Where does angel investing fit?

### Stage of Opportunity

<table>
<thead>
<tr>
<th>Capital Sources</th>
<th>R&amp;D</th>
<th>Startup</th>
<th>Early Growth</th>
<th>Late Growth</th>
<th>Exit &amp; Long term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mortgage, Cash, Credit</td>
<td>Under $250K</td>
<td>$50,000 to $1m</td>
<td>$1M and up</td>
<td>$1M and up</td>
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<td>2. Friendly Sources</td>
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<td>3. Angel Investors</td>
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<td>4. Venture capital</td>
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<td>5. Alliances &amp; Partnerships</td>
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MARGIN$ ON SALES

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**WILLAMETTE UNIVERSITY**

The First University in the West
Some traditional management practices can have unintended consequences.

**Extreme financial commitments and monitoring.**
Limits the extent to which goals can emerge and new opportunities can be pursued.

**Focus on complex financial incentive contracts.**
May undermine deeper advisory relationships that support investors’ endogeneity.

**Emphasis on predicted values and positioning.**
Increases the costs of being wrong, and requires significant effort to generate, distracting from other activities.
Distribution of Returns by Venture Investment

UK: Overall Multiple: 2.2X
Holding Period: 3.6 years
Approx 22% IRR

US: Overall Multiple: 2.6X
Holding Period: 3.5 years
Approx 27% IRR

Red Bars: U.K. % of exits in that Category
Blue bars: U.S. % of exits in that Category
Venture Capital Involvement

35% of deals took on VC investment at some point
What makes a Great Opportunity?

**Masters**

- **Feasible** - Can it actually be done? By YOU?
- **Reachable** - Can you effectively communicate with people who care?
- **Valuable** - Does it increase the wealth & happiness for them AND you?

**Doctorate**

- **Scalable** - The first time is easy, can you do it at pace? X 1 million?
- **Durable** - When you succeed, can you withstand competitive & technology pressure?
- **Saleable** - Are there options to sell the business to other active investors & players?

This is a Design/Re-Design Challenge
Things to watch out for

Masters


Reachable - Cost of customer acquisition.  Fragmentation.  Apathy.


Doctorate

Scalable - $/Time?  Sources of talent?  Existing comparables?  Advantages to scale?

Durable - Fads, Technology, and Regulation.  Barriers to Entry.  Relationships?

Saleable - Is there other relevant IPO & acquisition activity?  Why you & why them?
Lessons in Pain

Government is not an ideal customer
Avoid single sale products
Simple = easy to imitate
Apathy is often your biggest competitor

On margins: design for multiples not percentages
   They only go down

Early $$ + late Yes’s = Bad (i.e. restaurants)

Price and Cost are from different planets.
   Value pricing NOT cost plus

Sales Cycle + Engineering Cycle
Both new means AND new goals are changes in constraints
Entrepreneurial Decision Making

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<th>Tactics for Control</th>
<th>Tactics for Prediction</th>
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</table>
| **1. Where to Start** | **Assess Your Means.** Take action based on what you have available:  
* Who I am  
* What I know  
* Whom I know  
Example: I have person A, I can achieve X, Y, or Z | **Set a Goal.** Goals determine actions. For example, the goal of achieving X, will dictate I need person A with skills matched to X. |
| **2. Risk, Return and Resources** | **Set Affordable Loss.** Pursue interesting opportunities without investing more resources than you can afford to lose. Set a limit on downside potential. | **Calculate Expected Return.** Pursue the (risk adjusted) largest opportunity and accumulate required resources. Maximize upside potential. |
| **3. Attitude Toward Outsiders** | **Form Partnerships.** Grow. Strategy is created jointly through partnerships to create new opportunities. | **Perform Competitive Analysis.** Protect. Strategy is driven by potential competitive threats. |
| **4. Contingency** | **Leverage Contingencies.** Surprises are good. New developments encourage imaginative re-thinking of possibilities and continual transformations of targets. | **Avoid Contingencies.** Surprises are bad. Contingencies are managed by careful planning and focus on targets. |
| **5. Approach** | **Transformative.** The future as shaped (at least partially) by actions of all players. Prediction is neither easy nor useful. | **Predictive.** The future is a reliable continuation of the past. Accurate prediction is possible and useful. |
Effectual Design Principles

**Affordable**
- Get to Yes’s for FREE

**Loss**
- Set limits on capital and time
- Cover gaps with resources from others

**Committed**
- NO type II errors

**Partnerships**
- If no pre-commitments, no path.
- Co-Create Opportunities, persuade & be persuaded

**Leverage**
- Surprises are opportunities

**Contingency**
- Yes’s are both positive feedback AND new means
- Learn from No’s, experiment, and be glad you aren’t $10M in