



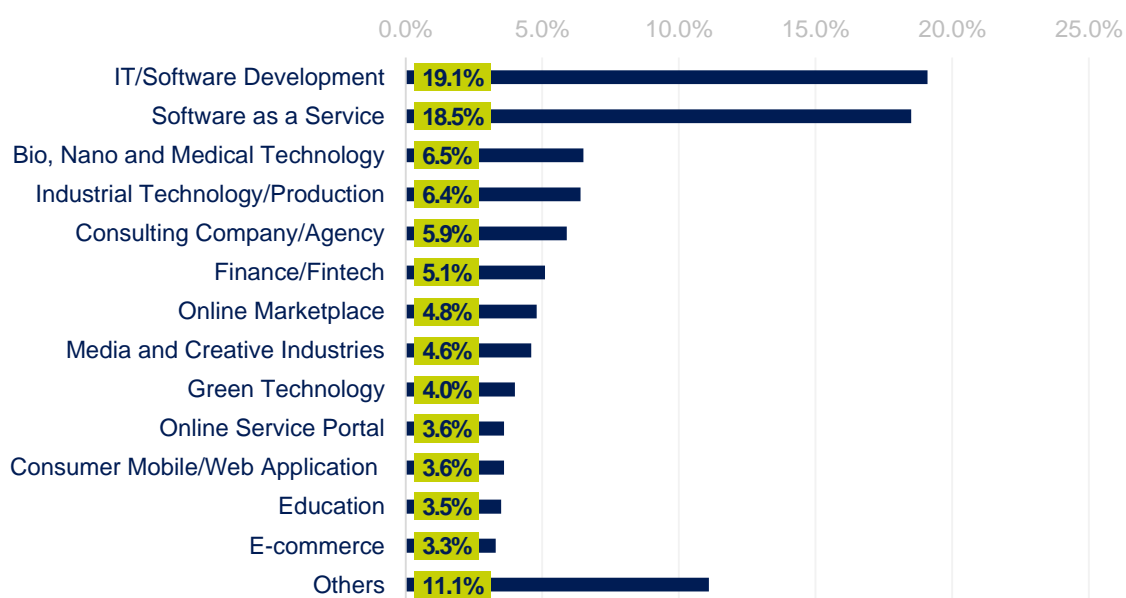
What does it take to startup

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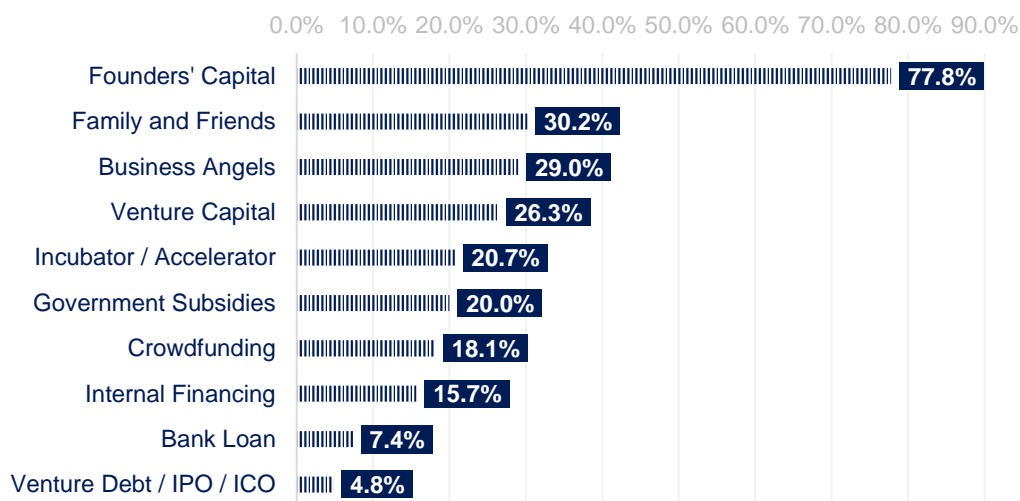
A startup is a business in its early stages of development. Founders of startups try to create innovative products and services while implementing an effective business model that will allow the business to grow in the unpredictable market it has entered. As startup is innovation it is obvious that, most of them are connected to technology. The evidence of this is presented on the chart that describes distribution of startups in Europe by industry.

Distribution of startups in Europe by industry



Source: EU Startup Monitor, 2018 Report

International market demands new products and services and people want to invest their money in innovative ideas. This fact creates a beneficial environment for startup development. As the number of startups grow, amount and ways of their financing increases as well. Most popular ways are connected to the founders themselves (founder savings, family, friends etc.), but there are a lot of other sources as well. The sources of startup financing in Europe are presented below.



Source: EU Startup Monitor, 2018 Report

As it is seen external financing is very important as well. We can take the focus of most popular ways of startup financing with external resources, this will help startupers to decide which of them is preferable in their case.

Investment companies and funds

Investment companies and funds are mediators between investors who want to invest their money effectively, on one side and businesses who need a capital (except startups) on the other side. They manage financial resources of investors and invest their money in initial capital as well as on the initial and next stages of operating. After deep study of startups, investment companies and funds help them with financial resources and in business management, despite the amount of needed financing and the field of business-activity, but they demand a share of business instead of this (in most cases they demand a control pack of shares) and are involved in management process. One additional disadvantage of this method is co-financing (from the side of client), without which the investment will not be made in most cases. This includes entities like Georgian Co-Investment Fund, Partnership Fund etc.

Accelerators

Accelerators support startups in making of first steps, formation of ideas in right directions and study of target audience, create different trainings for startupers and connect them with the investors, but all these is connected to some expenses from a side of client. They are mediators between investors and startups, but unlike investment companies they do not manage the financial resources of investors. They are involved not only in attraction of investments, but in early stages of business operating as well. They are like Startup Grind, Fab Lab Iliuni, Fab Lab TSU, Fab Lab GTU.

Online platforms

Online platforms like Kickstarter.com and Indiegogo.com give the opportunity to everyone to make their ideas and beginning (except startups) real. The idea of platform is following: a person willing to receive the financing, uploads the description of his/her idea in video or writing form and admits a needed amount of financing. After

the idea is occurred on platform, each person over the world can donate for it. After the demanded amount is collected the process of crowdfunding stops and the beneficiary can use it for his/her idea. If the demanded amount is not collected in given time-frames, the donation process stops and the donation goes back to donors. It should be admitted that, after the idea financed by donors becomes real, the donors receive the production or service of this startup, in accordance to the amount of their donation. Upwards admitted platform became very attractive as the financing is not connected to expenses, the direction is not limited and no-one interferes to business activity. But the chance of getting the financing and amount of it is small.



Grants

There are some of state and international programs created especially to support and help startups. Programs like this are: Enterprise Georgia, Startup Georgia, Georgian Innovations and Technology Agency, UNDP, USAID etc. Given programs are mainly aimed to support innovative and high-technology ideas, using different methods. For instance, Enterprise Georgia finances the interest of bank loan, in amount of 10 %, and gives grants as well, while Startup Georgia and GITA use their resources to directly finance the startups with capital. Given programs often give grants without any fare, give consultation to beneficiaries and are not involved in management. But there are cases when they receive a share of business (with terms of redemption in given time-frames). The disadvantage of these programs is that the amount and direction of financing is often limited.

Commercial banks

Startups can be financed by business loans taken from commercial banks. The amount of loan and purpose is not limited, but the process of getting this loan is quiet hard and the interest rate is high as well. In addition to this the collateral and at least 50 % of co-funding (from the client) is demanded. So, it is hard for startupper to satisfy all these conditions, that is why business loans are not very often used for financing in comparison to other ways of financing.

It is hard to say which one of this options of financing is most effective to use, as it depends on needs of starters and startups itself. To analyze them better, there is a final snapshot of features of them all.

	Investment Companies	Accelerators	Grants	Online-Platforms	Commercial Banks
Financing Limitation	Not limited	Not limited	Limited	Not limited	Not limited
Field of Activity	Not limited	Not limited	Limited	Limited	Not limited
Co-financing	Necessary	Not defined	Mainly, not necessary	Not necessary	Necessary
Form of Financing	Investment capital	Not defined	Grants	Crowdfunding	Business loan
Share in Business	Necessary	Not defined	Not demanded	Not demanded	Not demanded
Interference in Management	High level	Not defined	Low level	NO	NO
Support (Consulting, Trainings etc.)	YES	YES	YES	NO	NO
Collateral	Not demanded	Not demanded	Not demanded	Not demanded	Necessary
Group Specifics	Important	Important	Not important	Not important	Important
Additional Comments		The service is not free	High bureaucracy	Hard to get it	High interest rate

Source: Industry Focus

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