

A LOGICAL LINK BETWEEN ANGEL INVESTORS EXPECTATIONS FROM ENTREPRENEURS AND THE SELECTED PROBLEM FACE BY ENTREPRENEURS

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ABSTRACT

Despite the important role played by Angel investor in startup business, very little is known about their importance and their contribution to the growth of the startup business. They are always overshadowed by venture capitalist and other source of financing mechanism available in the market. But studying their role closely, makes us realize that they are the main forefront financial supplier to the startup. Their contribution exceeds far more than their financial aid. Today India is rank at 3rd top start up hub in the world, following US and UK (Dubey, 2018). This credit mainly goes to Angel Investor. But, at the same time getting funds from Angel Investors is not as easy as it sound. This research is done mainly focusing on Bangalore city startup, in order to study the challenges and the difficulty face by them to get funds from Angel Investors. Data for this research were collected through personal and telephonic interview from the selected group of entrepreneur who have recently started their business. The reason for selecting Bangalore city for conducting this research is because Bangalore is rank as the top startup hub in India and is in top 20 in the Global Startup Ecosystem 2017 (Dubey, 2018). At the same time, in order to help the entrepreneur to overcome their challenges and difficulties, different perspective at how Angel Investors look at and different factors which they expect from entrepreneur when they approach for funds are being discuss in this research. The aim of this paper is to make aware about the importance of Angel Investors and to help entrepreneur in starting their business.

Key words: Angel Investors, entrepreneur, startup,

INTRODUCTION

India is on the track to outperform all the developed nation by increasing the number of startup business year after year. The number of startups has seen a tremendous growth having 108 per cent growth in total funding from USD 2 billion in 2017 to USD 4.2 billion by the end of 2018. More than 1,200 startups came up in 2018, taking the total number to 7,200 startups, according to NASSCOM report. (The Economic times, 2018) At current India is rank as 3rd top startup hub in the world, following US and UK (Dubey, 2018) (Corporate, August, 2017) In the year 2018, 11 Indian startups entered the unicorn list which is the highest ever in the single year for a country. (Sareen, 2018) Companies like Swiggy, Paytm mall, Policy bazaar, Byju's are some companies which have recently entered the unicorn group which were started as a small startup in Bangalore city. This increase in level of startup and growth of companies have lots of effect on the economic development. Job opportunities are on the rise and our Gross Domestic Product is also constantly increasing. At the same time this also will help in improving India's rank in World Bank ease of doing business which is currently ranked at 142 positions. Realizing the potential growth of this sector, government has also shown interest and have introduce lots of new different scheme and program to help entrepreneur to start new business.

Even though, startup is considered as a very important sector, growth is not as fast as it should be. With changes in tax reform and government rules, things are not very stable and entrepreneur are the one who

suffered the most from this changes, which increases their debt or make them go out of business, at the same time, this also discourage new entry in the market. Demonetization was one factor which has slow down the growth of startup, after which, recovery of business is in the process but at a snail pace. Similarly, implementation of GST is another factor which has effected this sector in terms of growth. Apart from this two major factors, there are lots of other factors which has slow down the growth of startups.

On the other hand, government has taken lots of steps and initiatives to boost the growth of this sector. Among which providing loan at lesser interest rate is one main initiatives taken up recently. But entrepreneur has their own challenges. They can't depend on government scheme and program alone. They have to rely on other financing sources as well. Loan from banks, Venture capital and angel financing are the other option available to them. At this stage, it is difficult for an entrepreneur get required amount of loan from bank for their business, reason being that their business valuation is not that high and they don't have a high net worth assets to keep as a security. Bank finds it too risky to give loans to entrepreneur. Venture capital and angel investors are other option which entrepreneur looks at. Both of them are almost the same theoretically but if we take a closer look, both of them have lots of differences. To put it in a simple term, angel investors are the front line of financing capital to the entrepreneur. The money which they put into is their own saving money. Their main purpose is not the earning of current income but for the growth of the company to bring to the level to attract venture capitalist or to go public. So therefore they become part of the partners. On the other hand, venture capitalist act as a middlemen and invest the pool of money collected from other people. They want return for their investment at regular basis. Since it is a collection of money from different group their investment amount is much higher comparing to angel investor (Nead, 2014). At this stage of business, it is difficult to get investment from venture capitalist as they are new in the market without having any revenue generation and at the same time they feel too risky to invest in a startup which has not set foot in market. So the only option available to entrepreneur for financing their capital is angel investor.

An overview on Angel Investor

Angel Investor are those business people or individual, who have achieved success in their business and now looking out for a new start up where they can be part of the new business and earn profit from that investment. The investment that an angel Investor made is the source of capital for most of the new start up, as mention above this is the only source which they can get at this stage. During these crucial time, when entrepreneur with an amazing innovative idea without having any capital to start the business, Angel investor steps in to make their idea into reality. These is also one of the reason why they have been given the name 'Angel', as these investors help start up business in their time of needs. The word angel have been use from 1978, by William Wetzel, then a professor at the University of New Hampshire and founder of its Centre for Venture Research, He refer as an Angel to those wealthy individuals who provided money for theatrical productions that would otherwise have had to shut down. Since then the word has been used in many different ways.

Angel investors operate under different ways. It can be a sole retired business man who wants to invest in a startup or it can be a friends, family or colleague who support each other or it can also be also be a group of people contributing their own money and investing in a business for future profit. In India we have Indian Angel Network(IAN) which was started in 2006 and consists of the most member. They do majority of the funding. Likewise, we have lots of other Angel groups who have funded in different startups.

Very few research has been done under Angel Investor because gathering the facts and detail from Angel Investors is not easy. (Mcdonald, 2015) The Numbers of Angel Investor who have tasted success from his investment is not very high but despite the high percentage of terrible outcome, the small number of home run offer such enormous return that a portfolio of these investment is profitable (Ramon, 2010). At present Angel investor is in the growing stage in India and with the new tax reform set by Indian government for Angel investors it is believe that it will continue to keep growing.

Statement of the problem.

Since this topic is new in Indian market lots of entrepreneur are not aware about this financing pattern. According to this research which was carried out by interviewing few of the entrepreneur in Bangalore city, some of them think that this is something that exist only in books, as they have never encounter such group of people or such retired businessmen who want to fund his business. For those who are aware about, this is something which they feel is the toughest job in their business. There are lots of challenges and high level of competition which they have to face in order to get the funds.

At the same time choosing the right startup for funding is not an easy job for Angel Investor. They get numbers of proposal from which they have to choose. One small miscalculation and mistake from their part will cost their hard earn saving. So the expectation of the Angel Investor from startups which will help them in future business plan are discuss here along with some of the challenges face by the entrepreneur while procuring funds.

Literature review:

(Ramon, 2010) conducted a study on practice of angel investor by giving example of real life successful businessmen. The author tried to show the difference between the theoretical and real life aspect of the functioning of Angel Investor and entrepreneur and goes on to the extend of saying that in reality most of the entrepreneur are college dropout or unemployed businessmen. Differences between individual angel investor and a group of angel network were also discussed in this study, along with the advantages of being in a group of network.

(Rao, March 2006) focus on the Indian startup ecosystem. This paper tried to bring in a new concept and idea by believing that in order for our nation economy to grow we need to tap the untapped business sector. Discussion about the role of angel investor and business ecosystem in India was made in this study along with the classification of angels into two different type called, pure angel investor for those who are doing full time activity and super angel investors for those entrepreneur who have turn investor.

(Sinu.M, 2017) made a study on the importance and contribution made by startup business to the economy of the nation. Various initiatives taken up by the government for the development of start-ups and their contribution towards the economy growth by way of employment were discussed. Concluded the study with a suggestion to government sector to make availability of finance easier for the startup to grow in future.

(zhujun Ding, 2014) conducted a study on a relationship based angel investor and rule based angel investor to better understand entrepreneur activities by comparing the angel investor of China and Denmark. Detail Selection criteria of entrepreneur by angel investor under both the group were discussed which come to conclude that in China it is more favorable in relationship based when it comes to investment by angel investor as they tend to invest in new venture that have family members or friends comparing with Denmark where they give equal importance to family, friends or stranger.

Objectives of the research:

- i. To examine the different role played by an angel investor towards the startup business.
- ii. To identify the Challenges, face by entrepreneur in getting funds from Angel Investors.
- iii. To find out the expectation of Angel Investor from start up.

RESEARCH METHODOLOGY

Few of the entrepreneur's experience, who started the business recently were taken for the data collection through a personal and telephonic interview. Various types of entrepreneurs who belong to Information Technology, developing websites for big companies, beauty parlors based startup's, restaurant business and in the field of clothing who runs a boutique in fashion industry were selected for this research. To understand

the various perspectives of reality, entrepreneurs were asked various questions on source of funds, support for finance, role of angel investors and awareness of angel investors. Thus, this conversation gave more insights on reality of entrepreneur's awareness on angel investors. This small sample size data collection gave more insights to streamline the paper to frame a conceptual model.

The researcher also used secondary data which were collected from various articles published in reputed database. The secondary collected gave more insights such as citations, support facts, government statistical information which helped to write the literature reviews on various aspects.

Role played by an Angel Investor:

At present, Angel investors occupy a niche in the financing world as the project they fund are too small or too new for venture capitalist to invest, so they are considered as the first front line of fund supplier for the startup business. They play lots of role in helping the startup but the first and foremost reasons for start up to approach an angel Investor is for funds. Entrepreneur who are not able to get investment from any other source turns to angel Investors for capital financing. Bank will not give them loan as they are new in business, and don't have any reputation in the market, so they don't want to take risk and as mention above it is too small for a venture capitalist to invest in these startup (Rao, March 2006). So entrepreneur are left with little or no choice apart from Angel investor. According to Inc42datalab Indian tech startup funding report a total of 551 Angel Investor participated in the year 2018 raising \$11Billion from 743 deals (Sareen, 2018), out of which 80 % of the deal were concentrated in Bengaluru, Delhi/NCR, and Mumbai (Sangeetha Gupta, 2017). According to the Angel Investor Bangalore group there are around 223 investors who have invested in different start up in Bangalore, among which companies like OLA, Flipkart, Quickr etc. are part of the Unicorn list. For most of the companies running successfully today, the seed capital provided by Angel Investors were the only source of finance for them in their initial stage of business.

Apart from funds, Angel Investors also contribute something to the startup sector which is priceless. Since, almost all the angel investors are a retired business tycoon having a vast number of experience in their field of business and having tasted success, their experience and knowledge is something which is very important. The suggestion and advice they give to this new entrepreneur is based on real life experience which is not the same from the knowledge and techniques taught in their academic year. Getting an advice and instruction from someone who have already experience in running a successful business is something which is very rare to procure. Opportunity like getting advice on marketing strategy or growth strategy is something priceless. Apart from funding their business, they act as a mentor and provide knowledge and expertise in the business (Ward, 2018).

According to the latest report by International Labour Organisation 2018, it is said that number of unemployment in India has been on the rise year after year. In the year 2017 it was 18.3 million which got increases to 18.6 million in 2018 and which is expected to increase upto 18.9 million by 2019 (Dasgupta, 2018). One of the main reason behind this issue is that, growth in the number of graduate student's year after year is far more than the growth in job opportunities. There are thousands of graduate's students who are not able to get any job or are force to work in such job for which they are overqualified. In midst of this education inflation, Angel investor is someone who create a job opportunity through entrepreneurship. India needs more than a 100 million jobs a year and the jobs which are generated are mostly from startups and not big enterprises (Majumdar, 2017). The more funds, start up gets from Angel Investor, the more job they create. In the year 2017 startup and MSME's employed close to 40 per cent of India's workforce, which contributes 45 per cent to India's manufacturing output and 42 per cent to India's total exports (Sinu.M, 2017). Looking at the facts and figure, since startup are contributing almost half of the total nation work force, and Angel investor being one of the major player in contributing to startup we can say that contribution by Angel Investor is very important for the nation in order for employment rate to grow up.

As discuss above there are different source available to entrepreneur to procure funds, but one of the other important role play by Angel Investor is that the money that is invested by Angel Investor are not a loan amount or a borrowed amount but it is their own hard earn money. To see that their money is use for a good purpose and not wasted in some inexperience entrepreneur they become part of their business partner or work side by side with the entrepreneur as a mentor. Some of the entrepreneur might have a problem in them becoming a partner but being a partner or by having a big share of that company bring with itself lots of

benefit. Since their investment is riding on the success of that particular firm, Angel Investor will do his best as his own company for it to grow up. They will contribute the same effort as the entrepreneur for the company to bring up to the level where they can go public. They don't look for immediate return for their investment but rather enjoyed the thrill of helping to build and create a thriving enterprise (Ward, 2018). At the same time as their reputation and name goes along with the company and they become the face of the company, it gives a better hope or better image to the outsider as they have already seen them being successful in their previous business. Their credibility brings in lots of weightage for running better business and to take it at higher level. Apart from above mention contribution by angel investors, receiving Funds from them has many positives effect for startups such as increasing the Net worth and strengthening the books, guidance to better endure the volatile business environment, flexibility in structuring return of investment etc.



Fig. 1 Role played by Angel Investors.

challenges face by entrepreneur:

Things are not that simple as it sounds. In reality case, entrepreneur getting funds from Angel Investor is something which is like a dream come true, because no one wants to part with his own hard earn money and entrust it with someone else whom they barely know. Chances of them getting funds from AI is one in thousands. Some of the new entrepreneur are not even aware about where to contact them and how to approach them. For most of these small new entrepreneur, getting funds from Angel investor is only a theoretical option which they have read or heard from some other businessmen.

Since most of the current Angel investors are businessmen having a good status in a company, it is very difficult to contact them. Most of them are currently working as MD, CEO, CFO of any particular company so, getting an appointment with them is a big challenge. Even, if at all they get an appointment, if the idea of the business plan is not interesting or if it doesn't impress them, then they don't listen to the remaining presentation. And since, most of this entrepreneur are still inexperience, they find it difficult to come up with the level of presentation which was expected of them and lack the detail of every analysis of their business to get the attention of Angel investors. This is something which is being shared by most of the entrepreneur. The only opportunity they get is when there is a conference or seminar session organize for startup which doesn't happen frequently.

Angel investor claim that they receive around 500 request on daily basis from entrepreneur to give their funding. With the increase in ideas and number of entrepreneur, the level of competition has also increase. Moreover, the new graduate students who have learn all the new technique and new business model in their

B-school has raise the bar to come out with new business plan. Entrepreneur needs to have a clear idea about the business which he wants to start, the market strategy, the financing pattern, the breaks even cost, the amount of capital requirement etc. all the detail about his new business needs to be clearly set (Ward, 2018). Any mistake from his part will cost him a big opportunity to get a fund.

As the year pass on, with new invention, new market structure and new players in the market, things keep on changing rapidly. In order to survive in this market a business plan which is as good as, or better than the top player in the market has to be structured out. And since this entrepreneur are a new joiner in the market it is difficult for them to compete with the players who are already dominating the market, and seeing this situation, only a few Angel investors will step in to help those startups which have all the detail structured out from the sources of finance till the exit strategy. And to come up at this level, it is only a selected few entrepreneurs who get this opportunity.

Most of these entrepreneur who are looking out for Angel Investors are in their initial stage of business career, which means they don't have much experience in running the business. They might have an idea about the product and their way of financing and technique to be used. But when they try to implement their business plan into real market, we can find lots of loop holes and lots of mistake, as the technique which they have plan out might not apply in the real market or the situation might have change in the market due to which they have to chalk out another new plan/technique. It is very challenging for entrepreneur to keep updated with the trends in the market and set their business plan accordingly.

Another major issue face by most of the entrepreneur while seeking funds is that, even though their idea might be very good and have a potential of becoming successful in the future, due to their lack of experience in running business Angel investors hesitate to give them funds. Entrepreneur were asked to come back after getting some more working experience, but by then the market would have change, the idea would have become obsolete or some other players might have taken the opportunity of the market. Running behind Angel Investors to earn their trust is something all entrepreneur have experience. Most of the time only those selected business man who have experience of running business in the past take away this funds.

Expectation of Angel Investors from start up.

As of now there are around 223 numbers of angel investor in Bangalore city and since this city is one of the biggest startup city, contributing 27% of the total startup of the nation (Sangeetha Gupta, 2017) lots of young talented entrepreneur who have a ground breaking innovative ideas, but doesn't have a financial support come here looking for the golden opportunity. At the same time according to some of the famous Angel investors, they get lots of request/business proposal plan on daily basis from entrepreneur to help them raise capital finance. It's become so difficult for them to choose from all this. From time to time they also conduct a seminar or program to listen to the idea of an entrepreneur. As there are lots of competition, demand for financial support exceed their actually supply, at the same time since they don't want to put their money in the hand of someone who doesn't have a clear idea about the business they have to choose wisely and look for flawlessness in their business plan. Some of the opinion and points which were taken from successful Angel Investor to what they expect from entrepreneur are,

Market are filled with lots of competitors having similar product or even for that matter a better product with lots of new additional features back by venture capitalist or some big companies. Among all this if an entrepreneur wants to launch his new product then it has to be something which will differentiate his product from the rest; something which people will choose over his product then the existing one. It can be in term of pricing (to give an example Zerodha co., an online discount broking firm, which started as a small startup in Bangalore city in 2010, have become the largest retail stock broker in India by active client base, and contributes upwards of 10% of daily retail volumes across Indian stock exchanges as on jan 2019. They aim to give lower costs to the clients, something that can be crucial in deciding the long term profitability of a person trading in the capital markets. They charge brokerage of 0.01% or flat Rs.20 per executed order, whichever is lower, irrespective of the numbers of shares or prices, which is completely different from other player in the market) (Chitra, 2019); the differentiation in product can also be in term of offering a better quality or better user friendly product, with an innovative technology and good features comparing to the existing player in the market.

According to one of the former president of Indian Angel network Ms. Padmaja Ruparet whatever new product an entrepreneur is planning to launch or the business which he is planning to take up, it should be a

needful product or business. In the sense that, the product should be something which people need to have it. Something which become a necessity or something which will make their daily life or work easier. Then and only then there is a chance of earning profit and making that business successful.

There is a saying among Angel investor that goes like “The bet is on the horse”. A person might be very talented and might be very good in multi-tasking but coming to a business one person cannot handle the whole business. This is where team comes into play. According to Angel Investor they prefer investing in those startup where the team is very dynamic and talented, where they are able to bring in customer and able to stand strong during the time of failure and their ability to come up with a new model or find solution for the existing problem. This is something where angel investor find confidence and want to trust with their money. People who approach Angel Investor are those who are looking for funds to bring their amazing idea into reality. They want people to provide financial support to set up their business with the promise that it will become successful someday. But Most of the time these entrepreneurs don't invest in their own start up. They have their own reasons and excuses. But when it comes to Angel investor, they will not invest in those business where entrepreneur have not invested himself. It just proves that, if he doesn't trust to put his money in his so called amazing business idea, then why should other trust in him by giving funds. These is something entrepreneur has to keep check of. Merely approaching a business tycoon with an idea is not enough, he needs to prove that he is doing his best by putting in all the effort he can, in order to bring that business to market. In most of the situation, in an event or any gathering between angel investor and entrepreneur, the most frequently ask question by entrepreneur is, when is the right time to approach an angel investor for funds? Timing, is something which entrepreneur has to keep check on. In most cases entrepreneur only get one shot to present his proposal. If the proposal is sent without proper structure and detail, then it will definitely get rejected. At the same time if entrepreneur takes a long time in properly structuring his business plan then, the opportunity to get funds and also to bring the idea in market will have gone to some other players. The right answer for this question from Angel Investors is, when you have your own customer. When you can earn profit by yourself, or even for that matter when you can reach your breakeven point. As the level of competition for procuring funds have risen up steeply, the investors have also become choosy in selecting the idea. Comparing with the business plan of someone who have not even started to function his business, with some other entrepreneur, who have started running the business and generating profit with his own customer, an investor will definitely choose the latter, reason being that, he already has a basic idea about his business and have already got the experience in bringing that to the market.

Conclusion

Business is not about what is happening in market today but what will happen tomorrow. Considering the importance of startup business, government are encouraging and taking lots of initiative to increase our startup. In the midst of this, Angel Investors which is being overshadowed by venture capitalist at present, will come out from that and become a very promising players. Their role and importance will increase along with the increase in new startup. Based on the interview held with the selected entrepreneur from Bengaluru city, the difficulties and challenges face by them while procuring funds are discussed in this paper along with the expectation of Angel Investors from entrepreneurs while approaching them for capital finance. This will give a better understanding to both the parties and help them to support each other for their future business.

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