Filling the VC Gap - Could Angels Hold the Key?

Concern is beginning to creep in regarding the implications of a slowdown in venture capital investment for startups and emerging growth companies. According to the NVCA, funding in startup hubs such as San Francisco and San Jose is down, and other entrepreneurial hotbeds like New York, Los Angeles, Boston and Washington D.C. are also feeling the squeeze, lagging the national year-over-year rate of growth. This slowdown seems spurred by general anxiety and volatility occurring in public markets, some shaky IPO results and chatter of another tech bubble. VCs are becoming more discriminatory in how they spend their money and, while some believe these conditions are only a blip, they could prove longer lasting. If that's the case, how will emerging companies fill this funding gap?

Naturally, the answer could lie with wealthy individuals investing as angels or through their family offices. There is evidence that these folks have already been stepping in to provide funding and traction for companies at stages in their life cycles typically carved out for VC investment. These savvy investors are providing funding early on in the process, and they are now continuing to be reliable financing partners as companies mature.

An angel is a wealthy individual willing to invest in a company at its earlier stages in exchange for an ownership stake, often in the form of convertible debt or seed preferred stock. Startups that secure angel funding have a long history of success. In fact, according to the American Enterprise Institute, firms with angel backing are at least 14% more likely to survive for 18 months or more after funding than those that do not receive such funding, hire approximately 40% percent more employees than their counterparts and have a 10-17% greater likelihood of a successful exit from the startup phase.

As entrepreneurs face a tough road ahead in securing VC funding, it could be time to take a closer look at taking angels beyond the initial investment stage. Startups should begin to look at alternatives to VC funding, and angel investors seem the most logical place to start. Exploring options to convert these initial investors to longer term partners and making it attractive for them to invest more capital could be a key component in filling the VC gap.

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