TO TORONTO INC

By Prem Prathap

Do you really need Venture Capital or Angel funding for your Start-up!!

Chances are you are at least curious to know if there are any benefits in bringing a VC or Angel on board even if you have the required capital.

However, this is a critical decision as VCs and Angels are not like any other financial institutions who are simply loaning their money for interest.

What is Venture Capital ?

Venture capital is an equity investment in your firm and this could be in the form of liquid money OR even managerial experience and quantifiable resources.

Venture Capital (VC) funding could be coming from Investors, Investment Banks, Venture Capital Corporation, Angel Investors or even other Financial Institutions.

Now the key is that a VC funding occurs only when they assess your firm/start-up and see long term growth potential. This means they are only interested in start-ups & small businesses poised to scale exponentially.

What does it mean to you as an Entrepreneur?

Angels invest only in business/industries they are familiar with & the amount invested could be lesser than the VCs. However, they tend to be more involved in your Business running than the VC which might have its Pros & Cons considering their level of involvement or rather interference.

On the other hand, a VC may invest in a company or a portfolio of companies which might be even outside the scope of their expertise but only so after doing their thorough Due-diligence and vetting. This could mean longer wait times and more stringent requirements for your initial qualification for a VC funding but at the same time a higher and longer financial commitment from a larger group of investors ready to fly with you.

The key differentiator between a Venture Capitalist and an Angel Investor!!

Angel Investor also knows as Seed Investor is an Individual investor providing financial back up for SMEs in exchange for an equity in the company. **W**hereas Venture Capital is a form of private equity and financing provided to start-ups and SMEs by bigger entities like Investment Banks/ Financial Institutions or even a group of HNI Investors.

Common Factor!!

Both wants equity in your business as they invested money in your firm and the share of equity or ownership depends on a variety of factors ranging from your company's valuation to the investment size and relative risks involved in turning around a new venture.

Compare

Both has its Pros & Cons but as a start-up entrepreneur it's your critical judgement which matters here in looking at which one fits your strategic goals and financial needs.

If you are an independent decision maker who goes ahead with your proven business acumen, an Angel might come across as too interfering for you as he/she is too closely involved in your business management than a VC. But on the contrary if you think you can make that relationship productive by exploiting their expertise then working with an Angel could be ideal.

A VC may not be that closely involved in your Business management process or rather they are not keen to be your "Mentor"; however, they will have a result-oriented method where they closely monitor your milestones. This means critical appraisals of your adherence to business plans and even sitting at your Board to ensure compliance.

Whether its Seed Stage or Growth stage, VCs and Angels would be interested to make an investment if they see your start-up can scale heights.

Inference

An Angel or VC funding would work wonders for a firm with a cutting-edge / disruptive idea which could be scaled and could be the next big thing in the market.
But if your goals don't align with each other, it could be a disastrous relationship which will have more negative implications than anything else.

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