



What is Venture Capital?

And How Can it Help Your Business?

Venture capital is a means of financing fast-growing private companies. Finance may be required for the start-up, development/expansion or purchase of a company via a mechanism such as in a management buyout.

Growing businesses always require capital. There are a number of different ways to fund growth. These include the owner's own capital, arranging debt finance or seeking an equity partner, as is the case with venture capital.

With venture capital, the venture capitalist acquires an agreed proportion of the equity of the company in return for the requisite funding. Equity finance offers the significant advantage of having no interest charges. It is patient capital that seeks a return through long-term capital gain rather than immediate and regular interest payments.

Venture capital investors are exposed, therefore, to the risk of the company failing. As a result the venture capitalist must look to invest in companies that have the ability to grow very successfully and give higher-than-average returns to compensate for the risk.

When venture capitalists invest in a business they become part-owners and typically require a seat on the company's board of directors. They tend to take a minority share in the company and usually do not take day-to-day control. Rather, professional venture capitalists act as mentors and aim to provide support and advice on a range of management and technical issues to assist the company to develop its full potential.

Surveys in the US consistently rate the management support as the most important contribution of a venture capital firm. There are many sources of capital, but only a venture capitalist can provide experienced management input gained by helping many other companies successfully conquer the inevitable problems and growing pains.