

Stages in Venture capital

Venture capital is a form of funding that pools together cash from investors and lends it to emerging companies and startups that the funds believe have the potential for long-term growth. Venture capital investments typically involve high risk in exchange for potentially high reward. Because every company is different, the various stages can vary somewhat from financing to financing. Generally speaking, though, there are five typical stages of any venture capital financing.

The Seed Stage

Venture capital financing starts with the [seed-stage](#) when the company is often little more than an idea for a product or service that has the potential to develop into a successful business down the road. Entrepreneurs spend most of this stage convincing investors that their ideas represent a viable investment opportunity. Funding amounts in the seed stage are generally small, and are largely used for things like marketing research, product development, and business expansion, with the goal of creating a prototype to attract additional investors in later funding rounds.

The Startup Stage

In the startup stage, companies have typically completed research and development and devised a business plan, and are now ready to begin advertising and marketing their product or service to potential customers. Typically, the company has a prototype to show investors, but has not yet sold any products. At this stage, businesses need a larger infusion of cash to fine tune their products and services, expand their personnel, and conducting any remaining research necessary to support an official business launch.

The First Stage

Sometimes also called the “emerging stage,” first stage financing typically coincides with the company’s market launch, when the company is finally about to start seeing a profit. Funds from this phase of a venture capital financing typically go to actual product manufacturing and

sales, as well as increased marketing. To achieve an official launch, businesses usually need a much bigger capital investment, so the funding amounts in this stage tend to be much higher than in previous stages.

The Expansion Stage

Also commonly referred to as the second or third stages, the expansion stage is when the company is seeing exponential growth and needs additional funding to keep up with the demands. Because the business likely already has a commercially viable product and is starting to see some profitability, venture capital funding in the emerging stage is largely used to grow the business even further through market expansion and product diversification.

The Bridge Stage

The final stage of venture capital financing, the bridge stage is when companies have reached maturity. Funding obtained here is typically used to support activities like mergers, acquisitions, or IPOs. The bridge state is essentially a transition to the company being a full-fledged, viable business. At this time, many investors choose to sell their shares and end their relationship with the company, often receiving a significant return on their investments.