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Finding the Resources

Getting resources for a company during start-up and launch is not easy. The first question that entrepreneurs have to answer in their quest for funds is whether they want to opt for debt or equity.

Debt, as the word suggests, indicates a borrowing. This has two implications:

- a. The entrepreneur retains full ownership of the company
- b. The amount borrowed has to be repaid with interest

Equity allows an entrepreneur access to resources without having to borrow money. The entrepreneur, however, has to relinquish a part of his ownership of the firm in exchange for the resources.

Most entrepreneurial companies use one of the following routes for their initial capital.

- **Personal Savings and Bank Loans**

Getting a loan from the bank can be difficult if you have no collateral or assets. If you are a fresh entrepreneur, the lack of a track record could make it even more difficult. In some cases, the bank loans are also accompanied by an equity stake in the company.

- **Employees and Partners**

Some entrepreneurs rope in human resources in exchange for sweat equity, or in a few instances, borrow from their employees. Another option is to borrow from acquaintances in return for a partnership in the company. Very often, the arrangement is such that the partner shares the profits but does not have any say in the management of the company.

- **Venture Capitalists**

Today, attracting the interest and attention of VCs is difficult unless the track record of the team is exceptional. If the entrepreneur has been successful during the launch, and the product has potential, VCs may be willing to take a closer look and provide the resources for expansion in exchange for equity.

- **Mortgages, Credit cards and Others**

There are classic stories of entrepreneurs who have raised capital through credit cards and mortgages. It has been observed that it is only the most innovative or foolhardy of entrepreneurs who choose such options. The reasoning behind this is that credit cards will provide enough capital to see them through the launch, after which they will be able to generate a cash flow or attract investors based on the idea.

For the small-scale sector, there are cooperatives and government-run schemes that provide either subsidies or loans for entrepreneurial businesses.

At the end of the day, it all boils down to the cash flow that the entrepreneur is able to generate. During the growth phase following the launch, most of the incoming resources



TenStep Supplemental Paper

are dedicated to the expansion of the company, and that leaves very little in terms of income for the entrepreneur. The ability to manage resources is the only thing that can see the entrepreneur through.