GTL Project

GreenTecLab

# Financing - different options at a glance

# Where does the money come from to start a business?

The answer to this question can vary greatly.

Perhaps you have savings or a social environment that supports you financially.

Or maybe you receive financing from classic financial institutions (e.g. classic bank loan) or other professional financiers (e.g. public funding programs, investors).

Novel forms of financing such as crowdfunding are also a possibility to kick-start the financing of your business.

## Which form of financing is the right one?

This answer can also be very different, because which financing is right for you depends on various factors.

Each form of financing has advantages and disadvantages, and depending on the financing you have to meet certain requirements.

In addition, financing differs in how quickly you receive the money, how high the financing amount is and whether you have to provide direct consideration for it (e.g. transfer of company shares or co-determination rights).

So always start by asking yourself which form of financing is best suited to what you have in mind.

# Bootstrapping

The term bootstrapping is used when founders have have financed their business idea solely from their own funds.
However, bootstrapping is usually only suitable if the start-up can be implemented with manageable financial resources (up to €50,000).

## Advantages

- You don't have to compromise because you are not financially dependent on anyone.
- You save yourself high interest payments.

## Disadvantages

- The enterprise can usually be built up only slowly, if necessary competitors can overtake you.
- No access to the expertise and networks that investors bring.
- If you fail, your saved money is lost.

# Family & Friends

People from the social environment often offer financial support for start-ups. The conditions are usually more favorable than those offered by professional financiers. Typically, the money is provided as a loan (often even interest-free) or as equity capital.

## Advantages

- More attractive conditions than with professional lenders.

## Disadvantages

- If your business idea fails, the private relationship may be strained.
- Make yourself and your supporters aware of the risks beforehand and record all agreements in a written contract.

# Credits & Loans

The classic bank loan usually covers sums between 25,000 and 300,000 euros.

## Advantages

- Planning security: You pay off the loan over a defined period at a fixed interest rate.
- Banks do not receive any shares and have no say in the management.

## Disadvantages

- Bank loans are usually granted only when your project has progressed to the point where profits will soon be made.

## Funding loans

Promotional or funding loans are similar to the classic bank loan.
similar. However, the money comes from public sources, e.g. ministries.
These institutions primarily pursue political goals, which is why the financial conditions are usually more favorable.

### Advantages

- Low interest rates, long repayment periods
- Repayment often does not begin until after two years.

### Disadvantages

- It is possible that promotional loans are tied to specific subject areas and that the awarding of funding is less free.

# Crowdfunding & Crowdinvesting

Crowdfunding uses the power of the crowd.
You present your idea on a crowdfunding platform (e.g. Kickstarter or crowdfunding), hoping that many people will support you with a small amount of money.

Crowdinvesting is a crowdfunding variant that has established itself as an important financing option.
With crowdinvesting, investors receive financial compensation in return, e.g. a percentage share in future profits. As a rule, however, they do not receive any say in the matter.

## Advantages

- Many supporters decide on the basis of sympathy and not on the basis of economic prospects of success.

## Disadvantages

- They have little planning certainty, because it is not predictable what amount will be reached through crowdfunding.

# Venture Capital (VC)

VC means that a company invests money from a fund invests in startups and new businesses.
The investment can be several 100,000 euros.

## Advantages

- Very high financing amounts are possible.

## Disadvantages

- VCs often expect shares in the company, often also co-determination rights.
- The goal of VCs is an exit: that is, they want to exit after a defined period with as much profit as possible. This can lead to strong pressure.

# Business Angels

Business angels are private individuals who invest their assets in startups.
Often, business angels are active or former entrepreneurs who have a personal interest in your idea. Investments range from 25,000 to several 100,000 euros. Unlike VCs, business angels also make decisions based on personal interests and sympathy and not exclusively on economic prospects of success.

## Advantages

- Business angels provide access to their network and often support with their own expertise.

## Disadvantages

- Business angels also want to exit after a few years at a profit.

# Incubator and accelerator programs

An incubator program is not a classical financial support.
a classical financial support.
Incubator means incubator. This means that you (and your team) are supposed to transform your idea, with professional support from mentors and coaches, into a feasible business concept.
Accelerator programs work in a similar way to incubator programs, but usually start in the growth phase. Start-up financing is standard. Unlike incubators, whose sponsors are usually public institutions or universities, accelerator programs are often backed by companies.

## Advantages

- Access to professional start-up advice and support in developing a business concept.

## Disadvantages

- No high financing sums.

# Start-up competitions

The prize money of start-up competitions ranges between a few thousand euros to as much as 50,000 euros. But competitions are about more than just the prize money. By participating, you can draw attention to your business idea and attract investors.
In many competitions, the prize also includes extensive start-up advice and access to established start-up networks.

## Advantages

- You learn to present your business idea.
- You make potential investors aware of your business idea.
- Good rankings in competitions are a sign of quality for your business idea.

## Disadvantages

- The prize money is usually not enough to fully fund your business idea. .

Visit our Website if you want to learn more about financing und funding opportunities

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