VENTURE CAPITAL FUNDING: A HISTORICAL PERSPECTIVE AND FUTURE OUTLOOK

Radojevich-Kelley, Nina, Metropolitan State College of Denver, PO Box 173362 Campus Box 78, Denver, CO 80217-3362, 303-556-8044, nradojev@mscd.edu

ABSTRACT

Venture capital funding is a driving force in entrepreneurship over the last several decades. In the United States alone, VC funding has helped launch some of the most highly successful businesses, such as Google, Vermeer, Zipcar, Cisco Systems, E-Bay, and Yahoo [1]. Although the most current economic recession has reduced the volume of available VC funds, this type of private equity capital continues to foster emerging businesses.

Venture money was a term first used during the 1930's to describe funding that fulfills the equity gap for start-ups during that time [2]. In fact, venture capital and private equity were terms used synonymously and interchangeably to imply that funding comes from large institutions [2]. Historically, it is thought that VC firms invest in well established businesses or young fast-growing ventures. Most VC firms invest in businesses that have huge growth potential for market share or have potential to change the industry. According to the Dow Jones VentureSource (2009), the total dollar value that VC firms invested in 2007 was $ 29.9 billion dollars with approximately 2,600 firms financed during that time period [4]. During the e-commerce craze in 2000, the total dollar value that Venture Capital firms invested in was $ 106.6 billion [1]. It is important to note that the total dollar value invested in 2007 is greatly reduced compared to the year 2000.

Historically, it is known that venture capital companies invest in very few entrepreneur firms in the economy compared to angel investors. Current research indicates that VC firms invest in approximately 1 out of 100 companies they review for possible funding [6]. A quick comparison shows that VC firms in 2007 invested in approximately 2,600 companies compared to angel investors who funded approximately 57,000 ventures [3] [4]. Even though VC firms invest in a smaller number of companies, they are responsible for major change in numerous industries. This is simply because VC firms fund nascent companies that impel critical change in the industry and in the economy. Furthermore, VC firms are usually follow-up capital providers for various start-up companies requiring huge capital to continue growth, have exceptional potential for growth and/or instigate and drive crucial change in their industry. A good example of this would be Google, or Yahoo who changed the way the technology/computer industry provided information to consumers and connected consumers to various products/services and information. A closer examination of the impact of VC funding is provided in this article.

Most recently, there is an increase amount of criticism towards VC firms and VC funding in general. In fact, the media and several articles claim that VC funding is dead, especially in the wake of the current recession. This is simply because the amount of money readily available in our economy is contracting due to the capital crisis in our nation. A historical review of VC funding reveals numerous trials and tribulations that VC firms faced multiple times in the past. The present challenges and obstacles that VC

firms face is nothing new, especially since VC firms faced at least 3 major recessions and bubble bursts over the past 55 years. The reality of where VC funding lies today is simply that change is in the air and that VC funding is evolving again. The intent of this article is to examine and address the following research questions: 1) Historically, what was the impact of VC funding? 2) Presently, what do VC firms typically look for in a start-up company and what do they invest in? 3) Has the type of companies that VC firms invested in changed over the past 55 years? 4) What are future challenges; problems and obstacles VC firms currently face and how will these impact nascent companies?

Keywords: Start-up funding, investing, venture capital

REFERENCES

[1] Barringer, B.R. & Ireland, R.D. (2010). *Entrepreneurship: successfully launching new venture 3rd edition.* Upper Saddle River, NJ: Pearson Prentice Hall.

[2] Bloomfield, S. (2005). *Venture capital funding: A practical guide to raising finance*. London: Kogan Page.

[3] Center for Venture Research, *The Angle Investor Market in 2007: Mixed signs of growth.* Retrieved on September 13, 2009 from http://www.unh.edu/news/docs/2007AngelMarketAnalysis.pdf

[4] Dow Jones VentureSource homepage, www.venturesource.com. Retrieved September 12, 2009 from https://www.venturesource.com/login/index.cfm?CFID=1346299&CFTOKEN=11839051.

[5] Fishback, B., Gulbranson, C.A., Litan, R.E., Mitchell, L., & Porzig, M. (2007, July). *Finding Business "Idols": A New Model to Accelerate Start-ups*. [Kansas City: MO]: The Kauffman Foundation. Retrieved on September 19, 2009, from http://www.kauffman.org/uploadedFiles/Finding_Business_Idols.pdf

[6] Norman, J. (2005). *What no one ever tells you about financing your own business: Real-life financing advice from 101 successful entrepreneurs*. Chicago: Dearborn Trade Pub.