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Subject: ENTREPRENEURSHIP EVELOPMENT

UNIT -II

TEACHER: DR B.CHANDRA

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TOPIC: The concept, role and functions of angel investors

**ANGEL INVESTOR**

**Concept, Role and functions of Angel Investor**

Originally a term used to describe investors in Broadway shows, "angel" now refers to anyone who invests his or her money in an entrepreneurial company (unlike institutional venture capitalists, who invest other people's money). Angel investing has soared in recent years as a growing number of individuals seek better returns on their money than they can get from traditional investment vehicles

Angels come in two varieties: those you know and those you don't know. They may include professionals such as doctors and lawyers; business associates such as executives, suppliers and customers; and even other entrepreneurs. Unlike venture capitalists and bankers, many angels are not motivated solely by profit. Particularly if your angel is a current or former entrepreneur, he or she may be motivated as much by the enjoyment of helping a young business succeed as by the money he or she stands to gain. Angels are more likely than venture capitalists to be persuaded by an entrepreneur's drive to succeed, persistence and mental discipline.

Angel investors vary widely, but they are typically willing to accept risk and demand little or no control in return for the chance to own a piece of a business that may be valuable someday. Angels can be classified into two groups: ***affiliated and nonaffiliated***. An affiliated angel is someone who has some sort of contact with you or your business but is not necessarily related to or acquainted with you. A nonaffiliated angel has no connection with either you or your business. It makes sense to start your investor search by seeking an affiliated angel since he or she is already familiar with you or your business and has a vested interest in the relationship. Begin by jotting down names of people who might fit the category of ***affiliated angel:***

**1. Professionals:** These include professional providers of services you now use--doctors, dentists, lawyers, accountants and so on. You know these people, so an appointment should be easy to arrange. Professionals usually have discretionary income available to invest in outside projects, and if they're not interested, they may be able to recommend a colleague who is.

**Business associates**: These are people you come in contact with during the normal course of your business day. They can be divided into four subgroups:

1. Suppliers/vendors. The owners of companies who supply your inventory and other needs have a vital interest in your company's success and make excellent angels. A supplier's investment may not come in the form of cash but in the form of better payment terms or cheaper prices. Suppliers might even use their credit to help you get a loan.

2. Customers. These are especially good contacts if they use your product or service to make or sell their own goods. List all the customers with whom you have this sort of business relationship.

3. Employees. Some of your key employees might be sitting on unused equity in their homes that would make excellent collateral for a business loan to your business. There's no greater incentive to an employee than to share ownership in the company for which he or she works.

4. Competitors. These include owners of similar companies you don't directly compete with. If a competitor is doing business in another part of the country and doesn't infringe on your territory, he or she may be an empathetic investor and may share not only capital, but information as well.

***The nonaffiliated angel category includes:***

Professionals: This group can include lawyers, accountants, consultants and brokers whom you don't know personally or do business with.

Middle managers: Angels in middle management positions start investing in small businesses for two major reasons--either they're bored with their jobs and are looking for outside interests, or they're nearing retirement or fear they're being phased out.

Entrepreneurs: These angels are (or have been) successful in their own businesses and like investing in other entrepreneurial ventures. Entrepreneurs who are familiar with your industry make excellent investors.

Approaching affiliated angels is simply a matter of calling to make an appointment. To look for nonaffiliated angels, try these proven methods:

Advertising - The business opportunity section of your local newspaper or The Wall Street Journal is an excellent place to advertise for investors. Classified advertising is inexpensive, simple, quick and effective.

Business brokers - Business brokers know hundreds of people with money who are interested in buying businesses. Even though you don't want to sell your business, you might be willing to sell part of it. Since many brokers aren't open to the idea of their clients buying just part of a business, you might have to use some persuasion to get the broker to give you contact names. You'll find a list of local business brokers in the Yellow Pages under "Business Brokers."

Networking - Attending local venture capital group meetings and other business associations to make contacts is a time-consuming approach but can be effective. Most newspapers contain an events calendar that lists when and where these types of meetings take place.

Intermediaries - These are firms that find angels for entrepreneurial companies. They're usually called "boutique investment bankers." This means they are small firms that focus primarily on small financing deals. These firms typically charge a percentage of the amount of money they raise for you. Ask your lawyer or accountant for the name of a reputable firm in your area.

Angels tend to find most of their investment opportunities through friends and business associates, so whatever method you use to search for angels, it's also important to spread the word. Tell your professional advisors and people you meet at networking events, or anyone who could be a good source of referrals, that you're looking for investment capital. You never know what kind of people they know.

India is one of the fastest growing economies in the world, drawing the attention of many international investors. Whereas the Silicon Valley boom of the 1990s forced Indian entrepreneurs in the technology and science industries to flock to America to start companies and accrue funding, now, private investors who’ve had success in markets like America and the UK are looking to India to find their next great investment. For example, the founders of Google and Yahoo! actively seek out investment opportunities in India. Even lesser known angel investors - wealthy individuals who invest smaller amounts of money at the start-up level - have taken an interest in India’s growing number of entrepreneurs, providing them not only with start-up capital, but also with their business knowledge and networks from previous investments. In turn, these new businesses promote more business, which attracts more investors from abroad, creating more jobs and stimulating the economy throughout India. Some of the more popular Indian industries for angel investment include information technology, pharmaceuticals, crafts and apparel. But with the help of Indian Investment network, our investors are finding opportunities to invest in fields as broad as gaming, travel and manufacturing, and our Indian entrepreneurs are given the initial footing to jumpstart their businesses and revitalize their economy.

While venture capitalists have been taking an interest in India’s thriving investment market for more than a decade by providing large sums of money to companies with proven growth potential, entrepreneurs at the start-up phase weren’t given as many financing options until recently. Business angels, or wealthy individuals who invest their own funds, are a relatively new phenomenon in India, especially in comparison to America, where a large number of entrepreneurs turn to these private investors at the beginning stages of business development.

Business angels are willing to take risks that venture capitalists won’t - being that the amount of money invested is smaller and covers initial marketing, operating and production costs and salaries. In return, business angels expect a 10 to 30% return on their investment, usually over a five to seven year period.

Entrepreneurs in India have also experienced greater rewards from their “angel” relationships outside of financing. Some are mentored for more than a year by business angels before their company is up and operating, and many business angels continue to play a supporting role - providing them with contacts and business advice, sometimes participating in day-to-day operations - until they exit the company.

Other investment angels, however, want no active role in the management of the company and strictly view the relationship from a financial standpoint. It is up to the entrepreneur and business angel to agree upon the structure and boundaries of their relationship. The Indian Investment Network helps entrepreneurs and investors find the partnership and structure that they are looking for.

Angel Groups are starting to make a presence in the Indian investment market, with angel investors from around the country looking to collaborate on potential investment opportunities. A few years ago angel investment was regarded as something that only existed in the US and Western Europe, and as a result many people emigrated from India with their ideas and skill set to set up their business in a more open economy. A few success stories later, many of them have come back to India, where they have learned that the Indian economy is much more potent and investment friendly than before. Considered one of the fastest growing economies in the world, India offers a great opportunity for angel investors to take that risk in order to potentially generate huge returns. Many investors also have contacts around the world that can help entrepreneurial start-ups get noticed faster.