

How to secure early-stage product idea funding: A beginner's guide



Ignitec

We are an award winning product design consultancy, we design connected products and instruments for pioneering technology companies.

How to secure early-stage product idea funding: A beginner's guide

Reading time 12 mins

Key Points

- Begin by understanding the different startup funding stages
- Understand the importance of early-stage funding and its challenges
- Explore the different sources of product idea funding
- Make a list of funding opportunities in your community or region
- Discover the key strategies to convince sceptical investors
- Learn from successful examples of early-stage funding
- Weigh the pros and cons of early-stage funding

Is your business ready to harness the potential of IoT? Our expert team can help design and implement bespoke IoT solutions. Reach out to us now to kick-start your IoT journey.

[Get in touch](#)



Ben Mazur

Managing Director

Last updated Aug 10, 2023

I hope you enjoy reading this post.

If you would like us to develop your next product for you, [click here](#)

[Share](#)

[Share](#)

[Tweet](#)

[Pin](#)

In the thrilling journey of innovation, the first step often starts with a revolutionary product idea. But how do you obtain that vital initial early-stage product funding when no one else believes it's a good idea? This conundrum is common for many budding entrepreneurs, and we're here to help you navigate through the labyrinth of options and decisions available to you.

Suggested articles

5 tips for building a low-cost prototype & user-testing it

Product testing survey template to help you gain customer insights

A business startup costs template to help set you up for success

The different startup funding stages

Launching a start-up is daunting and exhilarating: you're focused on building your product and creating a roadmap for getting it to market. At the same time, you're hiring talent, finding premises, and putting communication systems in place (website, social media etc). More importantly, you need to figure out how to finance it all. Where do you go to find the initial capital? How to calculate how much startup cash you'll need to keep your business afloat before it becomes financially self-

sustainable?

Finding the initial capital can feel impossible, but knowing which [stage of the funding process](#) you're at will help you target suitable opportunities more efficiently.

1. **Pre-seed Funding:** Often called 'family and friends' funding. This is where most start-ups' fundraising journey begins. It's the investment in a product idea that has yet to find its way to market.
2. **Seed Funding:** The early funding stage. Investment generally comes from angel investors, the company founders, Kickstarter or crowdfunding campaigns. For investors, seed funding is fairly risky as the company has yet to prove itself. However, many angel investors specifically focus on seed funding opportunities because they can purchase equity when the company is at its lowest valuation.
3. **Series A funding:** The company (usually still pre-revenue) opens itself to further investments. Series A funding is generally more significant than that received through angel investors, as it's used to help a start-up launch. The business will publicise itself as being open to Series A investors – or be eligible to apply for Series A funding opportunities – and will need to provide an appropriate valuation.
4. **Series B Funding:** A business will only acquire Series B funding after it has started its operations and proven its business model. Series B funding is generally less risky than Series A funding, and consequently, there are usually more interested investors as the business is in a good position. This funding is used to further stabilise, improve operations, scale, and grow
5. **Series C Funding:** At this point, the start-up is no longer really a "start-up" but rather an established business with a proven business model, which needs to either expand its product offerings, expand into new markets, or expand its marketing output

The fundamentals and challenges of early-stage funding

Before we dive into the strategies, let's establish what early-stage funding is and why it's challenging. Early-stage funding is the financial backing required to turn your innovative product idea into a tangible prototype or a minimal viable product (MVP). This funding usually occurs in a start-up's pre-seed or seed stages.

The significant challenges lie in the inherent uncertainties. As per a [report by Failory, about 90% of start-ups fail](#), and this alarming statistic makes investors sceptical about funding unproven product

ideas. Furthermore, without any track record or proof of concept, it becomes increasingly complex for entrepreneurs to validate their ideas.

The go-to sources for getting seed funding for a product idea

There are numerous sources for initial funding, and selecting the right one largely depends on your circumstances and needs.

1. **Self-funding:** Also known as bootstrapping. This is often the first resort for entrepreneurs. Although it has its risks, it allows for complete control over the product.
2. **Friends and family:** They are often the first to believe in your idea. However, it's crucial to maintain transparency and professionalism to prevent damaging personal relationships
3. **Angel investors:** High-net-worth individuals who provide funding in return for equity or convertible debt. They're often willing to take risks for potentially high returns
4. **Crowdfunding:** Platforms like Kickstarter and Indiegogo allow individuals to pool resources for a project or start-up. However, a compelling pitch and significant marketing efforts are essential to stand out
5. **Venture Capitalists (VCs):** Firms that invest in start-ups in exchange for equity. They generally fund later stages, such as Series A but can occasionally be convinced to invest early
6. **Government grants and loans:** These are particularly helpful for start-ups in specific sectors like technology, green energy, and healthcare.

7 early-stage product funding opportunities for startups in Bristol and the South West

While this list is geared towards start-ups in Bristol and the South West, a similar route would apply to all start-ups looking for early-stage funding opportunities: start in your local community or region, find out which government investment schemes you qualify for, and see which local universities have access to funding you can tap into.

1. The [Seed Enterprise Investment Scheme](#) (SEIS) is one of four venture capital schemes

provided by UK Gov. It helps companies raise up to £250,000 when they start to trade and also offers tax reliefs to individual investors who buy new shares in your company.

2. Funding opportunities through the [Worldwide Universities Network](#) (WUN) and the University of Bristol. If your start-up is looking for funding to research ideas, real-world problems, and global challenges, this could be the kickstarter you're looking for.
3. The [Bristol Community Energy Fund](#), set up by the Bristol City Council, has two types of funding available to support and grow energy projects. The first is grant funding to run an energy-related community project. The second is a loan to cover the development costs of a renewable energy project.
4. [Swoop Funding](#) – business loans for SMEs and start-ups in Bristol offering alternative financing options such as working capital loans.
5. [British Business Bank Startup Loans](#), where businesses can borrow up to £25,000 at a fixed interest rate payable over 5 years, with 12 months of free mentoring.
6. [The West of England Growth Hub](#) offers tailored support, expert guidance, and access to finance programmes. For example, the [South West Investment Group](#) (SWIG Finance) provide smaller loans from £25,000 to £100,000 for early-stage funding.
7. [University of the West of England funding](#) opportunities. Here you'll find various funding opportunities to help you get your project idea off the ground or take it to the next level – from pitching competitions to startup scholarships.

How to convince sceptical investors

While securing early-stage funding can be daunting, several strategies can increase your odds:

- **Solid Business Plan:** A comprehensive business plan serves as a roadmap for your venture. It should include a detailed market analysis, your unique selling proposition, marketing and sales strategies, and financial projections.
- **Prototype or MVP:** A basic version of your product demonstrates feasibility and practicality, helping to gain investor trust. Read our [tips on how to build a low-cost prototype](#) and user testing it.
- **Personal Investment:** Investing your own money shows commitment and confidence in your idea, which can inspire investor trust.
- **Market Validation:** Surveys, focus groups, and beta testing can provide proof of market demand for your product and help you [gain valuable customer insights](#) to ensure you

find the right product-market fit.

- **Team Strength:** A passionate, skilled, and experienced team can convince investors that you have the capability to execute your plan.

If you need a helping hand with getting some of this documentation (e.g. [calculating how much startup capital](#) you'll need) together, check out our templates section. Download and customise them to suit your needs, and use them to help make compiling documentation less time-consuming.

Examples of successful early-stage funding that proved the critics wrong

Despite the challenges, many entrepreneurs have managed to secure early-stage funding successfully:

1. **Airbnb:** Before becoming a multi-billion-dollar company, the founders of Airbnb sold custom cereal boxes to fund their idea. Later, they secured \$600,000 in seed funding from Sequoia Capital.
2. **Tesla:** Elon Musk initially invested \$6.5 million of his own money into Tesla. This commitment helped attract further investments.
3. **Spanx:** Founder Sara Blakely invested her savings of \$5,000 to create the first prototype of her innovative shapewear.

One thing all these [almost-failed start-ups](#) have in common (we can add Uber and Amazon to the list) is that they were up against critics who didn't think their idea was a good one. The second is that none of them gave up easily.

Pros & Cons of early-stage funding

As with any venture or business decision, [finding the right investor for your product idea](#) can be tricky, and there are pros and cons involved:

Pros:

- **Financial Backing:** Early-stage funding provides the capital needed to develop your product, conduct market research, and build your brand.
- **Network and Expertise:** Investors often bring industry knowledge, connections, and

business acumen that can aid in business growth.

- **Credibility:** Securing investment can increase your start-up's credibility, making it easier to attract talent and customers.

Cons:

- **Equity Dilution:** Investors usually require a share of your company, potentially diluting your control.
- **Pressure and Expectations:** Investors expect a return on their investment, which can put pressure on the business to perform and scale quickly.
- **Focus Shift:** Fundraising can be time-consuming, potentially diverting focus from product development and customer service.

Did you find this product idea funding guide useful?

The journey to securing early-stage funding for your product idea is undoubtedly challenging, stressful, and overwhelming – so we hope we've made it easier!

Challenges aside, it's also an enriching adventure filled with learning, growth, and endless possibilities. With the right strategies and a dose of resilience, you could soon turn your innovative product idea into reality – so don't be disheartened if the world hasn't seen the brilliance of your idea yet.

Remember, even the most successful ventures once started as an idea no one believed in. Your tenacity and belief in your product will make all the difference. Forge your path to success today!

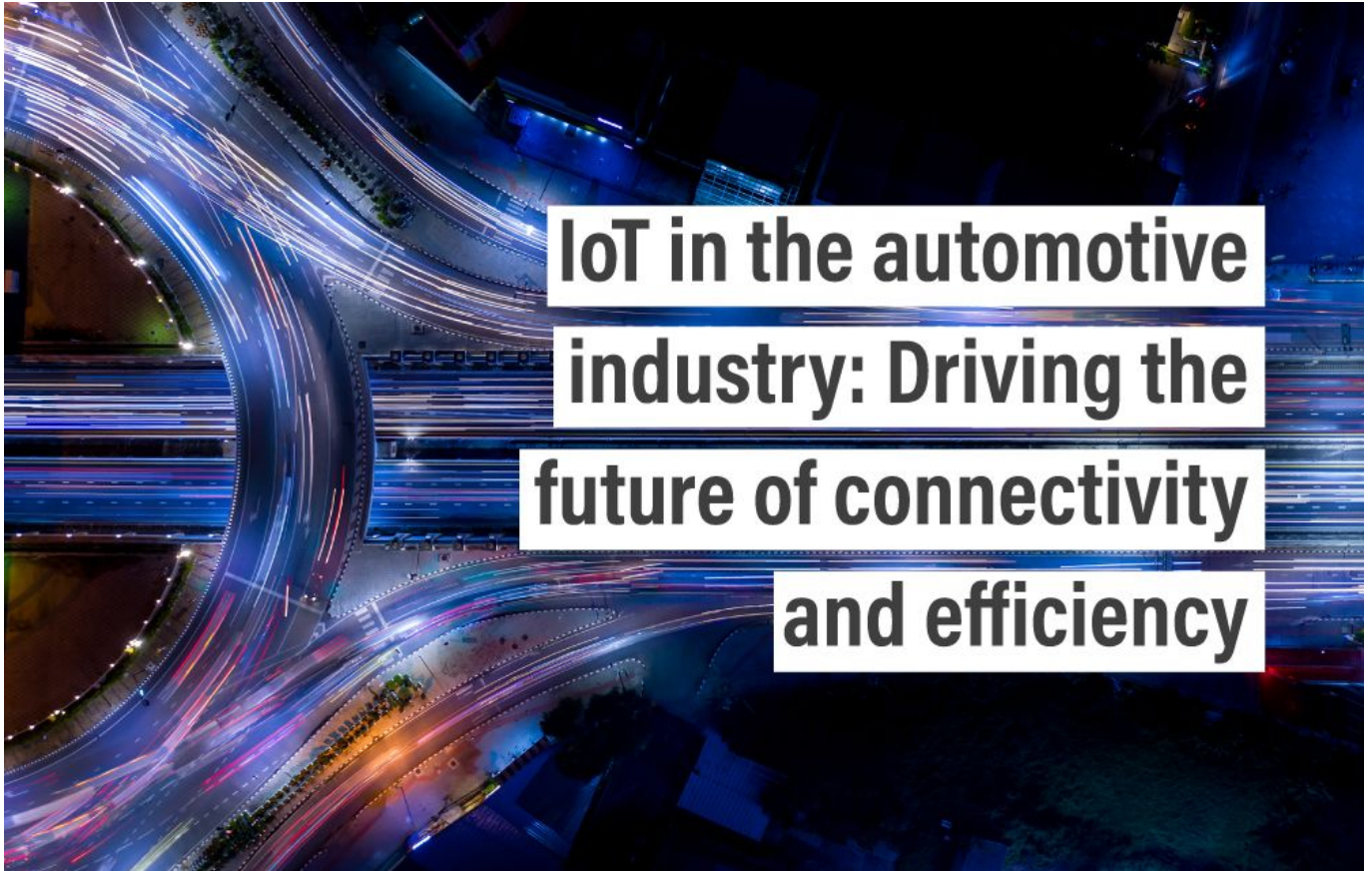
[Share](#)

[Share](#)

[Tweet](#)

[Pin](#)

Up next



IoT in the automotive industry: Driving the future of connectivity and efficiency

IoT in the automotive industry: Driving the future of connectivity and efficiency

Last updated Jun 27, 2024 | [INNOVATION](#), [INSIGHTS](#), [PRODUCT DESIGN](#), [SUSTAINABILITY](#), [TRANSPORTATION](#)

Discover how IoT in the automotive industry enhances vehicle connectivity, safety, and efficiency with cutting-edge technology.

[read more](#)