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How Small and Medium-Sized Business Funding Works

Entrepreneurs have plenty of ideas and vision, but they don't always have the capital that's needed to make their dreams a reality. Small and medium-sized businesses that want to grow beyond what they're able to accomplish with their own resources often seek funding from investors who want to both support their goals and realize a profit while doing so. Funding is a process that evolves with the company itself, starting with a seed round and then moving forward. Whether you're looking for funding or you're a potential investor who wants the rewards that come from supporting entrepreneurs through developmental funding, you need a firm understanding of what Series A, B, and C funding are and the differences between each round. Let's take a closer look.

One of the most important aspects of every funding round is the analysis that's performed to assess its value. As a business grows and gains in reputation and market share, its needs change, and so does the amount of money it seeks and the type of investors it will attract.

Seed Funding

Where initial money tends to come from the entrepreneurs themselves as well as their family, friends, and others, this "pre-seed" financing is usually less of an investment than a show of support. It's not until a company's valuation is between \$3 million and \$6 million that it seeks "seed funding" that is exchanged for equity in the company. Seed funding's name is apt, as it evokes a sense of nourishing and nurturing something that is in its earliest stage of growth – beyond the idea stage but still at the point where it is gathering momentum and attracting attention. Whether the monies raised from seed funding are as little as \$10,000 or as much as \$2 million, they are used to help a company make its first foray into real growth. What it's used for depends upon the type of business and what the founders need to achieve their goals. Monies may be used for research and development or marketing or for hiring new staff, moving into a larger facility, or establishing a manufacturing plant. Its source may continue to be those close to the entrepreneur but is also open to outsiders including venture capital companies, incubators, and angel investors.

Series A Funding

If Seed Funding supports companies that have just gone from an idea to actuality, Series A Funding provides the cash to companies that have established roots but need to grow and expand their profits. These organizations are generally valued at about \$23 million and have or are creating a robust business plan for success, and the funding that they raise usually comes from savvy investors and venture capital firms who recognize and reward businesses with the potential to earn real money. As more high-tech industries have come to market, average Series A funding totals have increased, with 2020's average reaching \$15.6 million, significantly higher than the typical range of between \$2 million and \$15 million.

Series B Funding

Once a company has gone well past the development stage and has reached valuations between approximately \$30 and \$60 million they are ready to scale up and invest in bringing on more people, more advertising, and more technology to advance their development goals. The funds needed generally hover around the \$33 million mark, and come from venture capital firms. Series C Funding When well-established, successful companies want to raise money for acquisitions or mergers, to expand their reach, or for new product development, they often turn to Series C funding. These opportunities represent far less risk and are very appealing for investors, who understand that betting on a company that has proven itself can result in a significant return on the capital that they provide.

Though each of these stages and rounds have the goal of raising funds in exchange for equity in the company, investors need to recognize that each has its own level of risk and reward. The opportunity to be part of a company's growth is exciting, but careful analysis is required. For assistance in understanding how investing in an entrepreneurial endeavor can help you, contact us today.

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