Venture Capitalist, Entrepreneur and Investor Ron Bauer Looks at 6 Ways to Raise Startup Capital in a Time of Crisis

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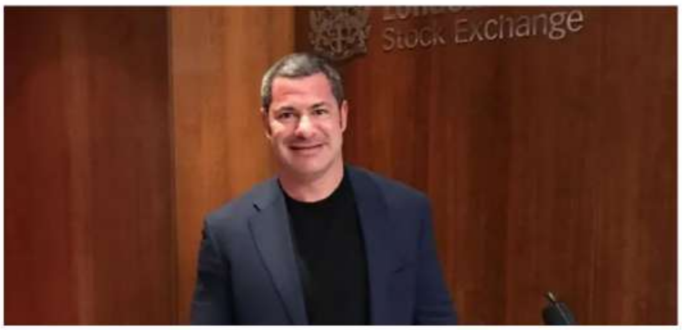

The ongoing coronavirus pandemic has had an immeasurable impact on the business landscape. However, amidst crisis lies an opportunity for those who are ready, willing, and prepared to seize it, which means that thousands of people who have been dreaming of launching their own business for years will have their chance now or in the near future. Ideally, these emerging entrepreneurs have a broad and deep base of customers eager to buy or support their business idea or concept. However, what most of them do not have is the lifeblood of a startup: sufficient capital.

"The pivotal decisions that entrepreneurs make with respect to raising capital will directly determine whether their business remains alive and has a chance to flourish, or if they hit the wall and are forced to pull the plug," claims Ron Bauer, an experienced venture capitalist, entrepreneur and investor.

Below are 6 possible ways that entrepreneurs may be able to raise capital (and many utilize more than one option) in order to give their fledgling startup a chance to thrive:

1. Conventional Small Business Loan

A conventional small business loan from a bank or credit union is typically the cheapest way to raise capital. However, the criteria for getting a loan application approved is stringent — and for some startups, impossible to meet. For example, many banks insist on applicants having at least two years of established business history, and very high credit scores. Conventional bank loans are also secured, which means applicants need to pledge collateral in the event of a default, such as their home or shares or retirement accounts such as an IRA or an RRSP.

Another major obstacle to getting a conventional business loan is that the application process is extremely bureaucratic and can take several months to make its way through dozens of loan officers or committees. The paperwork burden is also immense, and applicants should expect to spend anywhere from 50 to 100 hours or more putting various documents together as part of their application package.

2. Alternative Financing

The stringent small business loan standards imposed by banks and credit unions has triggered significant growth in the alternative financing marketplace. This landscape is populated by private lenders that cater to applicants who have less-than-stellar credit, and whose business may be pre-revenue. Both secured and unsecured loans are available for various terms, as are lines of credit and merchant cash advances, which are not technically loans but advances made against future credit and debit card sales or factoring.

"While it is typically easier and faster to get a loan from an alternative lending firm, they invariably charge significantly more than banks and credit unions." claims Bauer. "Entrepreneurs need to make sure that they understand the total cost of borrowing, or else they could be solving one problem but creating an even bigger one down the road if they cannot service the loan properly from cash flow."

3. Venture Capital

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As an experienced Venture Capitalist, Ron Bauer has extensive experience navigating the business landscape, and as the Founder of Life Sciences focused VC firm, Theseus Capital, he is always searching for new business opportunities. He claims that many entrepreneurs who watch shows like "Shark Tank" are eager and excited about obtaining Venture Capital. However, it is infinitely more difficult than they realize. Securing a meeting with legitimate and credible Venture Capitalists is tough; let alone closing a deal.

"Entrepreneurs who want to go down the VC route need to make sure that they are extremely well-prepared. They need to know their products or services, their marketplace, their competition, and their business plan inside and out. They also need to know what they will do with any funding they receive. Many entrepreneurs wade into the VC waters unprepared, and either end up failing to generate any capital, or they give far too much away and end up being crowded out of their own business within a few years."

4. Crowdfunding

A number of entrepreneurs — especially those in the tech and biotech space — have turned their sights to crowdfunding, and there have been some notable and inspiring success stories. However, competition is fierce, and entrepreneurs need to make sure that they can deliver on their promises. Otherwise, they will lose their funding and severely damage their reputation. The best and most successful crowdfunding campaigns are those that tell a very compelling and comprehensive business story that focuses on the product, the marketplace, and especially the future.

5. Bootstrapping

Entrepreneurs who are unable or do not want to generate capital through any of the options described above can self-fund (a.k.a. bootstrap) their startup. The advantage of this route is that entrepreneurs maintain control, and they also minimize borrowing costs (there is invariably an opportunity cost that entrepreneurs must bear; e.g. if they cash in their savings to fund their startup, then they are not realizing the interest, dividend and/or capital growth profits that could otherwise be earned by those funds). The disadvantage of this route is that it can put entrepreneurs in a very risky and anxious position if their startup does not grow as expected and hoped.

According to Ron Bauer: "Entrepreneurs who bootstrap — either because they want to or because they have to — need to be extremely careful and strategic with how they allocate the money. They should also continue exploring other potential capital sources, as a contingency in case they run out of cash."

5. Friends and Family

Raising capital through friends and family has some distinct advantages — and some serious possible drawbacks. On the plus side, it is almost certainly going to be cheaper and less of a grind than most other methods. But on the minus side, if a startup does not succeed as quickly and as triumphantly as investors expect, then things can get ugly in a hurry with friends and family. Friends and family never want to share their profits but always want to share their losses or make them well known.

Entrepreneurs who raise funds through friends and family need to conduct themselves in a professional manner, which means that legal contracts need to be drafted and signed, and expectations need to be mutually understood and accepted. Most importantly, family and friends need to understand that they are taking on risk — and that means there is a possibility that they will lose some or all of their money. While this may not happen, entrepreneurs need to be clear and transparent from the outset.

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