



8 Simple Rules for Dating an Angel

Keys for Entrepreneurs Courting Angel Money in 2005

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Over the past 5 years the world of Angel investing has changed dramatically. No longer is the Angel just some wealthy guy with a checkbook casually handing out small parcels of cash to individual entrepreneurs with an idea. Angel investing is serious business. While the Venture Capitalists may get all the glamour and press for funding startups, it's the Angel money that's really doing all the heavy lifting in fueling new ventures; Hands down. No comparison. It's not even close.

According to Venture Research and the National Venture Capital Association, Angels invested a staggering \$22 Billion in 48,000 new ventures during 2004. To put this in perspective, Venture Capital firms invested just under \$21 Billion, but only \$2.7 Billion of that money went into 608 first-round investments. It bears repeating: The entire United States Venture Capital industry funded merely 608 early-stage companies last year. Do a little math; Lottery tickets may be a more promising way to get funding than from VCs.

If you are an entrepreneur looking to Venture Capitalists for your first round, the Angels are probably looking mighty attractive right now. But before you dive head first into the dating and mating game of Angel funding – it is vital that you understand how the process has changed.

Since Angels have moved into the big leagues of startup financing, many of their issues and practices have become similar to their VC cousins. Investing is more formal; term-sheets are often as complex and as deep as their VC counterparts. And Angels are now less inclined to work solo – preferring now to form organizations. These Angel organizations are often structured similar to traditional venture firms, with more formal vetting processes, and even pooling their capital into organized funds. Angels are now participating in later-stage deals, even M&A. Clearly Angel Investors have evolved.

Angels have become the new VCs. More frequently Angels want ventures with revenues, profits and the potential to scale into something very big – often with the same levels of ROI the institutional VCs expect.



Yet for all this evolution – Angel investing is still largely an individual romance and courtship. Unlike a Venture firm, you are most likely trying to court the person who actual *has* the money – not a junior associate, intermediary or dispassionate professional fund manager.

So, you're an attractive entrepreneur with good prospects and a bright future. How do you snag a date with one of these Angels? Or even better, how do you "go all the way" and secure enough funding to launch your startup?

Here are 8 simple rules for dating the new breed of Angels:

Angel Dating Rule 1:

"Size matters"

How big you are today and how big you will be tomorrow are key factors to whether or not you are Angel dating material.

If your venture already has 40 people - even if you are the next Microsoft - the chances are, your venture will not be attractive to an Angel. There's probably too much baggage and history, and the impact Angel money can make on the outcome is minimal. A larger venture is like a rocket pointed at the moon; investment money is the fuel; and Angels parcel fuel out only gallon by gallon. Asking the Angel to pour in one gallon of fuel so the venture can get off the launch pad is a doomed strategy when a full tank is what is needed to get to the destination. Is it any wonder we use terms like "burn rate"?

On the other end of the spectrum, the guy who merely needs \$5,000 to open up a hot-dog stand is simply too small to be an attractive Angel investment. This is the equivalent of giving you a gallon of fuel so you can drive your motorbike back and forth down the block. The fuel is sufficient; the ride is fun; but there is no compelling end-reward for the guy who gave you the fuel.

Even the solo genius who needs \$100,000 to prove his concept is still a rare investment for the modern Angel. There are notable exceptions – but these are still exceptions to the rules.

Larger ventures are more the realm of professional Venture Capitalists, but the much smaller ventures - ideas that typically require either a leap of faith, a personal belief in the entrepreneur, or additional non-financial rewards to the investor - these are typically investments in the realm of "friends and family" money, university funding, corporate funding or SBA loans.



Entrepreneurs often fail to understand that there is a difference between a sustainable business and an attractive investment. Often they are not the same. Many great businesses are not good investments, and there were many great investments that made tons of money for investors that were not sustainable businesses – particularly during the “dot-com” era. Remember: Investors look for Investments.

Angel Dating Rule 2:

“Compatibility is always better than Convenience”

Common-interests, familiarity and trust always makes the courting process go much quicker; the same is true with Angels.

Life-sciences ventures should seek out life-science-savvy Angels, software ventures should seek out software Angels. When a semiconductor-entrepreneur courts a biotech-Angel, the motivation is as one-dimensional and obvious as Anna Nicole Smith dating Warren Buffett. In reality, the courtship process goes much more quickly with an Angel who has been in your industry for 20 years. There is nothing more discouraging to an entrepreneur to hear the prospective investor ask “what the different between Linux and the Web again?”, and realizing that it may be months before this Angel understands enough to make an informed decision.

Familiarity and trust usually go hand in hand. Younger entrepreneurs usually don’t enjoy global reputations that attract investors, so they must start “locally” by getting those who know their work to do the talking for them. One solid introduction to an Angel is worth a thousand elevator-pitches and networking events. Entrepreneurs should work as hard on developing their network as they do developing their idea.

While many entrepreneurs act as if the quality of the idea or profit potential is the key factor in winning the Angels check – 98% of the formula boils down to trust. You are asking the Angel to sign over a significant sum of their *personal* money – not funds from some faceless institution. Can you be trusted enough to execute on your plans? Are your plans really credible? Are you realistic and forthcoming?

Trust takes a long time to build and entrepreneurs usually don’t have that much time for a long courtship process. Instead, you must build “Trust by Proxy”, by working through people who know your work well, and getting them to reach out to Angels on your behalf. The Angel may not know or trust you, but knows and trusts your advocate, and this can be the catalyst for the deal. So, what is the most common form of “Trust by Proxy.”? It’s called your Advisory Board.



Angel Dating Rule 3:

“Speak the Languages”

Angels understand 2 languages, and you must be fluent in both.

The first Angel language is known as “4th grade English”, and you must be able to explain your idea and your business at this rudimentary, uncomplicated level. If you cannot explain your business or solution in a simple, straightforward pitch then you are just not ready for funding.

Technical jargon, acronyms or buzzwords mean you are overcompensating for an inadequate, um ...idea. There is a big difference between saying “*a process for mitigating proliferation of invasive bitrupian viral cellularatum in homosapiens using ISO-512 lipid inhibitors*” and saying “*a cure for cancer*”. The more complicated your initial pitch, the less experienced you seem.

Angels are not impressed with techie speak *unless* it is an industry they know deeply. Then you had better know what you are talking about because this is the *other* Angel language. Most likely the Angel is more fluent in this language than a post doctoral fellow from Stanford. Odds are he knows the industry better than you – not just the technology but the people, the business nuances and pitfalls - because this is where he has probably made his fortune. Don’t fake it: You’ll get turned down more quickly and more often than George Costanza at a supermodel convention.

So, to get anywhere with dating an Angel, you’ll need to work on your “pickup line”. Make it simple and intriguing. And understand that it will take weeks and even months of practice to get it right. No exceptions to this rule.

Angel Dating Rule 4:

“I need to know what my friends think ...”

“... and my friends need to come on the first few dates”

Angel investing is no longer a solo occupation. Angels flock. They meet, they talk, and they share information – and very often band together when investing. In fact the process of vetting investments is as much a social activity as it is a business activity.



Angel investing is much more than making a profit. The Angel's choice of investment says a lot about the credibility of the Angel to their fellow Angels, to their colleagues in the industry, and even to friends and family. No Angel wants to have to defend his choice or be embarrassed in front of friends and colleagues. Whether it is conscious, and whether any Angel admits it or not, this emotional element is by far the biggest determining factor in the decision process.

This is where entrepreneurs most frequently misunderstand the Angel courtship process. Just as in the dating world, no one wants to walk around with someone who is going to embarrass them in front of friends. And worse, very few want to date someone that a trusted friend has rejected – not at least without finding out why.

What does this mean for the entrepreneur? Convince the Angel's friends and you have a winner of a deal. Expect the Angel to constantly enlist the opinion of his or her colleagues. Take this as seriously as you would any other part of the negotiations. Know that colleagues are usually sent your way to find things wrong with your venture - not to find the things that are right. By design, friends and colleagues have hidden veto-power: All it takes is a missed phone call or a miscommunication. One objection or word of negative feedback from the Angel friend and it can be all over, and you'll never know why.

How *do* you convince the Angel's friends that your idea or solution is worthy of funding? The secret is that you shouldn't even try to convince. Your job is to demonstrate credibility. Instead, focus on your advisory board, your partners, your customers and colleagues – people in a position to know value of your solution, and by proxy they can vouch for your credibility. So your advisors, partners, customers and colleagues are the best ones who convince the Angel's friends – not you.

Angel Dating Rule 5:

“Just because you're Good-Looking Doesn't Mean we'll Go All-The-Way”

In a singles-bar, there are people you flirt with, and those you bring home to mom.

Most Angels will talk to any venture that looks sexy just because it's interesting to learn about supermodel-cloning, anti-gravity sneakers or personal nuclear reactors. It doesn't cost them anything for this education, and they will sound smart and savvy at cocktail parties later when impressing friends. But being sexy isn't enough anymore.



Many entrepreneurs were fooled by the “free love” days of the dotcom boom, where sexy ventures got funded regardless of the fundamentals. Today, it’s back to being about a solid product, market, and business model, a viable deal, and a good match.

But for the entrepreneur, there is another subtle danger with this rule that most never ever realize: You may end up in “putting the investor in the mood” – and then encourage them to go home with someone else.

How? Say you have sexy idea - a telepathic search engine - and you really turn the investor on to the size of the potential market and overall opportunity. But you have a flakey team, a bad pitch, and maybe you want to put 40 people on the payroll overnight, or there is some other flaw in the deal. You have just gotten the investor excited about the market and have turned them off to your company. So now they will be on the lookout for a similar and more viable opportunity. In other words – you have motivated the Angel to fund your competitor, with enthusiasm.

Angel Dating Rule 6:

“Have the Body to Match the Outfit”

Have you ever seen those sexy hip-riding, midriff-baring jeans on a guy or gal with their belly hanging out? It’s embarrassing to watch and it’s a real turn-off.

This sight is about as embarrassing as listening to an entrepreneur talk a big game in an attempt to seduce the Angel– only to see the flaws protruding like a pot belly.

This is most obvious are when the entrepreneur says:

- “everyone in the world needs one”,
- “we don’t really have any competition”
- “we only need \$20,000 and will make \$1 Billion in two years ...”

These lines tell the Angel that you were too lazy to do your homework, or worse, that you have a blind-eye to reality.

But the more subtle lies come from the entrepreneur trying to avoid talking about gaps and validation: Those inevitable messy inconsistencies in the management team, development status, and particularly with customer-acceptance. The entrepreneur seems to think everything needs to be perfect, and thus falls into the trap of trying to gloss-over flaws – which forever damages their credibility and any trust from the Angel.



Here are some examples:

- “We’re about to sign a major deal with ...XYZ Fortune-500 company “
Translation: We talked to some guy whose uncle is a middle manager at XYZ, and he said, “Send more information”
- “We expect to roll out the product commercially in a couple of weeks”
Translation: Our prototype might stop exploding next month
- “We have a top tier advisory board”
Translation: We managed to get a few VPs to lend their name to our venture, but there’s no way in hell they will involve anyone in their own network.
- “Our series A round is oversubscribed”
Translation: We’re broke and haven’t raised a dime.

There is no need to hide the flaws. An early stage venture is supposed to have them, and there is nothing wrong with saying “we don’t know that yet” – or “yes, this is something we hope to improve once we get another engineer aboard.”

Angel Dating Rule 7:

“Don’t expect anything on the first date”

... And probably not on the 2nd, 3rd or 4th dates either.

James Bond merely winks at Halle Berry and they end up in bed; but trust me it doesn’t happen to most of us in real-life. Just because you read about an entrepreneur who got a \$250,000 check after the first 10 minutes doesn’t mean it is going to happen to you.

You might get lucky if the mood is right, but don’t count on it. It will take time for the deal to go through. Each meeting might take a week to arrange, or longer if other parties (colleagues, lawyers) need to be involved. Entrepreneurs – particularly engineers - just cannot understand why it takes so long.



For the engineer-turned-entrepreneur, I offer the following formula to calculate how long it will take to close a funding deal:

$$D = (C * I * T) * F / (50,000) * L^2 * O$$

D = Duration, in weeks, for the deal to close and get your check.

C = number of the Angel's Colleagues needed to help validate the deal

I = number of Investors in the round

F = amount of Funding in the round

T = level of complexity of Technology (1-5)

L = number of Lawyers involved

O = Number of Other deals the investors are working on

OK. It's a rough formula, not yet ready for the Nobel Prize committee, but at least you get the message – there are a lot of factors that can slow down the deal. When you are aware of the factors, you can at least start to make some attempt to manage them – or at least manage your expectations.

Angel Dating Rule 8:

“The One You Date May Not Be the One You Marry”

“... but they may be friends with your future spouse.”

This may be the most important rule or “secret” that the entrepreneur needs to know, and most of the other rules are wrapped up in this one.

As stated earlier, Angels now tend to organize and socialize. Spending time on an Angel is never wasted. He or she might see the value of your idea or business but turn you down because of a variety of factors that have nothing to do with you or your idea. If the Angel is excited or intrigued with your venture – *then this Angel becomes your advocate*, and can get the *right* Angel involved.

So where's the secret? It's in your pitch: Your “pitch” should be clear enough so that the Angel can *repeat* it to another Angel, period. Every entrepreneur attempts cram enough information into the initial pitch because he wants the Angel to *understand* the technology, the potential etc. At best, you will overwhelm the Angel (who has to listen to another 12 pitches that day), and at worse you will provide just enough confusion so the Angel explains your idea *badly* to the next Angel – who could have been the right Angel.

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If you hone your pitch such that the Angel can repeat it with just enough simplicity, clarity and accuracy to a colleague, then you will have created a the most powerful advocate you can have for your company's funding – an Angel !. And there lies the secret.

Angel Investors, particularly this new breed of organized Angels, are rapidly replacing venture capitalists as the most common and most viable type of first-round funding for new ventures. Angels will continue to evolve, and so will the rules.

For Entrepreneurs, these are just some of the more subtle rules of engagement. These rules are important, but as always the fundamentals need to be there first: A big market, a unique and defensible product, a solid business model and experienced management. But if the entrepreneur has a better grasp of the rules on how to court the Angels, then he can grasp a portion of the \$22 Billion funding pie without having to rely on Venture Capital lottery tickets.

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