

Angel financing

Business



These individuals invest personal funds in start-up companies. Angel funding differs sharply with venture capital because of the owners of capital at their disposal. Venture firms use pools of funds which are not their personal wealth, they could be from companies, partnership or other sources but not individual. Angels, on the other hand, invest their own funds in worthy businesses. Angels are entrepreneurs themselves, high affluent individuals who reach out to their kind. The success of angel financing of start-ups is evident.

A study by the University of New Hampshire indicates that angel finance amount to over 25 billion USD in 2006, increasing by over 10% from the previous year. Studies at Harvard University also indicate that companies securing finances through angels are less likely to fail with a majority doing excellently well (Field, 2007). However, angels do not invest blindly either, most of them being entrepreneurs; they are in search of an exceptional entrepreneur with an equally exceptional idea and spirit. They are quick to note the level of passion and commitment of the entrepreneur in the company. The Financial Post research indicates that, no angel will finance the company that the entrepreneur is not risking money. He must contribute to answer the angel's question; ' how much are you risking that I may risk with you too?' Recalling that, angels look for entrepreneurs who believe in their business and ideas (Lahn et al, 2005).

There are numerous angel clubs coming up nowadays. Locate one present your proposal and make a follow up. In the follow up occasions, a proposal is beneficial. Researchers argue that this is the entrepreneur's chance of demonstrating passion and commitment to the idea. The presentation should

arouse an aroma of success and the entrepreneur's centrality in the success of the company should come out clearly. The presentation phase is crucial, and the entrepreneur needs to anticipate possible questions and prepare answers beforehand.

Studies also indicate that angels rarely finance 'feel good products'; they want a presentation of solution driven business, a product that the society cannot live without (Long, 2004). According to a study by Kauffman Foundation, the internal rate of return to angels is at 27%. The study also indicates a direct correlation of performance of the company and exercise of due diligence, high industry expertise, and follow on investing and angel's participation. There is also a significant drift of angel's perspective of new startups. They are beginning to adopt ethical financing and later stage favoritism in comparison to start-ups. However, numerous studies conclude that angel's financing remains the best in financing start-up companies due to few conditions and constant angel presence (Wiltbank & Willamette, 2007).

Fellowships and Foundation Awards There is a sense of preoccupation of key financing institutions with socially and environmentally responsible ventures. Entrepreneurs with a company proposal addressing social or environmental challenges may apply and receive these grants to finance their start-up capital. The application is competitive and challenging in which grants are on merit (Highlands Capital Partners, 2012). **Banking Sector** This remains the oldest and most sought after source of finance in financing start-up companies. There is emphatic literature stating the unlikelihood of a start-up company receipt of funding from a bank.

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They are traditional in approach, considering the availability of valuable assets to secure loans. Banks are also unlikely to finance companies that have been operating for less than 2 years. They do not consider the future returns and will not bother of the exceptionality of the idea. Mostly, they will apply a margin, demanding a security of higher value than the loan. Clearly, they are not among the best options in financing a majority of start-up companies. It is alarming to note that banks are also likely to demand security even in loans guaranteed by the government under SBA.

The traditional aspect of banking institutions of looking at the ability to repay alone is the biggest undoing in the entrepreneur-bank affair (Lahn et al, 2005). Capital Markets According to Business Asia, the term refers to the market segment where, trading of long-term fund occurs. Shares and debentures are the principal instruments at this market; it takes place in the new issue market for start-up companies. The contributors of funds acquire a ratio of ownership. However, studies indicate that this method is not hugely popular in financing start-up companies.

Partly it is due to reason that few entrepreneurs are akin to the long regulatory procedures. There are also substantial costs associated with this processing of going public. It is imperative to note also that small start-ups may not have matured to the scale of trading debt or equity at the capital market. There could be chances of irrecoverable costs since the shares are likely to fetch little. Investors have little confidence and low rating of start-ups (Business Asia, 2008).

Foreign Sources In the event, if the country encourages the flow of foreign funds, then sources of financing start-up companies could exceed countries borders. Specific companies with an international or global perspective are likely to benefit. Business Asia indicates that the government can collaborate with foreigners in channeling these funds. International financial institutions such as the IMF and World Bank have kitties from which start-up companies can borrow (Galbraith, 2009). There are numerous sources of finances for start-up companies, each of which has its advantages and cost ramifications.

However, any review of literature in this enormous field must stay alive to the actors shaping the funding of startups. The ethical, sufficient and environmental considerations must indicate departure from the norm, and call upon dedication of more scholarly work towards this endeavor (Hosmer, 2009).