THE KEMBALL GROUP
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The Dog’s Bark

Angel Groups and Entrepreneurs: Confrontation or Collaboration?

What Entrepreneurs Should Know and Do
and
How Angels Can Really Help Entrepreneurs Without Investing

What angel groups universally fear is that they don’t get the “best” deals.

A recent conversation with a former client who sought and did not get the funding he thought he needed from angel groups provided the impetus for this Dog’s Bark. When I asked for his reflections on those experiences more than a year after his money chase failed, he was still working at bringing the product to market and making progress. Despite asserting that he would never seek angel capital again and half recanting during the discussion and its follow-up email exchange, he made three trenchant points about what he wanted in one phrase -- **clarity of expectations**. Both sides would benefit from each providing it. The suggestions below are intended to provide each means to see more clearly if there is a potential alignment of interests and incentives. In the spirit of his feedback we start with the angels’ perspective to provide context for the actions to be taken.

What angel groups universally fear, and often lament, is that they don’t get the “best” deals. Our experience provides three possible “explanations”:

a) With the deal flow data being what it is, justifying this conclusion is not simple. Is it simply that the low ratio of interesting deals in the deal flow, with its pressure to "screen out", is simply an accurate reflection of the quality of opportunities available? And as one wise angel pointed out, the less we know the more enthusiastic we are! A case of the grass is greener syndrome to which we are all prey.
b) The fact that "better" deals are being done in your community does not mean they are deals for angels. Some may in fact simply be early stage VC deals where angels need tread warily if at all.
c) Both sides fail to understand the others basic needs and devise approaches to deal with them. The result, a pattern of mutually unsatisfactory experiences, which was the case in the instance that lies behind these words.

As so often in life reality is a blend of all three. While (c) provides the best point of departure for changes, (a) and (b) are not without merit. Angels are tempted to get into a deal and make it better when fundamentally that cannot be done. Also, many angels set their sights at the level that requires VC, seeking a 65 to 100 plus X return on their investment. Such opportunities are highly competitive globally chased by capital rather than chasing capital.

That said, what could be done to do more with less anguish and better returns? Given that angels are frequent participants in funding early stage firms, their capability and responsibility and self- interest is at least a match for the entrepreneurs. Suggestions for both follow.

Entrepreneurs can:

1. Obtain an independent third party assessment of their opportunity to test the quality of their thinking about the business before seeking capital and what has to be done to build a company able to do the work required to grasp the opportunity and what help they could benefit from.
2. Conduct at least a back of the envelope value creation assessment showing whether or not their opportunity will create enough wealth from profits to pay their supplier 25, or more times, the funds supplied and how they would like it done.
3. Examine their own skills and experience and interests to determine what contribution this "stranger" could make to the growth of the business. What role could that person perform? While founders are exceptional and essential people that does not mean they are automatically exceptional CEO's or C-Suite executives. Most did not become founders to manage people. Many do not value this type of role.
4. Demand from each angel group they approach the latter's past investment history with details of the amount invested and specific industry sector before asking for funds.
5. Have available for exchange a one page sketch of what industry they will sell into and why prospects will buy. This would be used to circulate amongst all members and ask for an estimate of the number of individual members who

might invest in the transaction and the total dollars the group might provide. Is it enough to reach breakeven?

6. Obtain a description of the screening process used by the group and its time lines. When is a term sheet issued? Request the angel's key standard terms before investing time and effort to engage.

Angel Groups can:

1. Put on their website, as some do, details of their past investments as a group and or individuals. Links to firm's individual websites build trust by candor, as would stating the areas the group is not likely to invest in the absence of a lead investor known to members, and that it is individual members who make investments.
2. Convey their willingness to syndicate and identify those with whom the group has already syndicated.
3. Minimum and maximum investment sizes of interest for first and second round.
4. Target X return on funds invested.
5. Examples of members' capability to provide support building the company and interest in doing so.
6. Clarity that it is people who are really the factor determining whether or not an investment is made because it is people in organizations who generate wealth.

Note quite a baker's dozen items would bring much clarity by their adoption to the benefit both sides. For angels it will lead to fewer requests from entrepreneurs who are unlikely to be able to afford this source of funding or want its obligations. Angels would then have time to "screen in" and build good deals by working with the founders. The motivation to help others which drives many if not most angels and is unique to angels would be rewarded by a better reputation spread by positive references on the entrepreneurs' net. Better yet, this would be concentrated amongst the entrepreneurs who really should seek and get angel funding. Entrepreneurs would not look back with regret on a waste of their scarcest resource, time. Nor would angels.