Angel financing favors bigger ventures

Many startups, especially ones with high-growth potential, depend on receiving at least some of their funding from angel investors. Now, a new report sheds light on what type of entrepreneurial ventures got angel money last year.

Specifically, the report from the Center for Venture Research at the University of New Hampshire found that financing for really early-stage companies declined and a larger percentage went to more-established ventures. That is, 35 percent of investments in 2009 were in seed stage companies, a decrease of 10 percent from 2008. And new, or so-called first sequence investments, were 47 percent of all angel activity, a significant decline over the last two years.

What this means, of course, is that angels are favoring proven quantities that are less risky than newer ventures. That's been a trend for several years now and it's worrisome. You might not know it from press coverage, but angel funding is considerably more prevalent than venture capital financing: Many more startups receive angel money than VC dollars. So, if angels shy away from early ventures, that means the loss of a significant historical source of funding for these companies.

Then, there's the matter of what these companies mean to the economy, which I've written about before . The startups that receive angel money tend to be ones with high-growth potential, the kind with at least a fighting chance of becoming a lot bigger and employing a lot of people. Thus, it's not a positive development over the long haul if angels choose to play it safe and avoid very early-stage ventures.

On the modestly good side, the report showed a decrease in investment dollars but little change in the number of investments. Total investments in 2009 were $17.6 billion, down 8.3 percent from 2008. But a total of 57,225 ventures received funding, a 3.1 percent increase from 2008. In other words, more startups got money, although deal size was smaller.

It would be more reassuring if a larger share of the $17.6 billion had gone to a different type of venture.