

# TECHnically Speaking

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## Touched by an Angel

*William M. Pellino, Smith & Gesteland, LLP*

### The Challenge

You've got an idea. You've found an untapped market and you are ready to capitalize on that opportunity. What transforms a creative thinker into a successful entrepreneur? Hard work? Luck? They may have something to do with it, but money is the key. Without it, most innovative companies can't even get out of the starting blocks.

Where does a hopeful entrepreneur get the money needed to jumpstart the company?

### Show Me the Money

Venture capital is usually the first step. Unfortunately, Wisconsin lags behind with the rest of the Midwest when it comes to venture capital dollars. Most of the venture capital companies are on the coasts and don't want to deal with the Midwest. Additionally, venture capital companies usually aren't interested in providing the seed money it takes to get a company off the ground. They prefer companies already established and engaged in business so they can gauge the company's chance for success and mitigate their own risk. Entrepreneurs unable to secure venture capital sometimes need an angel looking out for them.

### What is an Angel?

Angel investors are usually wealthy individuals who utilize their own resources to provide start up or seed money for new companies. Since an angel investor is often a successful business owner, they also provide much needed managerial advice and resources that assist the entrepreneur in the precarious early stages of the company. Often times, entrepreneurs are individuals much more comfortable with the creative process than with managing a company. Angel investors tend to be more interested in the business, sticking with it rather than cashing out at the most opportune time. They are often patient investors whose exit strategy can be five to ten years out.

Although angel investors have long been an excellent

source of seed money for entrepreneurs, getting the two connected was always a challenge. Angel investors also incurred substantial costs to analyze the entrepreneur's business plan. Now, however, networks of angel investors streamline the process by helping the investor with the cost of the research. This ultimately lowers the risks associated with investing in new companies. Therefore, the much needed seed money ends up in the hands of the entrepreneur quicker and more effectively.

### The Players

In late 1999, Dick Leazer helped organize Wisconsin Investment Partners. Leazer, who recently retired as managing director of the Wisconsin Alumni Research Foundation (WARF), formed the partnership with the notion that success breeds success. Wisconsin Investment Partners is looking to invest in the biotech industry along with life sciences and medical equipment.

Wisconsin Investment Partners isn't the only organized group of angel investors. Early Stage Research, LLC and its organizer, Thomas Terry, is looking to finance primarily dot.com and e-commerce businesses. Early Stage Research also looks at other opportunities such as software, biotech and consumer goods businesses.

New angel investor network groups are created every day. A quick search on the internet using "angel investors" returns hundreds of sights all waiting to provide entrepreneurs with the money they so badly need to start their businesses. While good information exists at some of these sights, an entrepreneur should employ a healthy dose of skepticism when choosing an angel investor group on the internet.

### The Process

Wisconsin Investment Partners plans to create a separate account for each individual investment. The entrepreneur provides the partnership with its idea and information. Leazer and co-founder Terry Sivesind examine the information and forward it to the investors. The investors then meet to discuss the opportunity. According to

# Maximizing The Return on Your Employee Benefits - Are Your Employees Aware of Your Investment?

*Kim Clerkin Wunderlin, Klipstein Insurance Services, Inc.*

In Dane County's tight labor market, employee benefits have become one of the top employee recruiting and retention tools for employers in the high-technology industry. Benefits can be just as important as salary in the job selection process for current and prospective employees. Employers know the importance of benefits and that the cost of providing them is substantial, but unfortunately, most employees are unaware of the true value of these perks. In practice, benefit expenditures often unintentionally remain *top secret* to employees.

To help alleviate this problem, employers are using **Personalized Employee Benefit Statements** to communicate the value of their employee benefit programs. Employee benefit statements provide a summary of the cost and benefits in an easy to understand format. Employees can see the value of what the company is providing for them and are able to share the information with others in a concise way. Communicating the worth of benefit packages is not only useful in recruiting new employees, but also in retaining current employees, and may even sway some employees away from the perceived glamour of striking out on their own.

The average employer spends an additional 40% or more of payroll on voluntary and statutory benefit programs. An employee earning a \$40,000 salary is actually receiving total compensation in the amount of \$56,000. Offering core benefits such as group health, dental, life, disability insurance, and retirement plans has become an essential business practice for employers. Many companies are now finding it necessary to implement even more creative solutions for retaining and recruiting employees by offering nontraditional and work-life benefits such as child care, wellness programs, college loan payoffs, employee assistance programs, financial planning, laundry services, and of course, the employee benefit of the future, *free time*. Today's employees are often willing to earn a lower salary if they can have flexible work schedules and more time off.

While providing benefits is a necessity, sometimes paying for them can seem like a thankless task. Employees don't seem to understand or appreciate the value of the benefits they receive. With double digit health insurance premium increases being commonplace today, employees may only notice the negative aspect of this benefit, namely its cost to them.

For employers, investing in employee benefits is only cost effective if employees are aware of their value, which means their value must be communicated. Using employee benefit statements creates an appreciation of the cost to employers and the value of the benefits to employees. These statements can also increase morale, reduce turnover, and maximize employee commitment.

High technology employers are not only competing heavily with other companies for quality employees these days, they are also competing with the lure of employees wanting to branch out and start their own business. Most prospective self-employed individuals do not consider the *total compensation* received by their employer and are amazed at the cost, complexity and tax implications of benefits when they start looking for these plans on their own. Self-employed benefit plans are costly and can also be difficult to qualify for in terms of insurability and eligibility. Statutory benefits, such as workers compensation, unemployment, and employer-paid FICA are often hidden benefits as well. Other programs such as sick pay, vacation and holiday pay, and flex plans may also not be accounted for in the evaluation process.

The sophistication of employee benefit statements range from a simple one-page illustration of the costs to more comprehensive statements explaining the details of each benefit with financial planning tools and social security projections. Employers can either create their own statements using specialized software packages or outsource the project. The statements can be distributed on paper or online via the Internet or the company's own Intranet. Employers generally show employees the statements during salary negotiations or in their annual review. They also find it helpful to include a sample statement in their employee recruiting information so that prospective employees can see the rewards of working for the company.

There is a cost to providing employee benefit statements, but using them creates a win-win situation for the employer and employee. They can pay for themselves many times over if good employees are retained or recruited due to their perceived value of the benefits package.

To learn more about this topic, please contact Kim Clerkin Wunderlin, LUTCF, at (608) 238-7181 or [kwunder@klipstein.com](mailto:kwunder@klipstein.com).

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Leazer, there is no pooling of investor dollars. Each idea is examined by the investors who decide individually whether they want to invest. Entrepreneurs not only get seed money, but also a business consultant or "assistant coach".

Early Stage Research investigates start-up businesses for its 14 private investors and also collaborates with two venture capital groups and private financing organizations. Neither Wisconsin Investment Partners nor Early Stage Research are investment funds. Neither company makes the actual investments. Both provide the investors with information that enables them to make better business decisions.

Entrepreneurs should prepare a well organized and thought-out business plan to submit to the network groups. The screeners at the networking group usually evaluate business opportunities based on:

- ◆ The character of the individuals involved with the business;
- ◆ Timing and nature of the investment;
- ◆ Industry or type of business (angel investors look for companies in which they have a similar interest);
- ◆ Growth stage of the company;
- ◆ Amount of investment; and
- ◆ Level of risk versus return.

Since the exit strategy for the angel investors may be years away, the entrepreneur has to communicate a vision for the future of the particular industry or sector. Investors look for individuals who can capitalize on their idea in the short term, but more importantly, on how that idea can evolve or be integrated into existing and future technologies.

More than ever, investors are out there waiting to participate in the success of the entrepreneur. It's up to the entrepreneur to seek out the angels and provide them with the information they need to evaluate the business. Hopefully, those angels can then turn an entrepreneur's vision into tomorrow's success.

To learn more about Angel Investors, please contact William Pellino, CPA at (608) 836-7500 or [bill.pellino@sgcpa.com](mailto:bill.pellino@sgcpa.com).

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### **Maximizing The Return on Your Employee Benefits**

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