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Investing in the Net: The Angels

by Pamela Weintraub

Back in May of 1995, Stefanie Symon and Steven Johnson worked in separate apartments on the incisive new Webzine called Feed.com. Published on the Internet and devoted, among other things, to the digital revolution, the site distinguished itself from the crowd. Now, among the handful of cultural Webzines with a shot at commercial success, Feed.com is a contender.

But Feed did not keep running on boundless energy alone. It was fueled at first by some \$70,000 in funds, mostly from Johnson's family and, later, from a series of small investors who threw over \$100,000 into the pot. Finally, this June, Symon and Johnson presented their product and plan to an "Angel Breakfast" organized by the New York New Media Association. As a result of that meeting and other connections, says Symon, Feed.com raised an additional \$250,000, providing funds for an ad sales person, extra editorial content and a real chance at seeing profit by 1998.

For entrepreneurs like Symon, angels can help pave the path to success. Indeed, most Internet start-ups do not require venture capital, defined as investments of \$1.5 million or more. "Venture funds must invest large amounts and maintain a hands-on role in their businesses in order to see their profit," explains Janet Stites, publisher of Alleycat News, a newsletter for Internet investors.

"Therefore, they cannot spread their money too thin. Generally, venture capitalists would like to invest \$3 million or more. This means that start-ups must look to angels for money to grow."

Finding Your Guardian Angel

According to Stites, finding an angel investor often hinges on who you know. "You are most likely to get money from friends and family -- or from those who went to your school. Those who have MBAs can have the best connections of all," notes Stites, who hopes to help nurture relationships between angels and entrepreneurs through her company, Alleycat Information Sciences. "Since I'm from Chattanooga, Tennessee, and went to Syracuse, this is bad news for me."

Still, as the Internet matures and the need for angel funding grows, organized programs have emerged. New York New Media Association sponsors monthly breakfasts for entrepreneurs -- like Feed.com -- who can present their business plans to a group of interested investors from the financial and Internet worlds. In California's Silicon Alley, the Band of Angels listens to presentations from technology companies on the second and third Wednesday of each month; the Band, a group of some 50 deep-pocket millionaires, invests at least \$50,000 each in fledgling companies they agree to support.

Yet other companies, known as "new-age angels," have begun to emerge. In Silicon Alley, firms like Los Altos-based Aspen Ventures and Novus in Cupertino generally contain about two to four partners and provide larger angel investments from their multimillion-dollar funds. Indeed, as venture firms seek to invest increasingly larger funds, the new-age angels willing to invest anywhere from \$500,000 to \$1.5 million fill an important void.

Stites and her partner, Alleycat Editor Anna Wheatley, meanwhile, hope to find angels outside the corporate and new media worlds. "We'd like to establish a program where those in the fashion industry can invest in fashion-relation Web sites, and those in traditional publishing can invest in content Web sites." Until Alleycat's organized program gets under way, Stites advises, entrepreneurs should look to corporate investors on

their own.

Stairway to Heaven

But locating investors is just the first step. If you're seeking funds from strangers instead of your dad, you need a great idea, superior management and a spit-shined business plan to get ahead.

Some of the best advice comes from New York-based Robert Lessin, a vice chairman of Salomon Smith Barney and a member of the firm's board of directors. In his spare time, Lessin has another passion -- he's one of the premier angel investors in the U.S. today.

"Before I invest in a company," says Lessin, "I look at the management team. They must be so motivated they will survive or perish on the success of their company. I hate capital intensity -- if someone spends 90 percent of their time begging for money, I don't want to give them mine. I love variable cost -- companies that can outsource work so that when need is less the expense goes down. I want ongoing revenue streams -- companies that depend on one-time sales are not for me -- and I would like to see multiple revenue streams as well. I want details about the back end. What will the operation be like, and how will fulfillment work? And, I would like companies to propose at least two exit plans -- one might be an initial public offering and the other, sale."

Finally, Lessin tends to invest in those who demonstrate humility. "All plans will change, that is a given," he says. "Is management flexible enough to adjust when needed, to admit their direction might be wrong?"

Lessin has invested in companies with these qualities all over the map. From Bankrate Monitor, a group that reports on lending rates, to College Enterprises, an outsourcer of university course material, to Third Age, a content site that caters to seniors, he has covered all the bases, he says, hedging his bets.

Why does he do it? His answer reveals that, in many ways, the angel investor and the entrepreneur who forgoes a lucrative job to build a business may

be spiritual twins. "Of course it would be easier if I focused on later stage deals," he says. "But this is more challenging for me. I'm always learning something. After spending twenty years on top, I have the chance to help others, and to provide them with access to contacts and financial talent they would not otherwise have."

Pamela Weintraub is Editor-in-Chief of OMNI.

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