

Lessons Learned from the Development of the American Venture Capital Industry

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Abstract: At present, there is a gap between the Chinese entrepreneurial investment industry and the developed countries, and the corresponding regulations of supporting policies are not perfect, which makes it difficult to withdraw funds. Therefore, it can provide a reference for the development of the Chinese venture capital industry by drawing lessons from the past development experience of the American venture capital industry and analyzing the characteristics of the construction and post-stage development of venture capital centers. This paper summarizes the development experience of the American venture capital industry, and puts forward four suggestions for the development of China's venture capital industry: first, the government's active guidance and policy support. Second, pay attention to the management of professional talents. Third, establish a mature exit mechanism; Fourth, diversify the sources of funds.

Keywords: venture investment, industrial development, experience for reference

1. Introduction

At this stage, the main body of my country's emerging industries is mainly small and medium-sized enterprises. In the overall development process of innovative enterprises, venture capital brings them financial support and provides a certain strategic orientation. Building a venture capital center city in an all-round way can fully demonstrate the positive impact that venture capital is lower than the development of emerging enterprises, thereby creating conditions for the improvement of the activity of Chinese venture capital market. However, at present, the overall scale of my country's venture capital industry is small, there is a certain gap between it and developed countries, and the corresponding supporting policies and regulations are not perfect, resulting in difficulties in capital withdrawal. Referring to the past development experience of the venture capital industry in the United States, this paper sorts out the characteristics of the construction of venture capital centers and the later stages of development, and provides a reference for the operation of venture capital centers in my country.

2. Status Quo of the U.S. Venture Capital Industry

2.1. The Sustainable Growth Trend

According to the 2017 venture capital industry report disclosed by Pitchbook, the United States further increased the scale of venture capital investment in 2017, with an industry scale of approximately US\$84.2 billion, a year-on-year increase of approximately 16.3%. This is the highest growth rate since the new century. From an overall perspective, the U.S. venture capital industry has developed a trend of clustering, and the target companies are gradually specializing in start-ups with “unicorn” characteristics, such as WeWork, Lyft, Houzz, etc., from early-stage small and medium-sized enterprises. Pitchbook, a Silicon Valley specialist, shows that the valuations of the above-mentioned companies are all higher than one billion US dollars, and there is a large demand for funds in long-term business development. Therefore, scale of social venture capital transactions in the United States increased rapidly in 2017. The U.S. government has introduced a federal tax reform bill, announcing that the corresponding income tax rate for limited companies will be reduced from the previous 35% to 21%. This will not only have a positive impact on the future development of the joint stock company, but also stimulate the investment enthusiasm of market investors and form a driving force for the long-term development of the venture capital industry [1].

2.2. Favored Biotechnology and Artificial Intelligence Industries

With the passage of time and changes in the global economic structure, the biotechnology industry has been favored by market investors in recent years.

The industry has great potential for future development and a large demand for capital. Therefore, many people in the venture capital industry in the United States have begun to pay attention to the development of the biotechnology industry, to provide financial support for companies in the fields of genetic testing and biomass energy. Although there are constraints such as technical barriers in the long-term development of the biotechnology industry, market investors generally believe that investing in enterprises in this industry may obtain more benefits, so market information is gradually increasing [2]. In 2017, the corresponding investment in the U.S. biotechnology industry was approximately US\$17.6 billion, with a year-on-year growth rate much higher than the average level of other industries (PitchBook).

The American artificial intelligence industry has also developed rapidly in recent years. In 2017, the quarterly financing scale of the artificial intelligence industry also exceeded 1 billion US dollars. Judging from the development trend in recent years, the financing capacity of the artificial intelligence industry in the United States has gradually improved, and exceeded US\$5 billion for the first time in 2017, an increase of 6% compared with the same period last year, and the number of market financings reached 444. These include a number of large-scale financing transactions, such as Uptake Technology, a big data analytics business that completed a \$117 million financing in 2017 and plans to raise its next round the following year [3].

2.3. The Growing Scale of Enterprise Venture Capital Development

Enterprise venture capital usually refers to non-financial industrial economic entities setting up venture capital funds, and auxiliary units complete direct investment. After entering the new century, the US corporate venture capital market has been increasingly active. Statistics show that in 2017, US corporate venture capital participated in a total of 1,269 investment transactions, involving an amount of about 37.4 billion US dollars. In 2007, the scale of corporate venture capital transactions in the United States accounted for about 25% of the total number of venture capital transactions [4]. By 2017, the value of this indicator has reached 44%, which indicates that corporate venture capital has

attracted social attention, and has a broader scope than private equity funds. In recent years, U.S. corporate venture capital has been attacking in many fields, and the average investment scale has steadily increased. For example, in 2017, among the investment projects in the United States with a value of more than 25 million US dollars, nearly 30% of them participated in corporate venture capital, and about a quarter of corporate venture capital was involved. The investment activity involves an amount above US\$50 million. In terms of investment tendency, corporate venture capital is basically the same as that of other investment entities. For example, Internet companies are the most important investment direction. In addition, biotechnology companies and artificial intelligence companies also receive investment attention.

3. Lessons Learned from the Development of the Venture Capital Industry in the United States

3.1. Active Guidance and Policy Support from the Government

Government departments play an important role in the development of venture capital, which is directly related to whether high-tech enterprises can obtain sufficient funds in a timely manner, whether the market can effectively coordinate venture capital resources, and whether venture capital can be successfully exited, etc. The government needs to combine the needs of industrial structure optimization and economic construction to bring policy guidance to the future development of venture capital. The United States has successively issued a number of regulations related to venture capital and innovation protection. For example, the Small Business Investment Law provides a legal basis for SMEs to carry out venture capital activities. A relatively relaxed and complete legal system can create a stable and orderly investment environment, which is one of the main reasons for the continuous increase in the size of the US venture capital market.

The driving role shown by the US government is also reflected in the implementation of industry support policies and macro intervention. For example, the government has boosted the activity of the venture capital market through procurement incentives, tax incentives, and pension participation. The US government has issued regulations, pointing out that in the bidding process of government procurement projects, projects less than 100,000 US dollars should give priority to cooperation with small and medium-sized enterprises, and provide them with price concessions, which enables small and medium-sized enterprises to obtain more stable orders. The United States has brought more development space for enterprises by reducing corporate income tax, which has also increased the enthusiasm of market investors to invest. In local laws and policies, Maine and other states provide tax deduction support for angel investors, so that angel investors can obtain tax incentives; Indiana and other states provide 20% to 30% tax deduction incentives for partnership investors, and issued relevant policies to clarify the policy support that partnership companies can obtain for their investment.

3.2. Paying Attention to the Management of Professional Talents

The development of venture capital activities is inseparable from the support of professional talent teams. Therefore, investors and fund managers need to master financial, sociological, investment and other professional knowledge, and be familiar with the industries in which they invest and participate, and understand risk assessment, stock issuance, etc. and so on. In the past, some talents who participated in venture capital activities generally only mastered part of the link, but the venture capital activities under the new economic situation have higher requirements for compound talents. Professional venture capital fund talents in Silicon Valley need to have more working experience, understand the modern enterprise management system, master professional technology, and have market sensitivity and industry innovation. The US venture capital professional talent training

mechanism is relatively complete, and well-known universities and venture capital companies can bring outstanding venture capital management talents to the society through cooperative training. In the field of professional talent management, Silicon Valley companies usually improve their employees' sense of belonging through employee stock ownership, such as the allotment of employees at the start-up stage of the company. It has a positive impact on the long-term development of the venture capital industry.

3.3. Establishing a Mature Exit Mechanism

Venture capital projects can bring greater economic benefits to investors after a period of promotion and development. At this time, investors can obtain investment returns by launching them. Investors are more concerned about the smoothness of the exit process and risk aversion. A mature exit mechanism is generally considered to be the key to the development of the venture capital field. At present, the U.S. capital market has gradually brought a number of exit paths for venture capital after long-term development. It makes market investors have high investment enthusiasm, so as to actively participate in the development of the venture capital industry. The target objects invested in by venture capital companies in Silicon Valley are usually difficult to maintain stable profits at the beginning, but can quickly realize value increases after listing, which also brings more opportunities for the development of the venture capital industry. The successful exit of funds can trigger a new round of investment, which will continue to bring financial support for the survival and development of startups. It can be seen that a mature exit mechanism is the foundation for the development of the venture capital industry, and the exit efficiency of investment funds can be further improved by establishing a venture capital center.

3.4. Diversification of Funding Sources

Venture capital has the characteristics of being professional and long-term, and the investment risk is relatively high. If the source of venture capital is relatively simple, it is usually difficult to promote the development of emerging enterprises in different industries. From a global perspective, the funds of venture capital centers generally come from pension funds, bank funds, insurance companies and professional investment banks. Most of Chinese venture capital funds come from the government, social security funds and financial institutions. After long-term development, the US venture capital market has gradually enriched the sources of funds, and institutional investors have become the main provider of funds. This phenomenon is common in other western developed countries, and pension funds usually account for a relatively high proportion. For example, most of the regional venture capital funds in the United States come from pension funds. In addition, banks, insurance companies and social donation funds can also provide financial support for the development of the regional venture capital market. Therefore, China's venture capital centers should have more sources of funds to enrich the diversity of funds and promote the development of new enterprises.

4. Conclusion

At present, the development of start-up enterprises in our country needs venture capital to provide both capital support and certain strategic guidance. Therefore, this paper draws on the experience of the United States to obtain four relevant inspirations : (1) the government's active guidance and policy support; (2) Paying attention to the management of professional talents; (3) Establishing a mature exit mechanism; (4) Diversifying the sources of funds. Since the collection of relevant data is not very detailed, it is hoped that relevant data can be gradually accumulated and added to quantitative analysis in future in-depth research.

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