

Tutorial Notes

Class: B.Com (Hons.) Semester VI (DSE3)

Subject: New Venture Planning

Topic: Stages in Venture Capital Financing.

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Stages in Venture Capital Financing

There are five stages in venture capital financing, and they include:

#1 Seed Stage

At the seed stage, the company is only an idea for a product or service, and the entrepreneur must convince the venture capitalist that their idea is a viable investment opportunity. If the business shows potential for growth, the investor will provide funding to finance early product or service development, market research, business plan development, and setting up a management team. Seed-stage venture capitalists participate in other investment rounds alongside other investors.

#2 Startup Stage

The startup stage requires a significant cash infusion to help in advertising and marketing of new products or services to new customers. At this stage, the company has completed market research, has a business plan in place, and a prototype of their products to show investors. The company brings in other investors at this stage to provide additional financing.

#3 First Stage

The company is now ready to go into actual manufacturing and sales, and this requires a higher amount of capital than the previous stages. Most first-stage businesses are generally young and have a commercially viable product or service.

#4 Expansion Stage

The business has already started selling its products or services and needs additional capital to support the demand. It requires this funding to support market expansion or start another line of business. The funding may also be used for product improvement and plant expansion.

#5 Bridge Stage

The bridge stage represents the transition to a public company. The business has reached maturity, and it requires financing to support acquisitions, mergers, and IPOs. The venture capitalist can exit the company at this stage, sell off his shares, and earn a huge return on his investments in the company. The exit of the venture capitalist allows other investors to come in, hoping to gain from the IPO.