What Is a Typical Venture Capital (VC) Investment?

Venture capital firms concentrate their investments in a handful of industries and look for very specific characteristics. Below is an overview of the typical VC target:

Investment Characteristics

Venture capitalists are very selective in deciding what to invest in, and will only pick one company among several hundred or more, as companies that combine the ideal characteristics are very rare.

Young Companies with a Proven Concept

The company has a proven concept but lacks the infrastructure and professional management to grow successfully. The company is usually only a few years old (sometimes few months old).

(Very) High Growth

Ideal targets are firms that have products or services that are just "catching up" and are at the very beginning of potential explosive growth. Venture capital money is then used to fund internal growth, mostly intangible investments such as research and development of products as well as marketing expenses. Venture capital money is never used as "exit money" for the founders.

Big Potential

Given the high rates of startup failure, VC funds generate a good portion of their returns from very few investments that have enormous returns. Big potential means not only fast growth, but also substantial target market size, scalability (i.e. low cost of expanding the software products), and specific competitive advantage. The key question is: can this company be sold in three (3) to seven (7) years and generate 10 to 20 (or more) times the initial investment?

Privately held

Targets are private companies owned by one or a handful of founders.

Industries

Approximately 70% of all VC money is invested in only five industries:

- Software
- Biotechnology
- Medical Devices
- Telecommunications
- Semiconductors

Other industries include energy, media and entertainment, equipment, IT services, electronics, business services, consumer products, financial services, computers, healthcare services, and retailing.