

## ECONOMIC OUTLOOK

### *The Entrepreneurial Economy*

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How will the American economy recover from the worst down-turn in several generations? The small business model of start up companies can drive a new economy. What is unique about American business that has kept it dominant in the world market? It's entrepreneurial spirit. Where will these entrepreneurs come from to start new companies? Our young generation will lead the way.

Business cycles of the last decade have lead to unemployment at its worst and job insecurity at its best. We have had two cycles of boom and bust in the past eleven years. Our young generation wonders if they will ever find the same job security that their parents enjoyed. If a lifetime job at one company is not feasible, then perhaps this generation should become self-starters with their own ideas for marketable products. This is the year of the entrepreneur.

The challenges of being a successful entrepreneur are daunting. How do you identify the right management team, product, customer, market, investments and exit strategy? Angel investors have accumulated a mixture of knowledge, experience and talent to fund successful start up companies. An angel investor can create a culture of success around the entrepreneur.

For the past two hundred years, the history of business in the United States has been entrepreneurial. The primary driver of the US economy has been the inventor that can bring novel products to market. We have been the envy of Europe and Asia for the past 60 years with our innovations in medicine and information sharing. But this information is digitalized and disseminated around the world. With the "democratization of information" via the internet, there is an even playing field for obtaining any data. How will we use this data to create knowledge? This is our challenge, and an economic contest for a better quality of life. Competition can now come from every corner of the world. *How will America stay ahead?*

The American entrepreneur is fortunate to have a network of investors (venture capital and individual investors) that are interested in giving back to the community with both their knowledge and their wealth. However, the venture capital community has suffered weak returns to their investors over the past ten years. Consequently, the number of venture capital groups have been driven down from a high of over 1,500 in the year 2000 to fewer than several hundred today. Conversely, individual investors, as part of the angel community, have grown during this period. Angel investors support early stage companies by validating their product and defining the customer and market. In the deal flow process, the angels offer early start up companies capital as well as business experience. This angel investment model, first gaining a foothold in California, has been copied across the US, in Europe and in Asia. The two largest Southern Californian angel investment groups, Tech Coast Angels and Pasadena Angels, have approximately 325 and 100 SEC-accredited investors, respectively. The typical investor profile is someone with 10-50 years of business experience and/or senior C- level management experience, and many have started their own companies. In addition, these investors have institutional knowledge from reviewing over 8,000 business applications, screening over 1,500 companies and investing in over 250 companies. The angel investor in Southern California has invested over \$150 million with follow-on funding by venture capital firms and angels to over \$1.3 Billion. This is a resource that any state or country would be envious to obtain. This knowledge optimizes the chances of success for the entrepreneur in launching their product. But where are these new ideas to come from in this decade?

The first source: universities have innovative technology that has been driven by strong research investments from government and private sector for the past three generations. Except in a few cases, this research has not been exploited successfully. How can we create a better synergy between the university community and the business community? Universities (public and private) have recently turned to their IP portfolio to find a cash cow. Unfortunately, the process of developing a concept into a product is slow, fraught with challenges and a bit of luck is

required. How can we solve this business-academic chasm? The skill set to be successful in academics is not the skill set to be successful in business. The “academic” entrepreneur needs to work as a team with the business community to overcome the daily challenges of getting a product to market. The investment community has the experience and environment to mentor a startup company.

Secondly, to better foster an atmosphere of entrepreneurship, incubators and accelerators have popped up in LA in the last few years (about 19 to date). Their role is to bring the network of investors, service providers, and entrepreneurs under one roof and create culture of innovation. Two such successful incubators, the County of Los Angeles Business Technology Center and Idea Lab, have been in the Pasadena area spinning out products from Cal Tech, JPL and the local community for about 15 years. The Pasadena Angels work closely with these incubators; our offices and weekly meeting are held in the Business Technology Center in Altadena. Many other communities in Los Angeles are now supporting these types of initiatives at the city, county and state level. Entrepreneurs can be successful with a mentoring culture, surrounded by accomplished business people that know how to run a company successfully. Where can an entrepreneur find the money to get ideas to market?

The investment community has expanded its funding opportunities to very early stage start up companies by doing early round seed funding (\$50,000 to \$150,000) for three to nine months with a standard term sheet and a set pre-money valuation. The purpose of this funding is to reach entrepreneurs even earlier in the concept stage of development. Following the old adage “you always need twice as much money and twice as much time to launch a product”, an additional funding route has been through syndication of investments—connecting multiple angel investment groups at a local, regional or national level to enhance the funds necessary to launch products. The third funding strategy has been venture capitalists co-investing with angel groups. The use of standardized term sheets, close mentoring of the start up company, and better due diligence have allowed angel and venture capital investors to share the risk of funding entrepreneurs. Angel investment groups have become gatekeepers of sorts for entrepreneurs. Their business and institutional investment experience from successful companies allows for reality checks on what will work for the entrepreneur. Angel investors are more than the money. Angels know that business is also about relationships, networks and reputations.

How we manage new science and technology will determine if America will remain the world economic leader in the future market. The convergence of information, global markets, and new business models leave a dynamic playing field for the entrepreneur today. A start up company can navigate these new challenges by engaging experienced investors with domain experience in their product area. The angels have a strong track record over the past decade of mentoring, funding, and bringing new products to market. This institutional knowledge is the unique advantage for the American economy. Leveraging this knowledge by educating the next generation of entrepreneurs will keep the American economy competitive.

*For More Information:*

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