Angel Investors vs. Venture Capitalists

As two of the most common alternative sources of funding, angel investors and venture capitalists have a number of similarities. Both angels and venture capitalist firms cater to innovative startup businesses, and both tend to prefer companies related to technology and science. That being said, there are a number of important differences between venture capitalists and investors.

1. An angel investor works alone, while venture capitalists are part of a company.

Angel investors, sometimes known as business angels, are individuals who invest their personal finances in a startup. Angels are rich, often influential individuals who choose to invest in high-potential companies in exchange for an equity stake. Given that they are investing their own money and there is always an inherent risk, it's highly unlikely that an angel will invest in a business owner who isn't willing to give away a part of their company.
Venture capital firms, on the other hand, comprise a group of professional investors. Their capital will come from individuals, corporations, pension funds and foundations. These investors are known as limited partners. General partners, on the other hand, are those who work closely with founders or entrepreneurs; they are responsible for managing the fund and ensuring the company is developing in a healthy way.

2. They invest different amounts.

If you're looking into the possibility of approaching a venture capitalist or an angel investor, you'll need an accurate idea of what they'll be able to provide financially.

While angel investing is a generally quick solution, you should note that, because of their relatively limited financial capacity, angel investors can't always finance the full capital requirements of a business.

3. They have different responsibilities and motivations.

Angels investors are primarily there to offer financial support. While they might provide advice if you ask for it, or introduce you to important contacts, they are not obliged to do so. Their level of involvement depends on the wishes of the company and the angel's own inclinations. A venture capitalist looks for a strong product or service that holds strong competitive advantage, a talented management team and a wide potential market. Once venture capitalists are convinced and have invested, it is then their role to help build successful

companies, which is where they add real value. Among other areas, a venture capitalist will help when it comes to establishing a company's strategic focus and recruiting senior management. They will be on hand to advise and act as a sounding board for CEOs. This is all with the aim of helping a company make more money and become more successful.

4. Angel investors only invest in early-stage companies.

Angel investors specialize in early-stage businesses, funding the late-stage technical development and early market entry. The funds an angel investor provides can make all the difference when it comes to getting a company up and running.

Venture capitalists, on the other hand, invest in early-stage companies and more developed companies, depending on the focus of the venture capital firm. If a startup shows compelling promise and a lot of growth potential, a venture capitalist will be keen to invest.

A venture capitalist will also be eager to invest in a business with a proven track record that can demonstrate it has what it takes to succeed. The venture capitalist then offers funding to allow for rapid development and growth.

5. They differ in due diligence.

Due diligence is an area that has provoked a lot of debate for angel investors over the years. Some angels do almost no due diligence – and they aren't really bound to, given that all the money is their own. However, it has been shown that when angel investors do at least 20 hours of due diligence, they are five times more likely to see a positive return.
Venture capitalists need to do more due diligence, given that they have a fiduciary responsibility to their limited partners.

Angel Investment vs Venture Capital – Conclusion

Both Angel investment and venture capital are significant drivers of economic growth since Angel investment vs venture capital take a high level of risk to support new organizations. Established companies like Google, PayPal etc. had started with the help of these types of investments.

So, the question arises as to which investor to look for Angel investment or venture capital while starting a new business.

- Angel investors can go for limited cash outlay, are easier to convince in sales pitches and are more interested in a mentoring role which involves less intrusion in the investing firm. Hence Angel investments are ideal for seed financing where the invested organization hardly has any proven data like revenue stream for convincing the investor.
- In contrast, while venture capitalist can invest a higher amount in the business, they demand a place on the board of directors. In case, the requirement of funds is high as in the case of growth firms, the firm would have to endure taking decisions in conformance with a venture capitalist.