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# FUNDING CHOICES FOR STARTUPS THROUGHOUT THEIR LIFECYCLE IN RAJASTHAN

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***Abstract:***

*Startups are new businesses established with the objective of producing a special good or service, marketing it, and making it appealing to consumers. Establishing a business is an extremely costly and labor-intensive process. A crucial element in ensuring a startup's success is having the appropriate funding in place. There are various funding choices available in the industry. Of these bootstraping, crowdfunding, angel investors and venture capital are common options. This paper aims to address different types of financing options available to startups at different phases(pre-seed, seed, growth and exit) of their development.*

***Keywords :*** *Startup, Funding Options, Lifecycle, Entrepreneur*

## INTRODUCTION

The word 'startup' has become very common in recent years. A growing number of people aspire to become entrepreneurs by launching their own companies. Consequently more organisations are eager to support startup companies. A 'startup' is a newly established business founded by one or more persons with the aim of providing dinstictive goods and services to an already existing market. Those who founded a startup businesses are more focused on a single product or service they wish to sell in the market. Usually these businesses don't have a complete business plan, due to which there are less chances of profits in early stages. So as to boost profitability startups are always focused on factors like funding and increasing customer satisfaction.

Startup funding is the process of locating and adjusting financial resources to support a concept in the market. Funding is necessary for startups as it helps in raising capital and developing ideas for the expansion of the company. It helps entrepreneurs in establishing a network as well. There are numerous funding sources accessible, ranging from crowdsourcing to venture capital and all points in between. Nonetheless the funding source should correspond with the operational stage of startup.

With respect to area, Rajasthan is the largest state in India. Major firms have long been drawn to the state and have made large investments here. Various flourishing companies and sizable industrial organisation in India have their roots in this region. In an effort to foster innovation and entrepreneurship, the Rajasthan government launched 'iStart', among India's most sophisticated and well planned startup initiative. The program's objective are to stimulate corporate investment in the state, foster innovation and to provide new job opportunities.

## OBJECTIVES

- To get an understanding of the startup lifecycle.
- To understand the financing choices accessible at every stage of the startup lifecycle.

## RESEARCH METHODOLOGY

This study is based on secondary data obtained by means of articles, research papers and websites.

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## LIFECYCLE OF STARTUPS

Entrepreneurs launch businesses for several reasons: some want to become wealthy, some want to solve a business challenge, and still others just want to work for themselves instead of an employer. Most businesses operate in a very similar manner, regardless of the entrepreneur's intentions. Timelines can differ; a startup may spend years in a certain stage, while another may only be there for a few months, and yet others may skip certain phases completely. A startup goes through following stages during its lifecycle :-

**Stage 1. Pre-seed :** The first phase of a startup's growth is called the pre-seed stage. The main goal of this stage is to stimulate ideation. During this phase, the entrepreneur outlines the core motivations behind starting a new company. Founders must clearly state the nature of the company, the issues they hope to address, how they will differentiate themselves from competitors, and a strategy for carrying out their vision. By examining current obstacles, rivals, and the viability of launching a new good or service, the pre-seed stage can assist in determining a startup's likelihood of success or failure. At this stage, market research has a vital part in helping entrepreneurs to develop products or services that best meet the needs of their target audience. Research on the target market's demands, desires, and general behavioural patterns is always beneficial for startups since it provides important insights into the market. Therefore, conducting market research need to be a key priority for entrepreneurs in order to validate their business concepts.

Funding options available at pre- seed stage:-

(a) Self Financing : The most common source of funding for newly established businesses is self-financing. Self financing means when the founder of startups uses his own funds to fund his company or it's the ability of a business to produce enough cash flow from operations to finance its expansion and growth. It could originate from corporate credit cards, personal savings, an equity loan, or the sale of own investments. Self-financing does not dilute ownership as it allows a creator to keep authority over his company and the ability to do as he like. Another benefit of self financing is, it lowers cost as the company does not need to pay interest or dividends to external investors

(b) Friends & Family : One of the easiest ways to get startup capital is usually through friends and family. Funding of this kind may be formal or informal. Informal loans, like one from a family member without any documentation, don't have to be repaid right away, but they still need to establish a repayment schedule in place. Structured loans have documentation requirements and sometimes have a payback schedule. That may be advantageous since it offers legal defence in the event that the borrower and lenderdisagree.

(c) Pitch Events : A pitch event is an excellent means of generating capital for a startup or business. By definition, a pitch event is a competition where startup companies or entrepreneurs compete to acquire capital by presenting their business proposals to a panel of judges. The objective of raising money unites all pitch activities, regardless of their many variations. Competitions involving pitches might take place locally, regionally, or nationally. Even foreign countries host pitch events occasionally. When taking part in a pitch event, the most crucial thing to keep in mind is that a pitch must be convincing, concise, and clear. A pitch event does not help in raising funds only but it also provides feedback and constructive criticism which helps founders in refining their business plan. These gatherings also offer a chance to establish connections with other entrepreneurs and possible financiers, which might lead to future possibilities.

**Stage 2. Seed :** The seed stage is also known as the proof-of-concept stage, where the feasibility of a business proposal is assessed. At this point underlying research may have been finished but the commercial capabilities have not yet been demonstrated. At seed stage startups works towards MVP–minimum viable product. A minimum viable product (MVP) is an innovative product that is released to gauge market demand before a more fully featured version is developed. An MVP comprises only those attributes that are crucial to be a workable client solution to cut down on development time and effort. In this initial phase of a business venture, the entrepreneur usually needs comparatively small sums of funding to carry out feasibility studies, create prototypes, assess market viability, safeguard intellectual property, and explore further facets of it. Following the completion of the seed financing stage, the entrepreneurs decide whether to continue with their commitment to launch a business.
Funding options available at seed stage:-

(a) Incubators : Incubators are establishments that help entrepreneurs grow their companies, especially in the beginning. These are enterprises designed to help early-stage and start- up businesses grow and succeed more quickly. Typically, organisations with backgrounds in technology and business handle incubation. Support for incubation comprises co-working spaces, lab facilities, networking and linkages, first growth funding, technology facilities and advice, and mentoring and consulting services. Obtaining funding from angel investors, government agencies, coalitions for economic development, venture capitalists, and other investors is frequently facilitated by them.

(b) Angel investors: An angel investor is a person who lends money to startups or established businesses, typically in return for ownership equity or convertible debt. Angel investors frequently fund firms once or repeatdly when most other investors are unwilling to, at an extremely early stage (when the likelihood of their failure is relatively high). Angel investors encourage entrepreneurs who are just starting out, as opposed to financial institutions which fund established, prosperous companies. Usually, they take an active part in running the new company to safeguard their investment and assist the owner in creating a successful enterprise.

(c) Crowd funding : Crowd funding is the process of raising modest sums of money from lots of people to support new businesses. To facilitate communication between investors and entrepreneurs, social media and crowd funding platforms are typically used. This has the potential to boost entrepreneurship by broadening the pool of possible investors beyond the conventional network of business owners, relatives, and venture capitalists. To expand their business, entrepreneurs can find investors with the help of this perfect chance. It involves a large network of people, usually connected by the internet, and raises money to support new ideas or business ventures. It assists companies in expanding both their customer base and financial resources.

(d) Governments Grants : An amount of money awarded by the government to a business or individual to help them start or carry out ideas or projects that eventually advance society growth is known as a government grant.

**Stage 3. Growth :** A startup moves into the growth stage after determining that its goods or services are well-suited for the market and are being delivered to clients. At this point, a startup's revenue and user base usually begins to increase quickly. A company must make investments in growing its personnel, business, and marketing initiatives to continue this growth. For startups, this might be a difficult phase because they have to strike a balance between growth and profitability investments. A startup may stall if it doesn't make enough growth-related investments. However, if a startup overinvests in expansion, it can exhaust its funding too soon and cease to exist. Startups must have a well-defined strategy for producing sustainable growth to be successful during the growth stage. Lastly, they require the financial means to back up their expansion goals.

Funding options available at growth stage:-

(a) Venture capital : Venture capital, often known as private equity, is a sort of funding given by investors to start-ups and small firms that they think have the potential to grow significantly over the long run. Wealthy investors and investment banks are the usual sources of venture capital. VC funding is usually given to those companies which are either rapidly growing and seem set to keep growing, or to tiny businesses with spectacular growth potential. Venture capitalists can offer support in monetary form, specialised knowledge of technology, and/or managerial experience.

(b) Banks : The most obvious and fundamental benefit of bank financing allocated for businesses is the easy availability to money. Entrepreneurs with financial resources can expand their businesses by investing in marketing and advertising, hiring workers, and buying equipment. Furthermore, bank financing can give businesses who don't have a large amount of personal savings to fall back on a sense of stability. Entrepreneurs may concentrate their attention and resources on expanding their business instead of worrying about unforeseen expenses when they can obtain funding from an external source. Apart from supplying funds, bank funding can also assist businesses in developing their credit history and cultivating a favourable rapport with lenders. Entrepreneurs may reap future benefits from this relationship in case they require loans or additional funding for activities related to their expansion.

**Stage 4. Exit :** The last phase of a startup's life cycle is known as the exit stage. Here is the time when the startup's investors and founders choose to depart from the company by either selling it or going public. Startups must have a compelling value proposition and a sound corporate plan to facilitate its exit.One of two main methods is typically used for exits: acquisitions or IPOs(initial public offerings). Acquisitions occur when a bigger business purchases a startup. Often, the motivation behind this is to acquire the startup's expertise or technology. IPOs are the public sales of shares by a startup firm. Usually, this is done to raise funds for expansion. Both activities help a business grow and provide value for its shareholders. Although not all startups reach this point, organisations that grow quickly or beyond their initial capacity can benefit from mergers and acquisitions.

## CONCLUSION

This paper analyzes different sources of finances available during the lifecycle of a startup. For the startups in the pre-seed stage the primary source of finance is the owner's capital, friends & family and pitching events. At seed stage startups can raise funds from angel investors, incubators, crowdfunding and government schemes. Once the startup starts operating and reaches at growth stage then the additional requirement of finance can be met with the assistance of banks and venture capital and at last a startup can make exit aided by acquisition and IPOs. Each source of finance has different aspect, so an entrepreneur should select wisely in accordance with his needs and operational stage of the startup.

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