The Ways of Securing Investment from Venture Capitalist for Newly Founded Startups

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***Abstract*—This paper explores the factors influencing the ability of newly established startups to secure investment from venture capitalists (VCs). Despite the growing interest in startups, their failure rate remains high, with financial constraints and inadequate resources being significant contributors. The study highlights the role of acceleration centers in providing mentorship, networking opportunities, and seed funding to startups while discussing the challenges of accessing these programs. Additionally, the research emphasizes the importance of demonstrating high growth potential to attract VCs. By reviewing various academic sources, the paper concludes that financial investment is crucial but not the sole determinant of success. Non-financial support, such as mentorship and networking, also plays a pivotal role in sustaining and scaling startups. Further research is recommended to assess the long-term impacts of accelerator programs on startup success.**

Keywords*—*venture capitalists, startup investment, acceleration centers, high-growth startups, startup failure

I. Introduction

In the modern technological world, startups have become increasingly popular and people who are engaged in these initiatives are increasing in numbers. In spite of the increasing numbers of startups, the proportion of successful ones among these ventures stands relatively low. It is estimated that nine out of ten startups are prone to failure due to a range of causes (Krishna et al., 2016). There are various contributors that can lead to failures such as inappropriate business models, legal problems, inadequate management, and lack of experience in the industry (Cantamessa et al., 2018). The lack of adequate resources and investors are among the most destructive factors for startups, responsible for 34% and 16% of the reasons for failure (Bednár & Tarišková, 2017). From that perspective, it is apparent that newly established startups struggling to maintain cash flow and attract investors to their ideas in order to survive. There are several factors that have an impact on receiving investment and attracting venture capitalists (VC) to startups that facilitate the early stages of startup and maintain product development. However, as mentioned previously, a substantial number of startups rejected to obtain sufficient investment and sustain existence. This context leads to the question: "How do startups secure investment from a venture capitalist?".

In this review, startup refers to a small, new-established business that is designed to grow fast (Graham 2012). Furthermore, a venture capitalist can be defined as a person or company that works closely with a startup to provide sufficient budget, networking opportunities, and guidance to help them succeed (Jeong et al., 2020). Lastly, investment stands for allocating financial resources, effort, and time to a startup to achieve a profit or advantage used to do this.

Since the startup ecosystem is a newly established and modern topic, finding accurate data and research in this context is limited. This research mainly focuses on qualitative analysis, utilizing secondary sources and data collected from other resources and referring to academic articles from Google Scholar or Jstor database.

II. Problem and Causes

According to numerous research studies, it is apparent that most startups fail in a short period after entering the market. The studies show a growing interest in startups among the general populace. However, it is important to point out that a considerable amount of these endeavors result in distinct failure. According to Bednar and Tarishkova (2017) and Krishna et al. (2016) mention that nine out of ten startups fail after being founded. Both authors refer to the same statistic to show the exact number. While Krishna et al. (2016) point out 9 months as a critical milestone for further steps, Bednar and Tariskova (2017) support a time frame of 1-3 years for this purpose. Despite mentioning different periods, Bednar and Tariskova (2017) and Krishna et al. (2016) maintain a common viewpoint on the likelihood of startup failure shortly after their creation. In addition, Graham (2012) and Cantamessa (2018) hold a similar perspective on high-level startups. Graham (2012) reports that even high-expected valuable startups can be convicted to failure, whereas Cantemessa (2018) perceives high-risk and high-reward strategy as the main factor to extinction. Cantamessa (2018) points out that startups aiming for short-term success are more likely to experience failure because of taking on high risks. On the other hand, Graham (2012) claims that even startups that are seen as high-valuable and potentially can face failure. In conclusion, scientists generally agree that a high number of new-established startups are prone to failure due to several reasons.

III. Main discussion and Solution

Although building a successful startup from scratch can be a difficult and long-lasting process, it is described in different studies that acceleration programs can become their main assistant. Acceleration programs are non-profitable organizations that help ventures to develop their sample products, navigate the work in the team, provide mentoring and networking opportunities, and most importantly connect newly founded startups to the investment world. Generally, Cohen (2014), Calopa et al. (2014), and Bliemel et al. (2019) perceive acceleration programs as a way of attracting capital. All three authors agree that investment can be captured through acceleration programs in different ways. Cohen (2014) and Bliemel et al. (2019) demonstrate that networking

opportunities gained from acceleration programs are valuable assets for obtaining investment. While Cohen (2014) claims that special investors who have direct relationships with acceleration programs follow successful startups closely, and are prone to invest in them, Bliemel et al. (2019) show networking events and organizations held by acceleration programs make a suitable circumstance to interact and discuss the idea with investors. In addition, Bliemel et al. (2019) show seed funding obtained directly by acceleration programs as a source of investment as well. Moreover, Calopa et al. (2014) establish a positive correlation between mentorship received through an acceleration program and the acquisition of the investment. Calope et al. (2014) assert that mentorship in startups can facilitate the identification and utilization of mistakes as opportunities. Startups that work closely with mentors are more likely to succeed in securing investment during demo days at the end of an acceleration program due to the mentors' ability to help detect and correct mistakes and flaws in the startups' products. In conclusion, numerous researchers conclude that acceleration programs are considered favorable and rewarding in terms of investment for startups.

A. VC invests in high-growing startups.

Studies show that startups need to provide sufficient evidence to investors to secure investment. One of the important characteristics investors look for is a high-growth rate. All authors maintain that startups that attract investors are those which are evaluated as high-valuable in the marketplace. Bednar and Tariskova (2017), Jeoyang et al. (2020), and Graham (2012) point out that a high-growth rate is the main trait that investors can raise capital for these startups. In addition, according to Krishna et al. (2016), startups that obtain investment are regarded as highly valuable in the marketplace. Bednar and Tariskova (2017) and Graham (2012) point out that startups have to demonstrate sufficient proof so that they secure investment. While Bednar and Tariskova (2017) mention evidence such as exponential growth, Graham (2012) shows startups that pass the risk test. Finally, Joeyang et al. (2020) believe that startups with high potential even without any positive rate can secure funding, whereas Graham (2012) claims that the main trait which attracts VC`s attention is the high growth rate. To sum up, based on analyses of various authors, it is evident that investors are more likely to allocate financial resources to startups that meet their expectations and show high growth.

IV. CONCLUSION

This paper aims to investigate and discuss the methods for securing investment from venture capitalists for newly established startups. The analyzed and examined sources indicate different results about that topic. One of the common findings in literate review is a high rate of failure among startups. It is indicated that nine out of ten startups fail in a short period. Secondly, acceleration centers have been demonstrated to provide beneficial opportunities for startups to raise capital through various means. Finally, studies indicate that startups are more likely to attract investors if they possess a high valuation.

In the paper, it is mentioned to obtain funding via acceleration centers. Although it seems an easy and positive way for startups to apply for it, it is not discussed and evaluated comprehensively. It is demonstrated that acceleration centers share the equity in the start-ups after funding a small amount of money (Thu, 2018). This evidence indicates that acceleration centers seek to acquire successful startups at a low cost which is not advantageous for new-established ventures. In addition, nevertheless, authors suggest joining acceleration programs, the ways how to join the program are not discussed. Joining acceleration programs may require a sufficient valuation, prototypes, and sufficient progress rates which may not be existing in recently founded startups (Mohammadi & Shafiee, 2021). Finally, since startup ecosystems and accelerators are newly established, research and investigations in this field are relatively low in number. Therefore, the low number of data and analyses are not enough to understand the effects of acceleration centers on startups. It is recommended to accumulate more data before conducting further research about the impacts of accelerator programs.

From my perspective, nevertheless, financial support is crucial for sustaining a product in the market, startups can develop their product and become successful with the help of other types of aid such as mentorships, networking, or promotion from VC. Experience, networking opportunities, and mentorship provided by VC also help startups to succeed and play a crucial role as financial support (Jeoyang et al., 2020). For example, startups can gain access to the global market with the help of a VC`s network and promotion. Moreover, instead of monetary payment, startups can barter their expertise and creative skills with other firms in exchange for necessary services such as advertising or legal advice. To sum up, while startups may seek monetary investment to develop their services, they can also benefit from non-financial support which is equally crucial to their success. This research examined and investigated the possible ways to secure investment from VC for newly established startups.

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