

# Joining the MILLIONAIRES' CLUB

Angels is an old theatrical term for people who provide the money needed to allow live theatrical productions to go ahead. It is now used extensively in the business world to describe private investors who provide the funds and often the experience to assist small businesses to grow. Here **Dr Tom McKaskill**, an angel investor and entrepreneur, presents the first a series of articles about angel investing.

**I WAS SOMEWHAT** surprised to discover recently that 80 per cent of millionaires in the USA had created their wealth through selling a business. At the time I was researching the state of angel investing and came across a research article which described the average US angel investor.

The article stated that only 15 per cent of wealthy individuals made their money through income and the remaining 5 per cent through inheritance. I was also surprised at my reaction to this information. What I realised was that anyone with a good idea, determination – and willingness to have a go – can join the millionaires' club.

My own experience of starting, growing and selling a series of ventures in the UK and the USA over a 20 year period has certainly shown me that it doesn't take a lot to generate an exit value over \$2 million. Even a relatively small business with a few employees can achieve a profit level which can support a sale price at that level. Even with small businesses, the entrepreneur can undertake a series of businesses over a lifetime and can put away a few millions through a series of mildly successful ventures.

In fact, we really should be generating many more millionaire entrepreneurs than we do. There are countless businesses with growth potential which never get to realise their potential due to the lack of



Tom McKaskill

capability or capacity of the business owner. If only they had access to business mentoring and growth finance, a portion of these would go on to generate moderate wealth for their owners.

The underlying reasons for most business failures are a lack of business acumen, a poor business concept and a lack of funding. While you can't fix a fundamentally poor business idea, you can

do a lot with a good idea, an entrepreneur open to learning, and access to finance.

### The role of angels

In the USA, there are 400,000 active business angels financing, on average, eight to ten ventures each, and providing free mentoring to many more. It is no wonder that the USA produces so many millionaires. Clearly Australia has the capability to do something similar, even if on smaller scale. However, our angel finance market is nowhere near as mature, although it is getting there with the formation of many more angel groups.

My first business received small investments from a group of angels, all very wealthy individuals. They nominated one of their group to be our Chairman. He gave freely of his advice, provided a sounding board for our ideas and introduced a comprehensive financial and operations reporting pack.

Without question, he made a significant difference to our business, kept us from making some serious mistakes and helped us grow from three founders to 160 employees over a 12 year period. The angels achieved about 250 times their investment when we sold out. Of course the founders did very well but without the Angel investment and the mentoring, the venture would never have been as successful. ►

# ANGEL INVESTING

Over the past decade I have seen hundreds of good business ideas which could have created new jobs and generated wealth for their creators. Few, however, were destined to prosper due to the lack of founder business experience. With the right advice and funding, most of these would have been successful. There were a lot of good ideas which were wasted.

Clearly, only a small portion of all businesses will grow to any significant size. You only have to look over the ABS statistics to ascertain that only 9 per cent of all private businesses employ more than 20 people and only 6 per cent generate revenue exceeding \$2 million. But many under those limits could have been more successful if they had reached out to the business angel community.

Of course, many would not have been successful in raising finance because they would not have met the growth potential needed to attract finance but there still would have been many thousands which would have received advice and funding. If

so, we would have seen a significant increase in the number of millionaires in Australia. Those new millionaires would have started new businesses, spent part of their wealth in consumption and given away part to the not-for-profit sector. What goes round, comes around.

Not all angel investments are successful but the majority are. There are always risks with emerging businesses; new competition, poor market reception, new regulations and, of course, management failures. Angel groups tap into the shared experience, networks and wisdom of their members and thus can assist their investee firms to avoid basic mistakes. Angels keep their eye on the exit and can ensure that the entrepreneur has the best chance of walking away with a good deal of cash, certainly much more than they could have made working on a salary.

Very few individuals reach a point in their business career where they can accumulate moderate wealth. Only the most successful end up with a good superannuation fund

and a mortgage free home. The entrepreneur, however, can achieve that in a relatively short period of time with one successful venture. Furthermore, it doesn't need to be one which employs 200 people or takes 20 years. Accessing Angel advice and funding can greatly improve the probability of the entrepreneur making it into the millionaires' club. ●

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**Dr Tom McKaskill is a successful entrepreneur who has been involved with starting, growing and selling a series of businesses in the UK and USA. He is the former Professor of Entrepreneurship at the Australian Graduate School of Entrepreneurship, a leading authority on exit strategies for high growth enterprises and a member of the Gold Coast Angels and the Australian Association of Angel Investors ([www.aaai.net.au](http://www.aaai.net.au)). He is also the author of a range of books for entrepreneurs.**

[www.tommckaskill.com](http://www.tommckaskill.com)