

Post Title

An Introduction to Angel Investing for Entrepreneurs

Target Keywords

angel investing, entrepreneurs, start-up, startup funding

One of the biggest challenges for brand new companies is money. Moving from the 'idea' stage to the point where you can make an actual sale is one of the hardest transitions to make – and it's a step that you have to take in order for your company to succeed. Remember the old business proverb: it takes money to make money.

So where does a start-up get money?

While there is no one right answer to that question, there are some common steps that many companies take on their path toward financial success. At the very beginning, when the company is still in the 'idea' stage, entrepreneurs tend to look to friends and family for funding. These are people who know you – they know your strengths and weaknesses, and if they believe in you and your idea, they are an excellent source for that very first investment. Normally, this isn't a huge amount of money, but it can be enough to get started. Later, when the company is bringing in revenue, and beginning to show profits, a startup can get funding from Venture Capital investors – big funding groups who invest large sums of money into new companies that they believe will be successful, in exchange for ownership stakes. But how do you bridge the gap between friends and family and those large Venture Capital funds?

Enter the Angel Investor. Typically, an Angel Investor is an individual with a high net worth who provides funds to new businesses in exchange for a future payout, part ownership, or both. Angel Investing is a version of patronage – an idea that goes back more than 2000 years, when royalty or other wealthy aristocrats would financially support an artist or artisan so that they could do their work without worrying about money. In this case, Angel Investors help new businesses move their ideas forward to the point of profitability.

If you're looking to raise funds for your new business, there are some advantages to working with Angels. In addition to money, they often provide valuable expertise, experience, mentoring, and business contacts – resources that can help you succeed. They also make your company more attractive to that next step of financing. A 2010 Harvard report by Kerr, Lerner, and Schoar showed that angel-funded start-ups are more likely to survive, they're more likely to attract future investors, and they're more likely to show growth in website traffic and search ratings.

Do you think you might be ready for that step? Here's a rundown of what Angel Investors typically look for in business start-ups:

- Management team – Who are you? Who is on your team? Do you have the education, experience, skills, talents, professionalism, and tenacity to take your idea to the point of making a profitable business? Are there any key additions that will be needed?

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- Opportunity – What problem is your product or service going to solve? Is there any competition in this area, and if so, how do you compare? What is the unique selling point or advantage to your product or service? Do you already have customers who are expressing interest?
- Proof of concept – Do you have a working prototype of your product? If it's a service, can you demonstrate your ability to provide the service?
- Protection – If this is relevant, is your idea copyrighted or trademarked? Do you have a patent? Is your intellectual property safe?
- Marketing – Do you have a sales and marketing plan in place? Does it include PR, social media, e-commerce?
- Revenue – Is there potential for profit? Does market research show that your pricing is competitive, while maintaining a healthy profit margin?
- Scalability – Is there space in the market for you to grow? If you do grow, can you handle it? Do you have financial projections for at least the next two years?
- Exit and equity – How and when would the Angel recoup its investment? How long do you think it would take to get to that point? Are you on board with giving a percentage of ownership in exchange for funding?

If you have this list covered, you might be ready to take that next step. Keep an eye out for our next post on the best ways to find Angel Investors, and to make sure that you choose the right one(s) for you.