VENTURE CAPITAL: HOW IT WORKS AND WHETHER IT FITS

How VC funds make money, what they need from you, and why most businesses shouldn't raise venture capital.

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AT A GLANCE

- **Venture capital (VC)** firms invest other people's money in startups they believe can grow very large, very fast.
- VCs need a few huge wins to make up for many losses, so they look for companies that could become **worth hundreds of millions of dollars or more**.
- Most good businesses, including most main-street businesses, are **not a fit for VC**, and that's fine.

Why it matters

VC is the most talked-about funding, but it's right for only a small share of businesses. Raising it changes your goals: you'll be expected to grow fast, raise more rounds, and eventually sell or go public. Knowing how VC works helps you decide whether you want that path.

How VC funds work

- A VC firm raises a **fund** from investors such as pension funds, foundations, endowments and wealthy families.
- The fund invests in startups over a few years, then aims to return money over roughly **10 years**.
- Many investments fail or return little. A few big winners must return the whole fund.
- That's why VCs ask: **could this company become very large?**

The usual stages

Stage	What the company has	Typical use of money
Pre-seed	An idea, a team, maybe a prototype	Building the first product
Seed	Early users or revenue	Finding product-market fit
Series A	Strong growth and a repeatable way to win customers	Scaling sales and the team
Series B and later	Proven model, fast growth	Expansion, new markets

Round sizes and valuations vary a lot by industry, location and market conditions.

Is VC right for you?

VC may fit if...	VC probably isn't right if...
Your market is very large	Your market is local or limited
Your product can grow without costs growing as fast	Growth needs more locations and staff in proportion
You want to grow as fast as possible	You want steady growth and profits
You're comfortable sharing control and selling the company one day	You want to own and run it for life
You're building technology others can't easily copy	Your edge is mainly service quality or location

> KEY POINT
>
> Choosing not to raise VC isn't a failure. Many very successful companies were built with profits, loans and angel money.

What VCs look for

- A strong, committed team
- A large, growing market
- Early proof of demand: growth, retention, revenue
- A product that's hard to copy
- A plan to reach the next milestone with this money

What you give up

- **Ownership:** often a meaningful share in each round
- **Control:** board seats, approval rights over big decisions
- **Pace and path:** pressure to grow fast and eventually sell or go public

EXAMPLE

Sofia's scheduling app had 120 clinics paying monthly and was growing quickly. She raised a seed round from a VC fund to expand to new states. **Marcus's** landscaping company was profitable but grew by adding crews. He chose equipment loans and kept 100% ownership. Both were right for their businesses.

Common mistakes

- **Pitching VCs with a business that isn't built for VC.**
- **Raising too much too early**, giving up more ownership than needed.
- **Not researching the firm**: its stage, industries and check sizes.
- **Ignoring terms beyond valuation.** See **R-17 Reading a Term Sheet**.

Your checklist

- ☐ Use the fit table to decide whether VC is right for you
- ☐ If yes, list 20 firms that invest at your stage and in your industry
- ☐ Find a warm introduction to each
- ☐ Prepare your deck, metrics and data room

Key words, explained

Word	What it means
Venture capital	Investment in high-growth startups for ownership.
Fund	A pool of money a VC firm invests.
Product-market fit	When customers clearly want and keep using your product.
Board seat	A vote on the company's board of directors.

Where to go next

- **R-10 Angel Investors**
- **R-17 Reading a Term Sheet**
- **G-03 Growth Numbers Investors Watch**

IMPORTANT

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