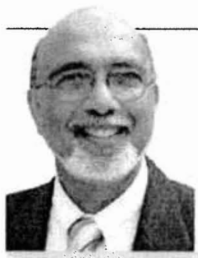
6-12-2009

Entrepreneurs should look for angels who are coaches

Ashok Rao

ROCHESTER BUSINESS JOURNAL
RBJ VOLUME 26, NUMBER 11 WWW.RBJDAILY.COM JUNE 12, 2009

Entrepreneurs should look for angels who are coaches



INNOVATION EDGE
Ashok Rao

Players need coaches and coaches need players. Similarly, entrepreneurs need angels and angels need entrepreneurs.

Picture this situation: You are an entrepreneur with a growing business, and you've reached the limits of your financial resources. You've tapped your friends' and family's piggybanks. You are looking for more money to continue growing. Where do you get the money? You need an angel.

Who are angels? They are wealthy people eager to invest in startup businesses. Often they have built successful businesses themselves, sold them and briefly flirted with retirement. But the drama and excitement of the startup pulled them back in.

Prior to 2000, angel investment was mostly passive, but since then angels have found that the likelihood of business success improves significantly if they get involved. Today, angel investors provide more value than simply financial investment by acting as coaches and being more hands-on.

Rochester has its share of wealthy individuals, and many are angels. Tom Golisano and Phil Saunders are two highly visible examples. But many angels prefer anonymity for fear that they will be inundated with requests for money, and the more active among them form alliances. Two of the better-known alliances in Upstate New York are the Tech Valley Angel Network around Albany and the Rochester Angel Network in Western New York.

Just as coaches select players for their teams, angels select entrepreneurs. What do they look for in ventures? Typically, they consider four attributes:

- The people—the entrepreneur and the team, their experience, capabilities and passion;
- The idea—the uniqueness of the product or service, the realism of the business model, the fit with the angels' portfolio;
- The market—customers, the market need and the potential for growth; and
- The deal—the risks, the financial returns associated with an exit strategy.

Angel alliances screen entrepreneurs before introducing them to their investor membership. Individual angels also conduct an informal screen.

Angels will probe to determine if the team is capable of learning and reacting to new situations. In other words, are the entrepreneur and the team coachable?

At the same time, the entrepreneur evaluates the angel—just as a player evaluates the coach. Does the angel have networks and expertise lacking in the team? Do the personalities fit? If the angel wants to be hands-on, can the team and the angel have a productive working relationship?

After the initial screen, the angel looks more closely at elements of the deal. No two deals are the same. A nightmare scenario for an angel occurs when the venture is successful and goes for the next round of financing, and the angel's investment is downgraded. But if the deal is structured to assure the angel's share of the company, the entrepreneur could face a nightmare too. Later financiers could balk when they realize that the angel will continue to have a large share of the company. As you work through the deal, you'll get a good understanding for the future of the working relationship.

A good starting point when looking for angels is the Rochester Angel Network, an alliance of about 30 investors. Other sources of angel contacts are your banker and lawyer. Law firms such as Boylan, Brown, Code, Vigdor & Wilson LLP and Harter Secrest & Emery LLP know angel investors. So do directors of incubators such as Venture Creations and High Tech Rochester Inc.

Entrepreneurs also can surf the Web for events. FundingPost.com held one in May in New York City, and another is scheduled for Boston toward the end of June.

You'll find plenty of angels. Look for angels who are also coaches.

Ashok Rao is dean of Rochester Institute of Technology's E. Philip Saunders College of Business.