Stages of startups and source of funding

Startup India Hub, Department for Promotion of Industry and Internal Trade, Government of India

https://www.startupindia.gov.in

There are multiple sources of funding available for startups. However, the source of funding should typically match the stage of operations of the startup. Please note that raising funds from external sources is a time-consuming process and can easily take over 6 months to convert.

Ideation (Pre-Seed Stage)

This is the stage where the entrepreneur has an idea and is working on bringing it to life. At this stage, the amount of funds needed is usually small. Additionally, at the initial stage in the startup lifecycle, there are very limited and mostly informal channels available for raising funds.

Bootstrapping/Self-financing: Bootstrapping a startup means growing the business with little or no venture capital or outside investment. It means relying on your savings and revenue to operate and expand. This is the first recourse for most entrepreneurs as there is no pressure to pay back the funds or dilute control of your startup.

Friends & Family: This is also a commonly utilized channel of funding by entrepreneurs still in the early stages. The major benefit of this source of investment is that there is an inherent level of trust between the entrepreneurs and the investors.

Business Plan/Pitching Events: This is the prize money/grants/financial benefits that are provided by institutes or organizations that conduct business plan competitions and challenges. Even though the quantum of money is not generally large, it is usually enough at the idea stage. What makes the difference at these events is having a good business plan.

Validation (Seed Stage)

At this stage, a startup has a prototype ready and needs to validate the potential demand of the startup's product/service. This is called conducting a "Proof of Concept (POC)," after which comes the big market launch.

A startup will need to conduct field trials, test the product on a few potential customers, onboard mentors, and build a formal team for which it can explore the following funding sources:

Incubators: Incubators are organizations set up with the specific goal of assisting entrepreneurs with building and launching their startups. Not only do incubators offer a lot of value-added services (office space, utilities, admin & legal assistance, etc.), they often also make grants/debt/equity investments.

Government Loan Schemes: The government has initiated a few loan schemes to provide collateral-free debt to aspiring entrepreneurs and help them gain access to low-cost capital such as the Startup India Seed Fund Scheme and SIDBI Fund of Funds.

Angel Investors: Angel investors are individuals who invest their money into high-potential startups in return for equity. Reach out to angel networks such as Indian Angel Network, Mumbai Angels, Lead Angels, Chennai Angels, etc., or relevant industrialists for this.

Crowdfunding: Crowdfunding refers to raising money from a large number of people who each contribute a relatively small amount. This is typically done via online crowdfunding platforms.

Early traction (Series A Stage)

At the Early Traction stage startup's products or services have been launched in the market. Key performance indicators such as customer base, revenue, app downloads, etc. become important at this stage. Funds are raised at this stage to further grow the user base, product offerings, expand to new geographies, etc. Common funding sources utilized by startups in this stage are:

Venture Capital Funds: Venture capital (VC) funds are professionally managed investment funds that invest exclusively in high-growth startups. Each VC fund has its investment thesis—preferred sectors, stage of the startup, and funding amount—which should align with your startup. VCs take startup equity in return for their investments and actively engage in the mentorship of their investee startups.

Banks/Non-Banking Financial Companies (NBFCs): Formal debt can be raised from banks and NBFCs at this stage as the startup can show market traction and revenue to validate its ability to finance interest payment obligations. This is especially applicable for working capital. Some entrepreneurs might prefer debt over equity as debt funding does not dilute equity stake.

Venture Debt Funds: Venture Debt funds are private investment funds that invest money in startups primarily in the form of debt. Debt funds typically invest along with an angel or VC round.

Scaling (Series B, C, D, & E)

At this stage, the startup is experiencing a fast rate of market growth and increasing revenues. Common funding sources utilized by startups in this stage are:

Venture Capital Funds: VC funds with larger ticket sizes in their investment thesis provide funding for late-stage startups. It is recommended to approach these funds only after the startup has generated significant market traction. A pool of VCs may come together and fund a startup as well.

Private Equity/Investment Firms: Private equity/Investment firms generally do not fund startups however, lately some private equity and investment firms have been providing funds for fast-growing late-stage startups who have maintained a consistent growth record.

Exit options

Mergers & Acquisitions: The investor may decide to sell the portfolio company to another company in the market. In essence, it entails one company combining with another, either by acquiring it (or part of it) or by being acquired (in whole or in part).

Initial Public Offering (IPO): IPO refers to the event where a startup lists on the stock market for the first time. Since the public listing process is elaborate and replete with statutory formalities, it is generally undertaken by startups with an impressive track record of profits and who are growing at a steady pace.

Selling Shares: Investors may sell their equity or shares to other venture capital or private equity firms.

Buybacks: Founders of the startup may also buy back their shares from the fund/investors if they have liquid assets to make the purchase and wish to regain control of their company.

Global Innovation Fund

The Global Innovation Fund (GIF) invests in the development, rigorous testing, and scaling of innovations targeted at improving the lives of the world's poorest people. Through grants and risk capital, the Fund helps breakthrough solutions to global development challenges from for-profit firms, non-profit organisations, researchers, and government agencies to maximise their impact and affect meaningful change.

Through grants, loans (including convertible debt) and equity investments ranging from $50,000 to $15 million, we back innovations with the potential for social impact at a large scale, whether they are new technologies, business models, policy practices, technologies or behavioural insights.

The Fund supports innovators at all stages of their life cycle, from start-up and pilot-testing through to larger scale implementation. The innovations funded can be located in any developing country and can focus on any sector relevant to international development, provided they improve the lives of those living on less than $5 a day.

GIF takes a venture capital approach, using a tiered financing model, and offering graduated funding. The goal of staged funding approach is not to fund small organisations that stay small, and medium-sized interventions that stay medium-sized. It is to support organisations to scale up to reach millions of people.

This staged funding approach also allows GIF to manage risk sensibly. The fund is able to take smaller bets on riskier, unproven innovations at the pilot stage, and is able to invest larger amounts in innovations that have demonstrated strong evidence of success, through rigorous impact evaluations where possible. By meeting the financing needs of innovators from the seed stage right through to expansion funding, GIF aims to transform high potential ideas into impact at scale.

For more information, access:
https://www.globalinnovation.fund

Selected business funding in Malaysia

Malaysian Technology Development Corporation (MTDC), Malaysia

https://www.mtdc.com.my

Business Start-up Fund

Business Start-up Fund (BSF) is established to fund early-stage technology-based companies. The Fund incorporates elements of loan and equity, offering companies flexible funding via Convertible Promissory Notes (CPN) and/or Preference Shares.

BSF is designed to provide funding to scalable and viable technology based early stage companies with the objective to remove the financial blockages in achieving the business goals and matching the business standard and high level of competition, particularly in the growth sectors of the economy.

Business Growth Fund

This is a funding program that focuses on growing the company not only on its production output and reach, but also on internal preparedness towards professionalism, corporate governance, and all the necessary tools to escalate the company to the next level.

MTDC-microLEAP Peer-to-Peer (P2P) Financing Programme

MTDC-microLEAP Peer-to-Peer (P2P) Financing Programme is a social lending programme that aimed to facilitate local technology-based companies to obtain financing directly from the mass public; either individual or organization via crowdfunding platform. The programme will enable local technology-based companies to obtain capital through P2P lending from a relatively large number of investors, using an online platform.

Our P2P partner, microLEAP (Microleap PLT), is a Recognized Market Operator by the Securities Commission of Malaysia who operates a P2P financing platform that allows businesses to raise crowd-sourced funds in which the issuers (borrowers) may raise financing from as little as RM1,000 while P2P investors may invest in "Investment Notes" issued by them from as little as RM50.

MTDC-pitchIN Equity Crowdfunding (ECF) Programme

MTDC-pitchIN Equity Crowdfunding (ECF) Programme is an equity crowdfunding programme aimed to facilitate fundraising for local technology-based companies through crowdsourcing. The programme will enable local technology-based companies to obtain capital through equity investment from a relatively large number of public investors, using an online platform.

National Technology & Innovation Sandbox Fund

The NTIS is a national initiative which serves as a "safe place" to allow innovators to test their products, services, business models, and delivery mechanisms in a live environment with relaxations on all or specific processes and/or regulatory requirements. In support of the NTIS programme, MTDC offers the NTIS Fund which will finance relevant activities under the programme.

ASEAN Smart Cities Network

The ASEAN Smart Cities Network (ASCN) is a collaborative platform where cities from the ten ASEAN Member States (AMS) work towards the common goal of smart and sustainable urban development. the primary goal of the ASCN is to improve the lives of ASEAN citizens, using technology as an enabler. By focusing on our people, it adopts an inclusive approach to smart city development that is respectful of human rights and fundamental freedoms as inscribed in the ASEAN Charter. The networking of Smart Cities across ASEAN also contributes to enhancing mutual understanding across cultures.

The 26 ASCN Pilot Cities are: Bandar Seri Begawan, Battambang, Phnom Penh, Siem Reap, Makassar, Banyuwangi, DKI Jakarta, Luang Prabang, Vientiane, Johor Bahru, Kuala Lumpur, Kota Kinabalu, Kuching, Nay Pyi Taw, Mandalay, Yangon, Cebu City, Davao City, Manila, Singapore, Bangkok, Chonburi, Phuket, Da Nang, Hanoi, and Ho Chi Minh City.

The ASCN aims to facilitate cooperation on smart cities development, catalyze bankable projects with the private sector, and secure funding and support from ASEAN's external partners. To this end, 33 partnerships have been established thus far.

For more information, access:
https://asean.org/asean/asean-smart-cities-network/#