaller individual investments and have fewer contacts in the banking community.

Government programs

Government programs

- Many national and regional governments offer programs to encourage small- and medium-sized businesses.

- In the United States, the Small Business Administration (SBA) assists small firms by acting as a guarantor of loans made by private institutions for borrowers who may not otherwise qualify for a commercial loan.

- In Ghana – think of NBSSI, MOTI, EXIMBANK,

Initial Public Offering

- **Initial Public Offering**
- Another source of equity funding is to sell stock to the public by staging an initial public offering (IPO).

- An IPO is the first sale of stock by a firm to the public.

- Any later public issuance of shares is referred to as a **secondary market offering**.

Strategic Partners

- **Strategic Partners**
- Strategic partners are another source of capital for new ventures. Indeed, strategic partners often play a critical role in helping young firms fund their operations and round out their business models.

Strategic partners (cont'd)

- Small firms, can partner with larger companies to conduct trials and bring products to market.
- Most of these arrangements involve a licensing agreement.
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- Many partnerships are formed to share the costs of product or service development, to gain access to a particular resource, or to facilitate speed to market.

Strategic partners (cont'd)

- In exchange for access to plant and equipment and established distribution channels, new ventures bring an entrepreneurial spirit and new ideas to these partnerships.

- These types of arrangements can help new ventures lessen the need for financing or funding.