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MASTER THESIS

World experience of venture enterprise, problems of formation and development in Ukraine (on the case of LLC Lime Devs)

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Thesis has been approved for the defence before the Examinations Commission
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CONTENTS

INTRODUCTION

The relevance of the subject: the world practice of venture financing of an early-stage businesses and enterprises, its volumes, dynamic, impact caused on the economies of the developed countries, the ones which are developing, the business industries of all orientations, their growth, and the progress resulted by its inflow show that the venture capital as a phenomenon is neither the last not the least of drivers that accelerates the world economy's effectiveness and its rapid advancements to the better-developed products and services of all the markets and industries. The fact that venture capital is always centered around the outstanding businesses and entrepreneurs with their bright and revolutionary ideas to change the future of the market they are focused to serve gives huge promises to the young and passionate innovators and pioneers ready to risk but being prisoned with their inability to finance the development of their groundworks and concepts.

A hungry-for-profit commercial world and its players are more than ever ready to forward their cash flows towards the clear-minded, fresh trend-setters, entrepreneurs, businessmen focused on the assaulting of the stagnant and long-dormant markets with their ground-breaking improvements, novelties, alternative views, etc. And the ones who are ready to take the risks to show the global public what they are capable of being properly financed will be determining the vector of the world's future progress, having most of the "doors" on their way wide open.

The purpose of the master's thesis was to analyze the world experience of venture enterprise, venture capital circulation, the patterns it follows, review the problems of formation and development of venture-backed enterprises in Ukraine, drawing a parallel with an example of the company based on the Ukrainian market and coping with the venture business of a domestic origin.

The object of the study constitutes international venture capital industry.

The subject of the study constitutes the venture capital funding processes in the world and their impact on the entrepreneurship and business growth.

The methods of the study: the main methods used to conduct the research and provide its findings include theoretical, methodological, historical, analytical, systematical approaches, general scientific methods of deduction, abstraction, empirical observation and mental simulation.

An informational base for the study constitutes: statistical outputs, reports of analytical companies, official websites of international organizations, thesis and scientific papers of specialists in economics and law.

The structure of the study consists of an introduction, three main chapters, conclusions and bibliography.

CHAPTER 1. THEORETICAL, HISTORICAL AND METHODOLOGICAL BASIS OF VENTURE CAPITAL FUNDING AND VENTURE ENTERPRISE

1.1 Venture capital, its origin and nature. The substance of venture enterprise

Across the globe, a rising number of people are realizing their impulses and thoughts regarding owning and operating own businesses. And as soon as the world becomes more commercialized and business-driven with each passing year of the 21st century, this willingness of people to launch their own enterprise is backed up with the growing demand on something new or renewed that is not yet presented to the market for the purchase.

As the studies show, about one in four business founders (26%) started their businesses with the purpose of improving their financial situation and income potential. At the same time, one-fifth of business founders (21%) stated the willing to pursue their passion as the main cause to launch the company/enterprise [1].

Conclusively, these business founders reshape the business environment, making it more competitive bringing efficiency into the local and global economies. New business creators introduce innovative products, provide better services, generate new workplaces, even start new markets, and all these is happening at a time of fulfilling their entrepreneurial drive. And obviously, these new so-called business ventures are mainly generated with the purpose of making a profit satisfying unsatisfied needs, wants, demands, that, with no doubt, involve risks as well as big perspectives of stepping into the new market niche. And these feasible perspectives subsequently attract investors of all scales who are willing to become a part of the income-share process as soon as the business becomes "mature".

As it is stated above, the business ventures (where "venture" stands for the hazardous nature of the enterprise) are born out of a need for something not yet presented on the current market. Once this need is identified, the venture could be launched. Young start-up entities frequently lack sufficient revenue during the first few years of their corporate activity and must look for outside powers for financial support. And the wise step on this stage will be to involve someone (small investor/businessperson) who has enough resources to sponsor the development and marketing of the new commodity to the open market. As soon as the business is started, other investors may be engaged to fund further growth and expansion, concurrently increasing an awareness of the venture with the purpose of gaining higher profit margins, sharing it with the other investors. And usually, such start-up funding initiatives are typically used to develop a product prototype, fund marketing and sales on their early stages.

The term "venture capital" stands for an equity financing provided for starting up or expanding a company, or related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital [2]. It can be also defined as a form of financing of early-stage companies that individual investors or investment firms provide in exchange for partial ownership, or equity, in a company [3].

The desire to manage risks in business activity of any sort and scale is universal and natural, as well as gaining profit. Thales of Miletus, 624-545 BCE, a century and a half before Socrates times, invented the very first options market. He developed a technology for hedging the price of olive oil that is still used nowadays [4]. I may be continued by examples of whaling, gold exploration, oil wildcatting, development of the railroads, etc. All these cases involved some sort of venture financing, since all of these undertakings are most likely to fail rather than succeed, but at the same time, the success – at least, in expectation – could have brought so much that it is more than make up for the failures.

Going back to the 3rd part of the 19th century, and later – up to the years of World War II, corporations and informal networks of wealthy industrialists were providing a major part of venture-capital financing for the rest of the Second Industrial Revolution (roughly, 1870s – 1940s). But things were to change as World War II came to its end [4].

The venture capital origin in its modern form dates back to the aftermath of World War II. One of the key figures in the postwar venture capital boom were: Laurance Rockefeller and Georges Doriot, the latter having helped to establish American Research and Development (ARD) in 1946. That year was also called the *annus mirabilis* ("wonderful year") of the venture capital as a being, since all three of the best-known early firms – Whitney, ARD, and the Rockefeller Brothers Fund – were founded [4]. The venture capital industry has evolved from as ad hoc collection of pioneering investors into a sophisticated, fast paced and highly specialized industry [5]. During that period of time, venture capitalists have provided a "firewood" for the entrepreneurs to set up and launch a generation of companies and ventures that eventually changed the shape of the world's economy. As a result, the world community has witnessed an exponential growth of computing, communications technologies, biotechnology, etc.

For long periods in the past, the most prominent venture capital firms acquired tremendous returns on their investments, since their outside investors (so-called, limited partners) – foundations, wealthy individuals, pension funds, endowments – participated in funding and emerging of the greatest companies of a modern time, such as Microsoft, Apple, Intel, Amazon, etc. Innovations and the process of implementing of new technologies has always been in the very heart of economic progress and reveille. Well in advance of the afterwar rehabilitation mentioned above, for centuries, the venture investing in its primitive forms was held by wealthy families, monarchs, governments. But, starting from the mid-20th century in the US, the venture capital firm, a totally new type of investment management enterprise, began to seek and use the capital gained from outside investors, as well as from the firm's owners, to nurture and fund new business ventures appearing that time [5].

A notable moment in the history of venture capital happened in 1953, when the Congress of the US introduced an act that made possible the existence of Small Business Investment Companies, as a medium between business and government in capturing the opportunity from emerging enterprises and businesses, as it was not clear till that moment whether venture capital could be provided and gathered by market mechanisms only. As the practice showed by that time, the government-based small business investment companies (SBICs) were commonly undercapitalized, having troubles in attracting talented employees, especially for the proper management, which resulted into providing poor returns to the investors.

As a result, SBICs created an entry point for the talented start-up investors who could later be engaged into the venture capital industry. A nice example of that time may be given be mentioning Sutter Hill Ventures, a Palo Alto VC firm created by William Draper III and Paul Wythes in 1964 out of two SBICs, generating an annualized return of 37% from 1970 to 2000 [4]. To be more precise, that cumulative return was 12,636 times as much as invested in it, assuming that 37% was stated as a CARR (compound annual rate of return), based on calculations. Sutter Hill Venture resulted into a genuine "gold rush" (a metaphor for the firm's name) in the vastness of Silicon Walley, where it comes from. Even though the southwestern corner of the San Francisco Bay basin is called the Santa Clara Valley, it's still called Silicon Valley, since between roughly 1970 and 2000, the period when Sutter Hill made its great fortune, it was considered to be the world capital of the computer industry.

During the 1980s and 1990s, the was a tremendous “boom” in the Eastern venture capital industry. The pool of US venture funds as the ones which were highly developed by that time in comparison to the others, has grown from over $1 billion in 1980 to over $160 billion by the end of 2005 [7].

The Kleiner Perkins venture capital firm is worth the reference, since in the above-mentioned period, entrepreneurs were giving their preference to the one in search of additional funding. It played a substantial role in the formation process of the world’s venture capital financing. The firm funded, among the vast variety of different companies, AirBnB, Amazon, America Online, Compaq, Coursera, Genentech, Google, Intuit, Lotus Development, Netscape, Spotify, Sun Microsystems, Uber, etc. [4]. Despite all the efforts to participate in win-win scenarios only, modern venture capital firms, like the ones in the past, still lose much more often than win, usually relying on a very successful single investments to produce a positive return on the overall fund.

Today’s venture capital industry is dominated by the business model which requires a venture capitalist to be an active management partner, not a silent party whose role is mostly restricted to funding only. An active participation in the managing activity of the companies in the venture capital investor’s portfolio turned out to be a better strategy, in the course of time.

Venture capital investment in the early 21st century is obviously considered as a business, as opposed to philanthropy or charity. Every venture capitalist is aimed to generate a substantial profit out of every venture investment he/she did, given that any venture deal should, according to the calculations, prevail under the old-fashioned direct equity investment. Today’s reality may be justifiably called a venture capital world. Taking into account the USA, as one of the biggest country players on the world scale in venturing businesses, all of the 6 US stock giants of the current decade – Apple, Google, Amazon, Microsoft, Facebook, Netflix – were venture-backed. Even Uber and Tesla, despite struggling to make a profit for a while, are also funded by venture capitalists and venture capital funds. For the decades, the larger part of the Continent has fallen far short of the US in attracting and retaining young businesses and entrepreneurs. Later, venture capital has become a central feature in the world's economy, not only in the United States, where the country's share of global venture investments was held on the level of over 90% in 1990s, 84% in 2004, and 51% in 2020, but particularly in China, which represented an astonishing 30% of global venture capital market capitalization in 2019 [6], [4].

For the past decades, the growth of venture capital funding extended outside the Eastern world (US, in particular), moving to Israel, India, China. These countries experienced a dramatic outburst in venture investing process. Much of this growth by-passed the European region, where venture capital funds turned out to be overshadowed by the buy-out-specialized funds and other sorts of later-stage financing institutions. And as a the records for the past decades show, not only have the level of activeness been way lower that on the Eastern part of the Globe for the identical period, but so have the return rates [7].

Many of the entrants to the European venture capital activity during the period of its surge, in 1990s, proved its short-living character, as a result, the market collapsed in that decade. In spite of several government tries to provide tax incentives and build and appropriate infrastructure that could allow young start-ups to be established, European private and public market spaces for the high-risk enterprises are still kept weak. Many of the policy initiatives implemented in that niche, such as an establishing of the pan-European EASDAQ (European Association of Securities Dealers Automatic

Quotation System) market for the young-growing enterprises and companies were written off as the ones which failed [8], [7].

As far as venture capital funding takes place, usually, in two scenarios – to fund a developing business, or to fund the later stages to allow the business to grow more quickly – the second one, if all goes smooth, allows the firm to reach the point when it can go public, bringing the opportunities to the venture capitalists to cash out by selling the start-up enterprise. In the US, both outcome strategies are used equally. By contrast, in Europe, which until the recent time lacked liquidity, transnational stock market (that was a part of NASDAQ – National Association of Securities Dealers Automated Quotation) had an underdeveloped equity culture. Venture-backed entities were more likely to be acquired by other companies or venture capital funds than going through IPO (Initial Public Offering) [7]. And that lack of appropriate exit routes was viewed as one of the main reasons why the European venture capital market was not keeping a proper pace in contrary to the US one.

To be more concise, the venture capital industry takes its roots from the US and slowly spreads its presence all over the globe. Once the US market became mature, the industry started its expansion to the European region. In the 1970s, the UK and Ireland were in the list of the first European countries which started the attraction of venture capitalists. The initial venture capital funds were set up as the subsidiaries of the US ones and were driven by American capital flows and expertise. Continental Europe followed the stream in the early 1980s, venture capital funds of that time were arranged by large domestic banks. But even following the US model, the differences in the institutional environment, taxes and law securities governing of venture capital investments of the European countries formed a huge difference in developing the venture capital market in comparison to the US one [7].

The road of emerging of venture capital market, with its venture funds, ready to invest and sponsor the undertaking activity with the promise to be paid with a substantial income, or to become a shareholder of a promising company ready to go public and attract 100 times higher cash flows, goes in an inextricable connection with the venture enterprises, ready to accept the challenge of the business environment and offer the market its new product or service to meet the existing or forestalling demand of the market space.

In its classic meaning, venture enterprise constitutes a market business unit with the source of funding coming from angel investors or venture capital firms, with the expectation for a financial gain and subsequent business growth [9]. Entrepreneurship is considered to be one of the most challenging yet rewarding careers. But as it often happens to the entrepreneurs with bright ideas to launch, having a brilliant idea is not enough to succeed. Traditional business venture is not the synonym to a start-up. Both terms refer to a new company, but start-up is expected to grow faster, showing, on average, from 5 to 7 percent growth per week on its early stages [10]. So, the start-up is perceived as a growth-based project.

A traditional venture enterprise, in comparison, tends to grow slow, gradually, when its goal is focused on a steady income for the founders in the future, or on going public after a growth attracting even more funds, making the shareholders' stakes cost n-times higher. An enterprise, with an entrepreneur at the forefront, and its main reason to exist moves around the idea of innovation. This venture tends to be highly adaptable, flexible, have a growth "mindset" and show a non-risk-aversive behavior on the market of its presence. Surely, and enterprise may become close by its model to a classic business, in the long run, and start being focused on generating profit and growing the company's market share. Later on, it may start mitigating the risks and adopt growth strategies that have stood the test of time. So, to sum up, a business, with a businessman at the top, is a market player, when an enterprise, with an entrepreneur at the head, is, ideally, a market leader. The latter ones often use unconventional methods to ignite the business growth in time [10].

1.2 Venture capital funding, its stages and methods

From the definition of venture capital fund, which is formulated by James Chen as a pooled investment fund that manage the money of investors who seek private equity stakes in startups and small- to medium-sized enterprises with strong growth potential and high-return opportunities, we come to defining the process of venture capital funding as to the one which is stated as a form of financing that provides funds to early-stage, emerging companies with high growth potential, in exchange for equity or an ownership stake [11], [12].

Venture capital funds work as investment vehicles which seek to invest in firms that have high-return (and high-risk) profiles, according to the company's size, market cap, assets, stage of product development, etc. These funds differ drastically from mutual funds or hedge funds, since they usually focus on a specific type of an early-stage investing. All the firms that draw venture capital investments are risky, have high-growth potential, and long investment horizon. Venture funds are very often involved into the company's guidance and frequently hold board seats for its proper governing [11]. They also play an active role in managing and operating the company and its portfolio.

Obviously, a lot depends on the investment returns. That is why, venture capital funds often follow so-called "barbell approach" in investing. It is supposed to be an investment strategy applicable primarily to a fixed income portfolio. Following this method, the half of the portfolio contains long-term bonds, and the other half – short-term bonds. The "barbell" gets its name because the investment strategy looks like a barbell with bonds heavily weighted at both ends of the maturity timeline [13]. Many of the funds place small bets on a huge variety of young start-ups, hoping that at least one of them will achieve a high-growth level and reward the fund with a comparatively large payout by the end. This approach allows the funds to mitigate the risk that some investments will fold [11].

The same way as pooled investment funds, venture capital funds should raise money from outside investors in order to make investments on their own behalf. From that point, the venture capital funds seek for private equity investments that show the potential of generating sizable positive returns for investors. The fund managers make investment decisions based on the expectations of the fund's investors. Investors of a venture capital fund make returns as soon as a portfolio company exits, either by means of an IPO, merger or acquisition. Even though the expected return varies depending on the industry and risk profile, venture capital funds normally aim for a Gross IRR (Internal Rate of Return) around 30% [11].

Typically, the sources refer to 5 stages in venture capital financing, they are as follows:

- Seed stage;
- Start-up stage;
- First stage;
- Expansion stage;
- Bridge stage.

Three first stages are sometimes grouped into a single one which is usually called an "Early-stage financing" [14].

At the seed stage, the company usually exists only in the form of idea for a specific product or service. An entrepreneur should persuade the venture capitalist, as an individual, or the fund in the viability of the idea as an investment opportunity. If the projected business shows a due potential for growth, investors provide the funding to sponsor an early stage of product or service development, as well as market research, development of the business plan, and formation of a management team. Seed stage investors may participate in other investment rounds along with other investors [12].

The start-up stage demands significant cash infusing in order to sponsor marketing and advertising stages of the new product launch (or a service provision). This stage indicates that the company completed the market research, built a business plan and has an early-onset prototype of the product on trial for the investors. Usually, on this stage, investors are involved to provide extra financing for the developing of already existing business plan [12].

So-called “First stage” of venture capital financing happens when the enterprise is ready to go into actual manufacturing process and sales, it requires a higher amount of capital influx than previous stages altogether, first-stage enterprises are usually young in its market activity, have a commercially viable service or product [12].

Expansion stage could be characterized by the company’s already launched selling process of its product or service, and for now, an additional financing is needed to support the demand. By this moment of the enterprise existence, the main purpose will be to endorse market expansion, or to launch another product line. The funds resources could be involved into product improvement and production expansion [12].

The bridge stage represents the transition stage to become a public company. The business has reached its maturity, and it requires financing to support the further acquisitions, mergers, and IPOs stages. The venture capitalist can exit the company at this stage, sell off the shares stake, and earn a considerable return on the investments made into the company. The exit of the venture capitalist allows the other investors to join, hoping for gain from the IPO process [12]. This stage is also called an “Acquisition or buyout financing”, in a narrower meaning.

With a purpose of raising funds to survive and bringing up a profitable venture for a longer period, start-up companies use various methods of financing. The most commonly spread are:

- Equity financing;
- Conditional loan;
- Conventional loan;
- Income note;
- Debentures;

When the company requires money to finance a start-up which implies huge capital requirements with a credible business plan and the potential to grow to the stage of a highly profitable venture, the company uses equity financing. The enterprise offers a percentage of its business or the company to the investor, in exchange for their capital when the company or firm is not in a position to give on-time returns to the investors. The investors, in turn, have a voting right by the moment of buying a company's share. It is considered to be a risky step for the enterprise, especially from the long-term perspective of the venture, but, theoretically, beneficial for the investors and funds if they believe in the bright future of the business and its clear growth [15].

In contrast to bank loans, conditional loan has neither pre-determined repayment schedule nor a fixed interest rate on the capital borrowed. In case of this type of financing, an entrepreneur needs to pay the lender in form of royalty by the moment the company is able to generate revenue or profit. No interest is payable to the based on the amount invested. The royalty rates vary from 2% to 15% based on revenue, profit percentage, venture cash flow, etc. When the conditional loan happens, an entrepreneur needs not pay interest or principal amount instantly, by contrast to debt financing where the enterprise pays back the principal as well as the interest within the fixed schedule irrespective of profit or loss [15].

Unlike conditional loans, in the case of the conventional loans a business holder has to pay interest initially, but with a low-interest rate insert on the borrowed capital. The interest rate will be increased as per the increase in company's profit. In addition to the interest on the borrowed capital, a business holder needs to pay a royalty in accordance with the sales rate/profit [15].

An income note method of financing exists as a combination of both – traditional loans from banks or NBFCs (Non-Banking Financial Companies) and conditional loans. The key features of the income notes are: an entrepreneur needs to repay the principal amount along with the interest within the predetermined envisaged period; an entrepreneur needs to pay a royalty on the company's sales or profit [15].

Business ventures also raise funds by issuing debentures with a guarantee to repay the amount of the money invested as soon as the security becomes mature. Thus, whenever the capital is required, the company issue a debt paper for a specific time scale. After that, the company pays out the interest on the invested money sum at the specific maturity date. Generally, the interest on debentures is payable at three various rates according to the phase of operation or business:

- Before the commencement of operation;
- By the commencement of operation;
- After reaching a particular level of sales or profit.

The first scenario implies zero interest, the second one – low rate of interest, and the last one – high rate of interest. At the same time, two types of debentures could be defined, the companies name them "Convertible Debenture" and "Non-convertible debentures". The convertible debentures, based on its designation, can convert the debt to the equity shares which have the ownership rights. In case of non-convertible debentures, the company does not convert the debt into the equity shares [15].

CHAPTER 2. ANALYSIS OF VENTURE CAPITAL FINANCING INDUSTRY IN THE WORLD

2.1 State of the venture capital industry.

Dating back to 2008, we will observe that global annual venture capital investments are sat at the level of $53 billion, which gives an understanding of a 17% compound annual growth rate over the decade (statistics was taken for 2019). One of the main catalysts for this growth was a fact of bringing investment opportunities by means of advances in collaborative technologies, global mobile Internet adoption, and a mass decrease of capital costs thanks to cloud computing [16].

Comparing the indicators of 2010 – 2018, we come across the fact that the volume of venture deals made has fallen in comparison to the peak rate in 2015 (20,000 deals). But what is more prior, the amount invested, and the volume of deals seem to increase, the chart from below will demonstrate the trend (Chart 1) [16]. As we can observe, even though there was an unparalleled rise in venture capital funding in dollars, a fall in investment volume comes to the front too.

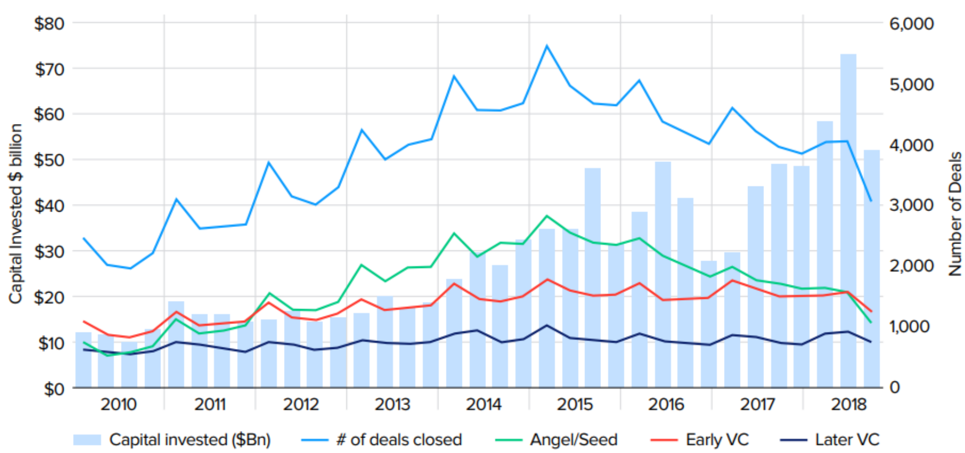


Chart 1. Global Venture Capital Financing by Stage: 2010 – 2018

Source: KPMG Venture Pulse, Toptal Report [16]

Comparing the above placed chart with up-to-date reports, we can note that the dollar volume of venture deals has grown drastically through the decade, but 2019-2020 statistics show the decreased tendency (Chart 2) [17].

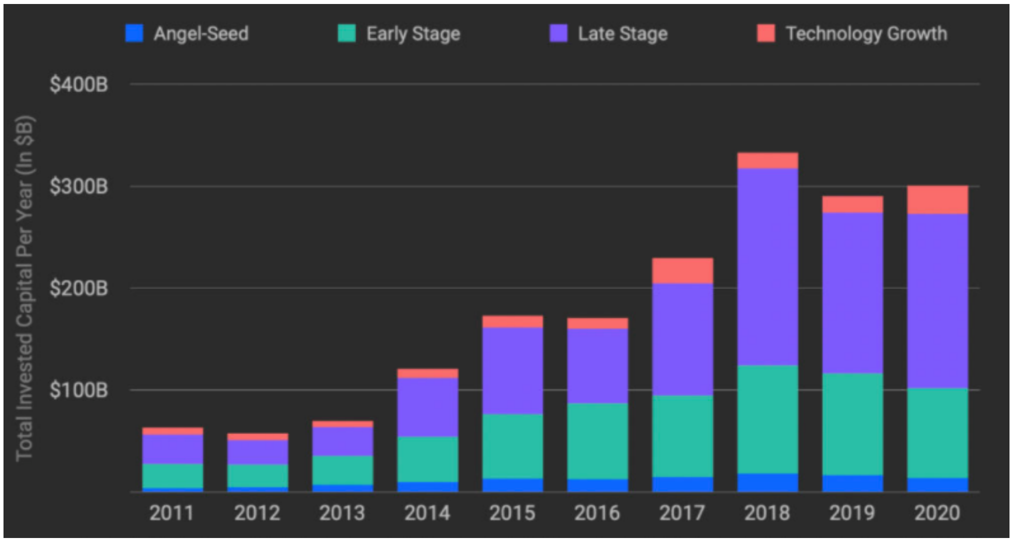


Chart 2. Global Venture Dollar Volume, 2011 – 2020

Source: Crunchbase Report [17]

A deal volume also indicates the growth, from just over 10,000 rounds in total in 2011 to over than 30,000 rounds since 2017 (Chart 3) [17]. The count was not necessarily going down since 2018, as a large percentage of seed funding was added over time by the founders, which was not included into statistics figures.

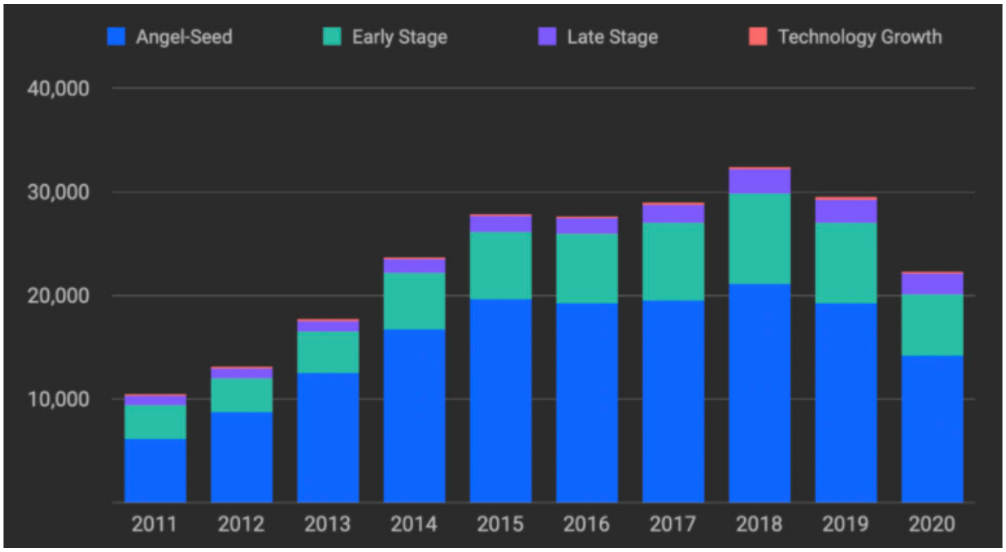


Chart 3. Global Venture Deal Volume, 2011 – 2020

Source: Crunchbase Report [17]

By analyzing global and geographic statistics on the number of start-ups created by years, we came across the fact that Americans launched more businesses in 1980 than they did in 2013. Over the same period, the mix of young companies (less than 1 operating year old) fell by 44%. For the last decade, the peak by the start-up creation was set in 2015. Since that time, according to Crunchbase statistics, the numbers have halved (Chart 4) [16].

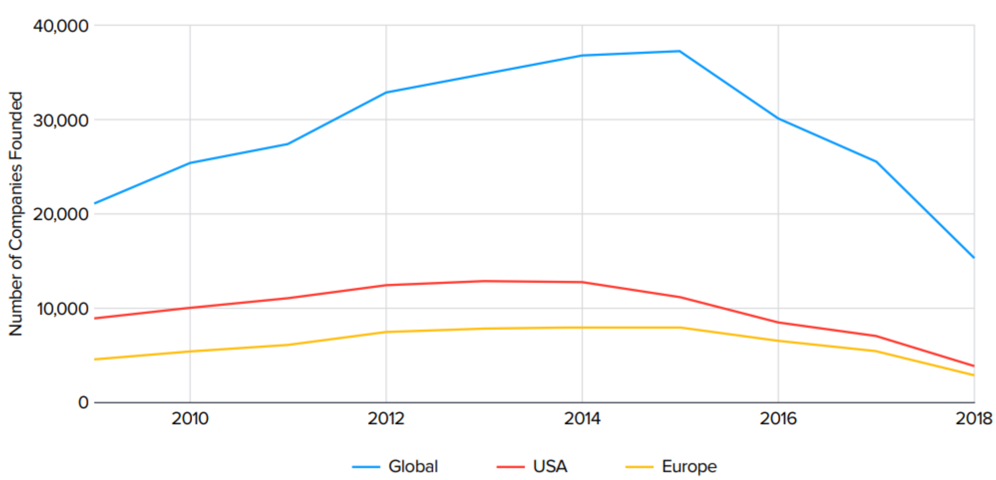
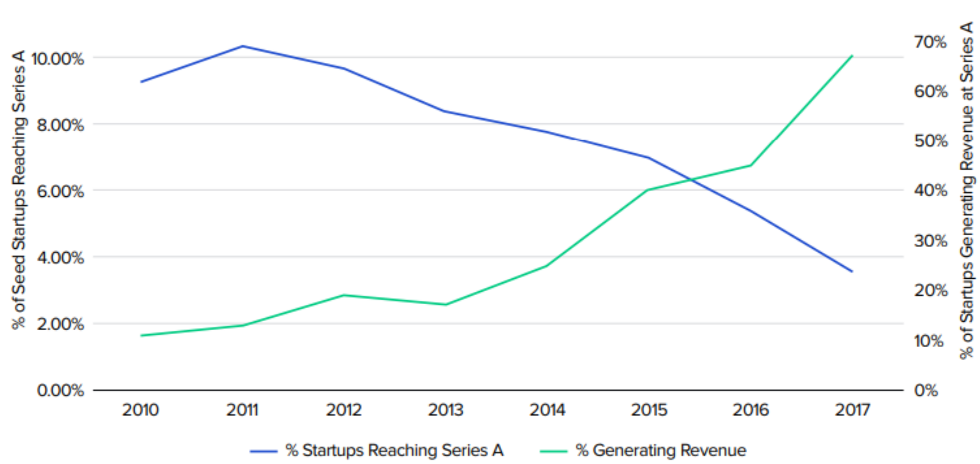


Chart 4. Global and Geographic Start-up Creation by Year: 2010 – 2018

Source: KPMG Venture Pulse, Toptal Report [16]

The reasons for this may come from two ends: 1) The financial reality of the modern economy is not reflecting too much safety for the massive emerge of start-ups and venture enterprises; 2) Narrowed focus of investors' interest, concentrating on the second-time financing rounds more, since, according to Stanford University research, it increases the new firm's revenues by an average of 115% [16].

To validate the assumptions stated above, Wing and Pitchbook resources provide the statistics on seed investing of start-ups and their further revenue-generating process. It indicates that the fall in seed investing from 2011 to 2017 has resulted into fewer companies, as an overall proportion, making Series A rounds. Although, the proportion of companies that raised venture financing is raising more money thanks to higher round sizes. One of the contributions to this tightening funnel was the increase in performance requirements sought by investors. In retrospective of 2010, approximately 15% of all the US Series A start-ups were generating revenue in time, for now, this indicator went up to almost 70%. In turn, this occurrence corresponds with the survival rate from Seed to Series A halving, to less than 4% (Graph 5) [16].



Graph 5. Proportion of US Start-ups Reaching Series A Rounds and the ones Generating Revenue, 2010 – 2017

Source: Wing (Revenue Generation) and Pitchbook (Survival Rates), Toptal Report [16]

In the past decade, the median age of a start-up that had raised Seed Funding rose by over 1 year to 2.85 years. This increased maturity is instigated by larger investors being happy to invest larger amounts but waiting longer to see how the start-up's progression pans out. Start-ups, raising Seed Rounds, inevitably feel this pressure by having to prove traction and product market fit more clearly [16].

Another remarkable observation was pointed out on the scope of mega-rounds (which rose over USD $100 million), since rapidly capturing markets with tremendous funding reserves are emerging with a light-speed over the last years. This process coincided with the rise of mega-rounds. Over 2016 – 2018, the number of these rounds on a moving average basis has more than doubled from 20 to 50 (Chart 6) [16].

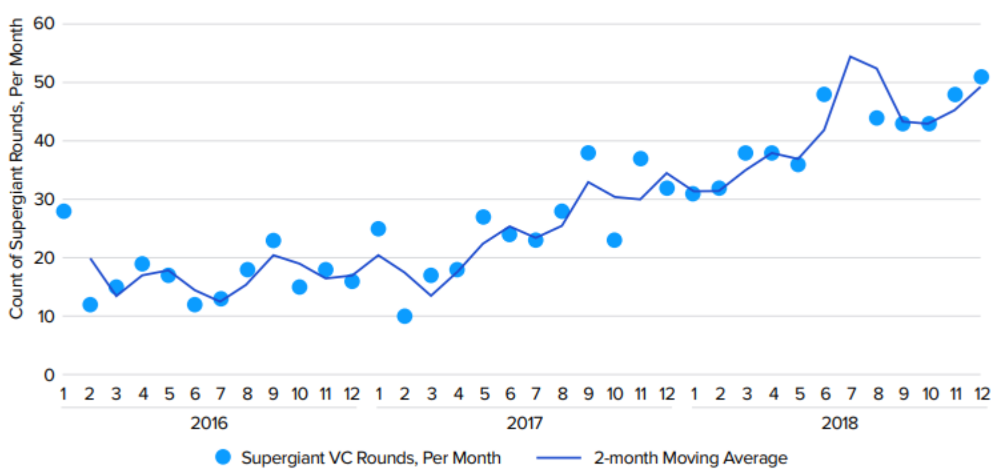


Chart 6. Mega-rounds in Venture Financing, 2016 – 2018

Source: Crunchbase, Toptal Report [16]

Start-up operational costs have increased markedly over the past decade. To compare on the US example, through the five years from 2009 to 2014, annual real estate and payroll costs in San Francisco grew by 12% and 15% respectively.

Employee costs were driven by the necessity to find scarce talent, especially when it came to the engineering space. To give context to these figures and describe the level of difference, across the same period, over the whole of the US, real wages change was on a level of 0.20% (Chart 7) [16].

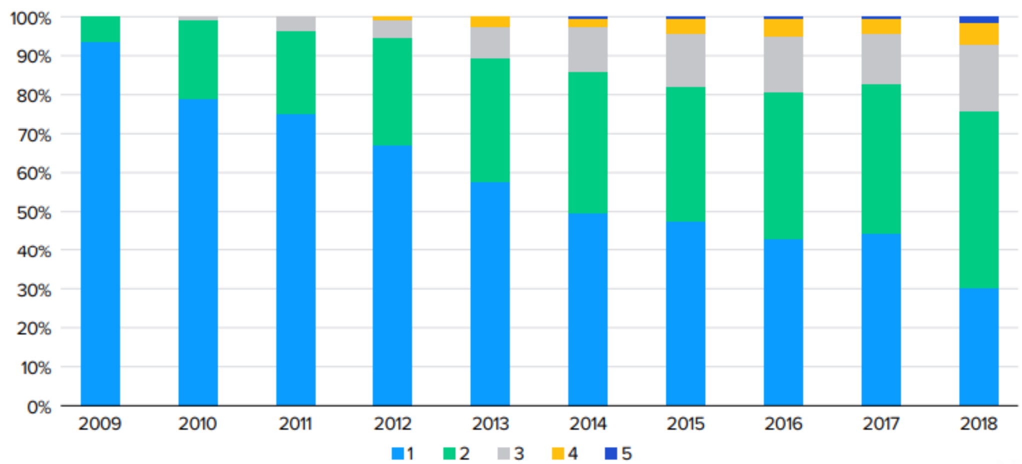
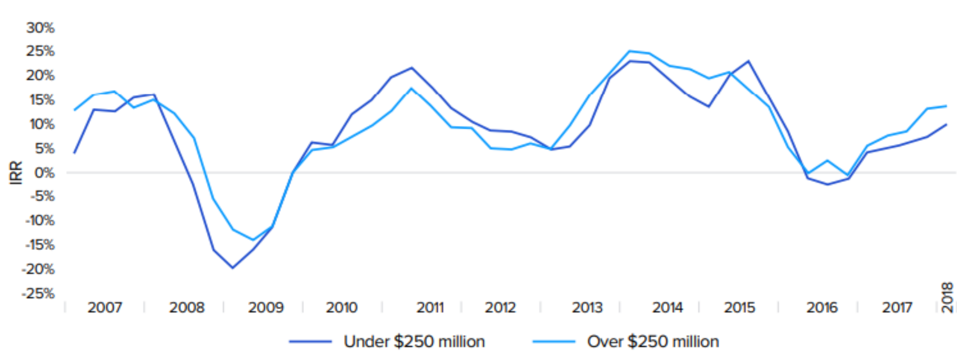


Chart 7. US Series A Start-ups by Total Number of Rounds Raised Previously, 2009 – 2018

Source: Pitchbook, Toptal Report [16]

With the available data, the key assertion to be made is that venture capital fund returns are showing strong signs. Except from a period in 2016, they have been positive and oscillate around the acceptable par for the course level of a 20% IRR (Graph 8) [16].



Graph 8. Global Venture Capital Industry IRR per year, by Fund Size, 2007 – 2017

Source: Pitchbook, Toptal Report [16]

The escalation of fundraising to venture capital has largely been concentrated on large "mega" or "supergiant" funds with AUM (Assets under Management) pools of over $500 million. For the past decade, the numeric composition of venture capital funds by AUM bucket has largely stayed unchanged. On the flip side, the notional share of capital raised by the funds has deviated significantly towards those with "mega" funds in possession. By the statistics for 2018, 66% of new capital raises were channeled into funds with over $500 million AUM (Chart 9) [16], [17].

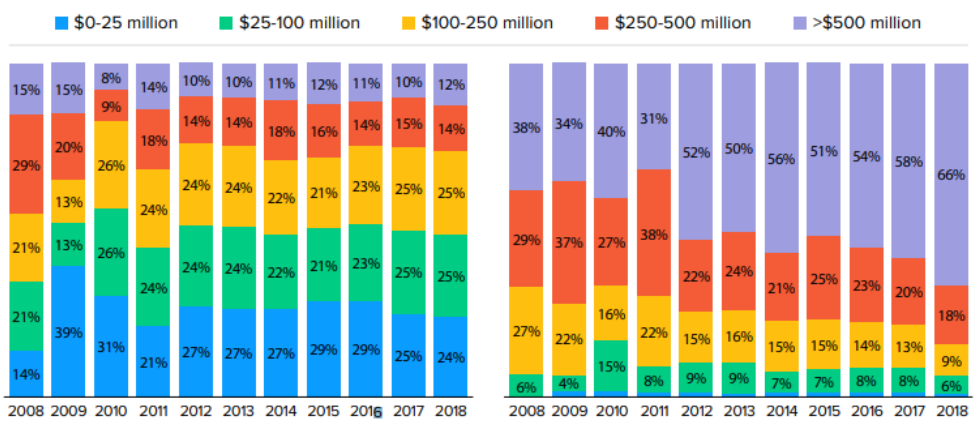


Chart 9. Distribution of US Venture Capital Funds Sizes, By Total Number of Funds (left) and Total AUM (right), 2008 – 2018

Source: Crunchbase, Toptal Report [16]

The above-mentioned chart demonstrates a widening inequality that penetrated venture capital industry since 2012. Large funds could afford more thanks to larger checks and pick the best start-ups thanks to their largesse and capacity potentials. Obviously, it is fracturing the equilibrium of the ecosystem and market at large.

If funds invest in a smaller number of Seed Rounds, most of money put into this process will be concentrated on big Series A rounds further. Mega-funds do not do anything principally different; they just search for better deals and later on double down on them, keeping it as long as it is possible and benefit of their rising process, including private IPOs, and up to eventual public offering at a later time.

Since 2012, venture capital funds have been distributors of the net cashflow to their LP (limited partners) investors. The bets of venture funds have come to pay off period progressively, investors have been rewarded for the patience. In 2018, over $300 billion was returned to the venture capitalists. The consequences of this are that the capital by that period started being subsequently recycled by the calm LPs, whose gains started attracting new motivated investors to enter the venture capital market (Chart 10) [16].

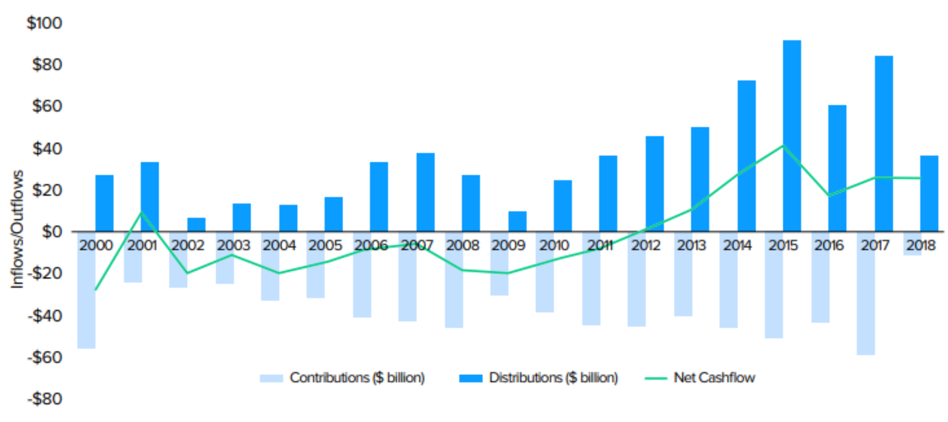


Chart 10. Global Venture Capital Cash Flows, 2000 – 2018

Source: Pitchbook, Toptal Report [16]

Exits flow's graph statistics demonstrate an upward trend, with the outsized return rates by various years. The chart below depicts banner years (2012, 2014, 2018) thanks to the respective huge-in-value exits of Spotify, Alibaba, Facebook (Chart 11) [19], [20], [21], [22], [23], [24].

Earlier, traditionally, an IPO was the only route to a big exit, as of now, being acquired by an established corporation gives an alternative liquidity milestone. Merges and acquisitions are possible over the whole lifecycle stages of a venture. To give an example, Jet.com was acquired by Walmart only about 2 years after the initial foundation of the project, for $3.3 billion [16], [18].

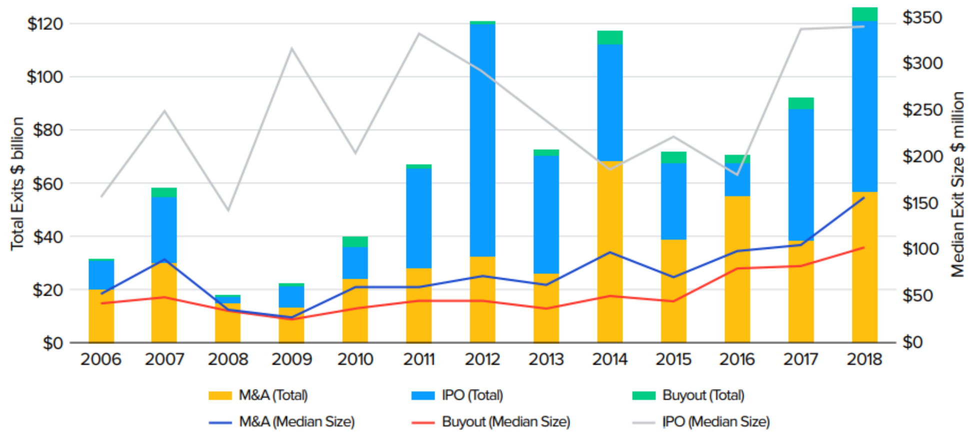


Chart 11. US VC-backed Exits by Type and Amount, 2006 – 2018

Source: Pitchbook, Toptal Report [16]

In order to earn outsized returns on investments, $1 billion valued companies called "unicorns" are needed for the venture capital funds, since a $1 million early-seed investment, over time, could comprise 10% of a "unicorn" value by exit time. These 100-times returns are what drive an outsized venture capital firm portfolio. As the statistics accumulated by Crunchbase show, 36% of "unicorn" investors hold 75% of all the "unicorn" investments. As we can observe, a disproportionate number of venture investors own the vast majority of the "unicorns" value [16].

For the small Seed Funds such a concentration of "unicorns" brings a good effect, in some way. Literally, they may have an only one big "unicorn" to make the portfolio return beneficial, and, in case it is a trend that successful companies are driven with a streamlined VC process by the acknowledged "unicorn" hoarders, then it may give them a brighter picture of what to do to succeed.

To summarize, venture capital ecosystem is rapidly changing the existing investment market across the globe. Obviously, the statistics given could partially cover all the aspects of the global market change for the past decade, since not all the data is fully and publicly available, especially, when it comes to countries with a lower share of global venture capital activity, since key players on the world stage stay the same: the USA – 50%, China – 25,3%, the UK – 5,1%, India – 4,5%, Germany – 2,5%, Japan – 2,2%, and the other globe – 10,4% (37 countries, including Australia, Brazil, Canada, Colombia, Estonia, France, Hong Kong, Indonesia, Israel, Japan, Luxembourg, Malta, Nigeria, Philippines, Portugal, Singapore, South Africa, Spain, Sweden, and Switzerland) as per second quarter of 2019 [16].

Venture capitalists mainly invest into their domestic market, as the sources show. Approximately 50% of the US deals are made in the home states of the investors. Probably, live conviction plays a significant role in modern investing. In contrary, Sequoia Capital is an example of the venture capital fund that became global and made India and China its core markets [16].

When it comes to global distribution of successful start-ups, the number of unicorns launched in private rounds has grown from initial 82 in 2015 to 356 in second quarter of 2019, to compare. The geographical composition is widening its map, in spite of the fact that 75% of all the start-ups are still launched in the USA and China "en masse" (Chart 12) [16].

The state of venture capital industry in Africa keeps being promising. In 2018, the list of venture capital deals was doubled in quantity, reaching the peak of 458, $725,6 million was invested across the continent. Top-10 deals brought 61% of venture capital fundraising volume. The trends of the decade are kept here as well [16].

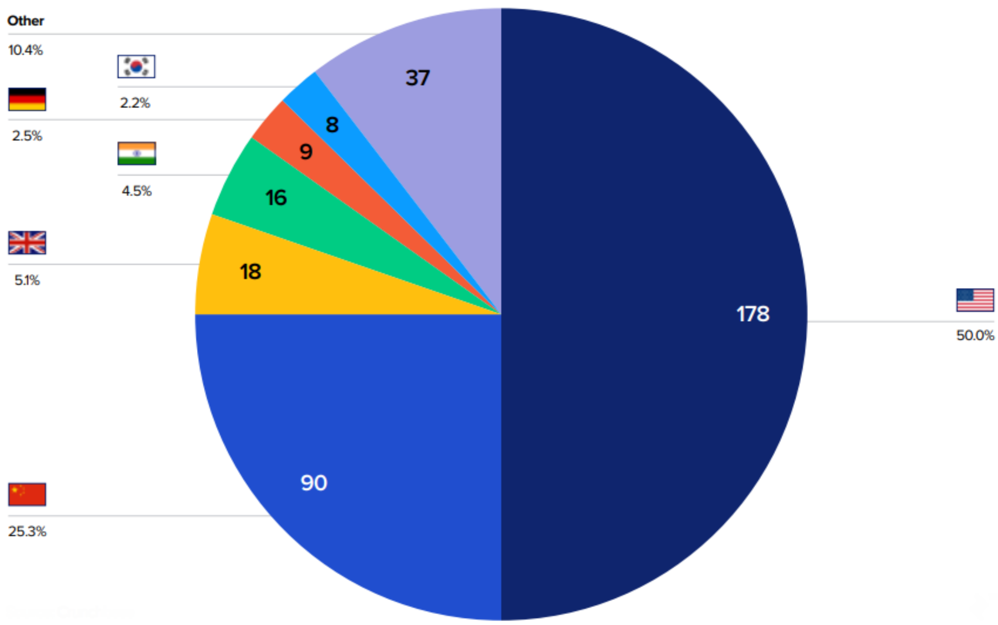


Chart 12. Geographic Distribution of Start-up Unicorns, Q2 2019

Source: Crunchbase, Toptal Report [16]

To be more specific, 25 venture funds launched in 2018 being focused on African region, ready to deploy $1 billion in capital, doubled their investors' base within a year range. Nigeria, Kenya, South Africa – there are the most promising and burgeoning markets for the VC opportunities [16]. Therefore, investments in African start-ups keep gaining momentum since the statistics is kept counting in 2015. A year later, in 2019, Africa's VC investments rose to an all-time peak, as Partech's report states. 234 African technological companies raised over $2,02 billion in 250 rounds. This figure indicates a 74% increase since 2018, according to Partech's statistics, which show $1,163 billion raised per year total, with 164 rounds behind [25].

By the moment of 2019, 18 unicorns have been minted across the Latin America region, with fintech, marketplaces, and logistics being of particular importance, by sector. There is a large eco-system of local investors in this part of the word, but wider foreign VC funds (prevalent in the USA and Spain) enter the market to help in Series

A rounds. The viability of the region was demonstrated by Softbank's LATAM, which focused $5 billion in its Innovation Fund, the region is seeking for new frontiers for now [16], [26].

In 2018, around $4,75 billion was expected to be invested across the South-East Asian region. Such venture enterprises as Grab (Southeast Asian technology company providing transportation services) with total funding amount in $12,5 billion by 2021 3rd quarter and Go-Jek (an Indonesian on-demand multi-service platform and digital payment technology group) with the same indicator fixed on a level of $5,3 billion by 2021 3rd quarter demonstrated an excellence in innovations by consolidating e-Commerce with mobility and fintech supply [16], [27], [28].

There is a list of elements that gives the emerging economies like Indonesian one, Vietnamese and the Philippines ones investment perspectives. And one of them is an appearance of micro funds in so-called neglected areas. In spite of focusing on mega-rounds and mega-funds, micro-investing stays an integral stakeholder tool for cultivating next successful bunch of start-ups. A lot of micro-funds in the USA have generated a loud "buzz" around their brands, their results and performances are often driven by the market exuberance, and empty market niches which appear every week, literally. In the European region, the situation is different, here we observe less competitive Seed Stages of investing and the demand prevailing over the supply driver [16].

Micro-VCs tend to struggle because of scarce return rates, it is partially connected with the desire to maintain enough ownership of the winners' companies in order to have a material impact on fund returns. The later-round valuation makes it harder for the micro venture capital funds to exercise their share rights [16].

Unfortunately for the investors, the last-years picture showed some emerging liquidity risks for the venture capital market. As it was observed in 2019, a couple of disappointing IPOs on the part of Uber and Lyft highlighted the fact that public market differs from the private rounds' investments. For the past years, mutual funds and the like started allocating their capital indiscriminately, especially when it comes to the above-mentioned examples. This has resulted into decrease in sensation to IPO allocations, especially for the large investor entities [16], [29], [30], [31]. In the recent time, the need for IPO is not coming from the wish to get new capital sources, but instead – to provide liquidity to the initial and earlier investors for forming their gains. Companies, going public for the recent years, have not settled their stable business models yet, as a result, the share of companies with negative earnings after the IPO has reached its peak, almost overbeating dot-com's bubble levels (Chart 13) [16].

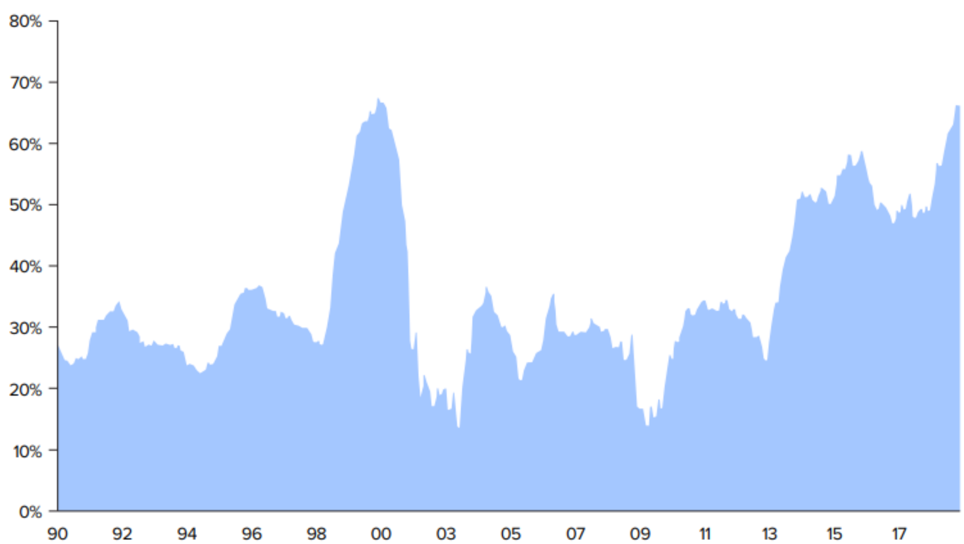


Chart 13. Share of the US IPOs with Negative Earnings Ratio, 1990 – 2019

Source: Empirical Research Partners, Toptal Report [16]

This trend is a threat for venture capital funds going forward, since alienating or taking liberties with the public market could ultimately lead to "the closed door" on the part of venture capitalists. And once the cash crunch takes place in the wider economy, it may force investors to fire sell of the assets or to demote their investment tempo [16].

2.2 Global trends in venture capital financing, challenges arising in pandemic economy.

By analyzing the most recent trends in venture capital financing and venture industry in general, we came into conclusion that 2020 was closed out in a much better position that started, global venture funding was risen by 4% over year to $300 billion [17]. That rise happened as industries disrupted by the pandemic situation on the globe, such as health care, education, shopping, entertainment, finance, traveling, shifted to an online world. That movement, in turn, provoked a “boom” in tech infrastructure, cloud services, and the companies which lead that motion encouraged strong IPOs and M&A, since the ones were eager to either consolidation or market competition.

This tech “boom” entailed large companies in the space to set new records and budge the horizon: Apple hit the valuation of more than $2 trillion in August of 2020; Google and Amazon reached a $1 trillion point in January [32], [33], [34], [35], [36]. Private markets also followed the path of the larger market players, especially when it concerned later-stage funding. Series C and later rounds venture financing grew by 8% over year. By reviewing private equity of venture-backed companies, we figured out that it grew even more, by 73% per year [17], [37].

But when it comes to an early-stage financing, the situation of 2020 was less promising for the smaller players. Therefore, in the 4^{th} quarter of 2020 global early-stage funding was fixed at a total point of $22,7 billion, indicating 11 percent decline by year, but 5 percent rise over quarter ($21,6 billion during the 3^{rd} quarter). The number of deals was swiftly decreasing from the beginning of the year and up to its end, indicating a reverse dynamic (Chart 14) [17].

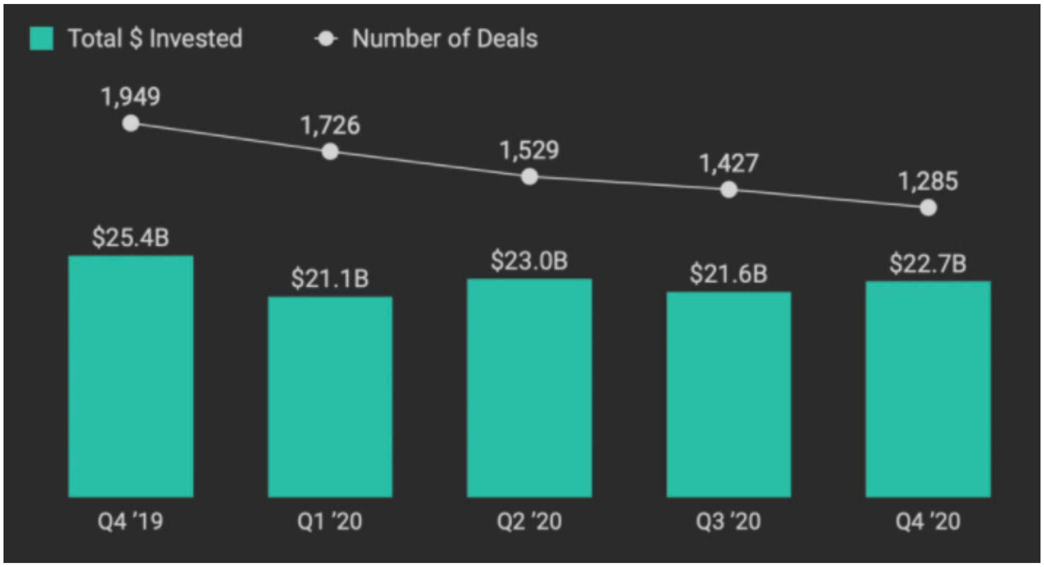


Chart 14. Global Early-Stage Investment Dynamic over quarters, 2020

Source: Crunchbase news [17]

Seed funding stages in the 4th quarter of 2020 declined by 27% over year, and 7% over quarter. The number of deals made had a wavy nature but indicating a reverse rate (4,426 by the 4th quarter of 2019, and 2,558 by the 4th quarter of 2020) (Chart 15). Late-stage and tech-growth funding was slightly under $50 billion in the 4th quarter of 2020, with a year-over-year rise in 4%, but 16% slum in comparison to the 3rd quarter of 2020 (Chart 16) [17].

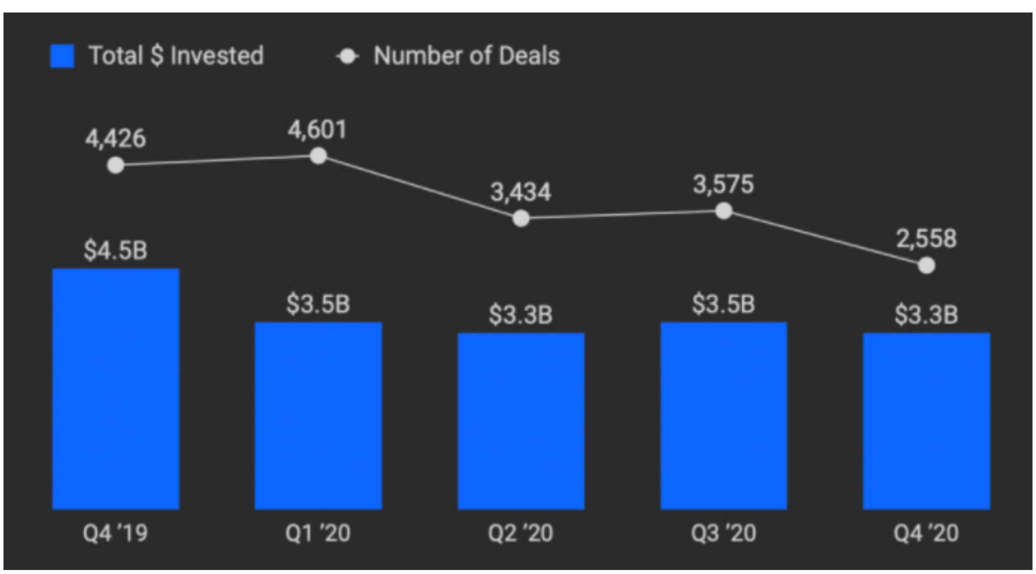


Chart 15. Global Seed & Angel Investment Dynamic over quarters, 2020

Source: Crunchbase news [17]

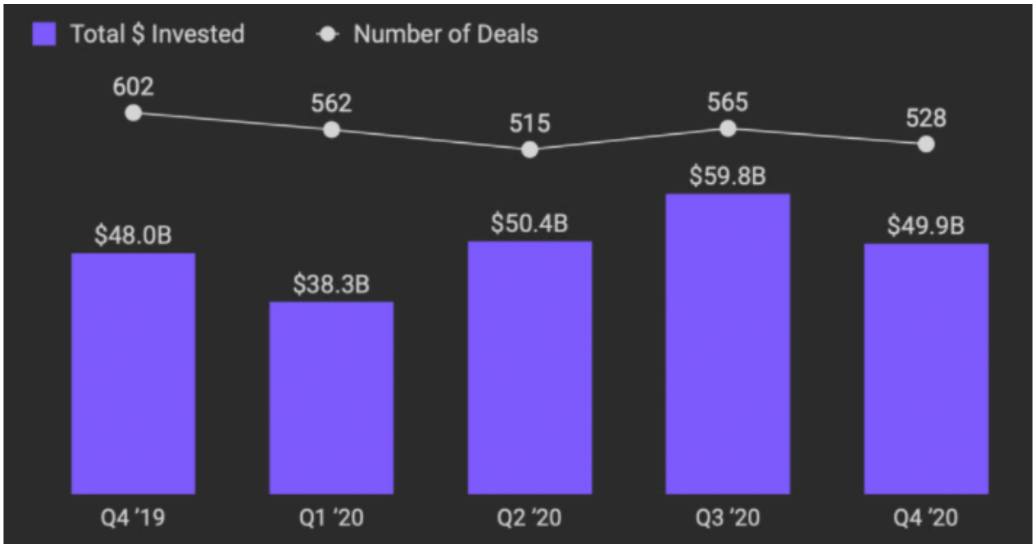


Chart 16. Global Late-Stage and Tech-growth Investment Dynamic over quarters, 2020

Source: Crunchbase news [17]

Last-year acquisitions showed a list of 41 venture-backed companies being acquired for $1 billion and more, collectively giving a market a figure of $104 billion. That was the biggest count of billion-dollar exits over the past 10-year period. In 2018, 31 companies acquired for $95 billion, that was the previous peak for that time, overcome last year. The largest acquisition of 2020 was for business cloud software provider called “Infor”; an acquisition was held by Koch Industries for $13 billion “check” [17]. The statistics given below will exclude M&A companies that previously went public and include only that deals with reported transaction values (Chart 17) [17].

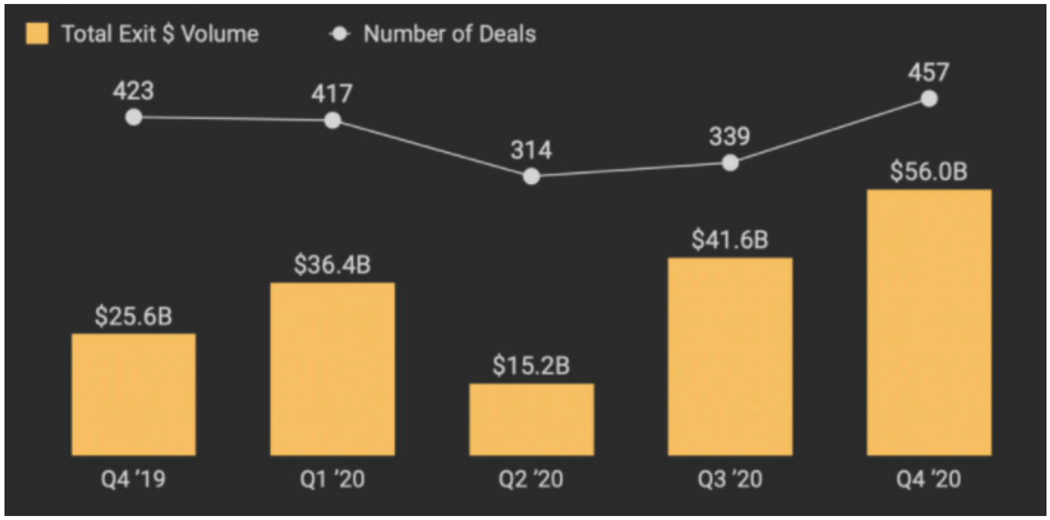


Chart 17. Global Acquisitions of Venture-backed Companies over quarters, 2020

Source: Crunchbase news [17]

The 4th quarter of 2020 included acquisitions in supply chain management, business cloud and food deliver, cybersecurity, customer engagement, scheduling, and all demonstrated billion-dollar deals. Notable acquisitions of 2020 included FanDuel (Fantasy Sports) acquired by Flutter Entertainment for $4,2 billion, InSite Wireless (Telecommunications) acquired by American Tower for $3,5 billion, Segment (Cloud computing) acquired by Twilio for $3,2 billion, etc. [38], [39], [40], [41].

Reviewing 2020 IPOs, Airbnb and DoorDash could not be left unnoticed. These were 2 the most highly valued venture companies to go to public offering in 2020, valuating themselves at $47 billion and $39 billion point respectively [42], [43]. Opendoor (Real estate), lu.com (Fin-tech), Wish (E-commerce) also had IPO deals with over $10 billion rounds ($18 billion, $16,5 billion, $14 billion respectively) [17], [44], [45].

But coming back to the present time, in the 2nd quarter of 2021, countries state record figures for the Venture Capital Industry by volumes, despite pandemic effect and economic downturn. The US venture ecosystem finished 2020 with more than 10,800 business entities across the country being financed with venture funds, and almost 1,965 venture capital firms managing 3,680 funds with $548 billion in their controlled assets, according to the National Venture Capital Association 2021 Report [6]. Despite one of the most stormy and rough years the venture capital industry have witnessed, VC displayed remarkable sustainability and credibility being faced with a thorough headwinds, breaking a list of industry records, as it was reviewed above.

Initially, the industry was concentrated on screening and reasonable usage of capital at the moment of primary stages of the pandemic, it came back during the second half of 2020 and started setting records in fundraising, exit rounds, investment horizons. In the US, as one of the biggest country players on the world scale in venturing businesses, the number of mergers and acquisitions dropped to 886 in 2020 (compared to 1,042 in 2019), but total disclosed exit value hit the record high of $75 billion, 9% better than the previous 2014 peak of $68 billion, and 24% more than the $60 billion reported for 2019. The number of Angels & Seed Rounds in venture capital investing of 2020 fell in comparison to 2019 (4,859 deals completed, in 2019 – 5,277). 327 mega-deals recorded in 2020 is the highest annual deal count on record, and $76 billion invested in mega-deals accounted for nearly half (44%) of the total VC capital invested in 2020 [6].

Venture capital fundraising showed continued strength in 2020, with the annual total surpassing 2018's record. 14 US venture capital mega-funds of $1 billion or more claimed almost $27 billion, according to PitchBook data, the highest in terms of both – total capital and fund count since 2010 [46].

Silicon Valley made a big contribution to the 2020 record hit process. Lightspeed Venture Partners closed its largest-ever deal on $1,8 billion in April [47]. Andreessen Horowitz (venture capital investment firm based in Menlo Park, California) raised a pair of mega-funds with $4,5 billion commitments in November [48]. General Catalyst, NEA and Flagship Pioneering also joined the stream with their mega-funds [49]. As a result, the list of the US venture capital mega rounds of $100 million and more jumped to the mark of 306 that year, overbeating the previous year's score in 244 (Chart 18) [46].

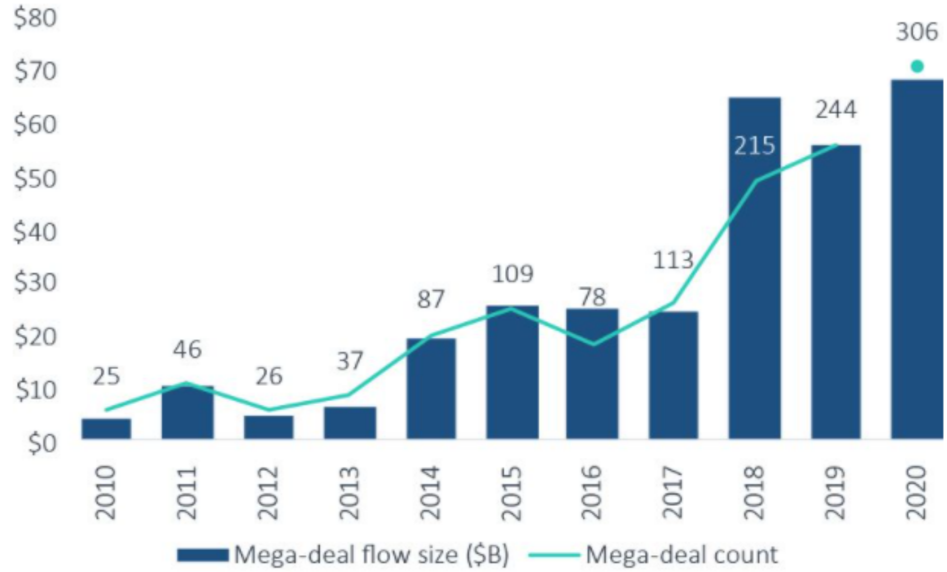


Chart 18. US Venture Capital Mega-Rounds ($100 million+ deals), 2010 – 2020

Source: PitchBook research [46]

In reviewing the venture eco-system in the second half of 2021, we observe a sustained amount of deal activity and, according to evaluations, this trend will continue. The 2nd quarter of the year was represented by an incredible "bull run" with investors setting a new peak of the year breaking past records. US venture-backed start-ups demonstrated $72,4 billion funds raised for the 2nd quarter, showing an increase in $5 billion in comparison to the previous one ($67,2 billion per 1st quarter). Surely, if everything goes by the classic scenario, the $200 billion mark will be surpassed by the end of 2021. At that moment, investors were focused no on the surviving process, but on the growth one. The halfway evaluation of the indicators by the year shows that fund flows directed into late-stage venture capital rounds have overcome what was seen in 2020 [50].

As it has been set as a trend already, during the pandemic, and IT-industry driven by software development continues to attract the capital best of all. This stream is followed by financial industry and business services developing, healthcare powered by biopharmaceutical ventures, etc. (Chart 19) [50].

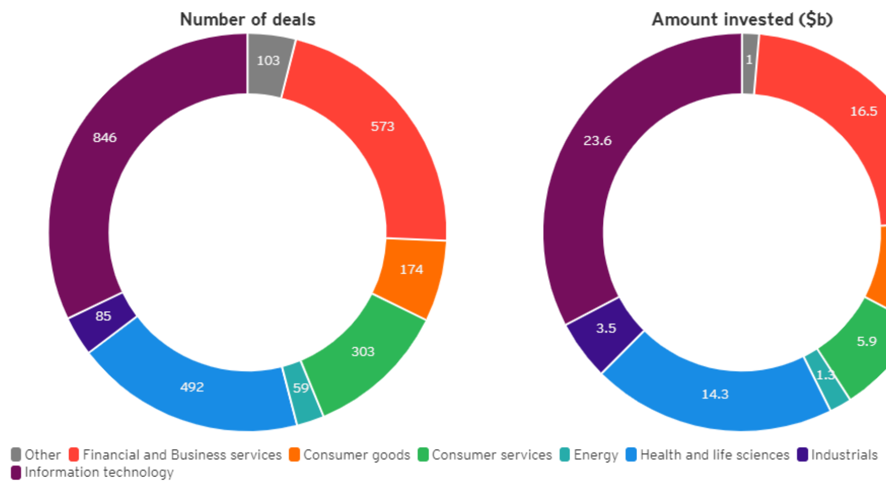


Chart 19. US venture capital investment across industries, 2nd quarter, 2021

Source: Crunchbase, EY Report [50]

If we consider the core role of these industries in dealing with the pandemic impact on the world community and economies, the dominance of the above-mentioned niches will not be raising questions. The development of drugs, vaccines, treatments for COVID-19, logistics, digital operations, remote work software – the sectors engaged in the development of these tools will be thriving with a rapid pace.

The level of market activeness and tumultuous investing observed in today's venture economy makes us think of dot-coms' era as of a boring 20-year-old period. As of now, venture capital assets are overhanging the other types of capital with its volume and the number of portfolio companies under management. For this short period of time, a huge list of new, earlier unknown, companies rose a significant amount of funds ready to have a lot more options for liquidity any moment [50].

Comparing the “unicorn” era with the “dot-com” one, we may observe a difference in the fact that today’s companies and ventures hold real revenues and market substance. Obviously, not any company can succeed in the modern state. At some point of time, investors and analysts expect to witness the market in a slow-down state, as it happens to any market ever existed. Anyway, “dot-com” era was remarkable with its companies going public too early; for now, the ventures probably stay private too long, that is the difference [50].

As a conclusion to the above mentioned, just a year ago experts of the industries were foreshadowing a global slump in finance attraction, especially for the venture capital flows as for the ones prone to be scaled down in case of unfavorable economic premises. As of now, we see the opposite direction of these flows. Surely, the situation could turn promptly in the view of a variety of know and unknown reasons. For the short-term future, however, I see more of rounded angles. Capital formation fundamentals stay strong in 2021, and a wide range of investment opportunities with the existing list of companies ready to accept “the financial tide” of venture investors as well as the number of modern investment themes are charted at record levels.

CHAPTER 3. LLC "LIME DEVS" AS AN EXAMPLE OF MODERN ENTERPRISE SERVING VENTURE BUSINESS ON THE UKRAINIAN IT-MARKET

3.1 The type of business activity of the company, its structure and marketing strategies

LLC "Lime Devs" is a high-tech enterprise with an active business period of 4 years, providing IT-services and developing software components for the individuals and legal entities on order, with no specific geographic market orientation, which means that the sales market the one is the entire world. The full legal name of the company is LLC Lime Devs (where "Devs" stands for "Developers").

The company pursues the goal to be the premier global provider of software components on order with the prevailing stake of customers focused on a long-term success but not on short-term profit. Its mission is to provide the customer of any country of origin with the best value-for-money software which is developed to prolong the cost-effective operation cycle of the company's functioning with the focus on a constant optimization of a ready-made software component for it to be fully appropriate to a native user (customer's customer).

The venture-backed nature of the company is centered around its customers base and the projects it launches and promotes. "Lime Devs" develops software tools for the sales, marketing, digital and customer service interactions on order for an international and domestic client. It is also specialized in developing full-fledge websites and software components given on a lease terms and placed on these websites with the aim of generating added value out of customers' presence on them and further interactions made with these software tools.

In addition, “Lime Devs” provides its retained customers with a sales assistance and consulting in order to promote the product on its early stages onto the target market to the specific customers group.

Among the customers served by the company, there is a broad list of venture-backed firms that preferred staying without a direct reference. The services provided to the ones helped them to attract larger investments, especially on their Early-Stage financing rounds. The assistance was given not only on the IT-ground, in developing software components of the client’s product, but also through the sales expertise, preparing product prototypes to their further presentation to investors, planning the speech, Q&A part of the pitch, training brand representatives to the meeting with private investors, etc.

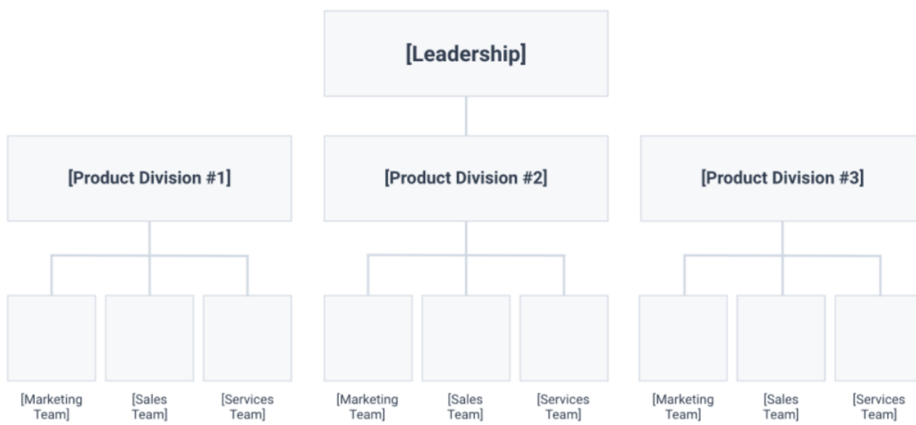
Being involved into the business as a senior manager in investment attraction and communications with foreign customers (all English-speaking Europe, Asia, Australia and Africa), I can judge of the company’s activities from the perspective of the sales approach it exploits and give an evaluation to its investment policy and techniques used to market its brands and promote the customer’s projects on demand. Reviewing its approach, I may state that the company exploits a couple of strategies with the purpose of maximizing the cost effectiveness of every trade and deal made with a client.

They usually include: cross-selling strategy, pricing strategies focused on underpricing in order to gain larger market share (especially comes into play with innovative products/services released on a competitor’s market niche), the strategy of improved customer retention (to prolong the life-time of every deal, concomitantly increasing an average bill of every customer/user and its life-time value) and strategy of obtained technological advantage (to overcome competitors in advantage, albeit making the product/deal more expensive for ourselves).

For the most part, the company's largest business activity is conducted on the field of lease services, and consulting provided to the customers. "Lime Devs" does not market its IT-products directly, through the brand's official website, brand store, etc. Instead, almost 80% of deals are made in private. The customers of ours prefer the product to be presented on its later stages as the one initially developed by themselves. Even the presence of ours in the life of the customer's company or, what is even worse, in developing the products, any guidance or consulting services may undermine the value of the brand image, henceforth, leading the investment attraction procedure to more unfavorable outcome. Thus, all the services the company provides to its contractors are not advertised publicly. All the deals are made on the basis of the royalties the contractor is obliged to pay until the software is in use (if we review the products), or in terms of conditional payments (if it comes to consulting services) once the investments attraction stage is conducted, or the product is released onto the market. The volume of the payment will be based on the funds raised, in the first scenario, or on the quarterly revenue gained after the market entrance, in the second scenario (the pricing procedure described in the examples may differ eventually and be adjusted depending on the deal nature and contractor's solvency and creditworthiness).

As of now, 4 years since the establishment stage, the company applies a classic bureaucratic structure of its functioning, also called Mechanistic type of company's structure. It has narrow spans of control, high centralization, specialization and formalizations. Divisions of the company never intersect their activities, each and every team is engaged in its own workflow, which may be opposite by its type and goal to the other company's division, occupied into the parallel activity; different tools and approaches for achieving the goals set; separate team leaders and heads. Of course, the higher you are on the structure's layer – the closer you will be to the sole director of the company who coordinates the whole business activity. But the lower you are – the further you become from this sole decision-maker.

If we narrow the scope, the structure will resemble the Product-Based Division Structure, which is comprised of multiple, smaller functional structures. Each division within the organization is dedicated to a particular product line/service line (Scheme 20).



Scheme 20. Product-Based Division Structure

Source: built by author

By reviewing the company's marketing perspectives, and building a "4 P" model, we came to the following synthesis:

"Product" analysis: the company started as a software developer. However, the business has grown enough to include and increasing variety of services in addition to the ready-made software components. The product mix looks like as follows:

– Software;
– Applications;
– Mobile and browser games;
– Entertainment web-pages;
– Sales services;

- Marketing services;
- Consulting services.

"Place" analysis: the company needs to maximize its reach on the software and Internet market, especially when it comes to narrowed online entertainment market. Considering that all the products are either virtual or non-tangible, the "location" or place for the transacting with customers usually exists virtually as well. But anyway, the following venues are used to distribute products and services:

- Official website;
- Virtual brand-store;
- Head-office;
- Company's self-developed webpages for legal sharing possession rights;
- Self-developed websites given on a lease terms to customers;

"Promotion" analysis: the company's concern in this element of the marketing mix focuses on effective communication strategies and tactics used to attract the target customer. Considering the conditions of the software and IT-market, the strategies are prioritized as follows:

- Advertising;
- Sales promotion;
- Direct marketing;
- P2P sales;
- Lease agreements.

The top priority is given to P2P sales and lease agreements. The first one drastically increases an average bill of retained customers (the ones we dealt with second and more times, who keep giving their preference to us in terms of choosing the contractor for the IT-services or marketing consulting). Lease agreements allow the company to deepen its presence in the customer's product lifecycle, maximizing the chances for a second deal, third one, etc.

"Price" analysis: price points affect the attractiveness and sales performance of the company's products. The company must apply suitable pricing approaches to ensure effectiveness in addressing concerns in this element of the marketing mix. When it comes to pricing IT-products, it uses the following pricing strategies:

- Market-oriented pricing strategy;
- Freemium pricing strategy;
- "Pay-For-What-You-Use" pricing strategy (niche word combination);
- "Pay-And-Get-Pay-Back" pricing strategy (niche word combination);

In the market-oriented pricing strategy, the company sets the prices of many of its software products and services based on market factors, such as competitors' pricing and consumer on-spot demand. The company also uses the freemium pricing strategy, which involves offering a product/service for free, and requiring payment for additional functionality, features, auxiliary services. "Pay-For-What-You-Use" pricing strategy involves providing the customer with understanding that he can afford using the full version of any of the products he/she pays for, but by the end of every month he will be billed for the use of only those functions he applied within a specific period, even though the access was given to each and every existing function of the website/software/etc. "Pay-And-Get-Pay-Back" pricing strategy stands for the approach which is built on a principle of a systematic payback to the users with a percentage of funds they spent for the specific period of the product usage in order to nurture the habit of circulating the funds again and again via the website of ours, or the company's services, in particular. To be more precise, the customer receives virtual funds back, at our cost, which could be spent, at first, only on the software features or services we provide, and after that, when some specific percentage of the sum given was spent, the customer is allowed to withdraw the funds if he/she wishes by means of so-called “recoup” payment system (we pay the customer, not the customer pays us).

The last two mentioned approaches were named and developed by the company’s sales and marketing team in order to prolong the business relations with the customers, improve the deals experience and make the client more satisfied by the moment the service is provided.

3.2. Suggestions to enhance the company’s competitiveness and earning power on the Ukrainian IT-market.

Today’s world business environment represents large and vast opportunities for the enterprises. One of the main assets the company of the modern world possesses is a group of pushful and proactive leaders ready to compete for the market niche once the opportunity arises. Obviously, these impulses should be backed up by the objective benefits the company brings to the market by launching its project/product/service. But as the retrospective of the pandemic economies around the globe revealed, once the market is exhausted with the services and goods it consumes for cycles, the brand which comes to replace the now-unwanted “provider” collects all the “gold starts” and laurels of the consumer.

The interest of venture funds towards the Ukrainian business arose in 2010-2011, since global investors noticed the intellectual potential of the start-ups risen in that conditions. But at the same time, not all the successful businesses are able to gain attractiveness of an international venture investment fund. For example, the Zakaz.ua project, whose turnover is unrealistic both for the Ukrainian market and for Europe, is already a notable company. But since they operate in Ukraine only and do not give hope for international expansion, “late-stage” investors will not consider the company as a perspective to get 3-4 times profit ranging from their current stage of development. A similar example is the well-known company “Uklon”. After a couple of years, they managed to generate the profit, but they are chained to the current position of themselves on the Ukrainian market, thus have no space to grow further in this country [51].

By this principle, if a start-up company does not have an idea and plan on how to direct the attracted investments on development, then there is no point in investing in it. To raise the big late rounds, Ukrainian startups must aim to develop for export, not just within the country. And the business model and marketing of such an enterprise should be ready to the rapid adaptation. This is appropriate from the point of view of venture investors (they need profitability), from the perspective of the macroeconomics of Ukraine (export money attraction), and from the point of view of the founders of the company, who are obliged to fight for world recognition.

The fast-growing IT-industry driven by software development continues to attract not only the customers’ attention, but, obviously, the investors’ capital as well. Business services of today’s reality are shifted to online world, the markets of nowadays are placed on the Internet space in 98% of foreseeable cases. It is said to use such a figure of speech, but the pandemic world could be truly perceived as a “golden age” for the venture capital and innovations, especially in the IT, healthcare, e-commerce, entertainment and crypto-financial industries. Unfortunately, the last one could be hardly evaluated in accessible metrics to demonstrate its growth and impact on today’s legal business situation, but, surely, the following decade will shed the light on this ecosystem as well.

Those businesses which operate on both markets – material and online ones – apparently have nothing to be afraid of over the coming years. That is the case of the above-reviewed company, which has its presence on the software market, which never stops in expanding until the binary code is in use, and on the business consulting market, which implies probably every aspect of the possible market relations, especially when it comes to investment attraction and sales prospects.

By observing the start-up market of Ukraine for 2020, the list of the most massive investments in their deals volume seems to be hardly noticeable in comparison to the deals reviewed in the Chapter 2 by analyzing, for example, the US dynamics for the same span of time. Top-3 deals by Ukraine included: “Restream” (Multi-streaming solution allowing producers to analyze and interact with their viewers across platforms) – Round A – US-based VC “Sapphire Ventures” – $50 million; “Preply” (Internet site for the tutors search) – Seed Round – US-based “Hoxton Ventures”, “Point Nine Capital”, “All Iron Ventures”, “The Family”, “EduCapital”, “Diligent Capital” – $10 million; “Allset” (Food pre-ordering service and a platform that connects local restaurants to its busy diners) – Series B – US-based and Ukrainian investors: “Greycroft”, “EBRD”, “Andreessen Horowitz”, “Inovo Venture Partners”, “SMRK VC Fund” – $8,25 million [52]. No signs of billion-deals so far.

To better the business environment for the young enterprises, we should think of a better state for the business investors and capital circulation in the existing jurisdiction, above all. By the statistics reports of the World Bank, and “The Ease of Doing Business 2020” ranking, in particular, we may observe that the year-to-year situation in the Ukraine feels better by businesses, by the evaluation of an unbiased reviewer. 2018 – 76th position, 2019 – 71st position, 2020 – 64th position [53], [54]. It is still going difficult with such aspects as: Resolving insolvency; Across-border trading; Electricity supply provision; Taxes basis; (according to the above stated resources).

Since the company is set up already, in the particular case of ours, it would be reasonable to review the approaches in enhancing already-existing positions of the company's products and services presented to the market. Judging by the current situation, the main aspect that affects the company's capacity to generate revenue is the lack of skillful workforce, occupied in business analytics, payment processing, customer communications and graphics designing.

Because of the impossibility to cover a broader aspect of the projects' volumes on time, the company loses its perspective contractors. The number of personnel involved was enough till the recent quarter, when the number of potential customers nearly tripled. To perform the tasks given on the same level of quality and efficiency, the company requires a broader staff, the sooner – the better. For now, an approximate loss of a monthly revenue because of the inability to meet the demand comprises 20-25%, according to the company's internal estimations. And every month, based on the number of potentially retained customers being lost, these percentage figures increase by 3-5%. The picture is not encouraging. The engagement of low-skilled workforce will save about 3-4% of the monthly revenue in a short term but drop the yearly figure by 18-20%, on a long run. The risks to lose more are too significant. Especially, when it comes to a loss in quality since this metric is a "calling card" of the business by this moment of market presence. The service quality, its on-time supply and a full-day support are the main distinctive features that make the business products of LLC Lime Devs better, more attractive and desirable for both – new coming customers and loyal clients whose needs and wants are served for a longer period of time.

Nearly 65% of the company's revenue is generated on deals with retained customers, according to internal evaluations. According to the statistics provided by the analytics department, the loss of one retained customer with a total "spend" (amount of money paid) in $10,000 should be compensated by 3 new ones with a total "spend" in $8,800, at least, in a half-year section.

As a consequent effect of the impossibility to cover the existing demand, the company loses its competitive positions on the niche market, as the contractors left without service start searching for alternative solutions, and, as an aftermath, pay for the competitors' services. By the internal estimate, for the last quarter of 2021, the approximate loss in the market share constitutes 5-8%. This figure includes the share of the foreign market as well, in addition.

At the moment, the main goal of the company's Human Resources department is to search for skilled and enthusiastic employees, and nurture them for the shortest possible period in order to cover the committed losses.

Currently, the company possesses all the attributes to be the leading one in its market niche. Among the suggestions given to accelerate the growth and expansion momentum, I would like to focus on the following ones:

- an optimization of the brand channels, focusing on the brand projects that generate the highest margin, identifying the key features and patterns that enable the existing results;
- an enhanced focus on the customer relations, especially on the foreign markets, where this asset is highly regarded;
- an implementation of the "flexible" reward system for the retained customers, with available opportunities for the exceptions in specific cases;
- a proper review of the motivation system for the customer-related management staff, enabling of incentives for the deals with long-retained customers, and reducing the manager's premium for the "fresh" deals.

The above-given recommendations are focused on the extending of the deal circulation with the retained customers; narrowing the focus of the company's production units on the processes that are truly efficient, market-oriented and income-driven; adjusting the existing reward system for the loyal customers in a way to be able to provide them with veritably unique offers and incentives.

Obviously, not all the novelties are possible to be implemented fast and on-spot. An already-settled business plan implies an executing of already-set goals and targets with existing tools and resources. The suggestions from above seem to be perfectly suitable for the modern state of business, when the time and personnel are the most precious resources that could be possibly obtained.

CONCLUSIONS

The world of venture business and venture capital financing is promising by its nature. The mechanisms of venture investing allow the fund-owners and limited partners to seek for start-ups, small and mid-sized enterprises and businesses processing firm growth potential, accelerate their incubating period, make their concepts come to birth in material form, speeding up the competitive pace on the markets of their presence, simultaneously increasing the business's profit potentials, the earning power of its groundworks, enhancing the progress of the industry they operate in, as well as of the entire commercial world.

By the moment of the research, the venture capital industry demonstrates a strong rise incline. The pandemic world, with its fast-growing online-based, remote-control businesses, represents a promising marketplace for the venture-backed enterprises ready to change their serving capacities on the customers' demand, to be flexible, mobile, innovations-intrusive and brave enough to anticipate the market's needs and wants, and satisfy them on short notice, occupying the niche and benefiting from their positioning.

The main conclusions of the study may be represented as follows:

1. By studying theoretical, methodological and historical aspects of venture capital funding as a phenomenon, the basis of the venture enterprise, its origin, substance and nature of its evolution we managed to determine that the desire to manipulate the risks in any sort of business activity was natural for people since the BCE. Especially, these impulses were strongly traced and observed in the afterwar world, for the modern history – it is a period of the aftermath of World War II. The businesses tried to mobilize their efforts, seeking for a financial support and back up of the ones ready to take the risks of illiquidity common to the damaged economic

ecosystem of that time. The US jurisdiction and marketplace became the world's cradle of the modern venture capital business and venture investing at large. An active participation in the functioning processes of the businesses, operating on the basis of the VC financing, eventually became a batter strategy for the venture investment funds, and positively impacted on their profitability and return rates. With a purpose of the business environment structuring, different stages and methods of the venture fundraising process emerged, being actively used in time.

2. By analyzing the venture capital financing industry over the past years, its dynamic, volumes and macroeconomic performance indicators, we managed to notice a strong proliferation of the venture business over the past decades. The venture business deal volumes tripled the measures over the 7-year period of the 21st century (2011 – 2018). The volume of the capital invested by venture funds over the period of 2010 – 2018 grow by 700%. Every year, since 2010, indicates an eager of venture investors to increase the mega-round deal activity, thus boosting the existing market potentials, turnovers and volumes. The disproportion of the venture funds measured by the amount of assets under management is demonstrating an upward tendency over the past years, since 2012. The biggest country players on the world's venture capital map are: the USA, China, the UK, India. The presence of the world's developing economies in the global venture capital funding and fundraising has massively increased over the past 5-year period, it especially involves Japan and Germany. Pandemic economies around the globe are driven by the software developments which nowadays are best in investment attraction capacity. This list may be followed by financial industry and business services developing, and healthcare powered by biopharmaceutical ventures.

3. By studying the Ukrainian IT-market and the state of the IT-business which is involved directly or indirectly into the venture capital activity, we manage to determine the volumes of the Ukrainian venture investments attraction are far smaller

than the ones given by analyzing the world's core players. To better the business environment for the young venture-backed enterprises, there should be an immediate consideration given to the state of the business investors and capital circulation in the existing jurisdiction. The world's recognized statistic reports still identify the Ukrainian economic ecosystem as the one which is moderately favorable for the ease of doing business, but it should be mentioned that the state of the one is being constantly improved in a year-to-year section. By analyzing the business activity of LLC Lime Devs as the Ukrainian IT-company involved into supporting venture-backed enterprises and businesses, and serving their needs, providing services that directly or indirectly facilitate the promotion intensiveness of the formed startup-based entities, we may come to the conclusion that the nowadays business environment is not facilitating the start-ups to stay economically transparent, since the one may negatively influence the potential capital inflow raised by the venture capital financing due to the list of factors being disclosed.

By reviewing the business model of LLC Lime Devs and its actual business techniques applied to manage the company and its market activity specifically, we came to conclusion that the main aspect that affects the company's capacity to generate larger revenue is the lack of skillful workforce, occupied in business analytics, payment processing, customer communications and graphics designing. The service quality, its on-time supply and a full-day support are the main distinctive features that make the business products of LLC Lime Devs better, more attractive and desirable for both – new coming customers and loyal clients whose needs and wants are served for a longer period of time. The main goal of the company's Human Resources department is to search for skilled and enthusiastic employees, and nurture them for the shortest possible period in order to cover the committed losses being incurred as a result of a weak capacity to respond to the existing market demand.

Abstract

The master's thesis "World experience of venture enterprise, problems of formation and development in Ukraine (on the case of LLC Lime Devs)" was written by Ivan Arikov, contains qualitative, quantitative-analytical, and practical research and consists of 3 parts. The aim of the thesis is to analyze the world experience of venture enterprise, venture capital circulation, the patterns it follows, review the problems of formation and development of venture-backed enterprises in Ukraine, drawing a parallel with an example of the company based on the Ukrainian market and coping with the venture business of a domestic origin. The first part is devoted to studying theoretical, methodological and historical aspects of venture capital funding as a phenomenon, the basis of the venture enterprise, its origin, substance and nature of its evolution. The second part analyzes the world venture capital financing industry over the past years of a current century, its dynamic, volumes and macroeconomic performance indicators. The third part studies the Ukrainian IT-market and the state of the IT-business which is involved directly or indirectly into the venture capital activity, reviews the business model of LLC Lime Devs and its actual business techniques applied to manage the company and its market activity, and contains suggestions given to the analyzed company in order to accelerate the business growth, its expansion on the domestic and world markets. The conclusions made by the first chapter of thesis states that the desire to manipulate the risks in business activity was natural for people in the afterwar world, for the modern history – it is a period of the aftermath of World War II. The businesses tries to mobilize their efforts, seeking for a financial support and back up of the ones ready to take the risks of illiquidity common to the damaged economic ecosystem of that time. The conclusions made by the second chapter of thesis sums up that there is a strong proliferation of the world venture business over the past

decades, followed by the increase of deal volumes, invested capital, mega-funding concern, and the presence of the world's developing economies in the global venture capital funding and fundraising. The conclusions made by the third chapter of thesis assert the necessity to better the Ukrainian business environment, an immediate consideration that should be given to the state of the business investors and capital circulation in the existing country's jurisdiction.

Keywords: venture capital, venture capital funds, venture investment, venture enterprise, venture business, start-up

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