

# Venture capital social and rural entrepreneurship

MODULE 6

# Sources of capital

- ▶ There are various sources like:
  - ▶ Owners' money
  - ▶ Friends and relatives
  - ▶ Angel investors
  - ▶ Seed capital
  - ▶ Venture capital
  - ▶ Private placements
  - ▶ IPO
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- ▶ Debt for WC and long term capital

# Informal risk capital market

- ▶ Many wealthy people looking for opportunities are called angel investors or risk capitalists.
- ▶ Business angels are high networth individuals who provide early stage capital to start-ups in the form of debt, equity or both.
- ▶ They provide capital to start-ups who are:
  - ▶ - too small to get attention of venture capitalists
  - ▶ - too risky for bank loans
  - ▶ - too limited in their revenue generation



## Types of Angel investo

- ▶ Corporate angels: senior managers from corpora with generous severance pay or who have taken may also get a senior management position.
- ▶ Entrepreneurial angel: they own and operate h They usually participate in 4-5 companies. They usually and do not show interest to manage the
- ▶ Enthusiastic angels: For them investment is a ho and are wealthy. They are aged and would like They make small investments. They play no role in board



- ▶ Micro management Angels: They are v  
They ve attained wealth by their own c  
experience they tend to impose tactic  
them they usually do not assume man  
to be on the board of directors.
- ▶ Professional Angels: professionals like c  
they invest in companies that offer pro  
they have some experience. They inve  
companies at one time. They rarely se  
board/management roles

# Advantages of Angel invest

- ▶ They seek smaller deals
- ▶ Prefer start-ups or early stage companies organisation with seed capital.
- ▶ Invest in all industry sectors and show no
- ▶ Value adding partners of companies
- ▶ Geographically well dispersed
- ▶ They provide leveraging effect
- ▶ Cost effective; don't charge high fees.

# Disadvantages of Angel investments

- ▶ Not so helpful when the company needs capital
- ▶ They want a say in the company sometimes detrimental
- ▶ When the going gets tough they become troublesome
- ▶ Finding quality angels is difficult.



# Venture Capital

- ▶ Risk finance for entrepreneurial growth oriented investments for medium and long term returns the entrepreneur in which the investor can do because of his knowledge and experience
- ▶ Valuable and powerful source of equity capital available for start-ups and small businesses that grow exceptionally.
- ▶ In most cases a degree of managerial and technical assistance is provided.
- ▶ It is generally provided to early-stage, high potential companies with a view to generate an appreciable return.

# Nature of venture capital

- ▶ Equity participation: it is actual or potential participation through direct purchase of shares or debentures. The objective is to sell for capital gain when the organisation becomes profitable.
- ▶ Long-term investment: it is long term, illiquid and not encashable on demand. It requires attitude and patience for years for appreciable profits
- ▶ Participation in management: continued involvement in the management of the business. This helps the entrepreneur. The VC gives his inputs on technology, marketing and management skills to the venture

- ▶ High degree of risk: Venture capital re investment in a high risk project with a high rate of return.
- ▶ Achieve social objective: venture cap social objective of equality and devel
- ▶ Investment is illiquid: investor realizes h shares are sold at a good gain. If vent investor gets nothing. Liquidity is very p



# Need for venture capital

- ▶ Lack of capital for investment
- ▶ To enable start-up phase
- ▶ Acts as motivation to increase profits
- ▶ Experience of venture capitalist
- ▶ Involvement of venture capitalist
- ▶ Innovation
- ▶ Job creation
- ▶ Patient capital, not flighty
- ▶ Creating new industry clusters (media, retail, c processing, transportation, catering etc

# Forms/stages of venture capital

- ▶ Early stage financing (seed capital, start-up stage, second round financing)
- ▶ Later stage financing (Expansion financing, replacement financing, turnaround finance, buy-outs, buy-ins)

# Advantages & Disadvantages of VC

## Advantages

- ▶ Business consultations
- ▶ Management consultations
- ▶ Human resources
- ▶ Additional resources

## Disadvantages

- ▶ Management position
- ▶ Equity position
- ▶ Decision-making
- ▶ Business plans at risk
- ▶ Funding plan in doses



# Venture capital process

Process of entry for a VC (entry strategy)

- Deal origination: stream of deals is essential. Referral system works. VC industry motivated up with proposals
- Screening: screening to shortlist on basis of product, market, size, place, stage of financial
- Evaluation/due diligence: after initial screening done. VCs usually rely on subjective and comparative evaluation as the projects are new and entrepreneurs are inexperienced. VCs evaluate the quality of evaluating technology, product, market etc. business plan to evaluate risk and return.

# Venture capital process

- Investment valuation: done to  
of the deal. It is done on the b  
revenue and profitability, exp  
capitalization etc
- Deal structuring: terms of the  
and price of investment. All o  
governance, shares, buy-bac  
support etc will be worked ou

# Venture Capital process:

Process of exit for a VC (exit strategy)

Method by which a VC intends to cash-out investment is called the exit strategy.

It is not easy to cashout as the venture is in its domain.

Some of the exit routes are:

1. Initial public offer:
2. Acquisition by another company
3. Purchase by investee company
4. Purchase of VC share by 3P



# Locating VC

- ▶ VCs tend to specialize on geography, in services. Look for VCs on that basis
- ▶ Carefully research for such VCs. Look up directories. Lists available with names, addresses, businesses, restrictions
- ▶ Due diligence to check reputation and investees to check. Check their credit history strength. Check their goals culture and
- ▶ Don't get discouraged if one VC rejects be more to do with their style and approach valuation of one's venture. Look for the

# Approaching venture cap

- ▶ Explain why the business idea works through o  
Everyone has ideas but convincing the VC ab
- ▶ Know the product inside-out. One should be c  
in an hour long speech as well as in an elevat
- ▶ Differentiate the product from what is availab  
the interest of the VC
- ▶ Determine how the product is able to create c  
how the new product is going to make a differ  
consumer
- ▶ Make a proper and professional contact with  
online network will help. Avoid walking in, send  
may not help much

# Approaching venture cap

- ▶ Have a airtight, professional business plan and strategies including financials
- ▶ Find the right VC firm. They specialize in different industries, etc. look for a VC that fits one's venture
- ▶ Know the range of investment the VCs offer
- ▶ VC funding is all negotiation
  1. never let them think you have no other options
  2. VCs sometimes reject and wait for weeks
  3. Ask the broker for concessions after introduction



# Social entrepreneurs

# Social enterprise

- ▶ Social enterprise is an organization that uses business strategies to maximize improvements in the environment; well-being, rather than maximize profits for external shareholders.
- ▶ This can be a for-profit or non-profit organization.
- ▶ May be in the form of cooperative, business enterprise, social organization etc. different from commercial organizations.
- ▶ According to social enterprise alliance (SEA), a social enterprise is an organization or venture that achieves its primary environmental mission using business means.

# Characteristics of social enterprise

- ▶ Enterprise orientation: they are directly involved in producing goods/services to a market and they seek to be a trading organization with operating surplus.
- ▶ Social aims: explicit social aims such as job creation, local services, etc. Ethical values including community capacity building. They are accountable to the community for social, environmental and economic performance.
- ▶ Social ownership: they are autonomous organizations with governance and ownership structures based on the interests of stakeholders or by stakeholder groups or trustees. Profits are shared with stakeholders or used for the benefit of the community.



# Need for social enterprise

- ▶ Meets the requirements of local farmers, smes etc
- ▶ Advancing social mission- social
- ▶ Financial sustainability – government sources dries up

# Types of social enterprise

- ▶ Social firms: business firms set up to create employment for disadvantaged
- ▶ Cooperatives: people join together to meet to meet needs through jointly owned enterprises.
- ▶ Development trusts: organization created to provide people with disabilities and disadvantages.
- ▶ Intermediate labour market companies: provide training for long term unemployed and other disadvantaged groups to enter labour market
- ▶ Community business: enterprises having strong global focus on local development and employment for local people
- ▶ Credit unions: finance cooperatives that help people have community finance initiatives.
- ▶ Charities trading arms: charities in innovative ways like trade companies

# Presentations:

- ▶ Meaning definition and types of entrepreneurs
- ▶ Importance and limitations of entrepreneurship
- ▶ Meaning definitions and characteristics of rural entrepreneurship
- ▶ Need and types of rural entrepreneurship