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TOPIC 9. FINANCING OF AN ENTREPRENEURIAL BUSINESS IN THE TEXTILE AND CLOTHING INDUSTRY

The course is developed under Erasmus+ Program Key Action 2:
Cooperation for innovation and the exchange of good practices Knowledge Alliance

ICT IN TEXTILE AND CLOTHING HIGHER EDUCATION AND BUSINESS

Project Nr. 612248-EPP-1-2019-1-BG-EPPKA2-KA

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AGENDA

- **Capital and Finance**
- **Commercial Loans**
- **Venture Capital**
- **Governmental Grants for TCI Entrepreneurial Activities**

Learning goals and objectives

In this topic the students will learn how to determine their financial needs for starting a textile and clothing business. How to chose between equity and debt financing. What commercial loans are available and what grants they can use to fund their business. They will learn what is a venture capital and what forms of venture investments exist. What is crowdfunding and what other forms of funding can be applied for their T&B business.

Short summary of content

Capital and finance. Sources of finance. Commercial loans. Venture capital. Business angels. Crowdfunding. Grants for TCI entrepreneurship.

Expected results

Students to get an idea of what financing needs their business has and how to find different sources of funding. To be able to evaluate the advantages and disadvantages of the different sources and to choose the most suitable ones for starting and developing their textile and clothing business.

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Entrepreneurial capital

- Every business has different needs, and no financial solution is one size fits all.
- Your personal financial situation and vision for your business will shape the financial future of your business
- Once you know how much startup funding you'll need, it's time to figure out how you'll get it.

Capital and finance

Capital is a broad term that can describe anything that confers value or benefit to its owner, such as a factory and its machinery, intellectual property like patents, or the financial assets of a business or an individual. While money itself may be construed as capital is, capital is more often associated with cash that is being put to work for productive or investment purposes. The capital is a critical component of running a business from day to day and financing its future growth.

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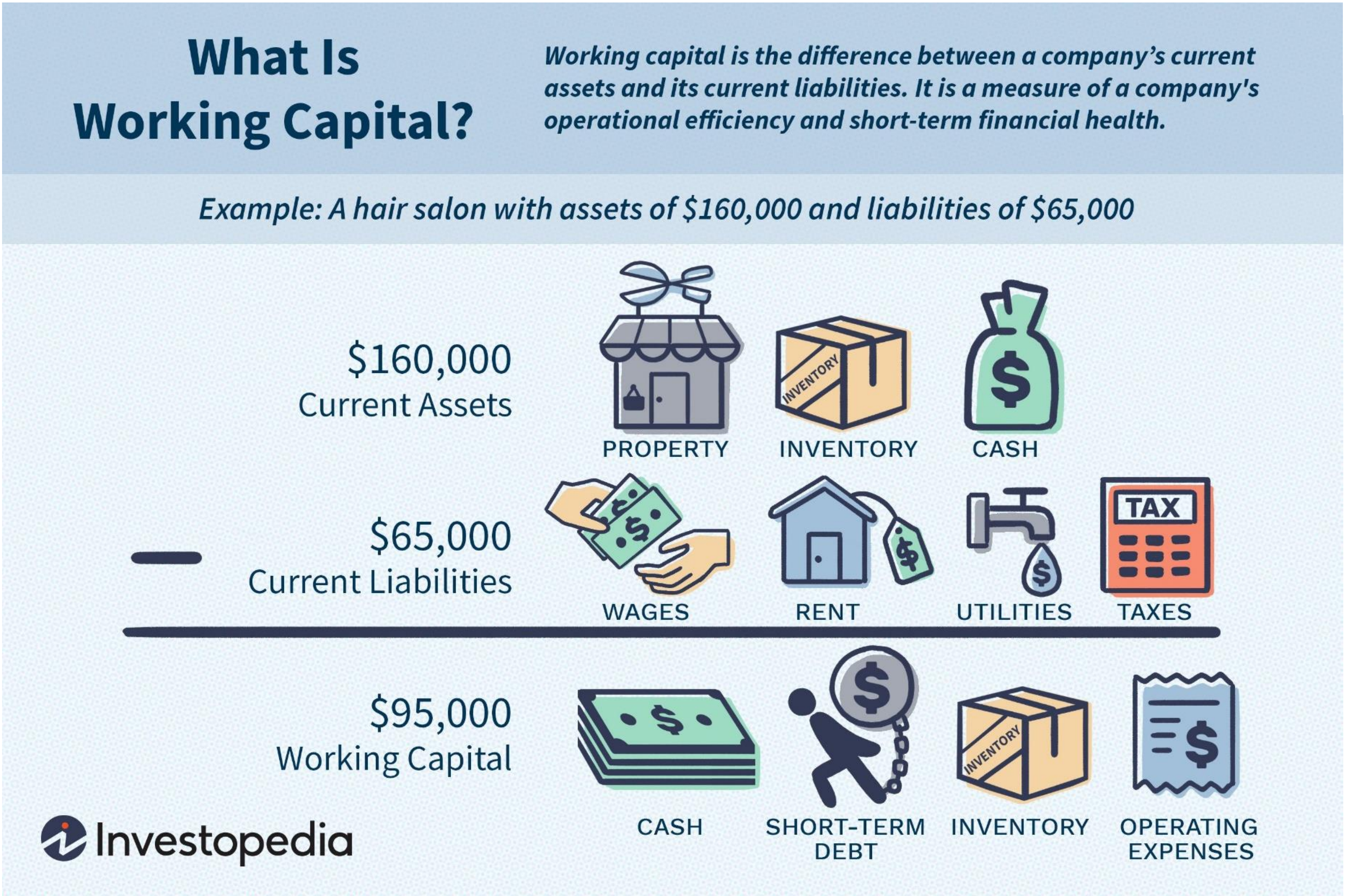

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Source: www.investopedia.com

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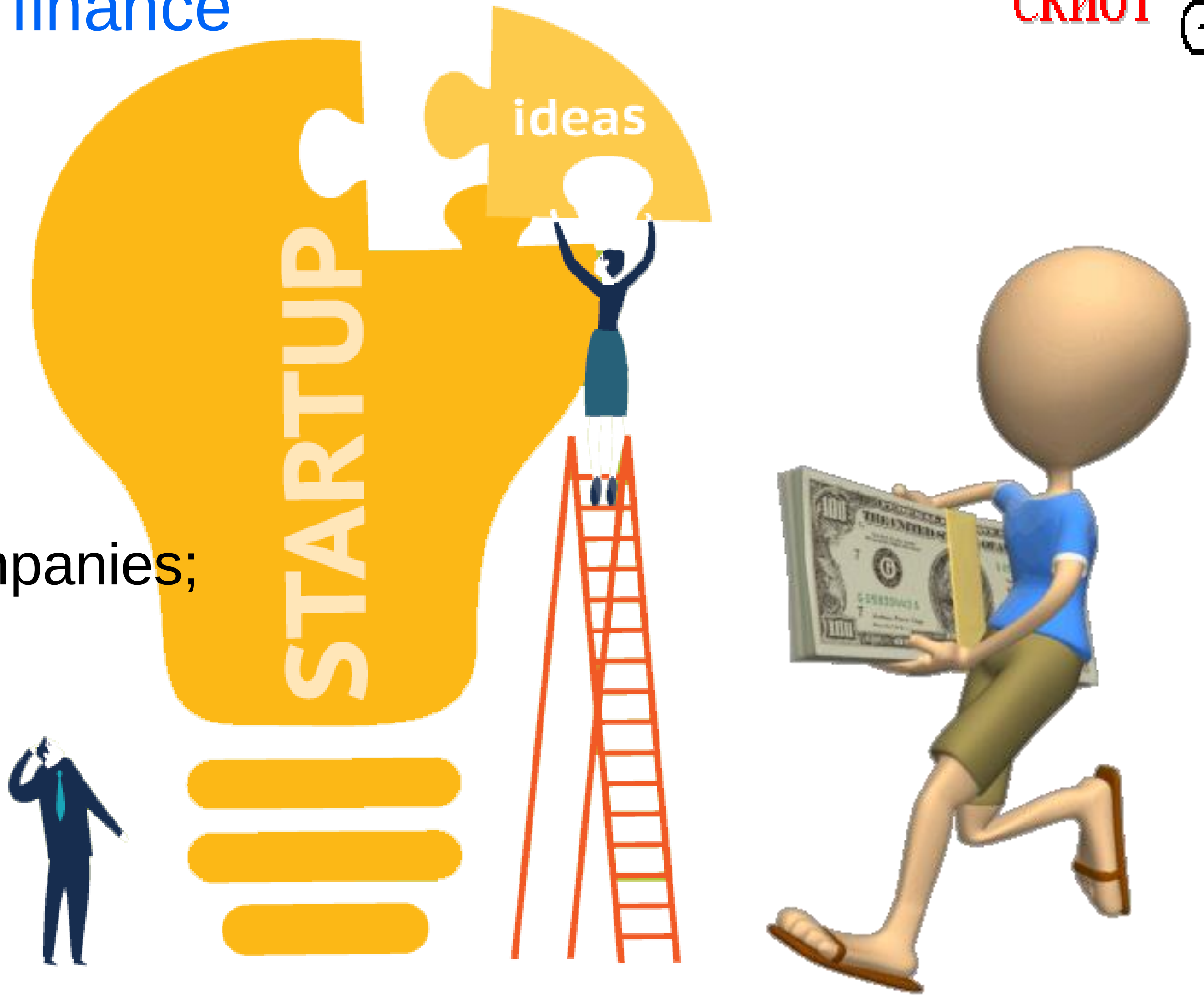
Sources of capital and finance

- Self-funding;
- Friends and relatives;
- Life insurance policies;
- Loans;
- Commercial banks;
- Investment companies;
- Commercial finance companies;
- Leasing companies;
- Trade or supplier credit;
- Customers.



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EXTERNAL SOURCES OF FINANCE

LONG TERM	Equity Shares	A key feature of equity share is the 'sharing of ownership rights'. The return is in the form of a dividend or bonus shares.
	Debentures	Debt is considered to be the cheaper mode of finance compared to equity. It does not share control with investors.
	Term Loan	It is given by some bank or financial institutions. These loans are also secured by some assets.
	Preferred Stock	The characteristics of both common equity stocks and debt. they have got priority over common equity shares in terms of payment.
	Venture Capital	They normally invest in a new company at an initial stage and do a rigorous analysis of a company before investing.
	Leasing / HP	Can help businesses delay its cash payment which is equal to having its goods financed
SHORT TERM	Bank Overdraft	Businesses need money for their day to day requirement which arises due to a time gap between their collections and payments.
	Trade Credit	The credit given to a business by their creditors/ suppliers. The credit given to a business by their creditors/ suppliers
	Debt Factoring	An arrangement whereby the business sells its account receivables/ debtors at a discount.

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Source: www.efinancemanagement.com

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The 5 Cs of credit

- **Character** - to the potential lender, character means that you will make every possible effort to repay the loan. You must be a good manager, be honest, and have a good reputation as perceived by the lender.
- **Capacity** - lenders not only look at the business's financial projections, but also your ability to repay the loan if the business does not work out as planned.
- **Collateral** - collecting from co-signers is becoming increasingly hard, and bankers then lose not one, but two customers. Before borrowing against these items, consider carefully the consequences of the worst possible situation in your business if you are forced to liquidate.

The 5 Cs of credit

- **Conditions** - are those factors over which you have little or no control. The lender will look at the conditions, or trends, in the overall business economy, the trends in your community, the seasonal character of your business, and the nature of your product or service. Other factors entering the decision-making process are whether the lender may have already invested in a competing business and how much competition there is in your market. Be prepared to tell the lender how you plan to deal with these conditions, how you have assessed the market, and how your business will weather economic changes.
- **Capital** - knowledgeable lenders will not put money into a new business unless they have concrete evidence that you have personally made a sizable financial commitment to the business. They know from experience that if the venture turns bad it will be easier for you to back out if you do not have your own money at risk.

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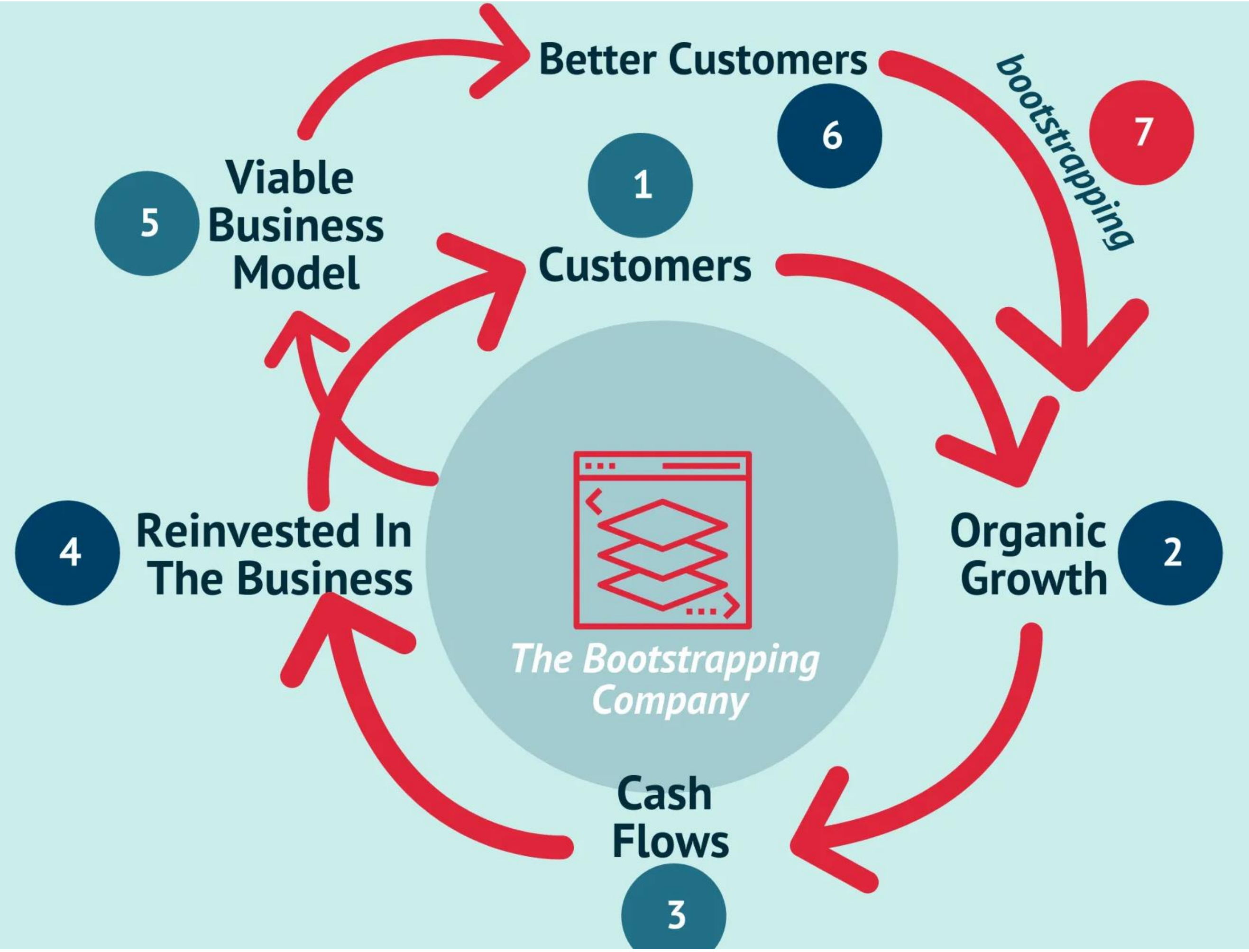
Fund your business on your own



Source: www.fourweekmba.com

Fund your business on your own

How to self-finance

Self-funding (bootstrapping) lets you leverage your own financial resources to support your business. Self-funding can come in the form of turning to family and friends for capital, using your savings accounts.

With self-funding, you retain complete control over the business but you also take on all the risk yourself. Be careful not to spend more than you can afford, and be especially careful if you choose to use tap into retirement accounts early. You might face expensive fees or penalties, or damage your ability to retire on time - so you should check with your plan's administrator and a personal financial advisor first.

Fund your business by your family

- **Family and friends** can be a viable and easy source of financing for your business. Entrepreneurs who lack a strong credit history or don't want the hassle of dealing with banks or private lenders often turn to family and friends to finance their business. Through family and friends, you can possibly get quicker access to cash with fewer hoops to jump through. However, on the flip side, if your business fails or you are tardy in repaying the money, you may be headed for some conflict with your family and friends.

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Assignment 1

How to get own financial breakthrough?

Give an example of a textile innovation and start-up development. Evaluate with stickie its positive and negative arguments for self-financing .

Something positive

Something negative

Commercial loans

- **Short-term commercial loans -** (30 to 90 days) are the most common loans made to a small business. They usually cover business operation expenses such as rent, insurance, advertising, inventory or salaries. Short-term loans are often unsecured and repayment is usually a lump sum, including interest when the loan matures.
- **Intermediate-term loans -** are for one to five years to purchase business equipment, buy fixed assets or provide working capital. Intermediate-term loans are usually secured by the new equipment or business assets. They sometimes have low monthly payments, with a large balloon payment at the end of the term.
- **A long-term commercial loan -** is for five years or more to purchase an existing business, buy real estate, or construct or improve a building or facility. The long-term loan is always secured by the assets for which the loan was made, usually requires constant monthly payments and often has a variable interest rate.

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Sources of commercial loans

- **Commercial banks** - commercial banks are by far the most visible lenders and make the greatest number and variety of loans. However, banks are generally conservative lenders. Although they accept collateral for business loans, loan approval rests on your ability to repay the loan as shown by your profit projections, management skills and your personal record. Strive to establish and keep a good working relationship with your banker. It may help to involve the banker in the planning process for your new business. Avoiding the banker until you need money may make a loan harder to get because the banker is unfamiliar with the business and its history.

Sources of commercial loans

- **Leasing companies** - leasing business equipment is another way to reduce capital needs. Everything from office furniture to food processing equipment can be obtained from leasing companies or commercial finance companies. Leasing is generally more expensive than bank financing and is limited to items that have a long serviceable life, widespread use, and are easily repossessed in the event of default. In many cases, you have the option to buy the equipment for an agreed upon amount at the end of the lease period.
- **Commercial finance companies** - commercial finance companies are generally seen as the place to go when you are unable to secure financing from a bank. Commercial finance companies, like banks, are concerned with your ability to repay the loan; however, they are more willing to rely on the quality of the collateral rather than your track record or profit projections. If you do not have substantial personal assets or collateral, a commercial finance company may not be the best place to secure start-up capital for a business. Commercial finance company capital is usually several percentage points higher than bank financing.

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Venture capital definition

- **Venture capital** is defined as providing seed, start-up and first stage finance to companies and also funding expansion of companies that have demonstrated business potential but do not have access to public securities market or other credit oriented funding institutions.
- A **Venture Capital Fund** (VCF) strives to provide entrepreneurs with the support they need to create up-scalable business with sustainable growth, while providing their contributors with outstanding returns on investment, for the higher risks they assume. Investors can give you funding to start your business in the form of venture capital investments. Venture capital is normally offered in exchange for an ownership share and active role in the company.

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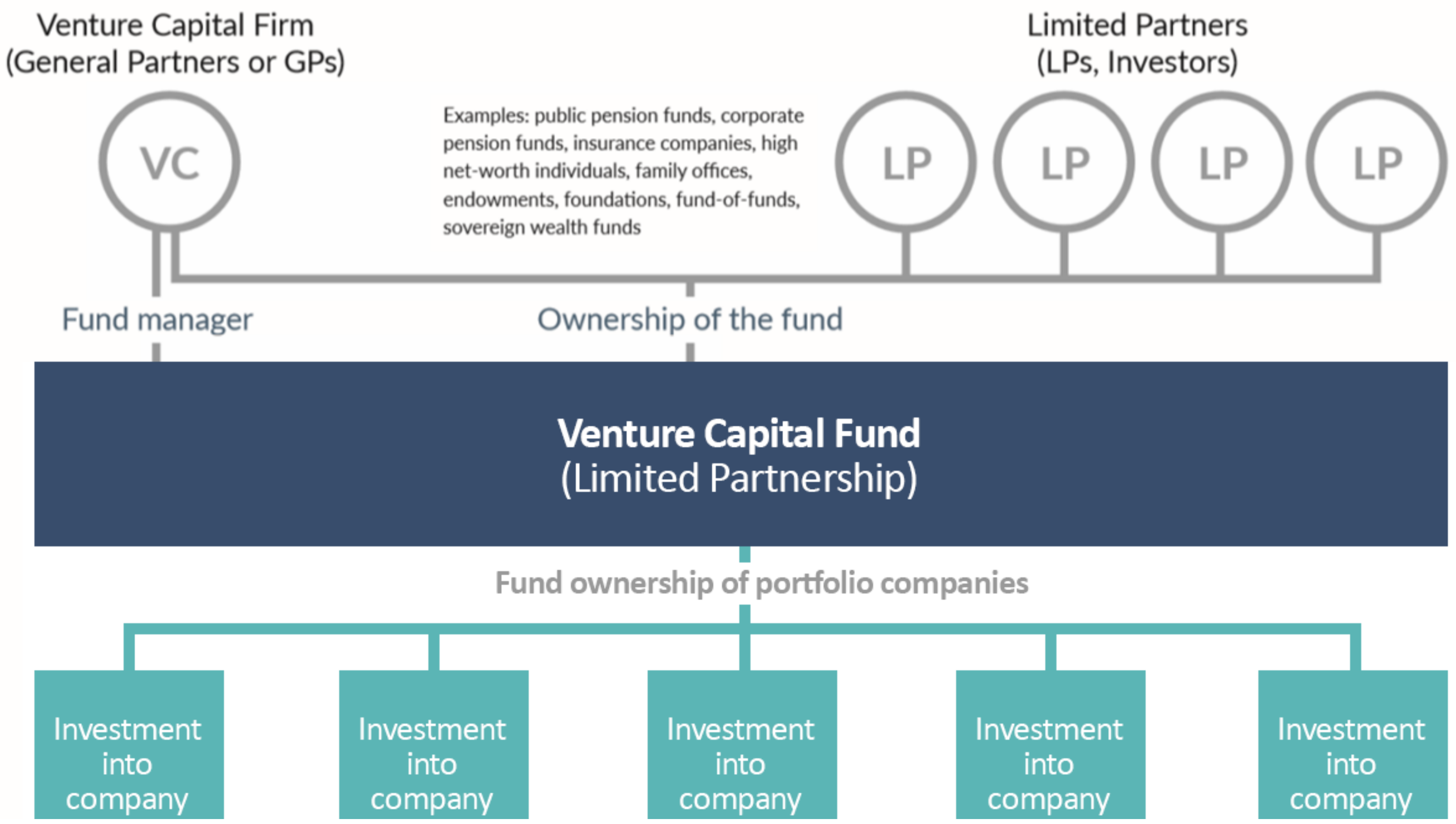
Venture capital fund structure



Source: www.nvca.org

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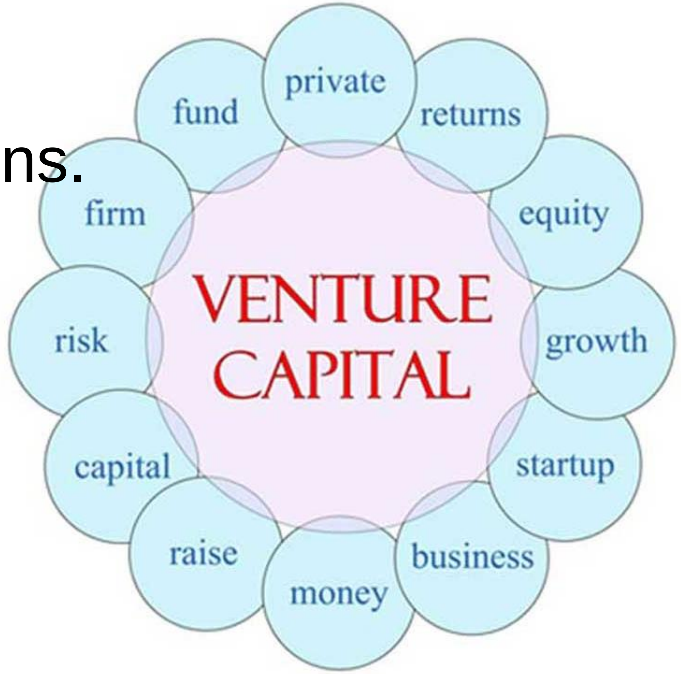
Primary characteristics of venture capital fund

- Invests capital in return for equity, rather than debt (it is not a loan). That it is equity or quasi equity investment;
- Has a longer investment horizon than traditional financing. It is long term investment;
- It is an active form of investment;
- Focuses high-growth companies;
- Takes higher risks in exchange for potential higher returns.



Angel investors

- **Angel investors** are another source of financing for your business.

Business "angels" are high-net-worth individual investors who seek high returns through private investments in startup companies. Private investors generally are a diverse and dispersed population who made their wealth through a variety of sources. But the typical business angels are often former entrepreneurs or executives who cashed out and retired early from ventures that they started and grew into successful businesses.

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Angel investors - common characteristics:

- They seek companies with high growth potentials, strong management teams, and solid business plans to aid the angels in assessing the company’s value.
- They typically invest in ventures involved in industries or technologies with which they are personally familiar.
- They often co-invest with trusted friends and business associates. In these situations, there is usually one influential lead investor (“archangel”) whose judgment is trusted by the rest of the group of angels.
- Because of their business experience, many angels invest more than their money. They also seek active involvement in the business, such as consulting and mentoring the entrepreneurs.
- They often take bigger risks or accept lower rewards when they are attracted to the non-financial characteristics of an entrepreneur’s proposal.

Get venture capital by investors

1) Find an investor - look for individual investors - sometimes called “angel investors” - or venture capital firms. Be sure to do enough background research to know if the investor is reputable and has experience working with startup companies.

2) Share your business plan - the investor will review your business plan to make sure it meets their investing criteria. Most investment funds concentrate on an industry, geographic area, or stage of business development.

3) Go through due diligence review - the investors will look at your company’s management team, market, products and services, corporate governance documents, and financial statements.

Get venture capital by investors

4) Work out the terms - if they want to invest, the next step is to agree on a term sheet that describes the terms and conditions for the fund to make an investment.

5) Investment - once you agree on a term sheet, you can get the investment! Once a venture fund has invested, it becomes actively involved in the company. Venture funds normally come in "rounds." As the company meets milestones, further rounds of financing are made available, with adjustments in price as the company executes its plan.

Venture capital. Crowdfunding

Crowdfunding raises funds for a business from a large number of people, called crowdfunders. Crowdfunders are not technically investors, because they do not receive a share of ownership in the business and do not expect a financial return on their money. Crowdfunders expect to get a “gift” from your company as thanks for their contribution. Often, that gift is the product you plan to sell or other special perks, like meeting the business owner or getting their name in the credits. This makes crowdfunding a popular option for people who want to produce creative works or a physical product. Crowdfunding is also popular because it’s very low risk for business owners. Not only do you get to retain full control of your company, but if your plan fails, you’re typically under no obligation to repay your crowdfunders. Every crowdfunding platform is different, so make sure to read the fine print and understand your full financial and legal obligations.

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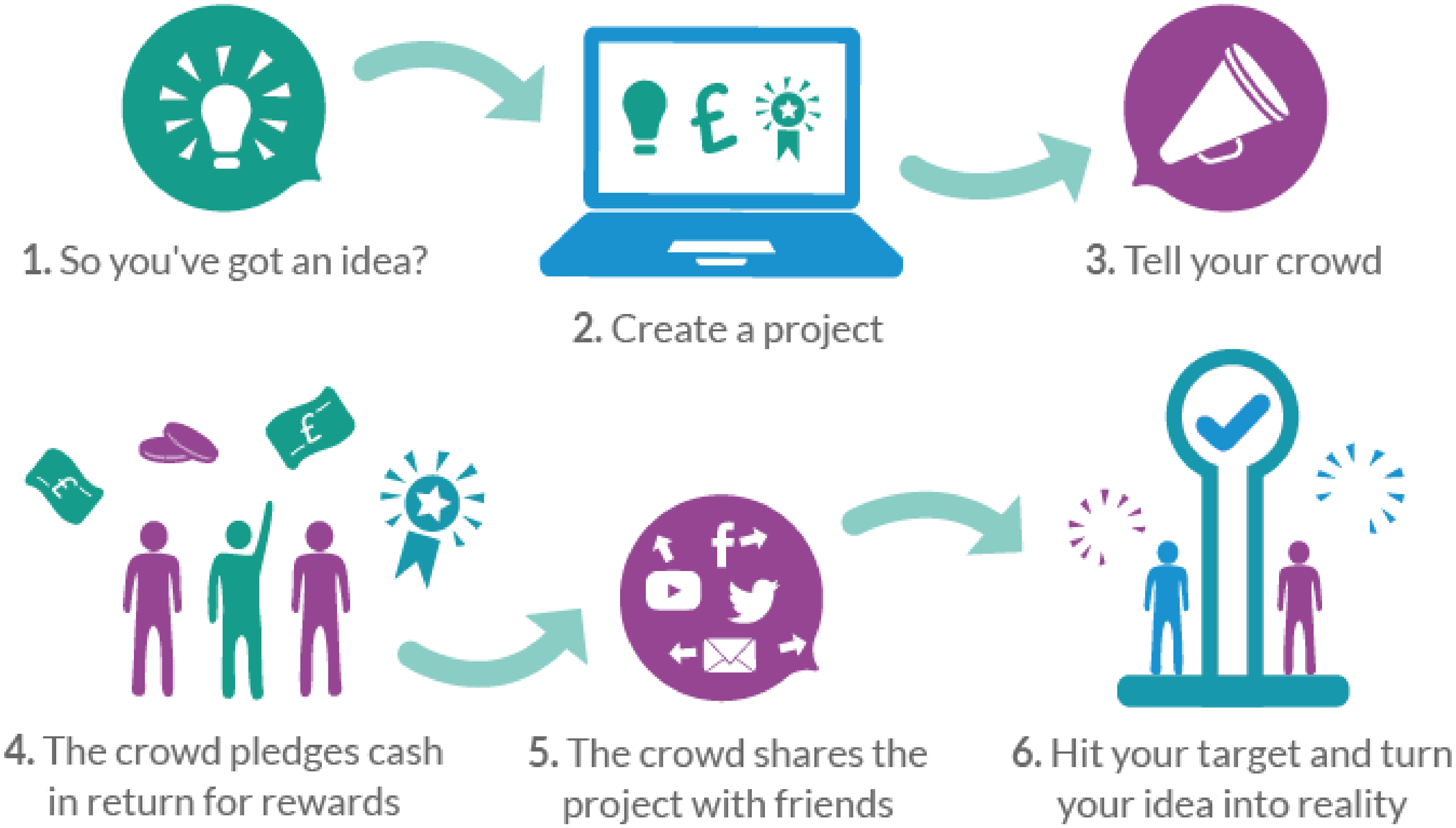
Crowdfunding process



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Crowdfunding process

- Collective funding platforms are websites that allow contact between fundraisers and the multitude of supporters. Through the platform for collective financing, financial commitments can be made and the provided financial resources can be collected.
- Fundraisers usually have to pay a fee to the collective funding platforms if the fundraising campaign has been successful. In turn, collective funding platforms are expected to offer secure and easy-to-use services.
- Many platforms operate on an all-or-nothing financial model. This means that if you achieve your goal, you get the money, and if you do not achieve it, everyone gets their money back - without feeling bad and without financial losses

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Crowdfunding types

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- Collective financing through the provision of compensation INDIEGOGO
  Sponsors provide funds for a project or business, and in return for their contribution they expect to receive non-financial compensation at a later stage, such as goods or services.
- Collective financing through donations gofundme
  Sponsors provide small amounts to achieve the ultimate goal of a larger financial amount for a specific charity project, and in return do not receive financial or material benefits from it.
- Collective financing with share capital crowdcube
  Sale of business shares to a number of investors for investment. The idea is similar to the way ordinary stocks are bought or sold on a stock exchange or venture capital.
- Affiliate lending klear
  The sponsors borrow money from the respective company with the stipulation that the money will be repaid with interest. This type is very similar to a traditional bank loan except that it is borrowed by many investors.

Crowdfunding benefits

- Proof of concept and confirmation: Crowdfunding financing provides you with verification in real conditions; you can see if other people believe in your project or concept. If they want to contribute to it, this is a convincing confirmation that your market approves of the idea.
- Help through other forms of financing: A successful campaign can not only be proof of your concept, but also emphasize that there is a market for your business that people trust. This is extremely useful when looking for additional funding from other types of financial sources, such as banks, venture capital, the so-called. “Business angels", as they may consider your idea less risky or get more favorable terms.

Crowdfunding benefits

- Multi-person access: You reach a huge audience of individuals, some of whom may have valuable expertise and experience. Collective funding generally allows you to communicate with them in a new way that provides you with valuable feedback without incurring costs.
- Strong marketing tool: Collective equity financing and collective financing through the provision of compensation can be an effective way to present a new product, a new company or the growth of an enterprise by directly targeting people who may be potential customers. You can generate expectation and interest even before the product is produced.

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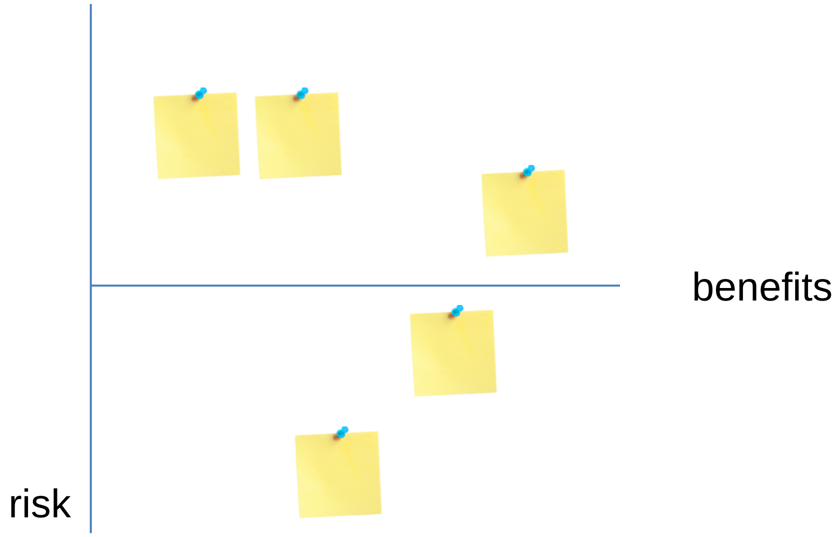
Assignment 2

Look at the requirements at the venture capital platforms listed in the crowdfunding types slide.

Discuss on benefits and risks for taking financing by crowdfunds.



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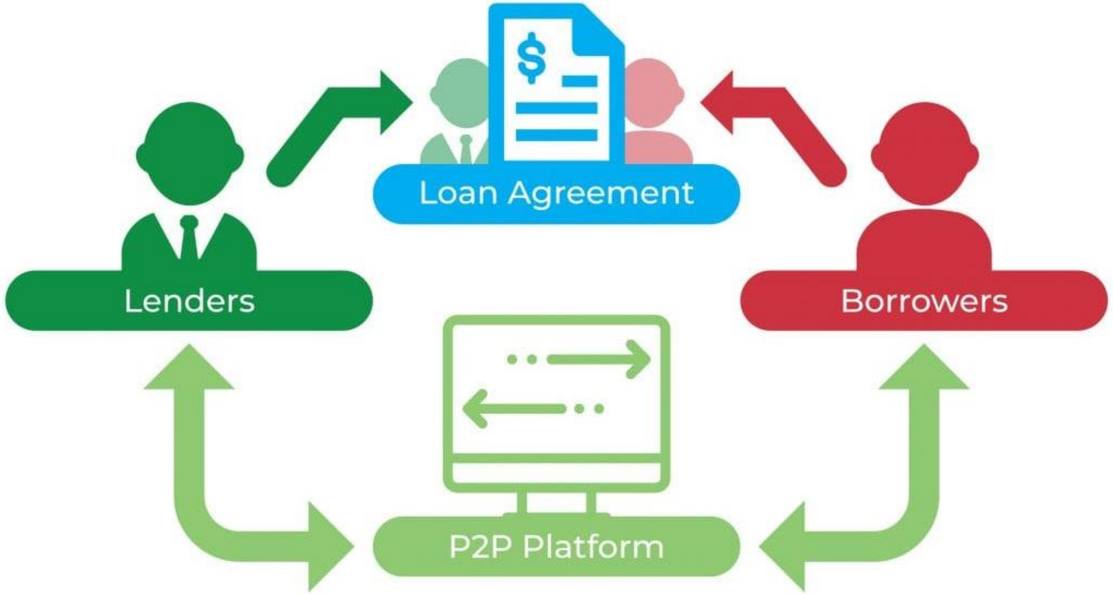
Peer-to-peer lending

- **Peer-to-peer lending** can be another source of financing for your business. Peer-to-peer-lending essentially involves sharing your idea with other people in hopes that they will invest in your business.



https://jeangalea.com/p2p-lending-glossary/

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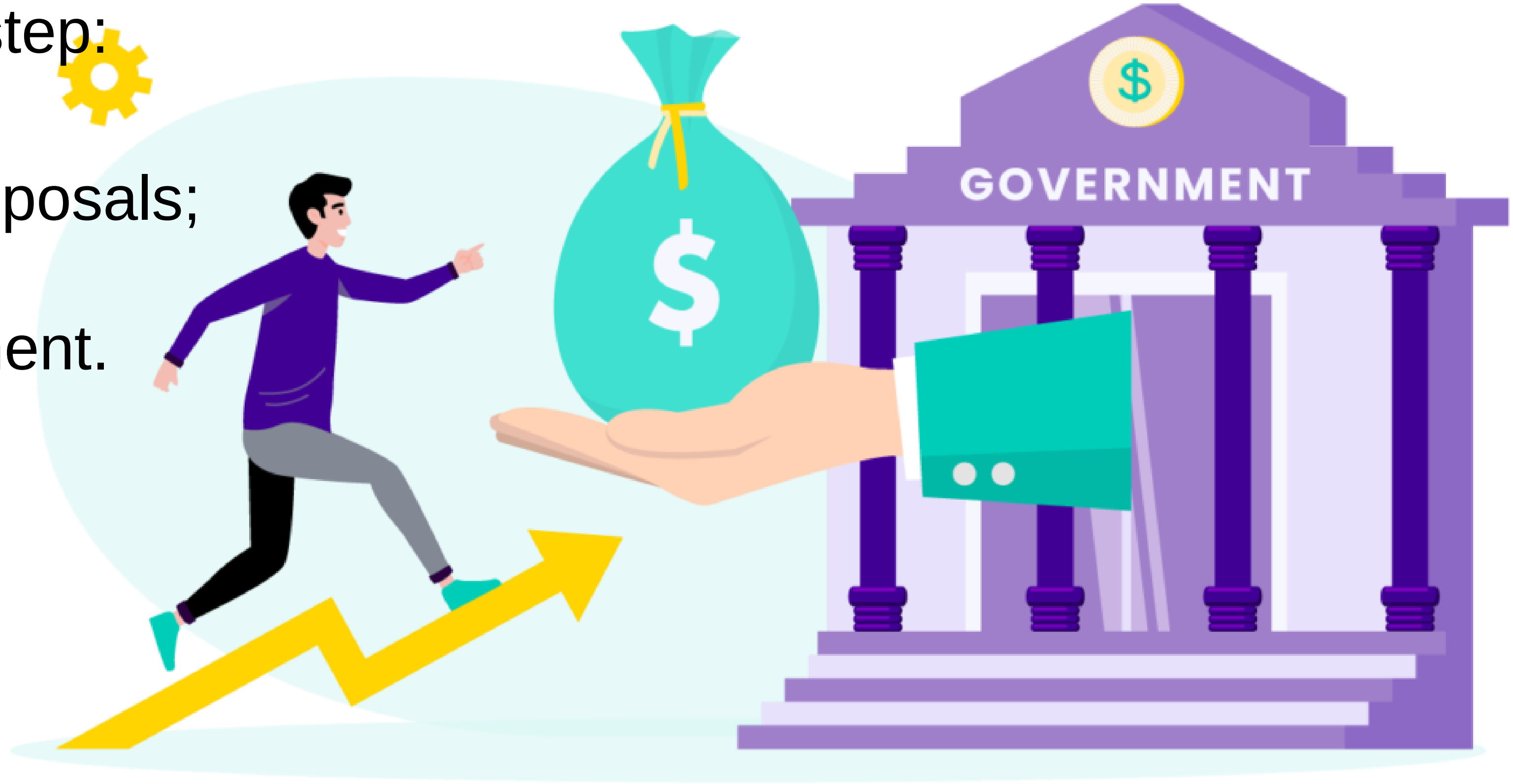
Government grants for TCI entrepreneurship

Operational programs

They are a key tool for implementing European policies in various fields.
The project cycle step-by-step:

- Application;
- Evaluation of project proposals;
- Execution of the project;
- Report for project fulfillment.



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Governmental grants for TCI entrepreneurship

The benefits from governmental support

- **Training start-ups -** different NGOs and training centers are financed to trained entrepreneurs. The expected output is increasing number of established new companies.
- **Marketing assistance -** as the SMEs have lack of marketing competencies, the governmental programs allow SME companies to apply for marketing assistance programs. In addition, there are some programs financing participation at different Fairs and Exhibitions.
- **Concession of Excuse duties -** some of the schemes allow the companies to use a public resource for cost coverage instead of paid taxes, e.g. the COVID-19 schemes.
- **Government Subsidies**

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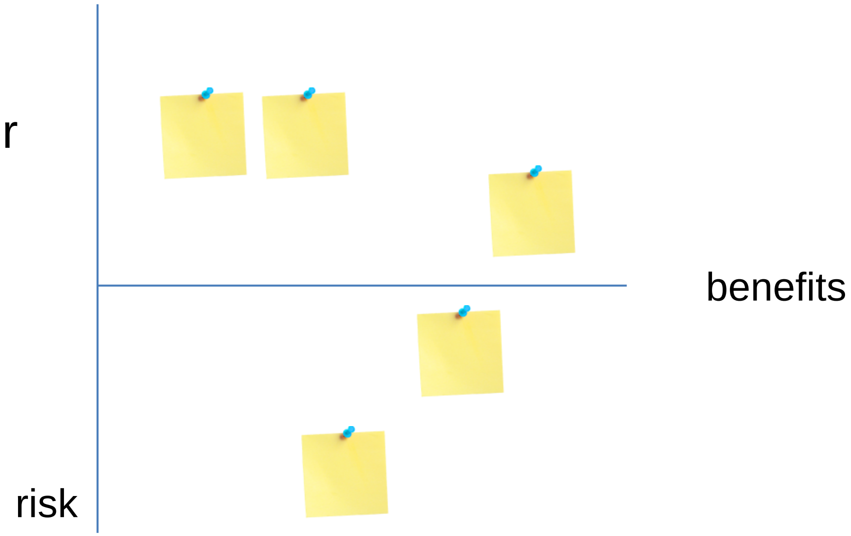
Assignment 3

Look at the requirements at the EU project financing: [ACCESS TO FINANCE](). Discuss on benefits and risks for taking EU-project financing for fashion start-up.

TEKES (Finland) – The Finnish Funding Agency for Innovation – grants and loans

Catalan Institute for Cultural Companies (Spain) – repayable contributions (loan + subsidy



A pilot programme on developing vouchers in health, care and the CCS – Tillvaxtverket (Sweden)

The Enterprise Investment Scheme and Seed Enterprise Investment Scheme (United Kingdom) – tax relief offered to venture capital investors

Questions for discussion and tasks

- Analyze the financial situation of your business. You have to do this to determine the financial needs of your business. You must arrive at the exact amount of financing that you need and the purpose for which you need it.
- Create the financial plan of your business. It is the business plan and its viability that the investors are going to look at when you approach them for financing.
- Evaluate the financing options that you have. Evaluate the pros and cons of each of the options and decide on the financing options that suit your business best.
- Try to approach some investors. After you have decided on the financing option that best suits your business, you should approach the investors and negotiate with them to secure the investment.

Questions for discussion and tasks

- Would you borrow money from friends or family members to start a business? Discuss why you answered the way you did.
- Explore opportunities for growth. Once you have secured financing, you can concentrate on using it best to expand your business.
- Under what conditions do you think adding a partner would be in the best interest of your business?

CONTACTS

Coordinator:
Technical University of Sofia
Department of Textile Engineering

Project Manager of ICT-TEX:
assoc. prof. Angel Terziev, PhD
aterziev@tu-sofia.bg

Web-site: ICT-TEX.eu

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