5-8-2009

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ROCHESTER BUSINESS JOURNAL
RBJ
VOLUME 25, NUMBER 6 WWW.RBJDAILY.COM MAY 8, 2009

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INNOVATION EDGE
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Time and again history has shown that technology-based business startups create jobs and propel economic growth. Entrepreneurial startups in the United States on average add millions of jobs annually. In fact, among developed nations, the United States is envied for its success in promoting entrepreneurs. Our nation has the lowest barriers to entrepreneurship and the highest level of venture capital investment as a percentage of gross domestic product.

Research at the University of Wisconsin estimates that 80 percent of these jobs were created by technology startups. Yet as I learned recently when talking with investors in Cambridge, Mass., plenty of technological experts with great ideas don't know how to seek out funding for their ventures. Although today's efforts are further complicated by the gloomy economic environment, Mark Heesan of the National Venture Capital Association notes, "times of crisis produce the best startups."

The "best startups" have more than good ideas; they also know how to attract seed capital. The most obvious funding options are bootstrapping—using personal funds, credit cards (expensive in the current environment) or home equity—and leveraging of personal relationships with families and friends. When these sources are tapped out, many turn to venture capital. Today that promises to be a difficult road.

Government-sponsored loans and grants are another option, though they can be restrictive and limited. The Small Business Administration typically might guarantee 75 percent of a loan made through a bank, but banks usually consider high-tech firms very risky and are reluctant to risk losing even the remaining 25 percent.

Small Business Innovation Research grants fund the commercialization of technology developed through federally funded research: Phase I grants provide up to $100,000 and Phase II grants up to $750,000. The aim is to establish whether the venture is commercially viable. Subsequent grants are made available if a government agency is interested in the technology for its own use. Companies usually need help to navigate these waters; the government offers some help through seminars provided by High Tech Rochester.

Fortunately another group of investors, aptly named "angels," is willing to fund startups even when the economy is weak. As Ohio TechAngels founder John Huston puts it: "Economic crises spur creativity. Angels believe this and so are actively seeking deal flow."

Angels are wealthy individuals. Typically they have about $1 million in liquid assets and incomes in excess of $200,000. They provide the majority of investments nationwide in early-stage startups up to $500,000—and often they will supply expertise in addition to money. Angels expect annual returns of 25 percent to 50 percent and will want to exit within five years.

Huston says, "I have not heard a single angel group complain that they have wonderful deals they cannot fund because their members don't have the capital."

In 2008, angels invested $19.2 billion in more than 55,000 ventures. Moreover, the Angel Capital Association has found that almost half of angels planned to invest at the same or higher levels in 2009, while only about one-third expected to reduce their investments. Clearly, money is available for the right business ideas.

The more promising technologies identified in a recent survey by NCVA are good news for entrepreneurs in Rochester. Venture capital investors picked "clean" technologies and the life sciences technologies (biotech and medical devices). Engineers, doctors and technologists at both Rochester Institute of Technology and the University of Rochester have been working these fields for years. Today these high-tech entrepreneurs need to work with angels.

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