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B.Com Honours

Semester I

Calicut University

# **Business Start-up Essentials**

Course Code: COM1FM105 (1) • Module 3 Notes

# 1. Funding Options: Bootstrapping, Angels, VC, and Crowdfunding

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Capital is the lifeblood of a startup. Securing the right type of funding at each stage of growth determines a startup's survival and equity structure. Founders must match their business models to appropriate capital sources, balance equity dilution against growth speed, manage cash flows, and select pricing models. This module covers bootstrapping, angel investors, venture capital, crowdfunding models, financial projections, and pricing strategies.

## Startup Funding Options Comparison

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Funding Source	Stage Applied	Pros & Cons	Key Features
<b>Bootstrapping</b>	Pre-seed / Ideation	<b>Pros:</b> Retain 100% control, no debt. <b>Cons:</b> Slow growth, limited capital.	Funding the business using personal savings, family loans, and customer revenue.
<b>Angel Investors</b>	Seed Stage	<b>Pros:</b> Fast decisions, mentoring. <b>Cons:</b> High equity cost, smaller amounts.	Wealthy individuals investing personal capital in early-stage startups in exchange for equity.
<b>Venture Capital</b>	Series A / Growth	<b>Pros:</b> Massive capital, global networks. <b>Cons:</b> Loss of control, high pressure.	Professional firms investing institutional funds in high-growth startups with proven traction.
<b>Crowdfunding</b>	Prototype / Launch	<b>Pros:</b> Validates demand, brand advocates. <b>Cons:</b> High marketing cost, public failure.	Raising small amounts of money from a large number of people via online platforms (e.g., Kickstarter).

## Crowdfunding Types and Financial Projections

Crowdfunding operates under four main structures:

- **Reward-Based:** Backers receive a physical product or perk (e.g., pre-ordering a gadget).
- **Equity-Based:** Backers receive a small ownership share in the startup.
- **Donation-Based:** Backers donate money for a social cause without expecting returns.
- **Debt-Based (P2P Lending):** Backers lend money and receive principal repayment with interest.

## Financial Projections & Break-Even Analysis

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Startups must compile financial statements: **Cash Flow Statements** (tracking monthly cash burn rate and runway), **Income Statements** (revenue minus expenses), and **Balance Sheets**.

A **Break-Even Analysis** calculates the sales volume needed to cover all operational costs. The formula is:

$$\text{Break-Even Point (Units)} = \frac{\text{Total Fixed Costs}}{\text{Price per Unit} - \text{Variable Cost per Unit}}$$

Where *Price - Variable Cost* represents the contribution margin per unit. Achieving break-even is a critical startup survival milestone.

## Startup Pricing Strategies

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Firms choose from several models to capture market share and drive unit economics profitability:

- **Skimming Pricing:** Setting high initial prices to target early adopters, then lowering prices over time (e.g., premium electronics).
- **Penetration Pricing:** Setting low prices initially to capture market share quickly, raising prices once customers are locked in (e.g., streaming services).
- **Cost-Plus Pricing:** Adding a standard percentage markup to product manufacturing costs. Simple, but ignores customer demand.
- **Freemium Model:** Offering basic services free while charging for premium features (e.g., Dropbox, LinkedIn).

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