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CALLING Genuine ANGELS

Australian innovation is not short of smarts—it's short of smart investors.

A new breed of angel investor is needed to prevent the stalling of Australia's economic growth. Many industries are becoming uncompetitive at the risk of national long-term unemployment. Only if we support our innovators will we stem the tide.

Australians have a passion for innovation, and our science is first rate. By most measures, however, Australia is falling behind in the innovation race that shapes our future economy and limits our contribution to the global economy.

One thing is certain: Smart innovators are working around the world to make our existing reality obsolete, to disrupt our markets, and to 'disintermediate'. What is happening to foster such innovation in Australia?

Money is not the reason Australia is lagging behind, but a lack of support for innovators who identify solutions to problems on the ground. We're not talking about institutional investment, mezzanine finance, or even venture capital investors. None of these well-funded organisations will touch a promising early-stage idea

unless it has a proven business model, solid management structure, existing revenues, and a solid IP portfolio. And, of course, it needs to be sufficiently well developed to be on sold or listed on the ASX at a juicy profit within a few years.

How does a great innovation get to the stage where the 'serious' money is prepared to take a look? The answer is clear: genuine angel investors. These are experienced business-owners who want to share their knowledge and networks and are fully committed to investing in the future.

Most angel investors play it too safe

Because by definition angel investing is about investing into early-stage ventures, it can be a high-risk undertaking. Many of the individuals who would like to be angels are not comfortable with investing at such high stakes. Prospective investors will say, "I'll look at it when it's turning over \$1 million" or "I will invest once they can pay me a \$200,000 salary." That's not the angel investment space.

Innovation, if it is to be truly successful, must be disruptive. It takes a very special angel investor to be comfortable with disruptive elements, rather than squeeze the life out of the innovation and seek unrealistic levels of comfort before investing. But there is an even more serious failing in the industry.

Many angel investors don't have what it takes

Prospective investor applicants can fail to make the cut for many different reasons. Many like to think of themselves as the next star on *Shark Tank*, view their investee simply as an opportunity to make money, or simply want to 'do something exciting' with their money. What happens when that excitement dies and it comes down to doing the hard yards to get the technology to market?

Bred by the *Shark Tank* mentality, many investors think that angel investing is about waving your cash at a desperate inventor, grab half of their business, and then hold on until the company is a success or sell its assets if it isn't. An approach to one of the more progressive banks could be more fruitful. Worst of all are the midlife crisis investors: time to buy a Ferrari, have an affair, and call myself an angel investor. This completely misses the point of angel investing. It's not about the investor but about the investee.

True angel investors contribute to the next generation of business

Angel investing is less about finance and more about rolling up your sleeves and contributing actively to the business. The most valuable contribution an angel brings to a business is the lifetime of experience, strong networks, and the ability to enhance the entrepreneurial spirit of the innovator. Having the financial backing to get on with the job is almost secondary. Successful angel investors shoulder the responsibility for success of the venture together with the entrepreneur in a shared enterprise.

Australia needs a new culture of innovation support

We need a new breed of investors who will get behind young (and old) minds and support them all the way. The rewards are rich for all concerned, including our country. We need investors who back themselves as well as the entrepreneur—investors as determined to succeed as the innovator, and comfortable to work in a collaborative team.

It is also not uncommon for some entrepreneurs to attract several investors covering a number of key roles in the venture. One example is Design Crowd, who found three of their five founding investors through Business Angels Pty Ltd.

Greater collaboration between investor groups at all levels is also highly desirable. The AAAI and AVCAL are both looking to facilitate this. In the end, the desire for collaboration comes from the individuals. It would be helpful if entrepreneurs who don't fit the business model of venture capital firms, accelerator programs, or other investors were pointed towards other sources of potential assistance, such as existing angel networks. While this happens occasionally, investors could clearly

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do more to refer opportunities between investor groups.

Crowdsourcing may shake up the space

Crowdsourcing is becoming an increasingly popular means of raising entrepreneurial finance. In 2015, we are on the verge of legalising equity crowdfunding. This will facilitate a new form of capital raising, providing not only finance but also a ready-made marketplace for products and committed and interested users.

Of course, crowdfunding does not replace the expertise, experience, networks, and commitment of a true angel investor, but it will remove the need to seek money from unsuitable investors. This will open up the angel investing market to many executives who may not have the kinds of disposable assets required to become an angel investor, but who have the experience and the passion to help nurture a young company and grow it into a successful venture. Their involvement in the venture can attract other investors. We believe that crowdfunding will transform the Australian innovation system in a way that no government funding initiative has done to date. There is a way the government could contribute: currently there are no tax benefits for an angel investor to invest in innovation, while there are plenty of benefits for investing in property. •

About Dr Matt Lohmeyer
Dr Lohmeyer is the CEO of Negotiation Partners. He and his team negotiate on behalf of clients to help deliver important or challenging negotiations. He also coaches senior executives in the alchemy of negotiation, which helps them to be more in control, more effective, and more successful, both at work and in their private lives. For more information, visit www.negotiationpartners.com.

About Christine Kaine
Christine Kaine is CEO and founder of Business Angels Pty Ltd, which operates an angel investor matching network, businessangels.com.au. Christine believes her success is due to her focus on matching her clients' values and skills ahead of money.