The issue of funding is of exceptional importance for any entrepreneur ready to start a new company's journey. However, the means by which it is possible to earn capital to fundraise new ideas seems to be considerably changed lately. Today, many businesses have been brought to life thanks to Crowdfunding, an apparently easier and faster way to gain the necessary capital for startups compared to the traditional investors seeking process. This section of the report will give some insights on the potential fundraising means, the main challenges that can be faced and which can be the factors able to increase the business attractiveness for investors in business.

- **Venture Capital**

Venture Capital is the funding capital provided by investors to startup firms and small business with a perceived long-term growth potential. The most critical point about a venture capital investment is the high risk for the investor that is however balanced by the potential of an above-average returns.

This funding mean refers to Equity fundraising and focuses on business models in high technology industries. As clearly explained in an interview by Frank Saviane, founder and CEO of Fast Forward Advisors, venture capitalists look for potential businesses which growth and value are positively correlated: higher the growth, higher the added value. The digital economy is a profitable market sector to invest in since the quick growth of users can quickly increase the business value as well. Business models with a technology core are today attractive for venture capitalists, however it is crucial for any startup at its first stage to understand whether their business model is "VC-backable" or not. The first step is a clear understanding of the status of business development

- Idea stage
- Development stage
- Product or service available to customers
- Have raised some revenue
- Have raised significant revenue and are looking to ramp up business

And a clear **Business plan** as the main resource. The relationship between the entrepreneur/s and the investor/s is based on a clear mutual understanding on what is being offered in exchange of other's support. An effective business plan is not too complex, around 5/6 pages maximum (they can change based on the status of the business development), includes reasonable and realistic financial projections with explicit description of the assumptions supporting the model and covers following:

- The business: a short description of the company's business and the Mission statement
- The Market: an historic and projected size and the market trends
- Product Offering : product description, current development status and projections, differentiation, revenue generation
- Distribution: Key customers, sales channels, partnerships

- Competition: key competitors, barrier to entry
- **Management Team**: team background, board composition
- Financials: current balance sheet, projected cash flow (first two years by quarters), projected head count by functional area (G & A, sales, **Marketing**, Product Development)
- The Deal: amount to be raised, valuation asked, use of proceeds.

Two points are here worth to be mentioned, since, as Frank Saviane underlined, they are the once that can often determine the success or the failure of a pitch: lack of business congruence and concreteness and low attention paid on the importance of the management team. Congruence and concreteness mainly refer to the presence of a deep marketing research and development and to the hypothesis verification. The main tool a potential successful business owns is a well developed Marketing Strategy which involves a clear vision of: How will I be able to increase the number of users? How much will it cost? Which one is my strategy to reach them?

The above mentioned points are extremely important, especially when referring to statistical forecasting that will have to present realistic data and analysis. Numbers have a relative value when hypothesis have not been previously verified. The importance of testing a product on the market (through a prototype or so) is crucial. There is no statistical test that can exactly predict the future as an actual market testing. Tests, indeed, allow entrepreneurs and potential investors to communicate on the base of detailed analysis and concrete data, rather than hypothesis.

The importance of the management team is a second essential point. Many investors believe in the potential of the team more than in the idea, they could be for example skeptical about in the first stage. A successful business is made of the people working in and for it and, according to this, it is possible to determine a ratio of 51% Management team versus 49% Business Idea in any investment evaluation.

A fundraising process can be extremely challenging especially in a so fast-growing environment. When it comes to find capital for a new business the way the idea is presented and the capacity of making sense out of it for investors and customers is an important step. Eric Migicovsky, founder of the Pebble smartwatch, today holds the title of the most-funded project on Kickstarter, however, his story was not so successful when he participated in the Y Combinator (seed funding and mentoring accelerator in Silicon Valley) and all the funding pitch sessions fell short compared to other projects. The problem was that even though he had an interesting product, he was not able to communicate and explain it to investors in order to capture their attention. This represents a challenge for many entrepreneurs, however, there is a way: keep it simple. Keeping simple the message even through a well detailed business plan is essential to attract potential investments. This is one of the reason why it is normally recommended to keep the business plan length to 5-6 pages for a seed or startup funding stage in order to avoid any consistent but too technical approach that would confuse more than clarify the value proposition.

The entrepreneurial environment is challenging and one of the main focuses when looking for investors should remain to "get in touch with the right people". As the founder of Fast Forward Advisors explained, Europe and US culturally differ in their approach to entrepreneurial ventures.

United States have a ‘success story factor’ that implies a more opened and risk-taker approach when investing in new startups. The knowledge gained through Silicon Valley, Texas-Austin, New York area has definitely boosted the awareness of which can be a potential successful business or not. Europe, conversely, is made of history, different cultures and states, where each one can be considered as a unique cell. In the case of Europe, different approaches need to be taken into account in different areas, however a common factor that differentiate it from US is a more conservative approach and a more risk-adverse attitude due to the lack of a ‘success story factor’. It is important to notice that this is a current picture that is in any case quickly developing and all European countries are evolving from an entrepreneurial point of view at a fast pace. Interesting cells can be recognized in London, Berlin, Stockholm, Milan, Vienna, Madrid and also in Bulgaria, Czech Republic, Lithuania where important Entrepreneurial ecosystems are growing. Berlin is at the moment a very dynamic environment where is possible to fund a business at very low costs compared for example to London or Silicon Valley (a ratio of 1:3 and 1:10 in terms of costs, respectively) with a particularly rewarding entrepreneurial ecosystem at the moment. Nevertheless, emergent countries need to be taken into account in a long term perspective (Taiwan, Hong Kong, Singapore, Russia) where it will be possible to gain consistent market niches and consumers.

<u>Scandinavia potential contacts</u>:
http://www.scandinavianinvestmentnetwork.com/?gclid=CI3Ft9264rwCFeH0cgodsTgAPw
http://www.private-equity-scandinavia.com/?gclid=CP3trd-64rwCFQLecgodSVQAQg

- **Crowdfunding**

Today, the crowdfunding option is the one that brought aspiring investors and entrepreneurs to making their dream a reality. Crowdfunding is the process of asking the general public for donations that provide startup capital for new ventures. By using the existing platforms like Kickstarter and IndieGogo, creators can build web pages hosting information, photos, videos on products or services looking to be funded (Steinberg & DeMaria, 2012). Viewers can invest getting a special reward in exchange for their support and additionally can see the idea they have funded become a reality. The crowdfunding model is innovative for many aspects and looks to be an “easier” way to jump into the business world. However, it is important to understand that a crowdfunding campaign is not easier than getting investors on board in a traditional way, to some extend is probably not easier not harder, only differently focused.

Crowdfunding is addressed as a “campaign” since it requires a careful planning, a clever resource allocation and consistent execution. Crowdfunding is a really intense and challenging process as declared from the most successful entrepreneurs that went through this journey and the pre-launching planning is vital to the success of the business. The main tips for preparing and driving a successful campaign are few but very consistent, along with the typical steps that are extensively described in the Appendix of this report.

The “Do your homework” is to make sure that before the campaign has started some points have already an answer and a solution: extensive research on the competitive products, their features and what the product has as a value added compared to others, tests and eventual prototypes, an e-commerce website fully developed, a well planned supply chain and network distribution, a way to handle fulfillment and warehousing. The main idea is that as soon as the campaign is done, a business needs to immediately take over in order to reward its backers as soon as possible. The relationship between the business entrepreneurs and “the crowd” is mainly based on trust and it is crucial to reinforce it in a consistent way. This needs to happen not only in the post campaign moment, but also during the campaign period. It is crucial to be extremely proactive in creating a network through social media and by communicating what the business is about and furthermore who are the individuals making the business remarkable. “The Crowd” is made of people and they will be interested to know who the founders are, what they do and how they are going to impact someone’s life in a meaningful way: “let them know about you and tell a story about what you can do for them”. Another important aspect is the fact that “the crowd” is not only part of the campaign from an economical point of view, but also from a marketing and product development point of view. Viewers ask questions on “how, in which way, with which additional features, if it is possible to” and they are extremely curious about it. Their curiosity is a big asset of any crowdfunding system because through them it is not only possible to understand whether the market likes a product or service, but also in which way it can be developed and improved in order to be more successful. However, even though feedback might be subtle and friendly, other can be loud and demanding. While considering feedback it is important to see them more as suggestions, discuss them in team and respond to people in a sincere way, making them part of the fun of crowdfunding.

The planning of effective rewards for backers are another important step. People like to feel rewarded and when this commonly happens in life in the right way, a mutual giving relationship between two parts is created. The same happens in the case of crowdfunding, the more backers will feel rewarded the more will be willing to invest (money and words of mouth).

At this point the public and wide exposure any business has through crowdfunding is clear and it is also one of the contrary aspect of it. Once exposed on internet, a business idea goes publicly through a win or lose journey. Even though this can be scary at first, by asking the right questions and preparing properly a crowdfunding campaign, a lot of good results can be achieved. In order to gain a better understanding, it is possible to examine other crowdfunding projects, both successes and failures, and get insights of which approaches, techniques and strategies work or tend to result as a failure. Especially similar projects might have failed for some particular reasons is fundamental to understand in order to learn from previous mistakes.

In the Appendix of this report “The Crowdfunding Bible” describes in a comprehensive way which are the steps and the questions to ask when considering crowdfunding as well as a valuable list of crowdfunding platforms[1] and testimonials of the most successful and failures campaigns.

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[1] The document refers to Kickstarter as a platform available to US only, however since 2013 Kickstarter has been based in London too, allowing European businesses to find an easier to get on the platform.

- **Additional investments inputs**

Additional options when looking for investors can be a short-list of people known through personal contacts, consultant companies and networking events. However, the cost to participate to these kind of events is particularly high, from 5,000-12,000 Kr.

In Scandinavia, it is also very common to participate to Startup Competitions where winners prizes can be up to 5,000,000 Kr.

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