

What are angel investors, and when are they right for your early-stage business?

So, you've started your own business. You have an amazing business idea that you're excited and passionate about, and that's still in the early stages, but you know it's going to take off. But there's one thing you need to take your business to the next level – investment.

Funding a new business is one of the hardest challenges to tackle as a startup founder.

You could try getting a loan from the bank, but they're not always willing to invest in small businesses. So what do you do? Well, angel investors may be the answer. But what is an angel investor, and how does this funding work? Furthermore, how do you know if an angel investor is right for your business? Read on for everything you need to know about angel investors and when they might be right for you.

Who are angel investors, and what do

they do?

An angel investor is an individual who provides financial backing for small businesses and startups. They are usually high-net-worth individuals who have made their money in other ventures and are now looking to invest that money in promising early-stage businesses. Angel investors typically invest their personal funds rather than using money from a fund or institution.

They're called angel investors because they're often seen as saviours to businesses struggling to secure funding. They usually invest early when a business is too small to attract attention from venture capitalists but has potential for high growth.

This means you don't usually need an already incorporated business to seek out angel investors. In fact, they can even provide guidance in terms of the best type of company, the fees involved in filing an LLC or another type of business, and more.

The pros and cons of getting an angel investment

Before you approach an angel investor, it's important to understand the pros and cons of this type of funding.

PROS

You don't need a pristine credit history: angel investors aren't like banks. They won't do a credit check on you to see if you're a risky investment or not. They're interested in your idea and how you plan to make it a reality.

They usually demand less equity than venture capitalists: while angel investors will take a chunk of your company in exchange for funding, they won't usually require becoming the majority shareholders, which sometimes does happen with venture capitalists.

They can provide invaluable mentorship and guidance: in addition to funding, angel investors can also provide valuable mentorship and guidance to help you grow your business. Many angels are experienced entrepreneurs themselves, and when they invest in your company, their main concern is seeing it grow and succeed because that's more money in their pocket. Therefore, they'll put all their knowledge, experience and network on the table for your company's benefit.

Funding comes fast and with little paperwork: again, angel investors aren't

interested in bureaucratic processes that take ages. They'll whip up a well-crafted contract, and, after agreeing to it and signing it, you'll get your money and will be able to get to work.

They don't require you to make monthly payments: unlike bank loans, you won't have to set payments aside every month. Angel investors don't get paid that way.

You may easily get more funding in the future: one of the ways angel investors get paid is when the company receives more funding in the future. Therefore, they'll likely use their influence and network to help you in future funding rounds.

All businesses are eligible: although many angel investors put their money in new tech companies that have the potential to skyrocket quickly, they'll invest in any industry as long as the idea and business model seem promising enough.

They won't charge you interest: this makes it a safer choice for funding, especially in early-stage startups.

You won't be required to put up collateral: because angel investors are individuals, they don't require you to put up personal assets as collateral for the loan like a bank would.

CONS

You might have to give up a lot of equity: while angel investors usually don't require majority ownership, they will still want a sizeable chunk of your company.

Your business must have high growth potential: because angels are investing their own funds, they will want to see a return on their investment as quickly as possible.

You'll likely be able to raise less than through venture capitalist firms: even though they are high-net-worth individuals, angel investors' funds are not only limited, but they won't want to put all their eggs in one basket, limiting the total amount you're likely to raise through this type of funding.

Founders tend to lose control of their business: because they have to give up equity or offer an option to convert debt into equity in the future, startup founders usually lose a part of their freedom to run their business however they see fit.

When is the right time for a startup or early-stage business to seek funding from an angel investor?

The answer to this question depends on several factors, including the amount of money you need to raise, the stage your business is at, and your circumstances. One of the key benefits of seeking out an angel investor is that they're usually willing to invest in businesses very early on. You may be able to secure angel investment even if all you have is an idea but lack the funds to get started.

On the other hand, it's much easier to find funding once you at least have a clear idea, business plan and even a working product or service to show. If you're just starting, it might be best to bootstrap your company using your own savings or money from friends and family and only seek out an angel investor once you have a clearer view of what you need to finish getting your business off the ground. You may also look for people who provide startup consulting to point you out in the right direction and validate ideas.

Unless you're an experienced entrepreneur, you won't have an accurate enough idea of the real costs of launching a successful business when you're just starting out. But once you've invested in the research and development of your product or service and have already gone through some of the hoops related to finding suppliers and setting up your supply chain in general, you'll be much better prepared to face an inquisitive angel investor who will want to know exactly how much money you need and how you plan to spend that money.

How to find angel investors

There are numerous ways to find angel investors, but the most common is through networking. This means going to startup events, pitching your business idea to anyone interested, and joining relevant online communities related to startups and entrepreneurship.

Another great way to find potential angel investors is through online platforms such as AngelList, Angel Capital Association and Gust, to name a few. Social media can also be a good place to find investors. If you're active on Twitter or LinkedIn and have an attractive, credible and well-crafted company profile, you may be able to reach out to investors successfully.

Not only will this give you a chance to test your business idea and see if there's

a market for it, but you might also be able to attract the attention of high-profile investors who are actively looking for new and innovative projects to invest in.

Pro tip: It's important to vet new potential investors.

An important thing to remember is that you shouldn't jump in blindly at the sight of money. You need to choose your angel investors wisely. You should look for investors with experience in your business's field and a proven track record of successful past investments.

Once you have a list of several potential investors, look for references to get an idea of what working with them is like. Remember, this is a big decision that could make or break your early-stage business, so treat the process with due respect.

How to approach an angel investor and how to pitch your idea

The first step is ensuring your business idea is as strong and fleshed out as possible. This means clearly understanding your target market, what problem you're solving, what need you're fulfilling and how your product or service is different from anything else out there. You should also be able to explain your business model clearly, so they understand exactly how you intend to make money and what you expect the bottom line to be.

The previous information forms the basis of your initial pitch. The point is to get investors hooked on your idea and get them excited about it. However, that's just the beginning. It's also important to have a solid business plan that covers all the key aspects of your business, such as your marketing strategy, financial projections, target market and competition. You should also think about business communication and consider using *phone systems for small businesses*. All these aspects are important for investors as they can hint at what can be expected.

As mentioned previously, knowing what costs are involved and providing a clear budget that explains how much you need and when you'll need it is essential to convince an angel investor to put their money in your business.

Pro tip: Having a business address gives your business a boost in credibility

Fully online and remote businesses can often seem like risky endeavours for angel investors. There have been many scams over the past several years

making investors very conscious when it comes to putting their money in this type of business. If you're running or starting a remote business, providing a real, physical business address can mean the difference between getting the funding you need or not.

A very cost-effective way to provide such an address without having to rent real office space that adds to your overhead is to hire the service of a virtual office. This is a type of company that provides services such as business addresses where you can receive and manage all of your incoming physical mail, virtual assistance services and even real offices spaces and conference rooms to use whenever you need to meet in person with an investor or any other person related to your business (like potential clients, for example).

Having this type of virtual business address at your disposal instils confidence and gives your business an extra edge that many other startups don't have.

Alternatives to angel investment

Of course, angel investors are not the only option for funding your startup. There are other types of investors out there, such as venture capitalists, that you can approach. However, it's important to remember that each type of investor has their agenda, and they'll be looking for different things in a business before deciding to invest.

Crowdfunding is another option that many new startups go for. Using platforms like Kickstarter or Indiegogo, you can reach out to many people and pitch your business idea in the hopes of getting small investments from a large number of people. This option is often less risky for investors, who are more willing to invest in very early-stage startups, which is why it's very popular among newborn businesses. However, crowdfunding comes with its own risks, especially those related to intellectual property theft.

Finally, a more recent development in the startup funding scene is crypto lending platforms that lend you money with very few strings attached while you put up an equivalent amount of cryptocurrency as collateral. This is a good way to use the value of any crypto assets you have saved from trading or crypto mining without selling them.

The bottom line

Angel investors can be a great option for early-stage businesses looking for funding. However, you need to ensure your business is as strong as possible and that you have a solid business plan before approaching them. There are many different types of investors, so it's important to do your research and find

the right one for your business. Remember to research any potential investor before committing, and once you get the funding you need, work hard to make your dream a reality.

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