

Top ideas on how to attract investments in a startup

Many factors influence the transformation of an idea into a viable business, the main one is sufficient funding.

At the start of the project, the founders' own funds can go into action: savings, money from relatives, friends, and like-minded people (FFF). But in most cases, this amount of funds is not enough or only enough to implement the first steps. A key task for a startup is to find sources of funding. In this article, we will consider the best fundraising ideas for your startup.

Picture 1 of Top ideas on how to attract investments in a startup

Relevant options for attracting investments for the development of a startup

There are many ways to attract investment in a startup. Depending on the area of its activity, different approaches may be suitable for this purpose. It is recommended to combine several methods to increase the chances of success.

Crowdfunding

Crowdfunding platforms bring together founders and investors. Startup participants describe in detail the idea, the stage of its implementation, the required amount of fundraising (with calculations), and other significant details. Stakeholders invest in the project - it is quite possible to generate capital in this way, but in most cases, it is only enough to launch. Backers finance a startup for free or receive some benefit.

There are some types of crowdfunding:

1. Charitable - in the form of donations. Mainly applicable for non-commercial, personal projects.
2. For a certain remuneration, the backer receives a valuable prize for participation (a discount, the opportunity to use the product for the first time, a free sample, and so on).
3. Debt-based crowdfunding - the invested amount of funds is returned with a certain percentage of the startup's profit. A startup can raise loans in small checks from an impressive number of lenders.
4. Equity crowdfunding is an investment in exchange for a share in a startup that sells its shares to a large number of shareholders.

When choosing a platform, it is important to carefully read its rules, reputation, and a number of successful projects, otherwise, you may end up with nothing.

Convertible Loans

The financial instrument is one of the leading forms of early investment. A loan is considered convertible, in which the investor acquires the right to demand its repayment in the future in one of the following ways:

1. through the return of invested funds with interest;
2. through the transfer of a share in the authorized capital of a startup or the issue of shares that are transferred to an investor or sold at a discount.

In other words, an investor invests in a young project and at the same time has the opportunity to avoid risks and receive more favorable conditions in the future than subsequent investors. During the next round of financing, he has the right to convert the loan into a share of the company.

Simple Agreement for Future Equity (SAFE)

This is a common tool in the US for financing early-stage projects. The mechanism is similar to a convertible loan, but it has a fundamental difference: if a startup does not attract the next round of financing, the funds may not be returned to the investor.

Such a loyal approach to founders is used, for example, by Y Combinator, whose website contains documents and information about SAFE. The tool increases the degree of participation and support of the investor, which is due to the interest of both parties in success.

If a startup was unable to attract the next round, the idea did not work, then it is unlikely that it will be possible to return the invested money. It will be necessary to initiate a lawsuit or bankruptcy. The SAFE instrument initially indicates to the investor that it is possible to benefit only from the successful implementation of the project.

Revenue share loan

The tool is a loan against the future income of the project and has a fairly simple concept. Instead of returning to the investor the invested funds and accrued interest, the startup pays him a part of his monthly revenue. The process continues until the amount agreed by the parties is reached. Startups can offer the investor a percentage of income or net profit, but the investor does not receive a share in the company.

The tool is more suitable for existing projects when there is revenue and it is possible to predict it. But it also occurs when investing in early-stage startups. The advantage of the instrument for founders is the flexibility of monthly payments, which are made in proportion to the company's income.

Incubator, accelerator, and startup studio

These tools provide assistance to startups not only in material terms, but also in organizational terms, providing their own resources for the development of projects: personnel, education, property (equipment, offices), and so on. The task of the accelerator is to enable businesses to grow 10 times or more (to make a meteoric rise) through comprehensive support. Existing companies with an existing product are eligible to participate. Assistance is provided for up to six months.

An incubator can take on a startup that only has an idea. In addition to funding, it provides other forms of support for the successful implementation of the hypothesis, and the capture of the market. You can count on help for several years.

Startup studios can build both their own projects and external ones. But the latter are usually accepted at the stage of sales or a working MVP. They help at all stages of project development - from product improvement and hypothesis development to entering the global market. For work, the studio receives a share in the startup.

Partnership with a large company

A partnership between a startup and a company can benefit both parties. This gives large companies the opportunity to enter new markets, present fresh ideas, and act more flexibly with maximum customer orientation.

Startups acquire a reliable and stable partner and get rid of the problem of constantly searching for sources of financing for the development and scaling of the project. In addition, cooperation with the corporation strengthens the reputation of a young company in the market. However, finding and getting interested in a major partner is a time-consuming process that requires certain connections and opportunities to enter the right circle of people, detailed elaboration, and proper presentation of the project.

Final thoughts

The choice of a suitable method of financing depends on the characteristics of a startup, its field of activity, and its stage of development. If at the start or with a small project you can get by with your own savings or a bank loan, then as you grow and develop, more serious investments are required. Using different methods of raising funds will allow you to complete the tasks necessary for the development of a startup, as well as achieve your goals more quickly: develop a solution that the user needs, strengthen your position in the market, scale, and so on. If you're thinking about starting a startup and need help or advice on raising capital or partnering with a trusted strategic technology partner and seed fund, Aleph1's experts can help you with those questions.

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