ANGELS IN THE ELEVATOR

Fund-raising expert Mel Pirchesky on how to attract private investors to your big idea

By Daniel Bates

If you have a great idea and you’re hoping to raise capital from private, or “angel,” investors to launch a company around it, your idea better have huge market potential, a sustainable competitive edge, a business model with projected 50 percent gross profits, and impressive leadership.

At least that’s the advice of local fund-raising maven Mel Pirchesky, president of Eagle Ventures. If anyone would know how to raise angel capital, it’s Pirchesky. This seasoned fund-raiser, turnaround specialist and entrepreneurial coach, who has become an ardent missionary for the so-called “elevator pitch,” has raised more than $60 million in private equity over the years for his many entrepreneurial clients in the Pittsburgh region.

And he has found himself leading many of those ventures, ranging from medical device and computer software start-ups to high-tech “printing” and spring manufacturing companies, through the ups, downs and general growing pains of their entrepreneurial journeys. It’s not easy, even with the greatest of innovations, Pirchesky is quick to point out.

“I’ve never done a deal that’s easy to raise money for,” he says, before adding this caveat about the kinds of deals he represents: “If the deals aren’t good enough to put my family in them, then I don’t do the deals.”

That’s not to say that such deals don’t represent serious risks for angel investors, even under the most hopeful of circumstances. “You cannot play major-league baseball and not expect to strike out,” Pirchesky says. “I can only hope that my family and friends make more money than they lose.”

So it goes for the angel investor, who typically maintains a small portfolio of individual investments in early-stage commercial ventures and often wants to stay fairly involved in efforts to grow the portfolio companies. Such investors typically are willing to take some risks, although making money remains a primary goal for most in the end.

Getting to such investors – and then convincing them to give you money to fund a risky start-up venture – therefore will pose some significant challenges for you as you make plans to spin out your idea from the
University. But according to Pirchesky, you’ll have a better shot at attaining the capital if you follow these six considerations:

1. Angel investors usually evaluate a potential deal based on the following crucial criteria: “huge” market potential, which means potential revenue of at least $300 million to $500 million; a sustainable competitive advantage over existing products in a given market space; a “great” business model that offers a potential profit margin of at least 50 percent; and an experienced, reputable chief executive officer with what Pirchesky describes as good people skills and good judgment out in the trenches.

2. Determine what is commercially unique and provocative about you and your idea and spin that into an “elevator pitch” which you’ll use to introduce yourself to potential investors and get their attention. Pirchesky contends that you’ll have no more than about 10 or 15 seconds to grab the investors’ attention and keep them interested enough in your innovation to want to discuss a possible investment in it. Pirchesky likes to compare that period to the time it might take you to ride in an elevator to the top of a building, alongside a potential investor. Hence, the “elevator” pitch. As you’re talking to the investors, he adds, always listen for cues about their own interests or potential reservations.

3. Networking, Pirchesky says, is the best way to approach angel investors, whether via your attorney, accountant or other professional affiliation, or mutual friends. Stay away from cold-calling or cold-e-mailing.

4. Don’t be afraid to ask your angel investors for more money.

5. Learn from your failures and keep moving forward. Keep in mind that, through your failures, you’ve simply learned what not to do. This also shows that you are willing to take calculated risks.

6. Always remember that investors invest because of your faith in the commercial opportunity and, ultimately, their faith in you. If you have any hesitation about the venture, make sure you resolve the issues before you meet with potential investors.