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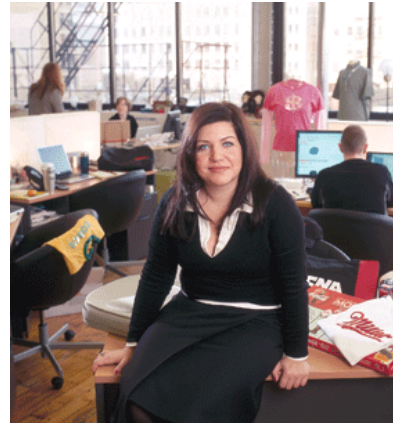
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By Kevin McKeough

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Do you believe in angels? You should

From mid-2003 through May 2004, Nicole Loftus made the rounds of Chicago-area angel investor networks, seeking funding for Zorch International Inc., a Chicago start-up that arranges the manufacture of promotional merchandise for large corporations. One thing she couldn't manufacture, though, was cash.



Nicole Loftus' experience in seeking angel investment for Zorch International "made me think there isn't any (angel investing) infrastructure at all" in the Chicago area. More angel investment would be good for the entire Chicago economy. Photo: Erik Unger

Instead, potential investors hit her up for jobs, kept her at lunch for hours at a time and even asked Ms. Loftus, 35, her favorite color in order to determine her business partnership compatibility.

"It made me think there isn't any (angel investing) infrastructure at all," Ms. Loftus says. "If there isn't a fit and money isn't invested, there's an opportunity cost, because there's another business out there that might have been a fit and never received the funding," she says.

Many Chicago-area entrepreneurs have similar horror stories. "This is one of the areas where Illinois has lagged," says Jack Lavin, 43, director of the Illinois Department of Commerce and Economic Opportunity. "Overall our venture capital funding is 1% of the national total," Mr. Lavin says.

The problem isn't one just for area entrepreneurs. A paucity of seed funding impedes job creation, discourages the development of new businesses and puts Chicago at a competitive disadvantage with entrepreneurial hotbeds on the East and West coasts. Greater Chicago has only five known angel networks, several of them dormant, compared to 13 in the San Francisco Bay Area and seven in Boston.

"There've probably been more biotech deals done in Western Michigan in the past five years than in Chicago," complains Tom Churchwell, 63, a director of BioAngels, a Lake Bluff angel investing network focused on early-stage medical and life sciences companies.

THE SOLUTION

The answer, Chicago small business experts say, is a matter of focus. "The main issue is the lack of any kind of central organizing facility to connect the entrepreneur with angel investors," says Bill Best, 57, a vice-president at the Chicago office of management consulting firm A. T. Kearney. He has personally invested in numerous local start-up companies.

BUSINESS CLIMATE

- **The plan** Create a centralized, non-profit organization to help entrepreneurs find angel investors.
- **The players** City and state governments, universities, local entrepreneurs.
- **The potential problems** Funding, organization.

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City and state governments can address this problem, Mr. Best and others say, by establishing, staffing and funding a non-profit organization charged with coordinating and nurturing angel investing throughout both the Chicago area and Illinois as



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What would this organization do? For starters, it would increase access to funding by connecting entrepreneurs and investors, first by sponsoring forums, meetings and other introductions at which entrepreneurs could present their business ideas to interested angels.

The group could also establish a secure Web site where potential investors could review business plans and other information provided by eager entrepreneurs. There's already evidence that this approach works. The Wisconsin Angel Network, a private non-profit organization established in 2004 by Wisconsin's state legislature, operates such a Web site. Since launching last June, the site has enrolled more than 180 entrepreneurs and 13 groups representing some 200 angel investors across the state.

THE PAYOFFS

Angel investing is the lifeblood of early-stage companies, accounting for as much as 90% of the outside capital they receive, according to Marianne Hudson at the Missouri-based Ewing Marion Kauffman Foundation, which promotes entrepreneurship through grantmaking and other activities.

"Some start-ups literally have no other alternative to finance the development of their companies," Ms. Hudson says.

But the entire \$411-billion Chicago economy stands to gain from more angel investment. According to the U.S. Small Business Administration, in 2001 and 2002 (the latest period for which figures are available) new and expanding businesses with fewer than 20 employees accounted for a net gain of 29,605 jobs in Illinois. By comparison, companies with more than 500 employees posted a net loss of 169,348 jobs. The National Commission on Entrepreneurship estimates that new high-growth companies account for 60% of all job creation.

In fact, Ms. Loftus hired three people after she obtained a \$250,000 angel investment from a suburban couple in May 2004, which helped Zorch launch a five-year, \$25-million deal with a Fortune 20 financial institution.

The stakes are indeed high for all of us. Without proper angel funding, and a better way to distribute that money, many potential high-growth businesses will fail to find a productive place in the Chicago economy.

"I think it's crucial that we find a way to create that conduit," Ms. Loftus says. "If you took Zorch times 20 and none of (those new companies) happened, it's scary to think what would be on the horizon for Chicago business."

a whole.

"There is no lack of money here, but there's a lack of deals, and there's a lack of collaboration and community," says Raman Chadha, 37, executive director of the Coleman Entrepreneurship Center at DePaul University, which runs a seminar series for new and prospective angel investors.

What else can be done?

A centralized organization isn't the only thing Chicago-area entrepreneurs would like to see in '06 to improve the angel investment climate:

■ **Give a break, today** To further encourage angel investing, Illinois should join the 19 states that provide tax incentives for angel investors. For example, in 2005 Wisconsin began providing a tax credit of 25% of an individual's investment in qualified early-stage companies, automatically eliminating a quarter of the financial risk and providing a powerful incentive at the time of the investment rather than at some potential future realization of capital gains.

■ **Build better brain trusts** The process of increasing angel investing should include the development of regional networks and groups organized by business sector focus. In addition, a centralized angel investing organization would arrange educational seminars to better prepare interested individuals to be angel investors. The Chicago area's colleges and universities also can play a role by utilizing their alumni associations to establish angel networks made up of wealthy graduates.



■ **Get more out of existing angel groups** The precedents for organizing angel investing in the area have, sadly, been less than encouraging. The Chicago/Midwest chapter of the Keiretsu Forum, a nationwide network of private-equity, venture capital and institutional investors, draws just 50 people to its monthly meetings, compared to the more than 100 that go to the meetings of each of the three Northern California chapters. Since the regional chapter was launched in February 2004, members have invested in seven companies, according to chapter head Michael Gruber. Heartland Angels, a Skokie-based angel investing network focused on science and technology companies, has made three investments since it was established in October 2003, says network founder Ron Kirschner. These groups need to do more.

■ **Definitions** Angel investing or seed funding refers to investment in very early-stage companies and ranges anywhere from \$10,000 to \$2 million, according to the heads of local angel investing groups. Venture capital funding usually takes place after a company has begun generating revenue and averages around \$7 million per deal, according to figures provided by the National Venture Capital Assn.

Kevin McKeough

What would be on the horizon for Chicago business?

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