



# An Agenda

- Looking at trends in VC
- Understanding the market place for venture finance
- Assessing the challenges
- Taking an entrepreneurial approach
- *All in the global context but with a particular European flavour*

# Five Facts About Venture Capital In The UK

90

active venture capital investment houses

backed up

1500  
companies

£428

million raised in 2012

and invested in the last 5 years over

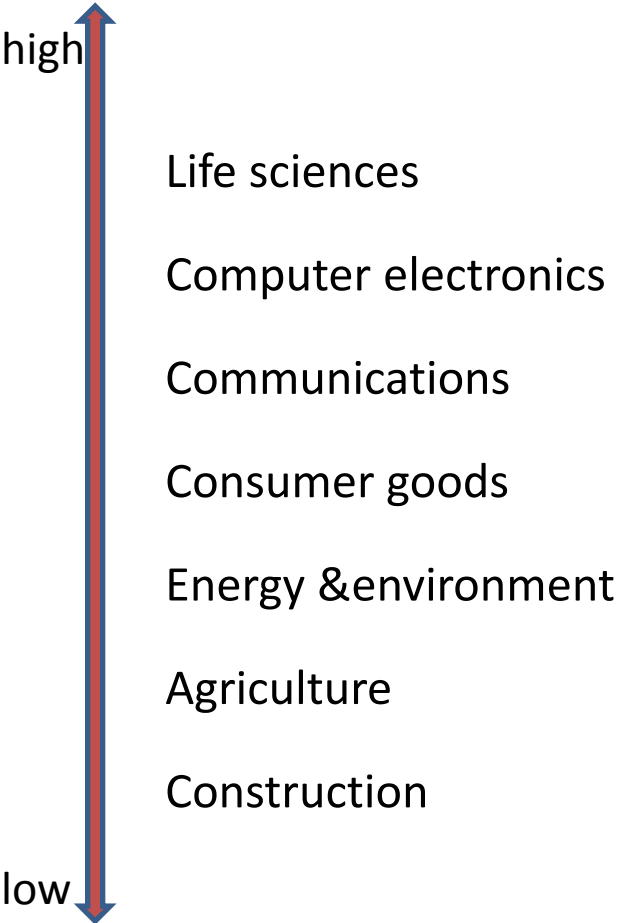
£ 1.8  
billion

is the average amount invested

£796, 000

Source: BVCA Report on Investment Activity 2012.

# Venture Capital By Sector

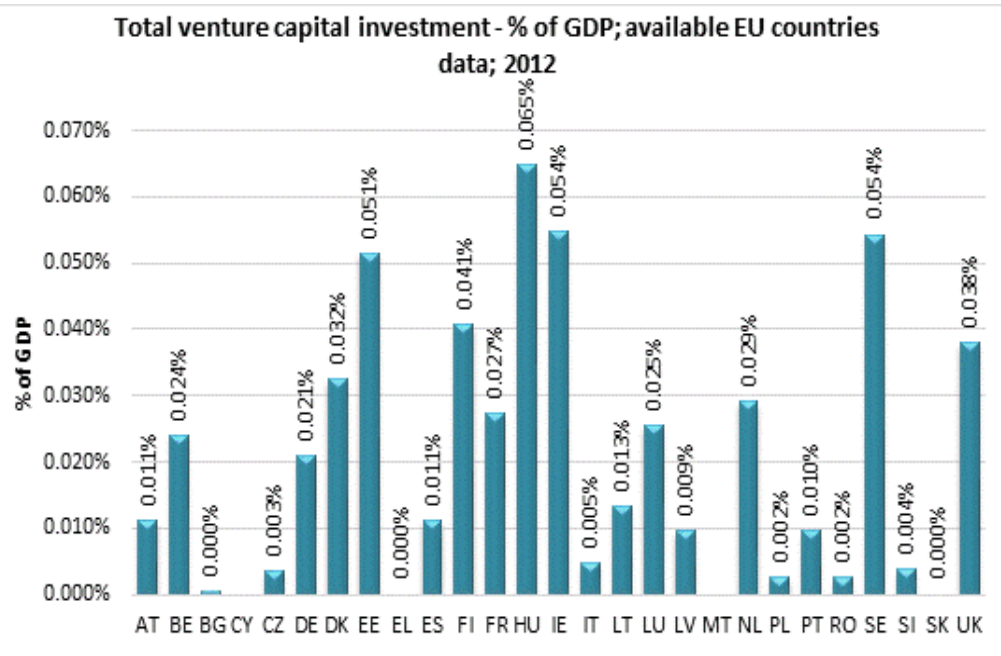


U.S.: Software, Biotechnology and Entertainment

Source: EVCA/PREP Analytics, 2013

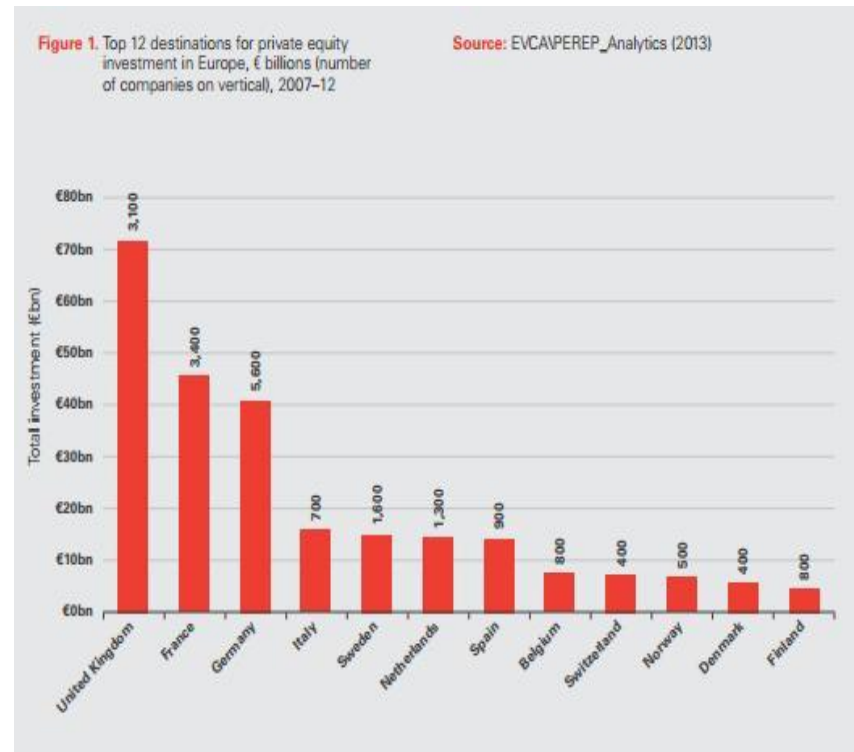
Source: BVCA Report on Investment Activity 2012.

# Venture Capital Investment-A Comparison

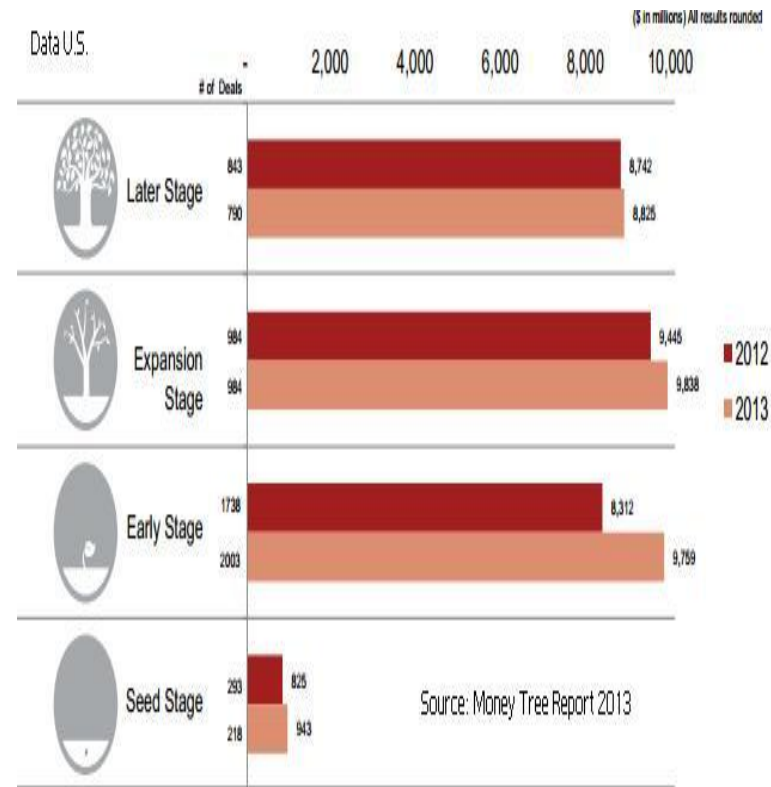
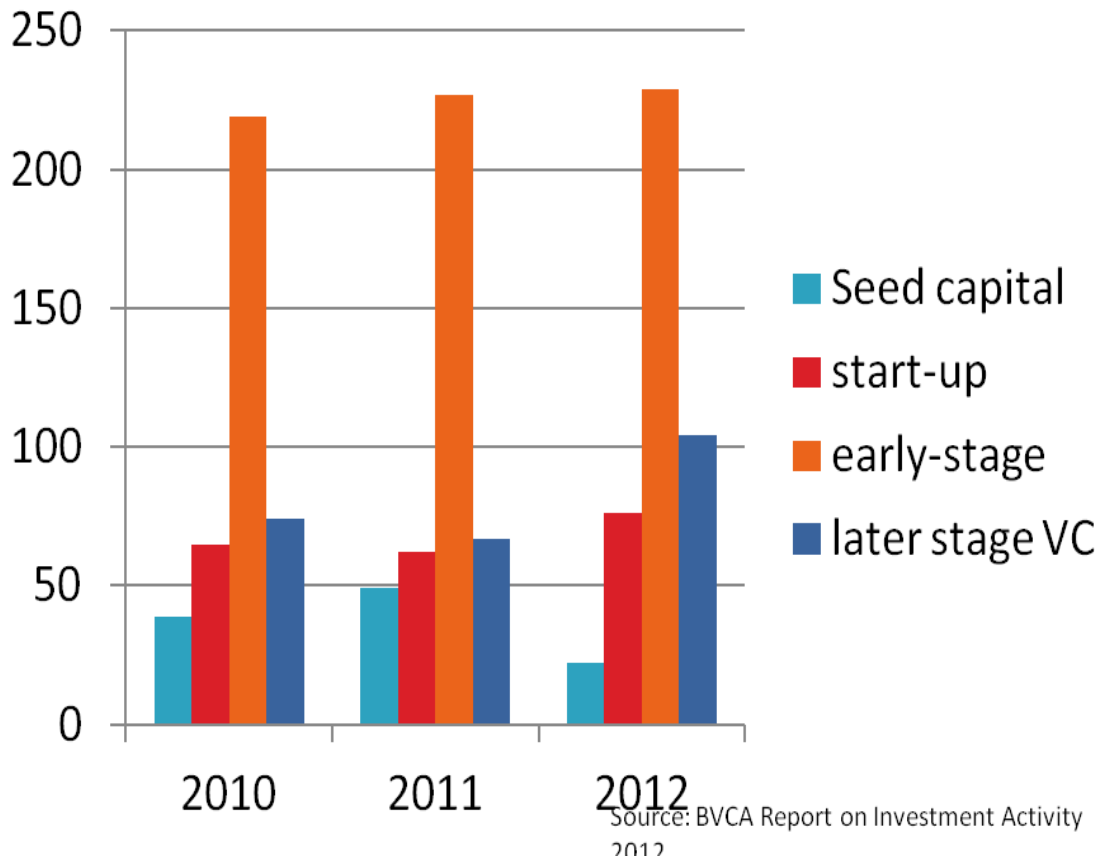


Source: European Commission, 2012

Slight downwards trend from 0,045 % in 2011

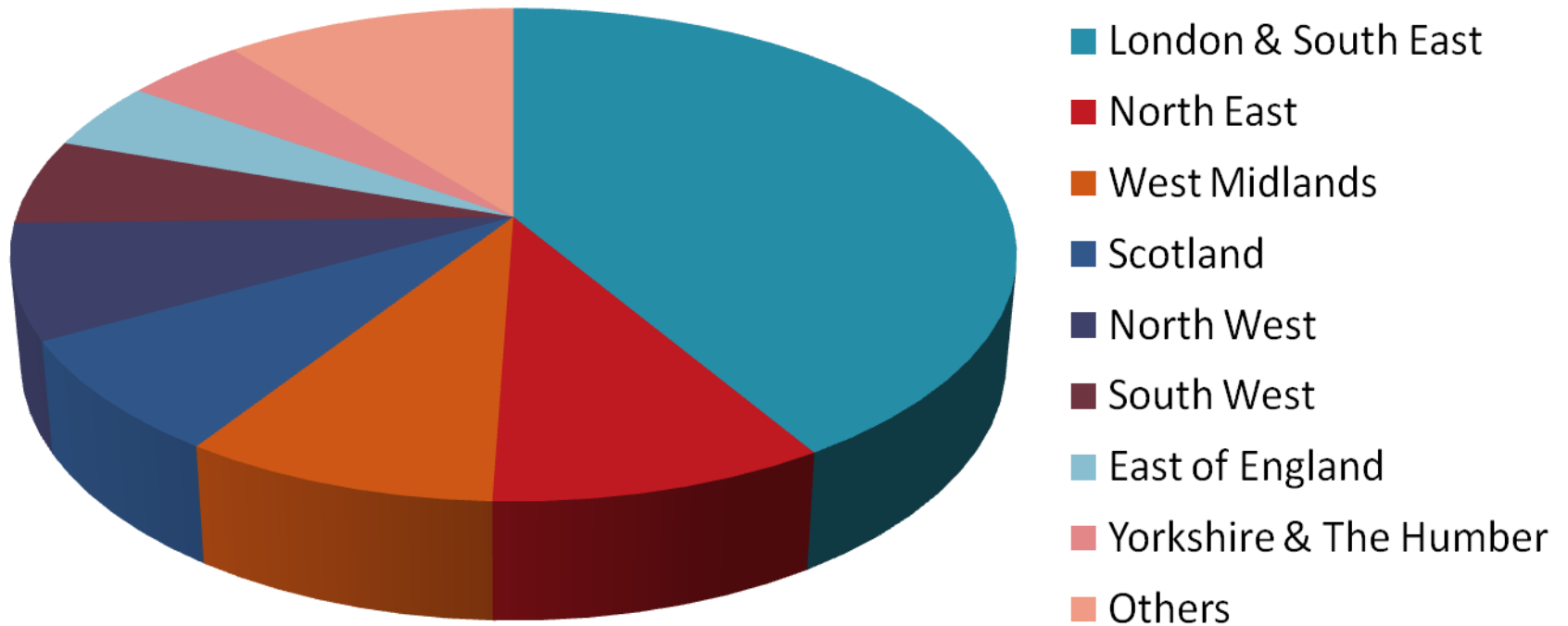


# Investment By Stage Focus (No. of Firms and Deals)



# Investment By Region

Number of companies



# Directions of the VC Industry in the UK

- Strong place for VC in Europe
- Agreement of BVCA and UKTI on Venture Capital Unit to promote inward investment in the UK
- Tech City
- The Seed Enterprise Investment Scheme (SEIS) provides a tax relief for early stage investments in start-ups (budget 2014)



# Empirical Findings Concerning The Syndication Of VC Investment And Fund Size

- The *balance of small and large funds* is critical for the effectiveness of the VC market in a country
- Small funds tend to make many small investments rather than a few large investments
- Nitani and Riding (2013) found *positive association between fund size and performance*.
- Empirical observations lead to the conclusion that entrepreneurs are better off, when backed by larger funds.
- However, small funds do often serve as early-stage investors.

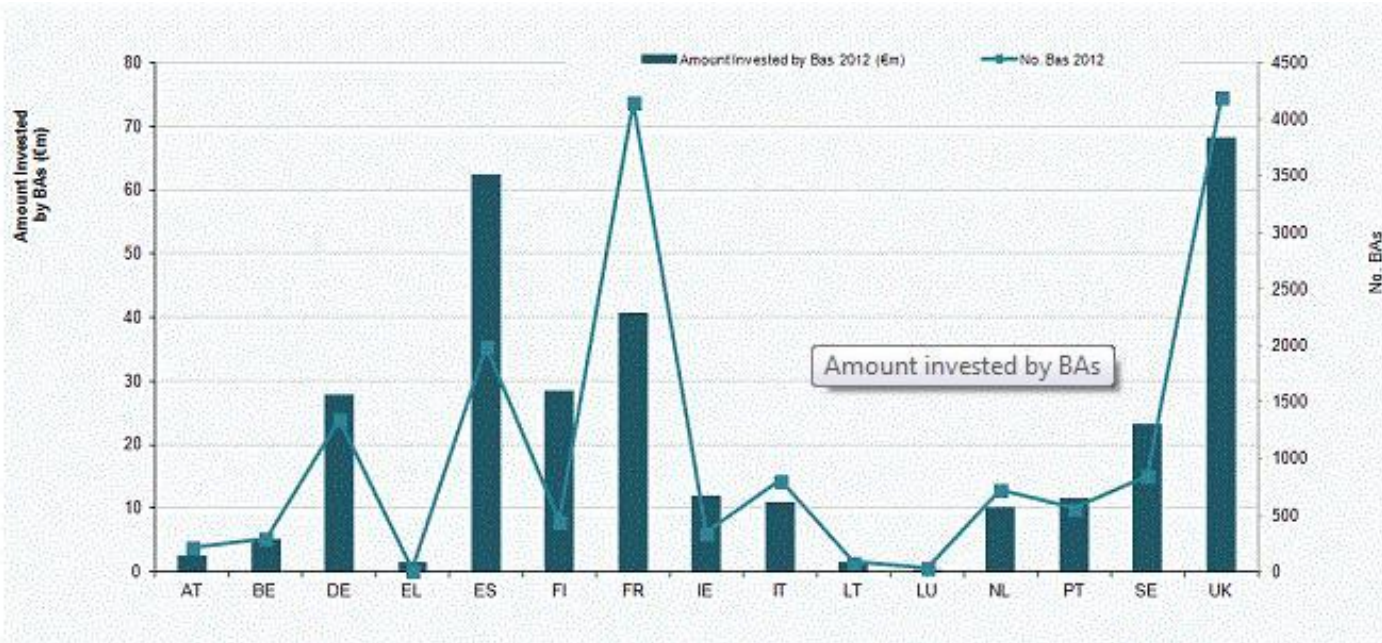
# Global Trends in the VC Industry

- Venture capitalists are more confident investing domestically than globally
- Optimism in select IT sectors
- Lack of confidence in energy/clean tech sector
- Enthusiasm for Brazil, China and other emerging markets is fading
- U.S. confidence in domestic government amongst world's lowest
- Venture capitalists confidence in investing in Europe is still low
- Corporate investors invest at a later stage
- Crowd-funding dominates the very early stage funding

# Challenges and Outlook for VC Market in UK

- Equity crowdfunding platforms challenge the traditional VC market
- Collaboration between VC funds and angel investors
- More funds available from different sources
- Growing participation of angel investment in later stages
- Government will still play a crucial role

# Some Explanations- Business Angel Investment

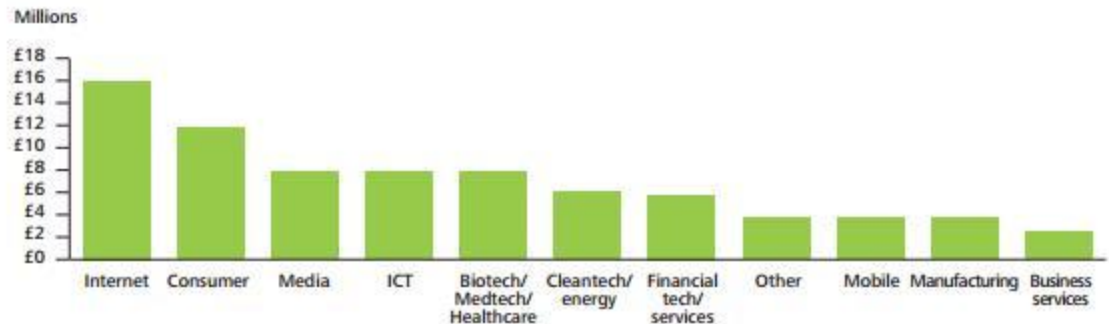


83% early stage finance

Source: European Commission

- Both growing number and larger deal volume

54% of all investments were made in London and South East



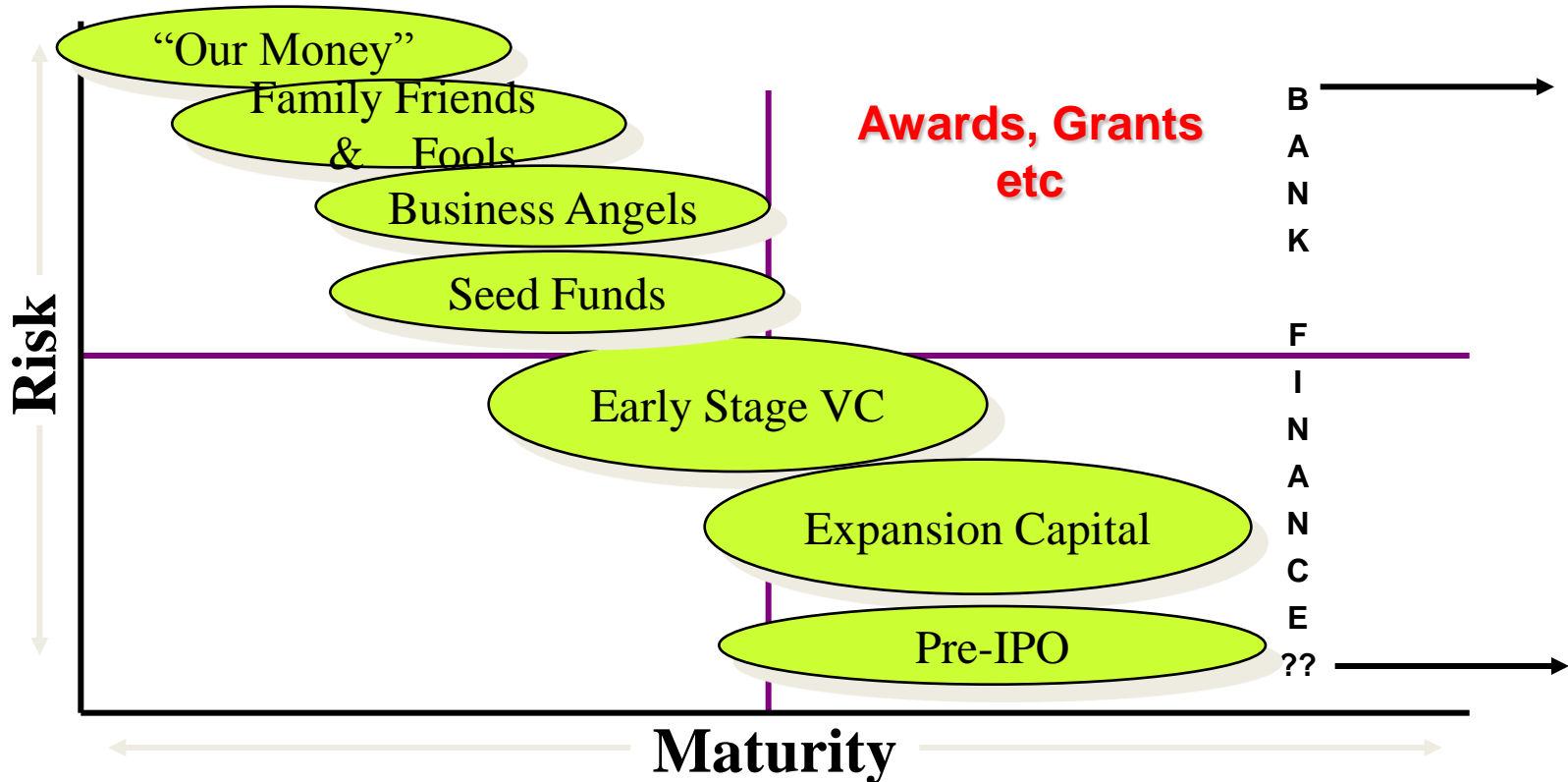
Source: UK Business Angel Association, 2013

## Some Explanations- of the Alternative Finance Market

- Increasing computer literacy
- UK alternative finance market grew by 91% from £492 million in 2012 to £939 million in 2013
- Equity-based crowd-funding grew by 618% and peer to peer lending by 211% in the same period
- Expected market volume in 2014: £1.74 billion

Source: UK Alternative Finance Benchmarking Report, 2013

# Back To Basics: Access to Finance - Sources Of Money And The Business Life Cycle



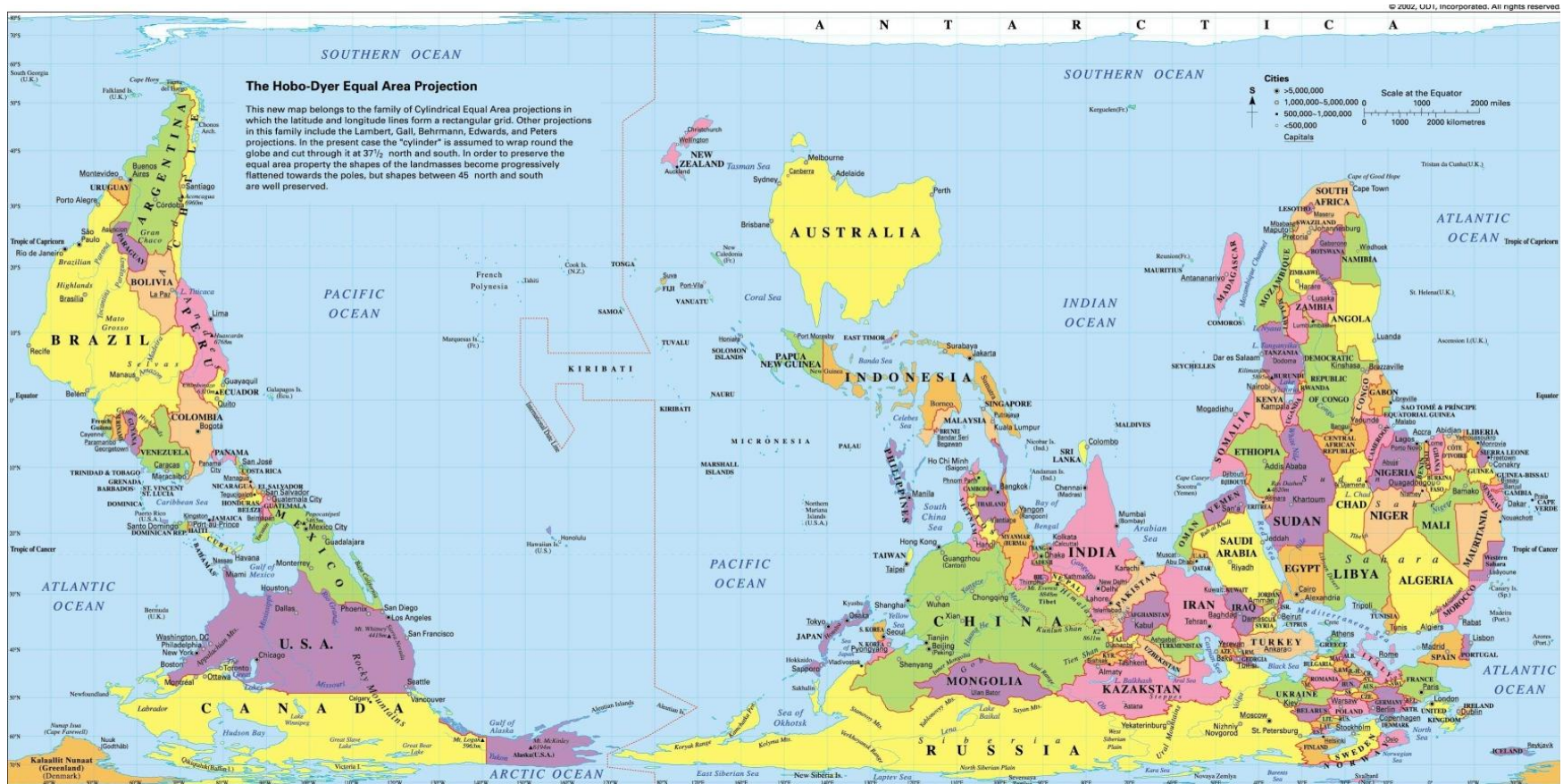
**This is yesterday's way....And now – The Crowd, Peer to Peer and Impact Funds....and Hybrids....into a new era.... the game is changing fast - lets look more closely....**

# Today's Developing World Of Innovative Business And Enterprise Finance

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- Impact of the Internet and Social Networks
  - A NEW world of communication and interaction
  - More “power to the people”
  - Impact of Innovation and Entrepreneurship
  - Failures of Western Banking System
  - Crowdfunding
  - Impact Investing
  - “Collaborative Capitalism”
  - Peer to Peer Lending
  - Microfinance
  - Venture Philanthropy
  - Invoice Trading
  - Mobile Finance



# Re-envisioning the world of Venture Finance



A recent World Bank Report focussed minds on innovative finance in the Developing World – with a different map....

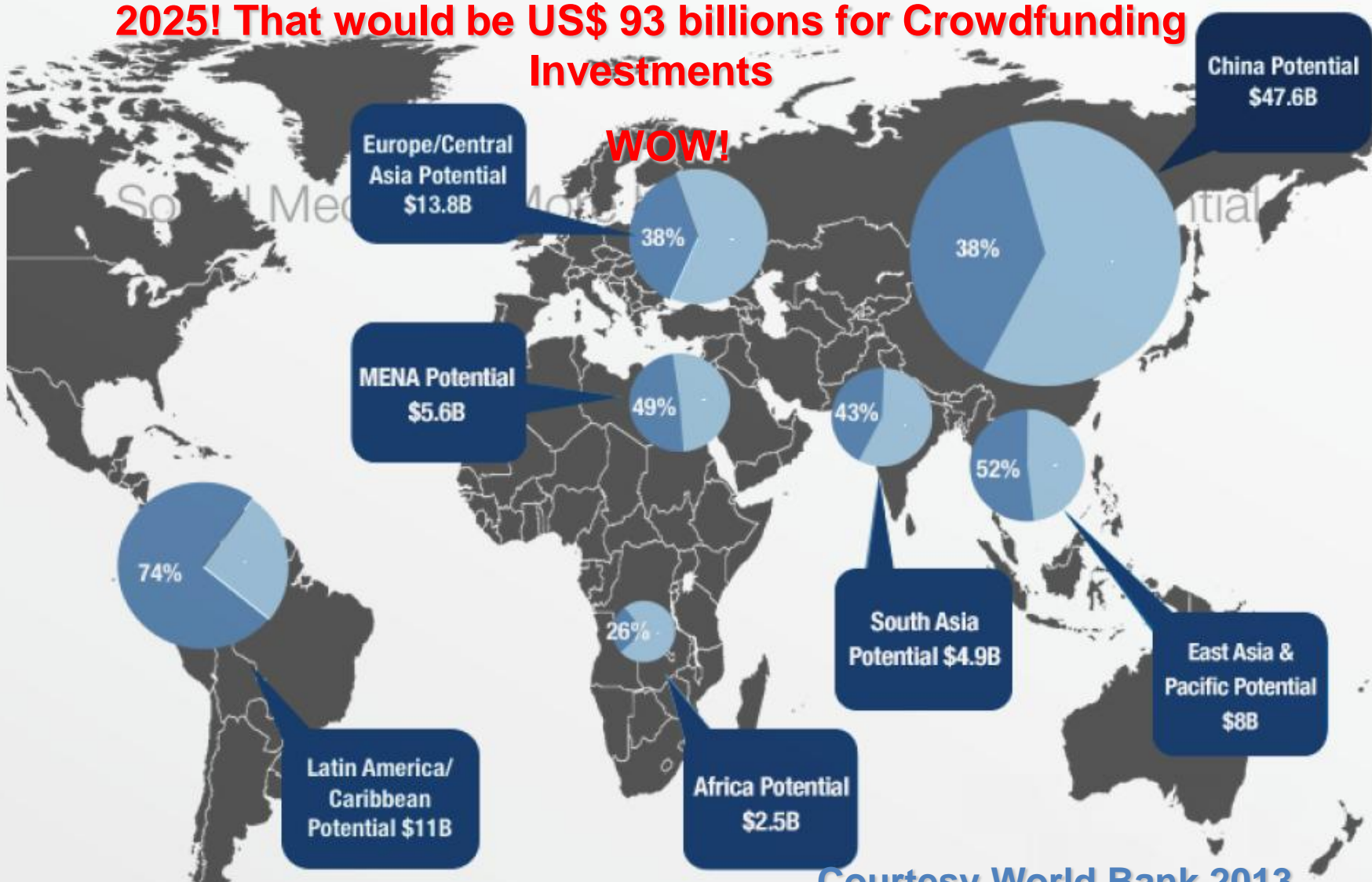


# MARKET POTENTIAL FOR CROWDFUNDING ACROSS THE REGIONS

There is *Staggering Potential!*

Market Potential  
**Crowdfunding could see an 180% increase in available capital by 2025! That would be US\$ 93 billions for Crowdfunding Investments**

 % is Social Media Penetration by Region - Size of Circle is \$ Potential



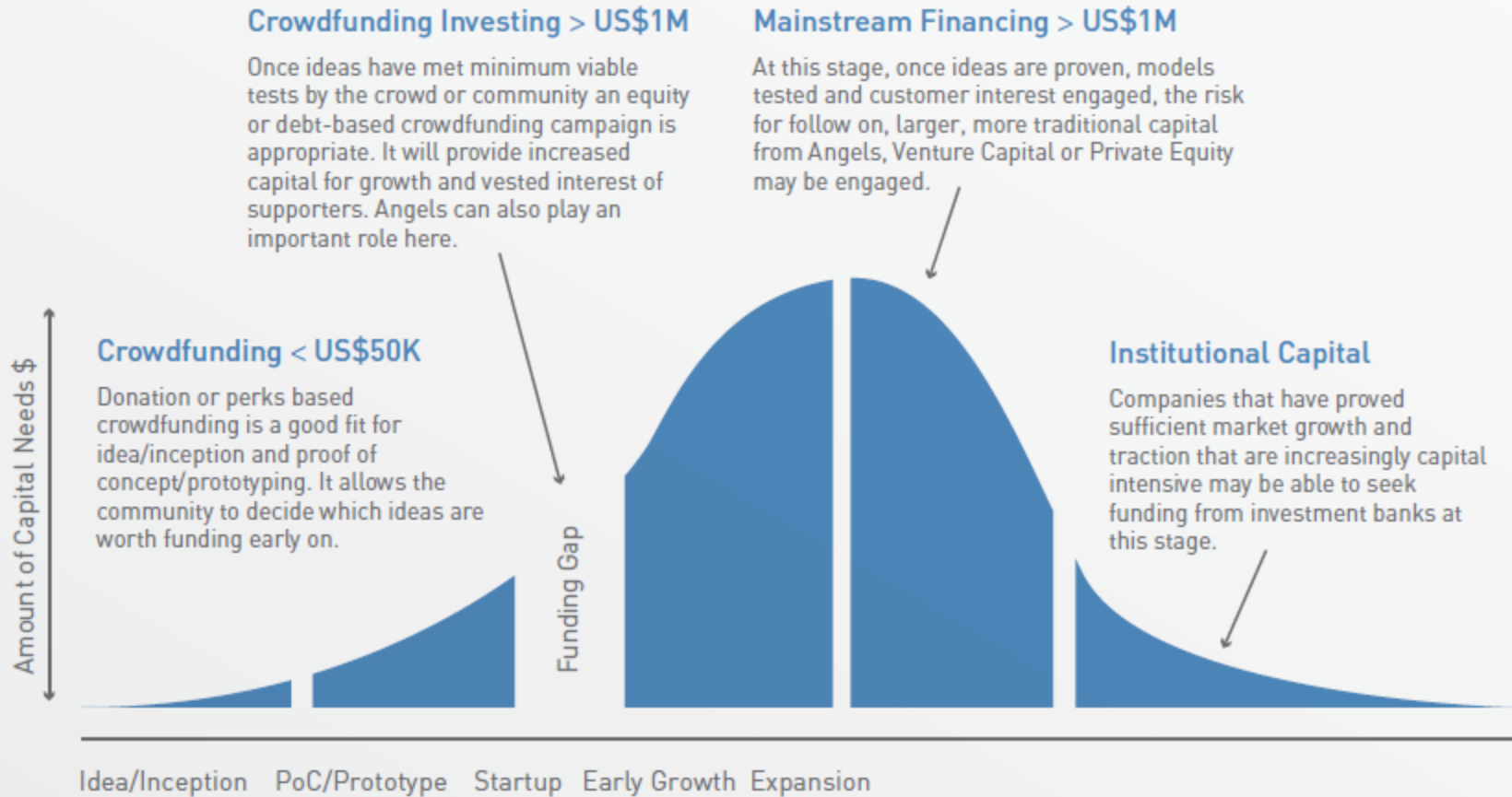
# Crowdfunding: Accelerating Growth of Platforms

TABLE 1.1. THE NUMBER OF CROWDFUND INVESTING PLATFORMS IN SELECTED COUNTRIES.

Country	# of CFI Platforms	Country	# of CFI Platforms
United States	344	Brazil	17
France	53	Canada	34
Italy	15	Australia	12
United Kingdom	87	South Africa	4
Spain	27	India	10
Netherlands	34	Russian Federation	4
Germany	26	Belguim	1
		Hong Kong SAR, China	1
		China	1
		United Arab Emirates	1
		Estonia	1

# Looking at the Business Life Cycle for Money Again

## Where Crowdfunding Fits on the Funding Lifecycle



# Conceptualised Investment Model of Crowdfunding

Three different modes of investment:

- Active: grant investors the possibility to participate actively
- Passive: not involved in any decision making/ crowd is not seen as an active consumer
- Donations: no expected monetary reward

Rewards:

Non-equity based

Equity based

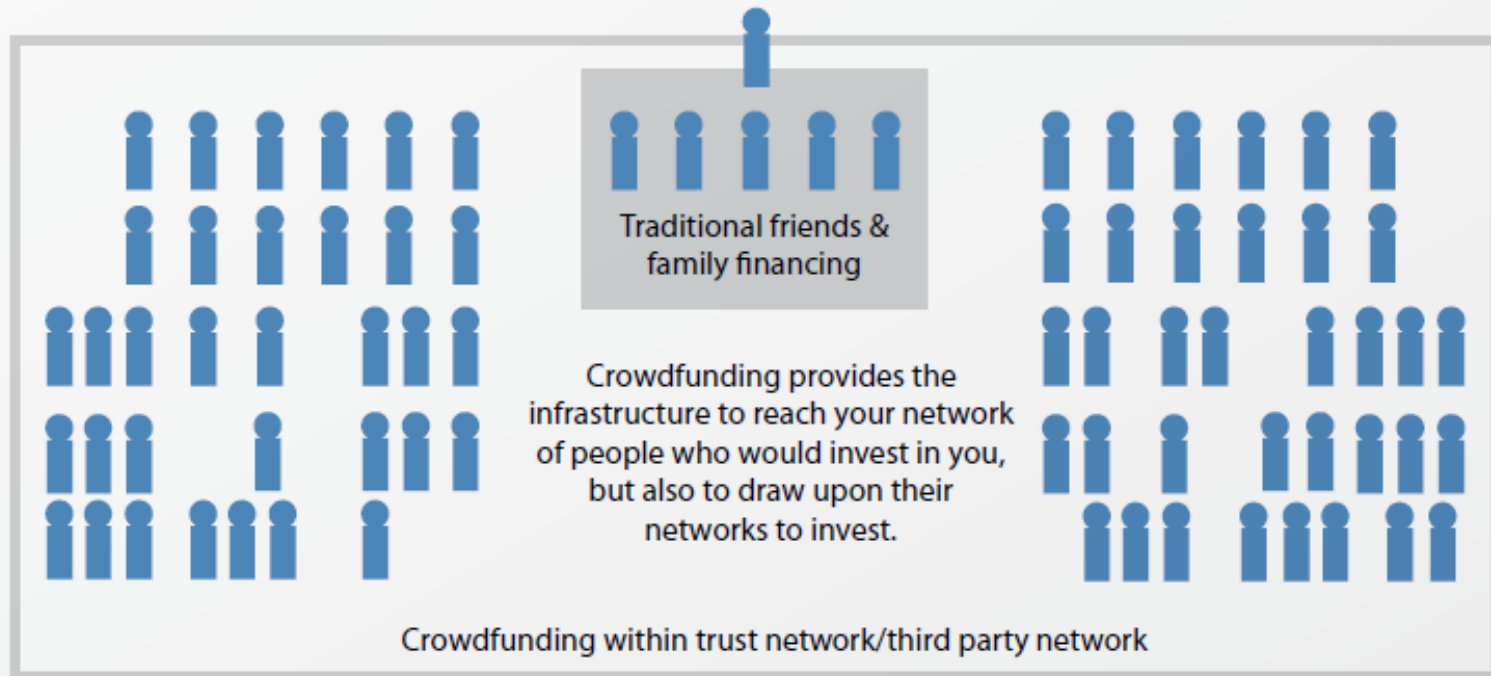
Critical questions within the concept are the reinvestment and the types of investors attracted by the various modes.

Source: Tomczak and Brem, 2013

# Families, Networks, Communities: Relationships and Trust....

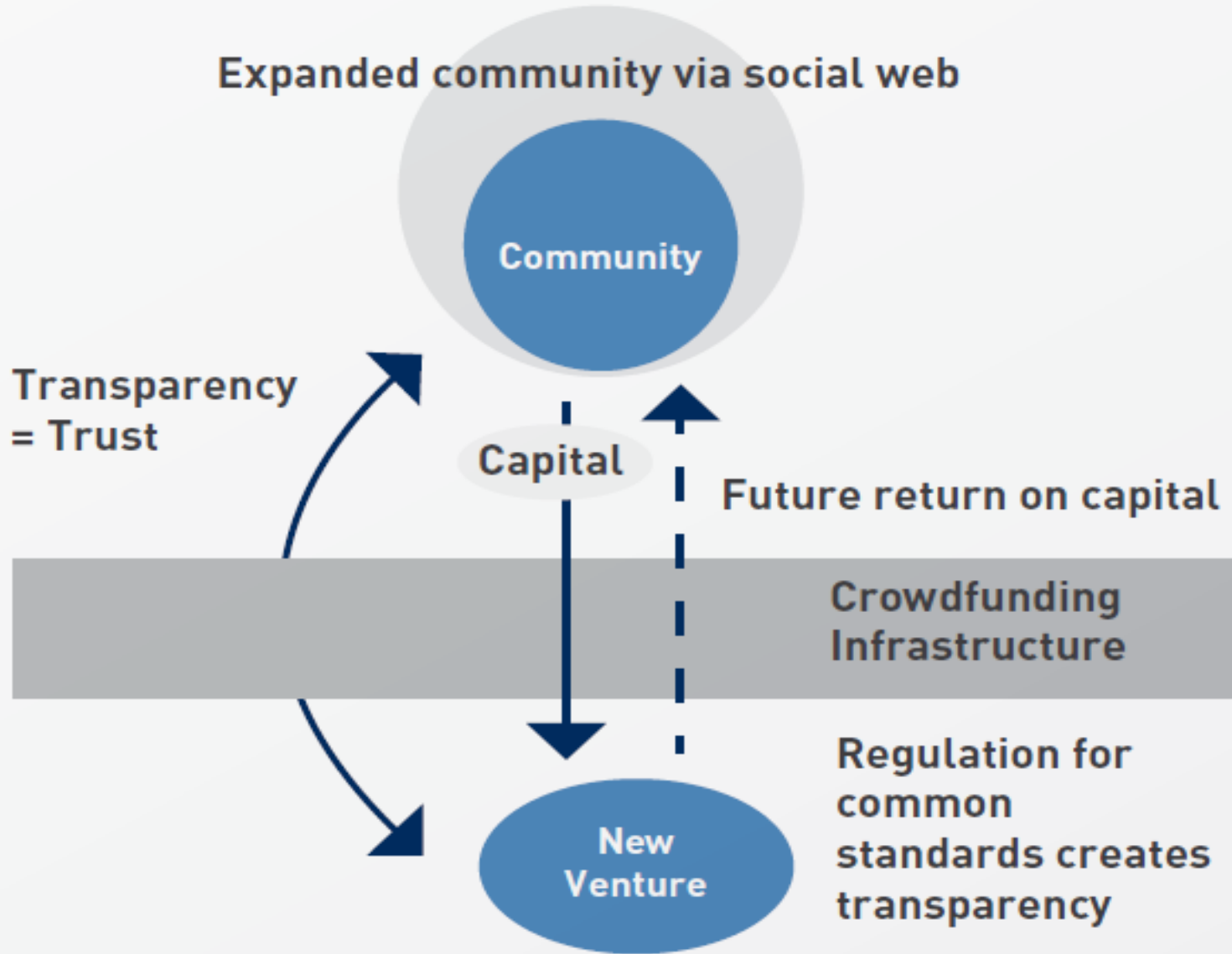
FIGURE 3.3. COMMUNITIES AND CIRCLES OF TRUST

The social web can now connect communities of interest, origin, geography and diaspora, providing infrastructure for them to invest capital in entrepreneurs, companies and industries they believe in.



**Concepts of “Collaborative Capitalism”**

**FIGURE 1.5. THE CROWDFUNDING ECOSYSTEM**



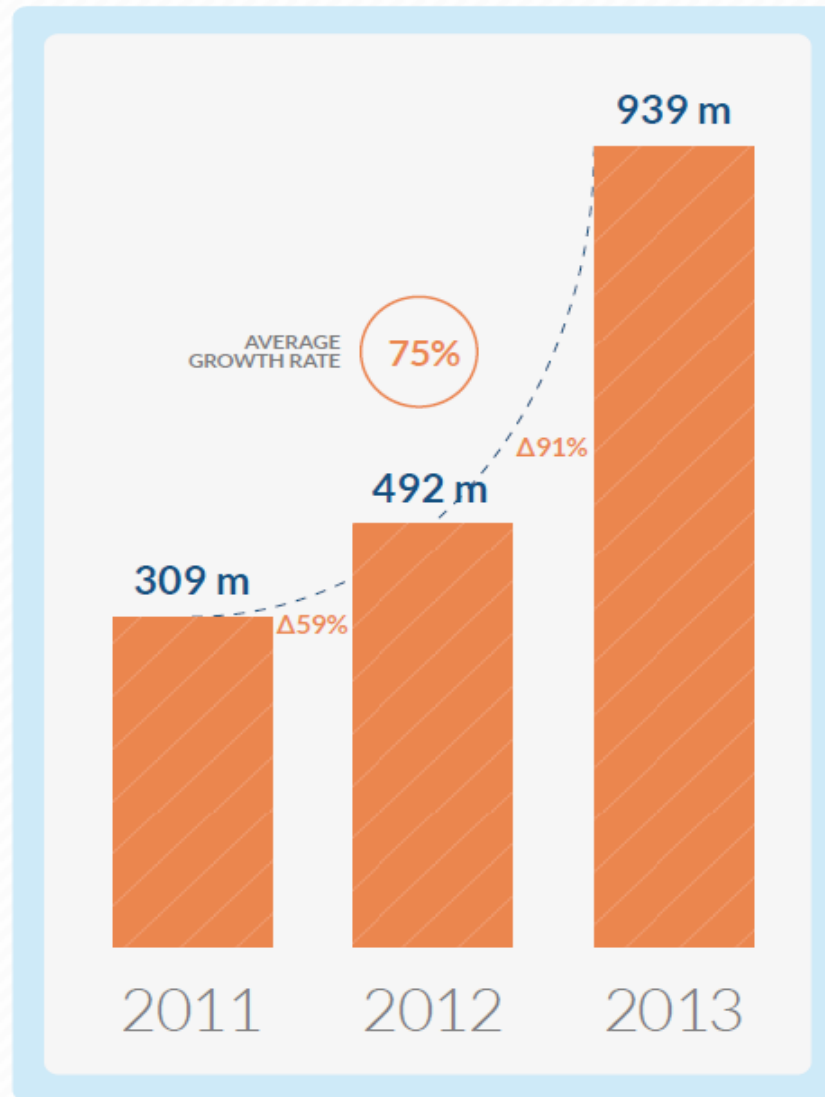
## The Size and Growth of the UK Alternative Finance Market

TOTAL FINANCE RAISED IN THE PERIOD 2011 - 2013

£1.74  
billion

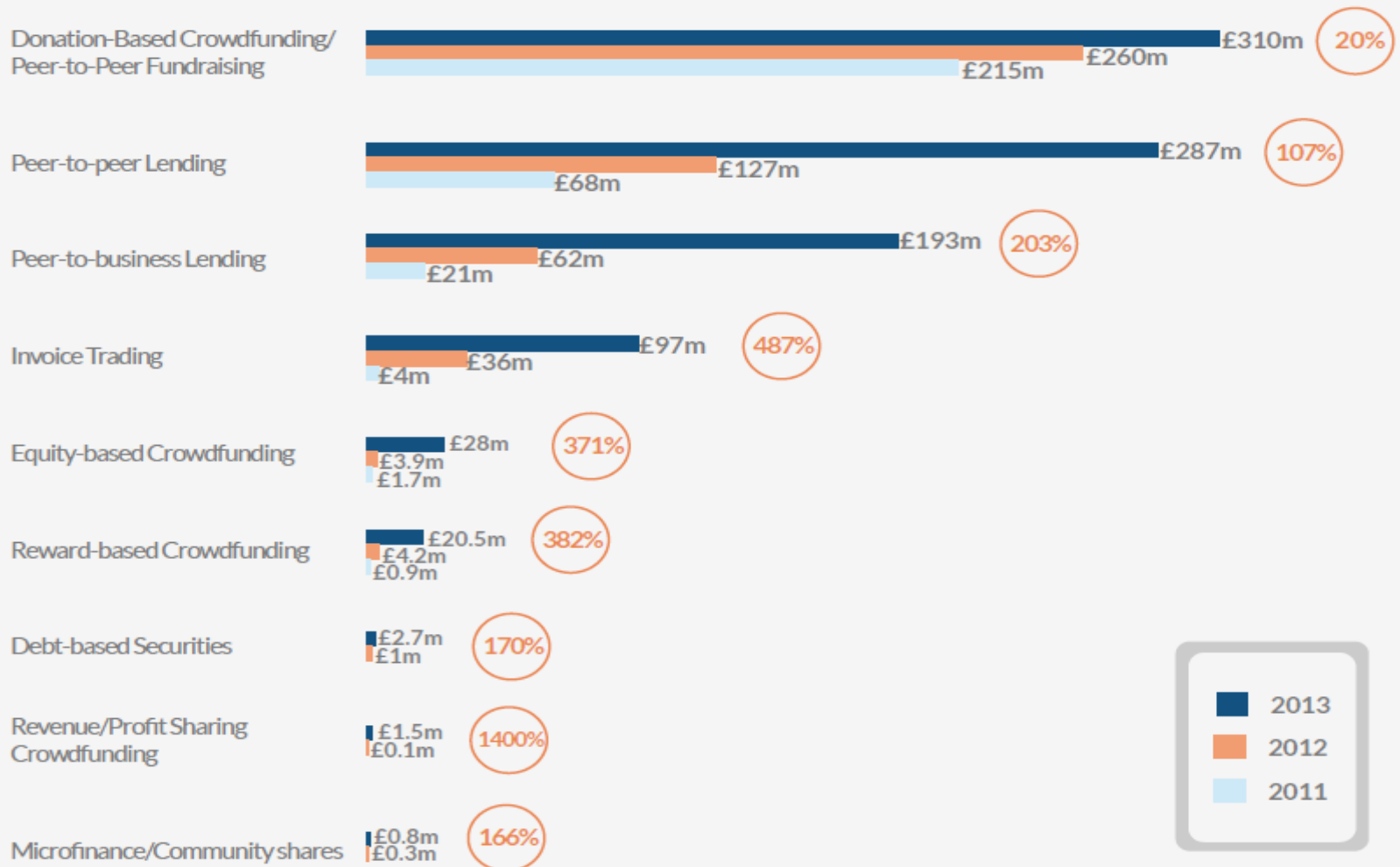
EXCLUDING DONATION-BASED  
CROWDFUNDING AND P2P  
CHARITABLE FUNDRAISING

£955  
million



# The Diversity of the UK Alternative Finance Market

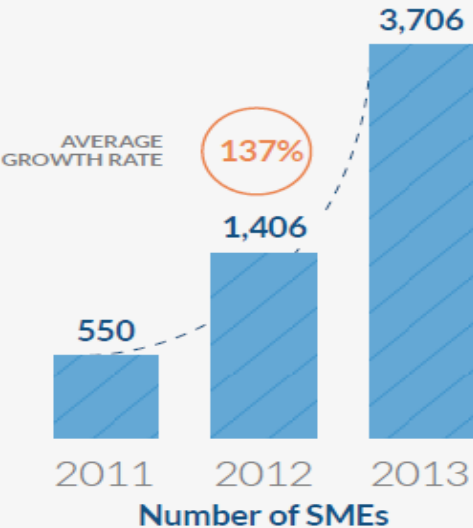
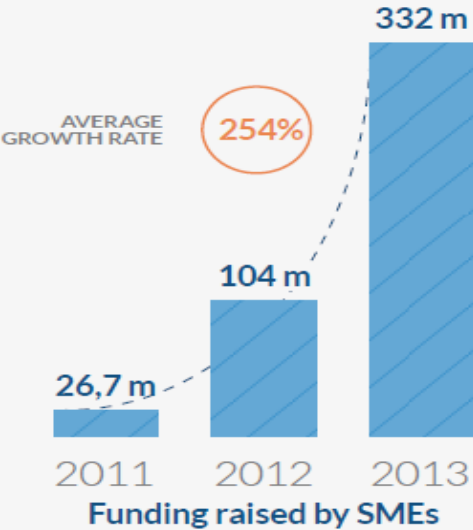
## TRANSACTION VOLUMES AND AVERAGE GROWTH RATES BY MODELS 2011-2013





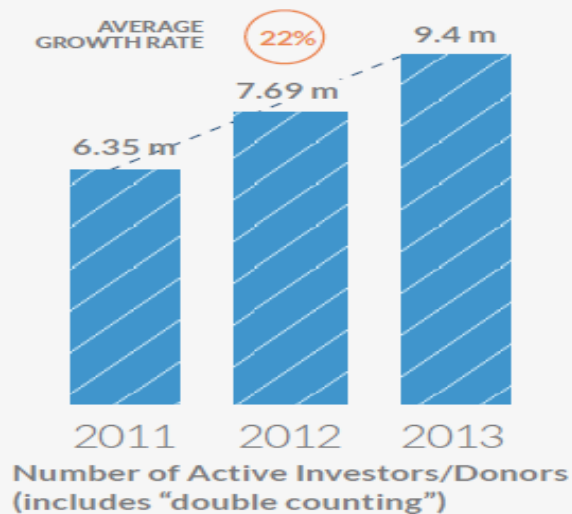
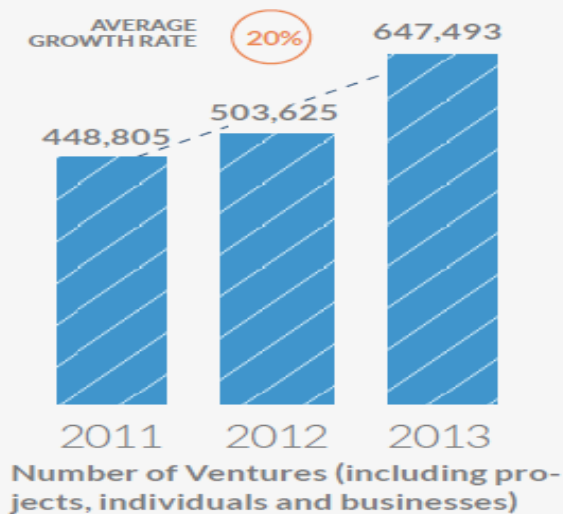
# Alternative Source of Finance for SMEs in the UK

## TOTAL ALTERNATIVE FINANCE FOR SMEs IN THE UK 2011-2013



## The Power of People and The Potential of Alternative Finance

### THE NUMBER OF VENTURES THAT RAISED ALTERNATIVE FINANCE AND THE NUMBER OF ACTIVE INVESTORS/DONORS ON ALTERNATIVE FINANCE PLATFORMS



Prediction for the Year 2014  
(based on the average growth rate between 2011-13)

TOTAL ALTERNATIVE FINANCE



BUSINESS FINANCE FOR START-UPS AND SMEs



# IMPACT Investing and CONSCIOUS CAPITALISM – For Powerful Social And Environmental gains



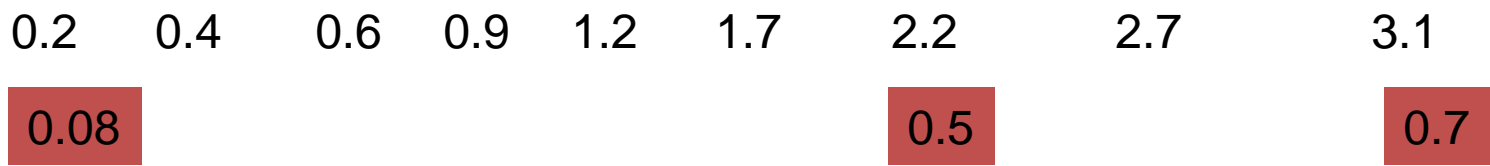
**“Enable High Impact Businesses to grow, increase livelihoods potential, and help change the world.” Progress includes Big Society Capital Fund and Social Impact Stock Exchange and APPG in UK – and US Commerce Department support.**

# Mobile Finance and the Mobile Future

Mobile Subscriptions (bn)



**Mobil signals cover 90% of World's poor**



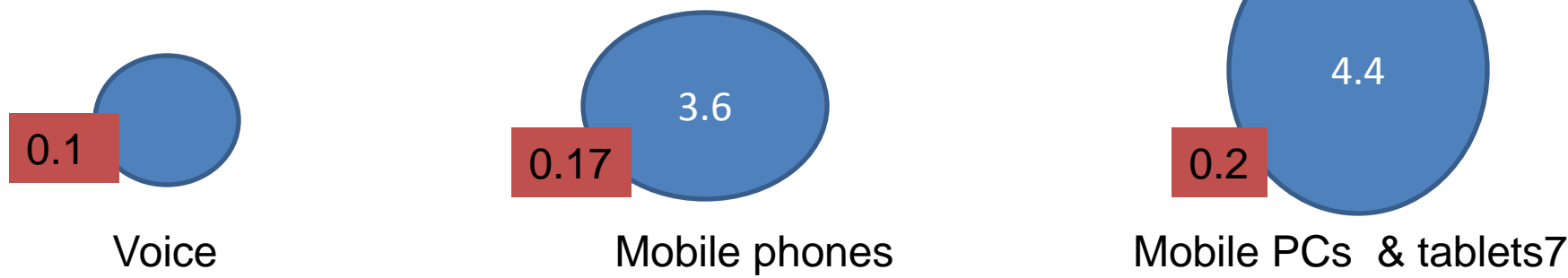
**89 cell-phone accounts for every 100 people**

Mobile Broadband Subscriptions (bn)



Mobile traffic (monthly exabytes)

■ = 2011 ○ = 2017



# Time To go Digital



- Digital transactions are almost free.
- Mobile transactions generate huge data enabling development of new products
- Can even substitute credit scores
- Links banks to clients in real time – send information, reminders, sign up for services



• Governments can save money 22bn each year through digitisation n India – McKinsey; reduce social welfare spending by 3.3% or c \$1.3 bn in Mexico – Better than Cash Alliance )

• Mobilisation of money for investment by poor as both consumers and producers ( e.g. the M-Pesa story )

• Encourage financial discipline

• Enables availability of full suite of financial tools to lower risk, fund investment, grow savings (e.g. open interest-accruing savings account, insurance)





# What Then The Future of Venture Finance ?

Necessary trade offs:

(e.g. due diligence v rapid, smaller and widespread investment/  
Legislation v incentivisation)

Holistic, leveraged approach



Ramping up of technology (especially mobile phones)

Venture Funding ecosystem creation

Stronger community-based institutions + increasing socialisation

Greater scope in smaller countries for local design of ecosystems

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