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## Chasing the New Angel Investors

*Entrepreneurs Find They Need More Than a 'Great Idea' When Pitching to Potential Backers*

By **ANGUS LOTEN**

Budding entrepreneur Eric Bolden had never met an angel investor until he tried pitching a business idea to a few of them.



Angus Loten/The Wall Street Journal

Katherine O'Neill of JumpStart New Jersey Angel Network, listened to a pitch by an entrepreneur at a networking event last week in New York.

Last week, the retired prison guard showed up at a midtown New York loft for an event that connects entrepreneurs with investors to see whether he might get, say, \$50,000, from the angels—wealthy individuals who provide capital to start-ups with the potential for fast growth.

Mr. Bolden, dressed in a suit and tie, took to the microphone for a two-minute pitch, clutching his crumpled notes of the key selling points for his idea—a police handgun identification signal, complete with a flashing alert. The proposed device is meant to protect plain-clothes officers from friendly fire.

Angel funding has become increasingly available to entrepreneurs like Mr. Bolden, whose product ideas are in the earliest stages.

Of the \$8.9 billion in total investments by angels in the first half of this year, 39% went into seed and start-up ventures, up from 26% of \$8.5 billion in total investments over the same period in 2010, according to data from the University of New Hampshire's Center for Venture

Research.

The number of businesses overall that received angel funding over the first half of the year increased 4.4%, compared to the same period a year ago, with the average angel investment measured at \$338,400 per start-up, according to the data. Jeffrey Sohl, director of the Center for

Venture Research, says he expects start-up investing by angels to remain solid in 2012.

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**More****Cloudy Funding Forecast Ahead For Start-Ups**

The 48-year-old New Yorker has sunk more than \$60,000 of his savings into building a prototype of his police handgun signal—a concept that came to him two years ago after an off-duty cop was shot dead by fellow officers while pursuing a robbery suspect.

"I thought I could walk in there with a great idea and someone would write a check," Mr. Bolden said after making his presentation last week.

But, as Mr. Bolden is discovering, many angels are more demanding than they were before the recession.

"If you don't have any skin in the game, how can you expect angels to put up their own money," says Katherine O'Neill, executive director of JumpStart New Jersey Angel Network, who attended the networking event last week. She wasn't particularly impressed with any of the pitches she heard, she says, because she thought the business plans seemed "pretty unformed."

David Freschman, founder of the ARC Angel Fund, says angels are now more likely to ask founders and entrepreneurs to provide them with prototypes of fledgling products, beta-tested websites and extensive market research.

One possible factor driving angels' greater diligence is the rise of angel alliances, with individuals banding together to invest in start-ups to spread the risk.

Between 10,000 and 15,000 angels are believed to belong to angel groups in the U.S., which spread risk around by syndicating deals between members, according to the Angel Capital Association. The Overland, Kan.-based trade group says the number of angel groups has tripled since 1999.

The group-investor approach often results in a more formal review process because potentially dozens of people have to review and discuss the possible risks and rewards, Ms. O'Neill adds.

Another potential factor: an understanding among angels that venture capital remains very hard to come by for midstage companies.

Without this venture capital funding down the road, it could be more difficult for an angel-funded start-up to ever become profitable, or to be viewed as an attractive acquisition target by a larger company, many angel investors say. "You don't want to build a bridge to nowhere," says Josh Lerner, who teaches finance and entrepreneurial management at Harvard Business School.

In response to angels' increased scrutiny, many entrepreneurs say they are spending substantial amounts of time and money on tools, props and research that could help demonstrate the viability of their ideas in the marketplace.

"There's far more scrutiny now," says Max Belenitsky, an entrepreneur who spent the past two years trying to get investors to notice his Text-A-Cab smart-phone reservation system for taxis and limousines.

A former vice president at Goldman Sachs Group Inc., he says he raised \$100,000 from friends and family and now needs as much as \$500,000 for further development and marketing costs to "flip the switch" and take payments from customers on the website.

"They want to see implementation," he says of potential angel investors. "They want to see the first 1,000 users [of the website] and how revenue is generated."

Liza Deyrmenjian, the founder of ShopToko.com, an online fashion and accessories wholesaler for independent retailers, says prospective angel investors in her company have asked for a breakdown of all the recent transactions on the site, as well as specifics on her target market and other data. After raising \$250,000 from friends and family to get her site up and running in October, she is now seeking an additional \$1.5 million to scale up and reach more retailers.

"They want to see a business that is up and running," she says.

To be sure, there's a chance that angel investors could lose their heightened appetite for investing in start-ups.

About 58% of venture capital professionals say they expect there to be an overall shortage in seed or early-stage funding in 2012, according to a new survey from the National Venture Capital Association and Dow Jones & Co. Dow Jones owns also The Wall Street Journal. Venture capitals are institutional investing funds.

Of course, many seasoned entrepreneurs with proven track records are and will remain able to get funding with little more than a back-of-the-envelope, or informal, pitch, angel investors say.

Mr. Bolden says he is polishing his pitch. He is currently developing a website that he hopes may help to lure angel investors, including those outside of New York. The site will show video demonstrations of how the gun signal works.

Building it may cost him another few thousand dollars at the very least, he says.

—Zoran Basich contributed to this article.

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