A STUDY ON FUNDING STRATEGIES FOR EARLY STARTUPS

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Abstract

Early-stage startups face significant challenges in securing adequate financial resources to establish and expand their businesses. Selecting appropriate funding strategies is essential for supporting innovation, sustaining operations, and achieving long-term growth. This study examines the various funding options available to early startups, including bootstrapping, funding from family and friends, angel investors, venture capital, bank loans, government grants, incubators, accelerators, and crowdfunding. It analyzes the advantages, limitations, and suitability of each funding source based on the startup's stage of development, industry, and business objectives. The study also explores the key factors influencing investors' funding decisions, such as the quality of the business model, market potential, management team, scalability, and financial viability. By identifying effective funding strategies and the challenges faced during the fundraising process, this research provides practical insights for entrepreneurs seeking to secure capital and build sustainable ventures. The findings contribute to a better understanding of startup financing and offer recommendations that can enhance funding success and promote entrepreneurial growth in an increasingly competitive business environment.

CHAPTER 1: INTRODUCTION TO THE STUDY

Introduction to the study

The rapid growth of the global Startups ecosystem in the past few decades has captured the attention of entrepreneurs, investors, and policymakers alike. Startups, particularly those in the technology, biotech, and fintech sectors, have become a cornerstone of innovation, creating jobs, developing new products, and revolutionizing entire industries. The funding of these Startups plays a critical role in their ability to scale, innovate, and succeed. Investors, ranging from angel investors and venture capitalists (VCs) to private equity firms and crowdfunding platforms, are essential to ensuring that Startups have the necessary capital to grow. However, understanding the funding patterns and investor behavior is a complex challenge that requires a nuanced approach. This research delves into the intricacies of Startups funding, exploring how investor behavior influences funding decisions, the types of funding available, and the trends that have shaped the landscape over time.

The Startups Ecosystem: A Global Phenomenon

The term "Startups" refers to a nascent business, typically in the early stages of development, which aims to solve a particular problem, often with an innovative or scalable solution. These companies are typically characterized by high growth potential, a flexible business model, and a reliance on technology. Over the last two decades, the Startups ecosystem has expanded globally, with cities such as Silicon Valley in the United States, London in the United Kingdom, Berlin in Germany, and Bengaluru in India becoming key hubs for entrepreneurial activity. Startups are responsible for much of the innovation seen across various industries, from social media platforms like Facebook and Twitter to ride-sharing services such as Uber and Lyft.

For many entrepreneurs, securing funding is one of the most challenging aspects of starting a business. While some founders bootstrap their companies or rely on family and friends, others seek out external investors who can provide the necessary capital to scale their ideas. The ability of a Startups to secure funding often determines whether it will succeed or fail. Therefore, understanding the patterns in Startups funding and the factors that influence investor behavior is crucial for both entrepreneurs and investors.

The Role of Funding in Startups Growth

Funding plays a critical role in the growth trajectory of Startups. At its core, funding is necessary to cover the costs associated with product development, marketing, operations, talent acquisition, and scaling. Without sufficient capital, Startups often struggle to bring their ideas to market, attract customers, and expand their reach. However, the type of funding a Startups receives can significantly impact its development, the control of its founders, and its long-term success.

There are several stages of funding that a Startups typically goes through during its lifecycle. The first stage is often the seed stage, where the business is in its infancy, and funding is used to build a prototype, validate the business idea, and develop a go-to-market strategy. At this stage, entrepreneurs may seek funding from family, friends, or angel investors, who are typically willing to take on high levels of risk in exchange for the potential of high returns. Seed funding is generally smaller in amount compared to later-stage funding but is critical for the initial steps of the business.

CHAPTER 2: REVIEW OF LITERATURE

Many Organizations and individuals conducted several studies on the various aspects of the capital markets in the past. These studies were mainly related to various instruments of capital market, shareholding pattern, new issue market and scope, market efficiency, risk and return, performance and regulation of mutual funds etc. Hence an attempt is made to review some of the studies relevant to the topic in order to get into in depth details of the chosen study

Abhijeet Chandra (2009) in his article ―Individual Investors' Trading Behaviour and the Competence Effect‖ has analyzed the impact of competence of individual investors on their trading behaviour in the stock market. Individual investors take trading decisions based on their self-perceived competence that is influenced by several factors. The study examined the factors that determine the competence level of individual investors. Age, education, and income were found to be the most influencing factors of the individual investors' competence in the stock market activities and trading behaviour. The results of the study reveal that a person invests as per his/her own judgments once he/she perceives himself/herself more knowledgeable about investing. It finds that investors having high, high to moderate income and professional qualification are supposed to be more confident about their competence when it comes to trading in stock markets. Thus, it can be said that competence effect rules the trading behaviour of individual investors

Aregbeyen & Mbadiugha (2011), in their research article named ―Factors influencing investors decisions in shares of quoted companies in Nigeria‖ study says 20 variable grouping under social, economical, psychological and cultural factors influences investment decisions. The ten most influencing variables based on the ranking of the investor are motivation by people who have attained financial security through share investment, future financial security, recommendations by reputable and trusted stock brokers, management team of the company, awareness of the prospects of investing in shares, composition of board of directors of the companies, recent financial performance of the company, ownership structure of the company and reputable predictions of future increment .

Baker and Haslem (1973) in their study titled ―Information needs of individual investors‖ the importance of accounting information for investment decisions was identified as one of the selection criteria. Financial statements were also found to be another important source of information for a minority of individual investors in some other studies. Further, evidence revealed that corporate reports are dramatically considered by investors as the most important sources of information for investment decisions .

CHAPTER 3: INDUSTRY & COMPANY PROFILE

INDUSTRY PROFILE

The Financial Information Services industry provides the critical "oxygen" (data, news, and analytics) that powers global capital markets. Every investment bank, private equity firm, hedge fund, and corporate strategy team relies on these platforms to screen for targets, value companies, manage risk, and execute trades.

- **Market Structure:** It is a highly consolidated oligopoly. A few massive players control the vast majority of the market due to the incredibly high barrier to entry (it takes decades and billions of dollars to build a database of global financial histories).

- **The "Big Four" Competitors:**
  1. **Bloomberg (The Bloomberg Terminal):** The undisputed king of real-time trading data and fixed income.
  2. **S&P Capital IQ:** The leader in deep fundamental data, private company screening, and Excel integration for investment banking.

3. **FactSet:** A massive competitor favored by buy-side asset managers and portfolio managers.
4. **Refinitiv (Now part of London Stock Exchange Group / LSEG):** Strong in forex, commodities, and broad market data.

Market Size & Economics

- **Global Valuation:** The global financial market data and analytics industry is valued at approximately **$35 to $40 Billion USD** (roughly **₹2.9 Lakh Crore to ₹3.3 Lakh Crore**) and grows consistently at 5% to 7% annually.
- **Business Model:** The industry operates on an incredibly lucrative **B2B SaaS (Software as a Service)** model. Firms charge high annual subscription fees per user (a "seat" on Capital IQ can cost between $10,000 to $15,000+ per year), leading to highly predictable, recurring revenue streams and massive profit margins.

COMPANY PROFILE

S&P Capital IQ is a premier, web-based financial data, research, and analytics platform used by top-tier investment banks, private equity firms, asset managers, and corporate executives globally. It provides deep fundamental data, quantitative research, and screening tools on public and private companies globally.

- **Founded:** 1999 (Acquired by Standard & Poor's / McGraw-Hill in 2004)
- **Parent Company:** S&P Global Inc.
- **Global Headquarters:** New York City, NY, USA
- **Major India Presence:** Hyderabad (HITEC City), Gurgaon, and Ahmedabad. *(S&P Global maintains a massive workforce in India, with its Hyderabad offices acting as a critical hub for global data operations, software development, and quantitative analysis for the Capital IQ platform).*
- **Industry:** Financial Information Services / FinTech / Market Data
- **Website:** www.spglobal.com/marketintelligence

Key Executives (S&P Global)

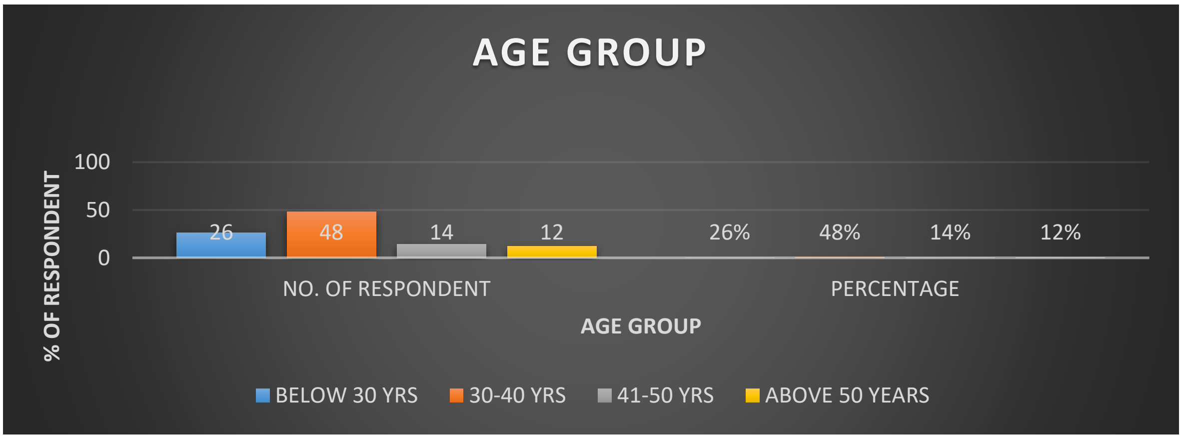
- **Douglas Peterson:** President & Chief Executive Officer (CEO), S&P Global
- **Adam Kansler:** President, S&P Global Market Intelligence

CHAPTER 4: ANALYSIS AND INTREPRETATION

TABLE NO: I

DISTRIBUTION OF RESPONDENTS ACCORDING TO AGE GROUP

AGE	NO. OF RESPONDENT	PERCENTAGE
BELOW 30 YRS	26	26%
30-40 YRS	48	48%
41-50 YRS	14	14%
ABOVE 50 YEARS	12	12%



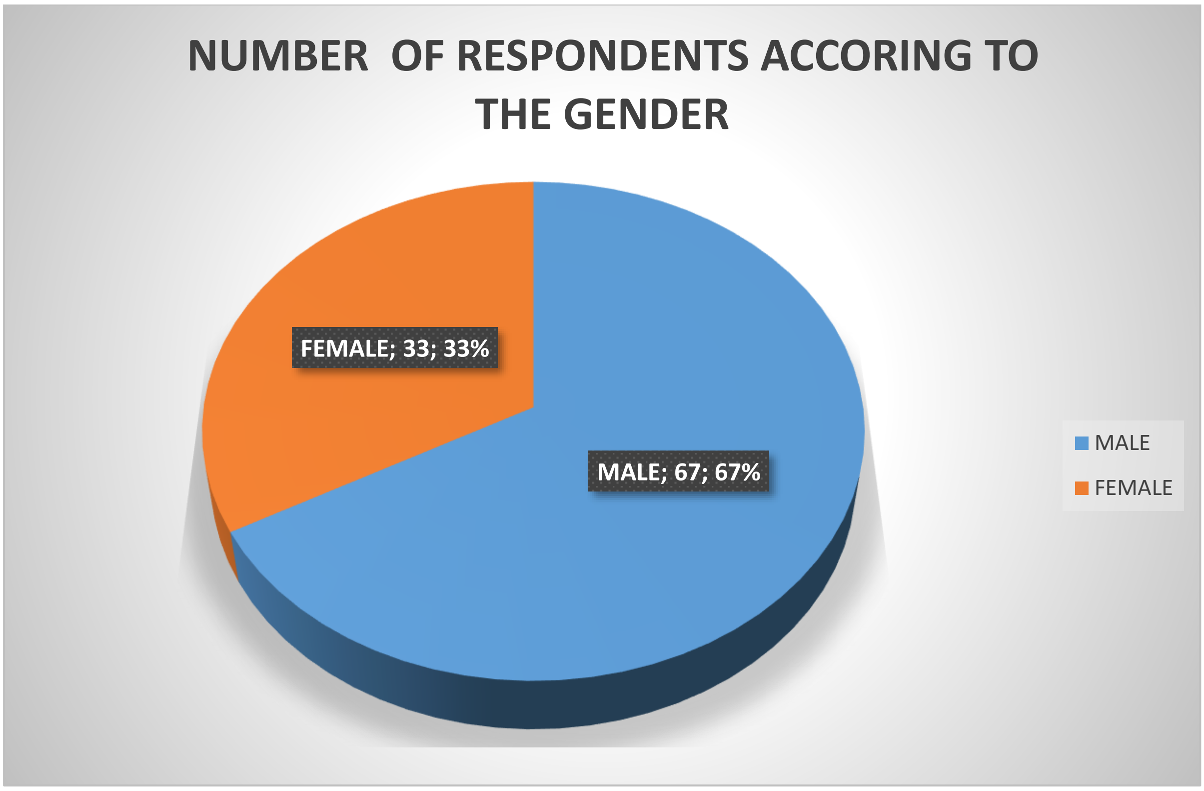
INTERPRETATION

From the above Table no: I, it is evident that out of 100 respondents 26% of the respondents belong to the age below 30 years, 48% of the respondents belong to the age between 30- 40 years, 14% of the respondents belong to the age between 41-50 years and 12% of the respondents belong to above 50yrs of age group. Hence, the investors belonging to the age between 30 - 40 years are major investors in the market.

TABLE NO: II

DISTRIBUTION OF RESPONDENTS ACCORDING TO THE GENDER

GENDER	NO . OF RESPONDENTS	PERCENTAGE
MALE	67	67%
FEMALE	33	33%



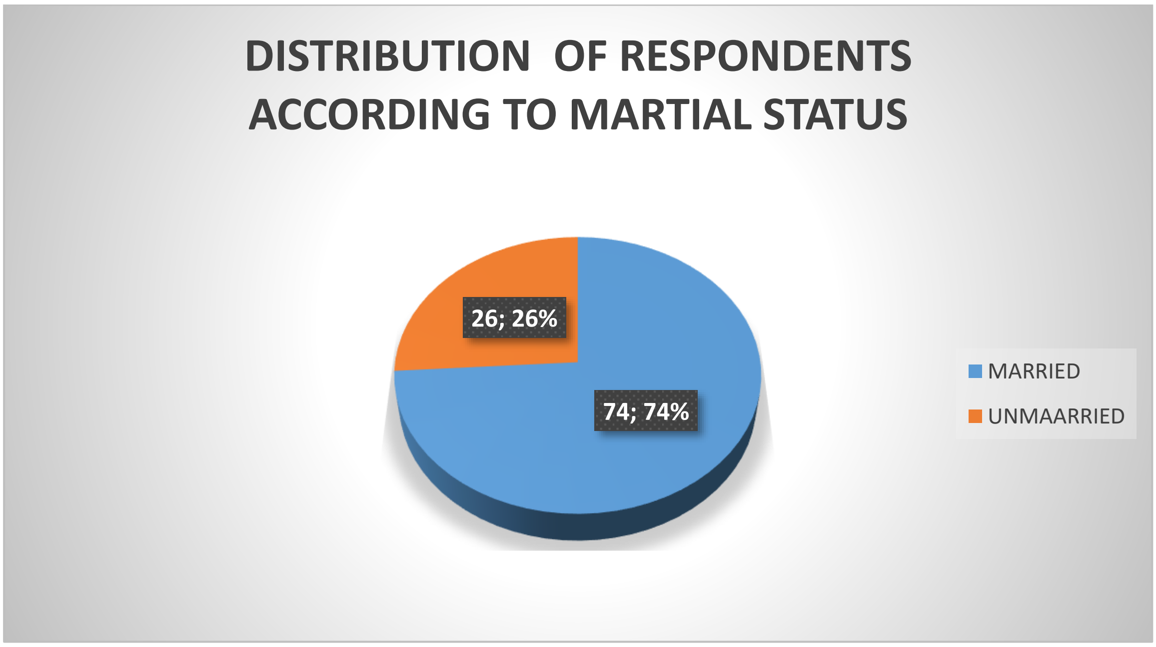
INTERPRETATION

From the above Table No: I, it is evident that out of 100 respondents, 67% of the respondents are male and 33% are female. It reveals that majority of the investors are male.

TABLE NO: III

DISTRIBUTION OF RESPONDENTS ACCORDING TO MARITAL STATUS

MARTIAL STATUS	NO. OF RESPONDENTS	PERCENTAGE
MARRIED	74	74%
UNMAARRIED	26	26%



INTERPRETATION

From the above Table No: III it is evident that out of 100 respondents 74% of the respondents are married and 26% of the respondents are unmarried.

CHAPTER 5: FINDINGS OF STATISTICAL ANALYSIS

CORRELATION ANALYSIS PROVED THAT

- There is a significant relationship between the level of knowledge on investment market of the investors and expected rate of return on investment by the investors

- There is a significant relationship between the proportion of investment from the income of the investor and level of risk taken by the investors

SUGGESTIONS

- Investors should make the investment with proper planning keeping in mind their Investment objectives.
- Proper guidance should be provided to the investors to diversify their investment to get optimal rate of return with minimal risk.
- Regular follow up and personalized service towards investor's portfolio can help in developing reputation, trust and long term relationship.
- Management shall make the investors to get update about the latest Investment opportunities available in the market through monthly news edition, emails about market trends, factsheets etc.
- Management should encourage women investors to invest in the various investment opportunities.
- Management should arrange a meet with experts and market specialist in regular intervals to train the investors on technical, fundamental and market trends. Some investors are hesitating to invest in commodity market. So, the firm has to give proper guidelines to the investors about the investment in commodity market.
- It is also noted that debt instruments are not familiar with the investors. In this context to familiarize investment in debt instruments, it is necessary that people at the helm of policy making should take steps to create platform for trading of corporate bonds and expanding the Market for corporate bonds.
- The respondents should approach the professionals such as Tax Consultants, CAs to get dual benefits. They should avoid the listing of trials or not to take self decisions when they want to make investments in any avenue. It is better to consult the experts in same field.
- The survey of financial and economic market, budgetary remarks and policies of government etc. are vital before investment decisions are made. Maximum attention towards national and international political as well as economical issues is also required for investment decisions. The financial market is also exaggerated by the events of natural calamities, flood, Tsunami etc. Thus every investor should also be aware about all these facts.

CONCLUSION

Training is a platform of learning helping the researcher in understanding the industry and the organization with a special emphasis on the development of skills in analysing and interpreting practical insights Broking firm which helped in enriching the knowledge on investment market.

With the aim to study the investor behaviour on investment decision, the researcher collected primary data through structured questionnaire and analyzed the data and proved through various statistical tools. The primary data analysis proved that with the increase in age there is an increase in the risk tolerance level among the investors, the level of knowledge on investment market leverages the expected rate of return of the investors and as the proportion of investment from the income increase, the risk taken also increases. The individual investor still prefers to invest in financial products which give risk free returns. This confirms that investors even if they are of high income, well educated, with a good occupation, are conservative investors preferring to play safe. The investment product designers can design products which can cater to the investors who are low risk tolerant.

This study reveals that most of the investors are looking to meet out their future expenses as their major motive towards the investment. The study reveals that technical analysis is given more importance as compared to fundamental analysis and market sentiments to make an investment decision but found that investors do follow all the three ways in making their investment decisions.

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