Essential Differences Between Angel Investors and Venture Capital

Angel investors and venture capital providers are similar in that they invest in growth businesses in return for an ownership stake in the company and a degree of involvement and control. They do, however, differ in certain respects, which a company must understand in order to maximize chances of success and minimize time and resources invested in raising capital.

- Source of Funds: Angel investors, acting alone or in organized groups, are usually wealthy individuals, often with a successful entrepreneurial record, who invest their own money. Venture capital funds are corporate entities that pool money from a range of institutional and individual investors.
- Deal Size: The range of angel investor transactions is typically US$25,000 to US$100,000 for an individual, and up to US$1 million, or more, when acting in a group. The range of venture capital transactions is large, from around US$500,000 to US$10 million, or above. Venture capital may provide second round financing after angel investors.
- Stage of Development: The focus of angel investors is typically earlier stage businesses. Different venture capital firms focus on different stages of business development, but the unifying criteria is that they seek high growth companies capable of achieving exit strategies that meet the fund's return criteria within a specified time frame.

The key message for a company is to be realistic in its goals. If a business is at an earlier stage, or growth prospects are currently modest, then angel financing may be the best option. If, however, the business has an established record, or is at an early stage but offers an exceptionally compelling opportunity with an outstanding management team, then pursuing venture capital may be viable.

What is the difference between a venture capitalist and a business angel?

Both provide equity capital for investment in new or expanding companies. But generally speaking, a venture capitalist is an investing institution - for example, an insurance company, a pension fund or another fund management organisation. Because they are investing money on behalf of other people, they are likely to have strict criteria - for example, on the type of business in which they are prepared to invest, the rate of return they expect, and so on.

Business angels are private individuals who are looking to invest a lump sum on their own behalf, very often in a business to which they can make a non-monetary contribution too - for example, in helping with marketing or other management skills. Their financial resources will be more limited than those of the venture capitalists, but their approach probably more flexible.