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Guest Column

The Art (and Journey) of Raising Funds

By ROSALIND RESNICK

For an entrepreneurial start-up, landing that first check from an investor is a milestone.

What many start-ups don't realize is that the seed capital they raise – often from friends and family – is just the first step in a fundraising journey that can drag on for months or even years.


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My client, John White, is more than two years into the process of securing $14 million in funding for his company, Joy Berry Enterprises Inc., which plans to republish the works of popular children's author Joy Berry across multiple media platforms. In June 2008, he and partner John Bellaud won their first $600,000 from angels to jumpstart the company—and expected smooth sailing from that point on.

Then the financial markets collapsed in the fall of 2008, and John's company found itself smack in the middle of the worst fundraising environment in decades. Piecing together funding from angel investors and family offices (which typically manage money for high-net-worth families), the company managed to scrape together $3 million – enough to license Berry's titles and bring them to market but not enough to acquire the intellectual property and fully execute the business plan.

About the Author

Rosalind Resnick is the founder and CEO and Axxess Business Consulting Inc., a New York consulting firm that develops business plans and financial projections for start-ups and early-stage companies. She is also the author of "The Vest Pocket Consultant's Secrets of Small Business Success."

Today, with the economy beginning to recover, John and the company's chairman, Kay Koplovitz, founder of USA Network, are back on the road raising $800,000 in working capital to fund operations through December 2010 and a larger round of $10 million to acquire Berry's catalog of titles, develop animated properties and pursue licensing opportunities.

Here are some of the lessons that John and his partners learned along the way:

• **Don't expect to raise all the money at once.** While the purpose of a business plan is to show investors your company's true potential, don't fold your cards if you can't raise the money you need to execute your entire plan right away. Over the last two years, Joy Berry Enterprises has raised money in five separate tranches, some as small as $200,000.

• **Be prepared to give investors more.** Even in good times, investors in early-stage companies expect to be compensated for the risk that your company might fail and they'll walk away with nothing but a write-off. With early-stage capital in short supply, start-ups need to be ready to give away a larger chunk of their company than they might have when times were flush and to pay higher interest on the money that they borrow. In John's case, his company raised $800,000 in convertible debt at 12% interest in 2008. After the market crashed, JBE raised another $600,000 at 15% interest in April 2009. The new note will convert to equity upon a $5 million capital raise. "The terms were tough, but we needed the capital," he says.

• **Adapt your business plan to the funds available.** If you wait to fund your entire plan before starting operations, you may never get your company off the ground. At the same time, you may need to scale back your plans if you decide to start your company with less. "We raised our first round of $600,000 from angels and founders to jumpstart the company and anticipated closing the rest by the end of the year," John says. "When the market crashed and we were unable to raise the full funding, we had to re-think our launch plans and shape the business plan in a way that we could execute," delaying product releases and concentrating on key items, promotions and holiday sales cycles.

• **Be ready to survive on a shoe-string.** Many entrepreneurs think that, once they raise capital from investors, the pressure is off and they can get back to running their company. The truth is that you've got to keep a laser focus on expenses – especially if your company is burning cash and you don't know where the next check is going to come from. "When you raise money in pieces rather than all at once, you have to stretch the money as far as possible," John says. Particularly tricky is paying manufacturers upfront when the company is waiting for payments from retailers. "Watching every penny go out is a hardship," he says.

• **Be honest with your investors.** Whether your investors are friends, family, angels or VCs, nobody wants to be kept in the dark. It's better to break the bad news about money concerns, such as missed revenue projections or cash-flow gaps, before there's nothing left in your company's bank account. "Our investors have been very supportive and patient," White says

With the market for small-business capital still tight and the recovery lackluster at best, start-ups looking for capital would be wise to take a page from Joy Berry Enterprises' playbook. Raise money when you can, be prepared to pay a premium for your capital and scale back your plans if necessary, but do whatever it takes to get your business up and running and your product out the door.