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Benefits of Venture Capital in Modern Era

Poonam Sood
Asst. Professor, Deptt. of commerce, Dyal singh College Karnal, Haryana
punamsud30@gmail.com

ABSTRACT: This paper presents a selective history of the venture capital industry. A number of technocrats are seeking to set up shop on their own and capitalize on opportunities in the highly dynamic economic climate. That surrounds us today. However, starting an enterprise is never easy. There are a number of parameters that contribute to it success and downfall. There is where the venture capital comes in with money, business sense and a lot more.

INTRODUCTION

Venture capital is an important and necessary form of investment because it foster entrepreneurship, especially in high tech and other innovative industries. This in turn promotes job creation and economic growth. At the investment level venture capital can be tremendously lucrative because it allows investors to get in at the ground level of what could be some of tomorrow's leading companies However, venture capital is not without risk. Infact, it is one of the riskiest investments available. This paper clears the concept of venture capital.

WHAT IS VENTURE CAPITAL

When wealthy investor's like to invest their capital in such business with a long term growth, prospective. This capital is known as venture capital. Such investments are risky as they are liquid, but are capable of giving impressive returns if invested in the right venture. The returns to the venture capitalist depend upon the growth of the company.

RESEARCH METHODOLOGY

RESEARCH PROBLEM

The problem here to find the meaning, importance and benefits of venture capital in Industry and other companies. Also study about the problem in market economy when an entrepreneur has a good idea, but no money, while investors have money, but no good ideas. The solution suggested by Theoretical Analysis and implementation of venture capitalist invalue.

RESEARCH DESIGN

It is the conceptual structure on the basis of which the research is conducted. It's function is to provide for the collection of relevant evidence with minimal expenditure of effort, time and money. But how this can be achieved depends upon research purpose. Care was taken to find out all existing information regarding venture capital industry.

OBJECTIVE OF THE STUDY

1. To know meaning of venture capital.
2. To know objectives of venture capital.
3. To know methods and strategies of venture capital.
4. To know the Financing stages of Venture Capital.
5. To know structure of Venture Capital.
6. To know Types & Role of Venture Capitalist.

DATA COLLECTION

There are two sources of data collection:-

1. Primary data
2. Secondary data

PRIMARY DATA

Entire research is corporate/entrepreneur data based and methodology includes entrepreneur opinions about venture capital. Why entrepreneur whose venture capital. Primary data was collected by means of self administrated structured questionnaire.

SECONDARY DATA

The secondary data has been collected from various sources such as magazines, newspapers, journals, books, manuals, websites and magazines of venture capital industry.

Financing stages

There are typically six stages of venture round financing offered in Venture Capital, that roughly correspond to these stages of company's development.

- Seed funding : The earliest round of financing needed to prove a new idea, often provided by angel investors. Equity crowdfunding is also emerging as on option for seed funding.
- Start-up : Early stage firms that need funding for expenses associated with marketing and product development
- Growth (Series A round): Early sales and manufacturing funds
- Second-Round: Working capital for early stage companies that are selling product, but not yet turning a profit.
- Expansion: Also called Mezzanine financing, this is expansion money for a newly profitable company.
- Exit of venture capitalist: Also called bridge financing, 4^{th} round is intended to finance the " going public " process

Between the first round and the fourth round, venture-backed companies may also seek to take venture dept.

Firms and Funds

Venture Capitalists

A venture capitalist is a person who makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle (in the United States, often an LP or LLC) that primarily invests the financial capital of third party investors in enterprises that are too risky for the standard capital markets or bank loans. These funds are typically managed by a venture capital firm, which often employs individuals with technology backgrounds (scientists, researchers), business training and/or deep industry experience.

A core skill within VC is the ability to identify novel or disruptive technologies that have the potential to generate high commercial returns at an early stage. By definition, VCs also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital, thereby differentiating VC from buy-out private equity, which typically invest in companies with proven revenue, and thereby potentially realizing much higher rates of returns. Inherent in realizing abnormally high rates of returns is the risk of losing all of one's investment in a given startup company. As a consequence, most venture capital investments are done in a pool format, where several investors combine their investments into one large fund that invest in many different startup companies. By investing in the pool format , the investors are spreading out their risk to many different investments instead the chance of putting all of their money in one start up firm.

Structure

Venture capital firms are typically structured s partnerships, the general partners of which serve as the managers of the firm and will serve as investment advisors to the venture capital fund raised. Venture capital firms in the United States may also be structured as limited liability companies, in which case the firm's managers are known as managing members. Investors in venture capital fund are known aslimited partners. This constituency comprises both high-net-worth individuals and institutions with large amounts of available capital, such as state and private pension funds, university financial endowments, foundations, insurance companies, and pooled investment vehicles, called funds of funds.

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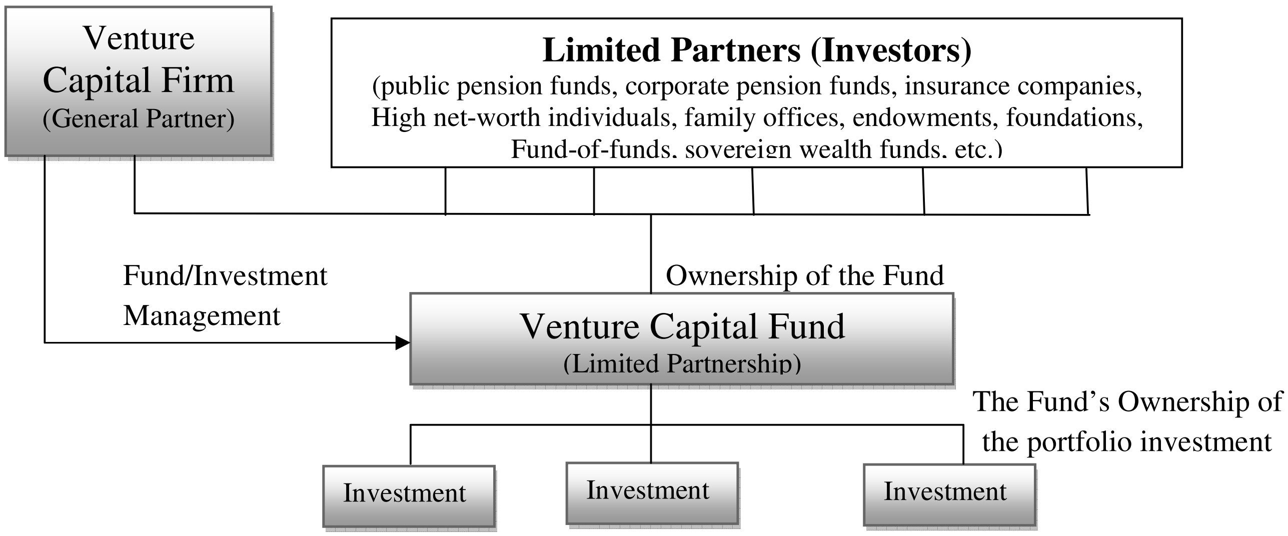

Diagram of the structure of a generic venture capital fund

Types

Venture Capitalist firms differ in their approaches. There are multiple factors, and each firm is different. Some of the factors that influence VC decisions include:

- Business situation; Some VCs tend to invest in new, disruptive ideas, or fledging companies. Others prefer investing in established companies that need support to go public or grow.
- Some invest solely in certain industries.
- Some prefer operating locally while others will operate nationwide or even globally.
- VC expectation can often vary. Some may want a quicker public sale of the company or expect fast growth. The amount of help a VC provides can vary from one firm to the next.

Role

Within the venture capital industry, the general partners and other investment professionals of the venture capital firm are often referred to as "venture capitalists" or "VSs". Typical career backgrounds vary, but, broadly speaking, venture capitalists come from either an operational or a finance background. Venture capitalists with an operational background (operating partner) tend to be former founders or executives of companies similar to those which the partnership finances or will have served as management consultants. Venture capitalists with finance background tend to have investment banking or other corporate finance experience.

Although the titles are not entirely uniform from to firm to firm, other positions at venture capital firms include:

Position	Role
Venture Partners	Venture partners are expected to source potential investment opportunities ("bring in deals") and typically are compensated only for those deals with which they are involved.
Principal	This is mid-level investment professional position, and often considered a "partner-track" position. Principal will have been promoted from a senior associate position or who have commensurate experience in another field, such as investment banking, management consulting, or a market of particular interest to the strategy of the venture capital firm.
Associate	This is typically the most junior apprentice position within a venture capital firm. After a few successful years, an associate may move up to the "senior associate" position and potentially principal and beyond. Associates will often have worked for 1-2 years in another field, such as investment banking or management consulting.
Entrepreneur-in residence	Entrepreneurs-in-residence (EIRs) are experts in a particular domain and perform due diligence on potential deals. FIRs are engaged by venture capital firms temporarily (six to 18 months) and are expected to develop and pitch startup ideas to their host firm although neither party is bound to work with each other. Some EIRs move on to executive positions with a portfolio company.

Structure of the funds

Most venture capital funds have a fixed life of 10 years, with the possibility of a few years of extensions to allow for private companies still seeking liquidity. The investing cycle for most funds is generally three to five years, after which the focus is managing and making follow-on investments in as existing portfolio. This model was pioneered by successful find in Silicon Valley through the 1980s to invest in technological trends broadly but only during their period of ascendance, and to cut exposure to management and marketing risks of any individual firm of its product.

In such a fund, the investors have a fixed commitment to the fund that is initially unfunded and subsequently "called down" by the venture capital fund over time as the fund makes its investments. There are substantial penalties for a limited partner (or investor) that fails to participate in a capital call. It can take anywhere from a month so to several years for venture capitalists to raise money from limited partners for their fund. At the time when all of the money has been raised, the fund is said to be closed, and the 10-year lifetime begins. Some funds have partial closes when one half (or some other amount) of the fund has been raised. The vintage year generally refers to the year in which the fund was closed and may serve as a means to stratify VC funds for comparison. This shows the difference between a venture capital fund management company and the venture capital funds managed by them.

From investors point of view, fund can be : (1) traditional-where all the investors invest with equal terms; or (2) asymmetric-where different investors have different terms. Typically the asymmetry is seen in cases where there's an investor that has other interests such as tax income in case of public investors.

Compensation

Venture capitalists are compensated through a combination of management fees and carried interest (often referred to as a "two and 20 arrangement):

Payment	Implementation
Management fees	An annual payment made by the investors in the fund to the fund's manager to pay for the private equity firm's investment operations. In a typical venture capital fund, the general partners receive an annual management fee equal to up to 2 % of the committed capital.
Carried Interest	A share of the profits of the fund (typically 20%), paid to the private equity fund's management company as a performance incentive. The remaining 80% of the profits are paid to the fund's investors. Strong limited partner interest in top-tier venture firms has led to a general trend toward terms more favorable to the venture partnership, and certain groups are able to command carried interest of 25-30% on their funds.

Because a fund may run out of capital prior to the end of its life, larger venture capital firms usually have several overlapping funds at the same time; doing so lets the larger firms keep specialists in all stages of the development of firms almost constantly engaged. Smaller firms tend to thrive or fail with their initial industry contacts; by the time the fund cashes out, an entirely new generation of technologies and people is ascending, whom the general partners may not know well, and so it is prudent to reassess and shift industries or personnel rather than attempt to simply invest more in the industry or people the partners already know.

Conclusion

Venture Capital is the risky capital venture capital firm usually take active management roles and board seat, in the companies they invest in venture capital firm also helpful in providing crucial managerial or Technical expertise in areas where entrepreneur is less confident, As far as we can tell that venture capital is very helpful for that business who need Finance requirements.

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