



What is venture capital?

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Most investments are about making safe, steady returns. Venture capital is the opposite. It's about finding a tiny company that barely exists yet and betting that it will become enormous. It's high risk, high reward — and it's how companies like Google, Airbnb, and Spotify got off the ground.

What exactly is it?

Venture capital (VC) is money invested in early-stage companies — usually startups — in exchange for a share of ownership. A venture capital firm raises money from wealthy individuals, pension funds, and institutions, pools it together, and then deploys it into young companies that look promising but are too risky for ordinary banks to touch.

🌱 Imagine you have £1,000 and you decide to split it between ten friends who all have business ideas. You know most of them will probably fail — maybe seven or eight will come to nothing. But you're betting that one or two will become wildly successful, and the money you make from those will more than cover all your losses. That's the basic logic of venture capital, just with millions instead of pounds.

How does a startup get VC money?

A founder pitches their idea to a VC firm — sometimes in a formal presentation, sometimes through introductions. If the firm is interested, they'll conduct due diligence (investigating the business, the team, and the market), then offer a term sheet: a document spelling out how much they'll invest and what percentage of the company they want in return.

Early investments are called **seed rounds**. As a company grows and needs more money, it raises Series A, Series B, Series C funding — each round typically larger than the last.

What do VCs want in return?

Ownership. When a VC invests £5 million into a startup valued at £20 million, they're buying 25% of the company. If that company eventually sells for £200 million, their stake is worth £50 million — a ten-times return. That kind of return is what VCs need to offset all the investments that went to zero.

They also often want a seat on the board and a say in major decisions. This is the trade-off for founders: you get the money you need to grow, but you give up some control and ownership.

Why does it matter?

VC funding is how transformative but risky ideas get financed. A bank won't lend millions to a two-person startup with no revenue and an audacious idea. But a VC might — because they understand that occasionally an audacious idea changes the world and makes everyone involved very rich. The downside is that VC-backed companies are under enormous pressure to grow fast, which can distort priorities and lead to the "grow at all costs" culture that has caused some famous tech company implosions.