



Three Areas of Focus in Angels Due Diligence

The Management Team

At least 60 percent of an Angel's decision to invest is based on the strength of management. Smart Angels know that the right management team can take a second-rate technology and build it into a market-leading company. The converse is equally true. A killer technology – no matter how potentially disruptive -- created by a couple of geeks with little business experience will die a death that is quick and costly (to the Angel).

While it's perhaps easy and somewhat obvious to posit that good management is the key to successful company creation, there are some universal elements that are less intuitive.

Several years ago, the accounting firm Ernst & Young undertook a survey of the principal characteristics that good companies share. From their extensive research, they determined that the management team must display excellence in three areas:

Domain Knowledge – the management team understand thoroughly their industry vertical. They know the players, their competitive positioning in the market, the verticals they can sell into, the current demands and trends, and where they fit into the maturity cycle with their product offering.

There are few things more expensive to an Angel than to back a company that has, for example, a great browser technology, only to discover that the industry is dominated by an 800-pound gorilla that has an 80 percent market share.

Business Acumen – within the management team there is at least one senior person who has previously run or built a company with a modicum of success. Either on the management team directly or among the members of the board of advisors, there is resident experience on how an entrepreneurial business operates – the structures, disciplines, demands, and priorities. Start-ups rely on real-life experience, leavened with the appropriate educational background.

Operational Expertise – The management team has the practical and tactical skills to develop the product, science, service, or technology, patent-protect it (where possible), build and execute the sales and marketing plan, and get the product to the customer on time and on budget.

Ethics and Honesty: It may seem to be a given, but it bears not only saying but checking. Ethics and honesty are crucial. Is the management team comprised of high-integrity individuals or are they a bit loose in their business dealings? Most entrepreneurs are not outright crooks, although some certainly do exist. Reference checks can quickly determine their reputation. It's a very small world.

Passion: Does the management team have a passion to do whatever it takes to drive their venture through to significant revenues and profitability? Since every enterprise has setbacks, the founder and his team have got to have the ability to work 24/7 against what will seem at times impossible odds. A great idea is one thing; the ability to translate it into a sustainable enterprise is another. It requires an unparalleled will and ability to overcome the adversities and

make it work. In truth, few people possess this talent. Many can talk the talk; few are prepared to walk it through to completion. An entrepreneur that has enduring passion (coupled with a great idea and solid business model) deserves an Angel investment.

Track Record: It is imperative to determine what relevant experience and successes the entrepreneurial team brings to the new business venture. Past accomplishments determine the potential for forward trajectory. The term “relevant” is key. If, for example, the founder has only worked for Fortune 1000 companies with all the support mechanisms those organizations provide, he or she is unlikely to bring the skills necessary to launch a hands-on enterprise. There are always exceptions, but these are rare. Many enterprises fail when the founder discovers that she or he has to be secretary, shipper, accounts payable, and washroom attendant during the critical first few months of the enterprise. Little support, long hours, tight deliverables, and a healthy injection of personal money, soon turn off many would-be SME presidents.

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