

# BRW.

How which way business is heading.



February 19-25, 2009  
\$5 (inc GST)  
www.brw.com.au  
ISSN 07277458  
770727 745003 07

**BRW TRIATHLON WEEK SEVEN TRAINING SCHEDULE**

**PROPERTY RETURNS**

Rental yield hot spots

**SMART OFFICE**

Making mobile technology work

**CASH CRISIS**

What to do when the bank calls

**RETAILER WARS**

JB Hi-Fi versus Harvey Norman

been ignored by successive governments, at least in terms of policy.

"The challenge is that there is a lot of money locked up in very conservative investments like property and resources where people aren't actually creating any intellectual property," he says. "But there isn't any incentive for someone like me to put my spare money into a start-up which will generate precisely the human capital and the technology we need to create the information economy we're always talking about."

Having started his own technology venture in the 1980s, Duursma is familiar with the challenges associated with building a business in the technology area and argues that business angels are often the only option for high-technology start-ups.

"Most people are only willing to invest when there is some guarantee of a return, and that's not the case where people are just starting with a good idea," Duursma says. "In the very early stages of innovation, you often just don't know what the market opportunities will be or what direction they are going to take."

While some such as Duursma despair at the extreme risk adversity of the average Australian investor, seasoned investors such as Peter Holmes a Court argue that many investors fail to integrate start-up ventures into their portfolio because they don't understand risk management.

"It often comes back to investors thinking they are safe but failing to understand the risks associated with the area they are

investing in or realising the value of risk-adjusted returns," he argues.

For others, the main impediment to creating a more innovative economy driven by intellectual property, rather than agriculture and resources, is largely a cultural issue.

"We grew up on the sheep's back and all we ever had to do to survive was pull stuff out of the ground, whereas we need to focus on more innovative ways to do business to focus our investment there," the chief executive of digital strategy group Bullseye, Jim McKerlie, a serial angel investor, says.

The present economic downturn is forcing investors to reassess the way they engage with the market, the founder of the investor matching service Business Angels, Christine Kaine, says. Investors who once would have seen start-ups as too risky are turning to angel investment as they begin to realise the value of their own skills to the next generation of entrepreneurs.

"For a long time we've tended to hoard our money and leave it to stagnate rather than putting it into ventures where it will become active and create new intellectual property and new opportunities," Kaine says.

"We're now getting a lot of interest from investors and executives who are re-evaluating the corporate culture and are attracted to angel investment to use their skills in a meaningful way.

"The message is that businesses with real growth prospects should look to enter into a relationship with a qualified business angel because it will bring more value to their business than a line of credit with a bank." **BRW**

**IS YOUR IDEA READY FOR AN ANGEL INVESTOR?**



Before approaching business angels, start-ups should go through the following checklist, business strategist and investment matcher Theo Afkoudias says.

- 01** Pick me! Pick me! Enthusiasm is useless unless the opportunity competes on its own merits.
- 02** Sub-prime who? Understand the general economic climate into which you are pitching; an idea can quickly pass out of favour.
- 03** Could you hold the risk for a second? The fact that you are risking your own money is of little interest to potential investors.
- 04** Who's running the shop? Have you sought out talented partners and employees?
- 05** Till death do us part? Can you offer investors a realistic exit strategy?
- 06** I can just feel it. Shelve the psychics and have projected cash-flow figures and firm assumptions.
- 07** You want how much? Provide a business valuation to justify the amount you're asking for against the amount of equity you are offering.
- 08** Confess all. Know your weaknesses and address them with a strategy before approaching investors.

**The angels' view**

				
<b>PETER HOLMES A COURT</b>	<b>PHIL ALEXANDER</b>	<b>JIM MCKERLIE</b>	<b>JORDAN GREEN</b>	<b>MARTIN DUURSMa</b>
It's very important to have a dynamic and liquid start-up industry to develop both the intellectual property and the entrepreneurial skills.	We're too critical as a culture and it's reflected in the way we invest. We want to win gold medals all the time when there's a lot of money in bronze.	Innovation comes through hard work and perspiration. I like to work with guys who've done it a bit tough. It gives them an edge and some insight.	The advice we give is that small, fast-growing companies are a high-risk investment and should be part of a diversified portfolio.	Our pure dependence on resources is going to be a problem and not a strategic advantage because it doesn't generate intellectual property.