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The 'Funding Buffet': Understanding the sources of capital to finance your venture

This technical note is an introduction to the world of financing entrepreneurial ventures. It is a primer on the different stages of a business and the different types of financing available. Most of the capital that high-growth entrepreneurial businesses will secure to fund their future plans is private capital. Private capital includes all the equity financing that is not in public equities; i.e. publicly listed companies. Hence, private capital includes not only venture capital and private equity, but also business angels and equity crowdfunding. We will go deeper into these sources in section 2 of this note.

1. Venture stage, needs and funding available

An entrepreneurial business is not only a startup. Additional financing needs may arise; not only for early-stage startups but also for high-growth companies. Common to these companies is the fact that additional funding is necessary to unlock the next phase of growth and ensure that the company does not run into trouble. As the entrepreneurial venture is growing, there might be changes in the composition of shareholders that will require an investment/financing decision. In order to have a winning strategy as an entrepreneur in financing mode, you need to know the alternative financing sources available – what the industry calls 'the funding buffet' – and the implications and costs of using one versus the other, or a combination of them. Different types of funding will be available at different stages of the venture life cycle. In the early days funding will most often be private capital. Later, as the venture becomes more mature, debt and public capital become feasible sources of funding.

We classify the venture life cycle into four stages: seed, startup, growth and maturity.

A. Seed stage

This stage starts with the identification of an opportunity and the idea for a new product or service. In most cases, founders will have been working on the initial technology or a basic prototype and the company may yet to be incorporated. The founders will be validating their idea and trying to estimate the money needed to produce a minimum viable product (MVP) and attract a first customer. From a financial point of view, the seed stage ends when the

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