



Guide 4: How to Finance Your Business

Key Definitions

Start-Up Capital – The money needed to start or grow a business (also known as seed money)

Fundraising – collecting or earning money for a particular purpose

Loan – money that is borrowed and expected to be paid back, often with added interest

Interest – a percentage of a loan paid to the lender for using their money

Shares – a unit of ownership of a company which entitles the holder (shareholder) to voting power and a percentage of business profits

Crowdfunding – raising small amounts of money from a large number of people, usually via the Internet

Learn

Thinking about how to Finance your Business

Now that you have chosen your business idea, you need to think about how you will **finance** it.

There are three main strategies for raising 'start-up capital' to finance the launch or growth of your business:

1. Re-invest a percentage of your profits from your existing business / a previous business
2. Raise additional capital
3. Re-invest a percentage of your profits and raise additional capital

Option 1: Re-Invest your Profits

All good businesses invest a percentage of their profits in developing their business, as these investments will increase the business' profits in the future. You may need to spend money on **advertising**, pay for **new materials** or send members of your team for **training**. As a socially-responsible school business, you may wish to split your profits between supporting your school, donating money to a charitable cause, and re-investing in your business.

Option 2: Raise additional capital

Raising additional capital is very similar to raising start-up capital (an additional guide called '**Raising Start-up Capital**' is available if you would like more ideas!). **Fundraising** is a great way to market your business, and it is an opportunity for your students to gain skills in communicating with stakeholders who can support your school business. Here are some ways you can **generate funds** for your business:



Hold a one-off fundraising event. Ask your students' parents and the wider community if they would like to be involved in this. For example, you could host a 'welcome day' at your school and invite members of the community to pay a small entrance fee, then sell food and drinks, play games, or put on a play.



Ask local businesses for a donation or an investment - in return you might agree to help promote their business. For example, you could offer to print their logo on your promotional material or products.



Ask your school for a loan which can be repaid over time as your school business generates greater profit. By convincing the school that your business idea is feasible, profitable and educational, you might be able to secure an interest-free loan!



Ask students, parents or other local community members to buy shares in the business. Doing this would be a beneficial learning exercise for your students, and might show them a way that they could finance a business venture of their own when they leave school.



Crowd Fund Crowd funding is a quick way of raising money from a large number of people through the Internet to support a project. People will invest because they believe in the business idea. Crowdfunding websites may ask you to make a video about your project and write a short summary for potential investors. You will have to ask for an achievable amount of money that you think can be raised in 20-40 days.

Here are some websites you might like to use. Make sure to check the costs of using them before you pick one:

www.indiegogo.com www.crowdfunder.com www.kickstarter.com www.rockethub.com

Option 3: Re-Invest a percentage of your Profits and Raise Additional Capital

When you calculate your Start-up Budget (Guide 8), you may find the amount you have allocated to (re)invest in the business is not enough for your needs. In that case, you will need to raise additional capital as well.



Check

Try answering these questions to check what you have learned. If you are not sure of the answers, go over this guide again before you move on.

1. One strategy for financing a business is fundraising. What is the other main strategy?
2. Name three different ways you could fundraise start-up capital, if you need to
3. What is the difference between a donation and a loan?



Do these activities:

Fill in your Silver Business Idea template: **Done**

1	Think about how much start-up/additional capital you need and plan how you could raise it	Section F: Financing Our Growth and Development	
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Submitting your Silver Business Idea

Before you submit your Silver Business Idea, make sure you answered ALL the sections of the template in depth and detail. Then, SUBMIT your SILVER Business Idea!



Well done for coming up with your Silver Business Idea!

Next, Guides 5-9 will help you plan how to turn your Business Idea into a reality.



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