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Six rules to courting angel investors

By Ron Kitchens

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Hardly a day goes by that we at Southwest Michigan First don't speak to someone who needs funds to start or grow their businesses. In most cases they call us because they hear we can get them free money.

Well, like Big Foot or a Detroit Lions playoff game, free money for business is another urban legend. What we can help with is introductions to angel investors.

What most people that show up in our offices don't understand is what it takes to garner angel investors into their companies. There are six simple rules that will dramatically increase the successful conclusion of a deal.

1. Accreditation

The most important issue to be aware of is making sure that the potential investors you are speaking with are accredited. This means that they are wealthy enough to be able to afford to not get their money back if your deal goes south.

There are real and substantial penalties for you if you accept funds from the proverbial little old lady.

A great way to avoid this problem is to use a corporate finance attorney -- we have some fine ones in the community -- or to seek your funding through the established angel programs we have in the region, such as First Angels or Grand Angels.

2. Sophistication

When you recruit and accept funds from an angel investor you are asking for and getting more than just money -- you are also getting their experience and knowledge. This experience and knowledge goes beyond just finance -- in most cases these individuals have vast experience in operating and growing companies, and this experience is invaluable.

The upside of this is that you will be able to tap into knowledge and expertise that is far beyond your own. The downside is if you are a Lone Ranger, you are going to have to remember that even kemo sabe had his Tonto.

3. Time

Gaining funding through angel investors take time. These investors by and large do their own due diligence on your company and your proposal, so expect to be asked lots of questions.

Too many of those that cross through our door need funding immediately, and they believe that there are angel investors just waiting to save them. This simply is not the case because for every company that receives angel funding a hundred or so does not.

To be successful you have got to plan on investing lots of time.

4. Double

Angel investors don't just invest for a financial return, they are also looking for a double bottom line. Their double bottom line needs range, from wanting to mentor and to give back, to those who want to see their local community grow, to those who believe they can serve a greater charitable purpose by teaching the man to fish as opposed to just feeding him.

With this kind of passion from your investors, you must focus your proposals to them based on showing that you understand their double bottom line and that you will commit to match their passion.

5. Gather

One key to acquiring angel investors is to remember that in very few cases do they invest alone. Angels like to invest along side other angels.

As a company recruiting angel investors, remember to ask your potential new partners who they know who might be interested in your opportunity.

6. Woo

This point almost seems ridiculous to list, but remember you need the angels a whole lot more than they need you, so be nice. You are expected to believe in your company and to be confident in your abilities to deliver on your plan, but being positive and being arrogant are not the same.

Be nice.

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mailed business quote, go to SouthwestMichiganFirst.com and click on the free subscription link.

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