

Web Case 01

My Own Money

Finding Sources for Funding

Sources: Michael S. Malone, “John Doerr’s Startup Manual,” February 1997; and Garage Technology Ventures, “Writing a Compelling Executive Summary,” www.garage.com/resources/writingexecsum.shtml.

Entrepreneurs often want to know the answer to the question, “Where do I find money to start or grow my business?” Initially, most depend on their own money—personal assets, earnings retained from their business, or a creative mix of the two types of personal funding. This kind of self-funding, or internal financing, is commonly called MOM, or “My Own Money.” Consider the following ways entrepreneurs have funded their own start-ups: one entrepreneur sold his home and invested almost every dime from the sale back into his business, sharply cutting his living expenses; another entrepreneur quit his job, sold his home, and lived in the Australian Outback in order to take the photos that would become his sole asset. When he’s asked how he started his business, he says he just “knocked on doors” until he found a buyer. A pair of entrepreneurs closed out their profit-sharing plans to invest in their start-up venture. These entrepreneurs relied heavily on investments they had made earlier in life: equity from their home and savings. Others started with even less: One entrepreneur started with nothing more than the proceeds from an insurance policy, and another worked the night shift for 10 years while running his start-up during the day.

As you will read in Chapter 14, bootstrap financing is a resourceful way to come up with the capital to finance a start-up. Bootstrap financing is one of the most popular forms of self-financing, or using MOM. In bootstrap financing, the entrepreneur must use all of the company’s resources to free the capital needed to meet operational needs or expand the business. By managing his or her finances better, the entrepreneur can finance the growth of the start-up with its current earnings and assets, eliminating—or at least delaying—the need to go after outside sources of funding. Types of bootstrap financing mentioned in the text include trade credit and factoring.

Trade credit, or accounts payable, involves getting your supplier to extend credit to you, interest free, for 30, 60, or even 90 days. Usually a supplier won’t extend credit to a new account until it proves reliable, but entrepreneurs with sound financial plans can sometimes talk suppliers into extending credit on their first orders to allow them to launch their business. Factoring is a type of asset-based loan in which you sell your accounts receivable to a buyer to raise capital. A “factor,” such as a commercial finance company, buys your accounts receivable at a discount rate and becomes the creditor and collector of the receivables. Numerous other options that can be considered bootstrap financing include operating your business from home, accepting credit card payments, drop-shipping products, obtaining advance deposits and retainers from your customers, licensing your invention for royalties, aggressively controlling costs, bartering, getting extended terms from suppliers, establishing strict credit and collection policies and

procedures, renting or leasing equipment instead of buying, buying used equipment instead of new, selling off excess inventory and equipment, and obtaining free publicity instead of paying for advertising.

If an entrepreneur decides to widen the net beyond using MOM, he or she may tap into OPM, or “Other People’s Money.” Entrepreneurs discussed in the textbook borrowed money from parents, secured financing from a business for sale by owner, and found an established business owner who was willing to cosign on a loan from a bank. One entrepreneur was frustrated that he couldn’t secure a loan because he didn’t have enough experience in the type of business he wanted to launch. Eventually, he and his partner started to work with a lawyer who had a solid relationship with a bank and was willing to put in a good word for them with the bank. Financing with OPM seems to work best when entrepreneurs have the support of someone who knows them, has the means to provide financial support, and is convinced of the worth of the business plan.

Questions

1. Why would an entrepreneur choose MOM over OPM, and vice versa?
2. What is bootstrap financing? Why is it popular with entrepreneurs?
3. Why do you think investors expect an entrepreneur to have some “skin in the game”—some of their own money invested? What kinds of sacrifices did the featured entrepreneurs make to fund their business ventures?

Activities

1. Arrange for an interview with the owner of a start-up business in your community. Ask the following questions, and share your results with the class.
 - How did you decide to start [business name], and how did you get funding to get it off the ground?
 - How does [business name] make money, and where do you see your growth coming from in the future?
 - What is the most important thing you’ve learned in the course of developing [business name]?
 - What advice would you give to other entrepreneurs who want to start their own company?
 - What are your thoughts on the following quote by John Doerr, a venture capitalist? “If you focus on success, you won’t get there. If you focus on contribution and customer value, then you can win.”
2. Imagine you’re just stepping into an elevator in the hotel that is hosting a seminar you’re attending: “Funding for Continued Growth: Investors Meet One on One with Entrepreneurs.” The venture capitalist you really, really wanted to talk to about your business venture gets in at the same time. You have about 20 seconds to make a good impression. “Thank goodness for Jay,” you think. Jay, a friend who runs an animal training centre, always begins business introductions by saying, “Hi, I’m Jay Doe. I help pet owners raise likeable pets. I work with people who want to avoid letting bad behaviours come between them and their friends, but

don't know where to start. As a result of working with me, my clients say they enjoy their pets so much more." Jay encouraged you to plan out a 15-second introduction of yourself and your company before coming to the event. You take a semi-deep breath and start, "Hello, my name is Write a creative elevator speech of your own to share with the class. To get started, follow the three steps below. A template has also been provided.

Step 1. Get someone's attention. Say who you are and what you can do for others (not what you do). Get the person to think, "How do you do that?"

Step 2. Tell the person about your deliverables. Explain what your product or service provides.

Step 3. Explain the benefits of your product or service.

"I'm the [occupation/line of work you're in] who [grab their attention—think up a 'hook' for your line of work]. I specialize in [action verb followed by your deliverables] for the [target market]. I help [audience types] [benefits]."

3. Jay also encouraged you to have a business plan ready; yours is 30 pages. The venture capitalist you just met in the elevator gave you her business card, but she asked you to send over only your executive summary. She's going to review it and then call to arrange a time to meet and discuss how she can help you grow your business. It's a good thing you have an executive summary that is clear, concise, and compelling because you really want to make a good first impression and sell your business idea. Search the Internet for two examples of executive summaries (use the keywords "example executive summary" to get started). Print them out, and then evaluate them on the criteria listed below. Rate each executive summary from 1 to 5 on each criterion, with 1 indicating that the summary does not incorporate that key component and 5 indicating that it contains a stellar example of that key component. Where applicable, label the portion of the executive summary with the letter of the guideline it meets.

THE EXECUTIVE SUMMARY FOR [BUSINESS NAME]

- a. Leads with a compelling statement about why the company is qualified to offer a unique solution to a big problem/opportunity
- b. Makes it clear that a problem or opportunity exists and how it plans to solve or exploit that problem or opportunity
- c. Clarifies what it has or what it does to solve or exploit the problem or opportunity
- d. Describes its market: the number of people or companies, dollars available, the growth rate, what drives its market segment
- e. States its competitive advantage (unique benefits and advantages)
- f. Specifies what levels it will reach in three to five years: how much revenue will be generated and how it will be evaluated (customers, units, margin, etc.)
- g. Presents a uniquely qualified and winning team or management
- h. Outlines a believable financial projection summary
- i. States the amount of funding expected