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Waiting for the call

In an economic downturn when loans are scarce, startups turn to angel investors for cash

Birmingham Business Journal - by [Jimmy DeButts](#) Staff

Bill Kervaski has the product but – more important to angel investors – the technology entrepreneur has a functioning business plan.

Kervaski, owner of **HeavyLogic Inc.**, recently launched a new business phone service called IronVoice, which has matured past the startup phase and is generating revenue with established clientele and has more customers lined up.

An infusion of capital is all IronVoice needs to make the leap to the next level, Kervaski said.

The ideal situation? Find angel investors to pump the firm with cash.

Having a solid game plan and proof that the business is already on the rise is the best way to lure financial suitors, said Josh Watkins, executive director of the **Birmingham Angel Network**.

"Investors are looking for a turnkey operation," Watkins said. "They want something where you insert money and proof you've got a profitable business. There are so many deals out there that you don't have to reach for a company that's unproven."

Angel investors seek ventures with the least amount of risk possible. Entrepreneurs who have done their homework, have a strong management team in place and have the potential to grow substantially are solid candidates, Watkins said.

Kervaski said it is critical to have a detailed business plan, proof that there is a market for your product and proof that the firm is already profitable. Only when you can document the value of your business should you engage potential investors, he said.

"You have to have all your ducks in a row and be ready to take it to the next level," Kervaski said. "It's getting successful enough to bring on investors."

Kervaski has personally funded IronVoice since its inception. He said his strategy is gradual growth and is seeking angel investors to help IronVoice jump from startup to a midsized firm that can ramp up business and marketing.

Eventually, Kervaski hopes to be able to compete with industry leaders like **AT&T** to supply communication services over the Internet to businesses. But he said he doesn't want to grow too fast and accumulate debt and risk folding.

To gain angel attention, Watkins advises business owners to cast a wide net of potential investors and be persistent. Social skills are one aspect entrepreneurs often overlook when devising their business plan and angel investor proposals, Watkins said.

A great concept without the ability to communicate it is worthless, Watkins said. He said pitches to angel investors should inspire confidence and he recommends having a strong personality lead the effort, even if that requires hiring a spokesperson.

Entrepreneurs ready to seek outside investors should start by contacting local industry leaders. Those contacts, along with venture club networking, often lead to people who know angel investors, Watkins said.

Angel clubs exist at the city, state and national level. Successfully mining angel investments requires vision and a hungry customer base, according to Marianne Hudson, executive director of the **Angel Capital Association** in Lenexa, Kan.

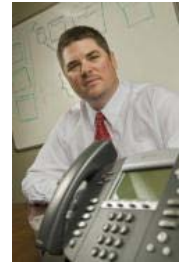
Hudson's group has a national database of angel networks that help link entrepreneurs with prospective investors. She said angel investors seek companies with great teams in place, including financial, board members, consultants and attorneys.

Firms whose teams include members with experience launching their own businesses have an edge, Hudson said.

"They look for people who have put their own money into something, have a lot of passion for their product and who have a lot of integrity," Hudson said.

Risk aversion is paramount for angel investors, Watkins said. They will scrutinize candidates and calculate worst-case scenarios, he said.

Watkins said entrepreneurs should provide as much data as possible to interested angel investors. Letters from potential distributors, manufacturers and retailers documenting their costs and market demand will ease investor concerns, he said.



Bob Farley | F8photo.org

HeavyLogic's Bill Kervaski is hoping for some angel investors to call.

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"Most people are going to look at the downside," Watkins said. "The more independently verifiable resources you have, the more your risk goes down."

A slumping economy hasn't adversely impacted Kervaski's business, he said. He said he's provided potential investors with data detailing IronVoice's growth in recent months.

Kervaski is adding customers at a reasonable rate but not fast enough to keep growth continuing at the same rate. That's why he's seeking outside investment.

"We've done all the work," Kervaski said. "There's not the risk of a startup. The best proof in the world is recurring revenue and that is customers paying their bills."

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