



The venture capital funding process typically involves four phases in the company's development:

- Idea generation
- Start-up
- Ramp up
- Exit

Step 1: Idea generation and submission of the Business Plan

The initial step in approaching a Venture Capital is to submit a business plan. The plan should include the below points:

- There should be an executive summary of the business proposal
- Description of the opportunity and the market potential and size
- Review on the existing and expected competitive scenario
- Detailed financial projections
- Details of the management of the company

There is detailed analysis done of the submitted plan, by the Venture Capital to decide whether to take up the project or no.

Step 2: Introductory Meeting

Once the preliminary study is done by the VC and they find the project as per their preferences, there is a one-to-one meeting that is called for discussing the project in detail. After the meeting the VC finally decides whether or not to move forward to the due diligence stage of the process.

Step 3: Due Diligence

The due diligence phase varies depending upon the nature of the business proposal. This process involves solving of queries related to customer references, product and business strategy evaluations, management interviews, and other such exchanges of information during this time period.

Step 4: Term Sheets and Funding

If the due diligence phase is satisfactory, the VC offers a term sheet, which is a non-binding document explaining the basic terms and conditions of the investment agreement. The term sheet is generally negotiable and must be agreed upon by all parties, after which on completion of legal documents and legal due diligence, funds are made available.

Types of Venture Capital funding

The various types of venture capital are classified as per their applications at various stages of a business. The three principal types of venture capital are early stage financing, expansion financing and acquisition/buyout financing.

The venture capital funding procedure gets complete in six stages of financing corresponding to the periods of a company's development

- ***Seed money:*** Low level financing for proving and fructifying a new idea
- ***Start-up:*** New firms needing funds for expenses related with marketing and product development
- ***First-Round:*** Manufacturing and early sales funding
- ***Second-Round:*** Operational capital given for early stage companies which are selling products, but not returning a profit

- **Third-Round:** Also known as Mezzanine financing, this is the money for expanding a newly beneficial company
- **Fourth-Round:** Also called bridge financing, 4th round is proposed for financing the "going public" process

A) Early Stage Financing: Early stage financing has three sub divisions seed financing, start up financing and first stage financing.

- Seed financing is defined as a small amount that an entrepreneur receives for the purpose of being eligible for a start up loan.
- Start up financing is given to companies for the purpose of finishing the development of products and services.
- First Stage financing: Companies that have spent all their starting capital and need finance for beginning business activities at the full-scale are the major beneficiaries of the First Stage Financing.

B) Expansion Financing: Expansion financing may be categorized into second-stage financing, bridge financing and third stage financing or mezzanine financing.

Second-stage financing is provided to companies for the purpose of beginning their expansion. It is also known as mezzanine financing. It is provided for the purpose of assisting a particular company to expand in a major way. Bridge financing may be provided as a short term interest only finance option as well as a form of monetary assistance to companies that employ the Initial Public Offers as a major business strategy.

C) Acquisition or Buyout Financing: Acquisition or buyout financing is categorized into acquisition finance and management or leveraged buyout financing. Acquisition financing assists a company to acquire certain parts or an entire company. Management or leveraged buyout financing helps a particular management group to obtain a particular product of another company.

Advantages of Venture Capital

- They bring wealth and expertise to the company
- Large sum of equity finance can be provided
- The business does not stand the obligation to repay the money

- In addition to capital, it provides valuable information, resources, technical assistance to make a business successful

Disadvantages of Venture Capital

- As the investors become part owners, the autonomy and control of the founder is lost
- It is a lengthy and complex process
- It is an uncertain form of financing
- Benefit from such financing can be realized in long run only

Exit route

There are various exit options for Venture Capital to cash out their investment:

- IPO
- Promoter buyback
- Mergers and Acquisitions
- Sale to other strategic investor

The Stages of Venture Capital Financing

Venture capital is a term that's frequently thrown around when the discussion turns to getting startups off the ground. While most know that it's a source of funding, fewer people are familiar with exactly how venture capital financing works.

Venture capital is a form of funding that pools together cash from investors and lends it to emerging companies and startups that the funds believe have the potential for long-term growth. Venture capital investments typically involve high risk in exchange for potentially high reward.

Because every company is different, the various stages can vary somewhat from financing to financing. Generally speaking, though, there are five typical stages of any venture capital financing.

1. The Seed Stage

Venture capital financing starts with the **seed-stage** when the company is often little more than an idea for a product or service that has the potential to develop into a successful business down the road. Entrepreneurs spend most of this stage convincing investors that their ideas represent a viable investment opportunity. Funding amounts in the seed stage are generally small, and are largely used for things like marketing research, product development, and business expansion, with the goal of creating a prototype to attract additional investors in later funding rounds.

2. The Startup Stage

In the startup stage, companies have typically completed research and development and devised a business plan, and are now ready to begin advertising and marketing their product or service to potential customers. Typically, the company has a prototype to show investors, but has not yet sold any products. At this stage, businesses need a larger infusion of cash to fine tune their products and services, expand their personnel, and conducting any remaining research necessary to support an official business launch.

3. The First Stage

Sometimes also called the “emerging stage,” first stage financing typically coincides with the company’s market launch, when the company is finally about to start seeing a profit. Funds from this phase of a venture capital financing typically go to actual product manufacturing and sales, as well as increased marketing. To achieve an official launch, businesses usually need a much bigger capital investment, so the funding amounts in this stage tend to be much higher than in previous stages.

4. The Expansion Stage

Also commonly referred to as the second or third stages, the expansion stage is when the company is seeing exponential growth and needs additional funding to keep up with the demands. Because the business likely already has a commercially viable product and is starting to see some profitability, venture capital funding in the emerging stage is largely used to grow the business even further through market expansion and product diversification.

5. The Bridge Stage

The final stage of venture capital financing, the bridge stage is when companies have reached maturity. Funding obtained here is typically used to support activities like mergers, acquisitions, or IPOs. The bridge state is essentially a transition to the company being a full-fledged, viable business. At this time, many investors choose to sell their shares and end their relationship with the company, often receiving a significant return on their investments.

An experienced business attorney can guide you through the different stages of venture capital financing and advise you on the best ways to secure funding for your company in its current stage.