



Money for Your Operations

WHEN SEEKING CAPITAL, YOU MUST DECIDE HOW MUCH OWNERSHIP YOU WANT **BY ALYSON DUTCH**

MONEY.

It's a loaded word (pardon the pun), because there are so many beliefs about it:

"Money is the root of all evil."

"Money doesn't grow on trees."

"Rich people are greedy."

We all have thoughts about money that unconsciously lurk in our brains. They are different for every human—and they are all based on our past experiences, scars, fears.

The beliefs listed above are ridiculous. Money is not a thing with a personality that is "good" or "bad," it's simply an energy and our current system of exchange.

Based on my POM Principle (P for product, O for operations and M for marketing), money is a very important part of your operations. You need money to run a business, and some businesses that are more capital intensive than others.

This is a primer on your choices.

Bootstrapping v. financing

How to choose? Do you go after money first so you can hire who you want, build an office and have money for prototypes, manufacturing and marketing? Could you sell your services with your own investment in a minimum infrastructure and market slowly until it builds?

Your choices depend on:

- How much ownership of your company would you like to retain?
- Are you willing to give away partial ownership—and how much?
- How much risk are you willing to take?
- Do you have credit?
- Are you willing to write a business plan that forces you through the planning, competitive landscape, financial forecasting and marketing budgets?
- If you did raise money, how would you spend it?
- If you maxed out your credit cards to start up, when will you see a return?

Personally, I would rather use my own credit, seek money from a bank and retain 100 percent control. As wonderful as partners may appear on the surface, it's very hard to share the creation and growth of a business with another human.

Think about how hard personal relationships are, add in the beliefs people have about money, throw some gasoline on it and then imagine what it's like to light a match.

You can always hire human capital; you don't need to give away your ownership.

The easiest route is a bank with which you already have a relationship. For a small business, I cannot stress enough the importance of this.

When you can pick up the phone and say: "Hey, I need your help, or I need 24 hours for a deposit to get through the gateway and other checks are out there about to hit my account," amazing things can happen. I've met bankers who spent hours with me, teaching me things that I cherish.

Bank loans are usually the cheapest and have less strings attached. Sometimes you can find revolving credit lines or factors who will provide upfront cash based on invoices you've procured.

The Small Business Association does loans; just call your local SBA office.

I also love credit unions. They are very small and personal.

Grants and other means

Another consideration: grants.

At Consumer Product Events, we just started a scholarship grant for kids who are in entrepreneurship programs in U.S. universities as part of a new award program called Consumer Product Marketing Awards. Because we are giving the money, we can dictate how it is used and where it goes. There are grants out there in every industry, for every type of ethnicity and lots of other reasons; go find them!

Friends and family are always a great resource because they believe in you. The tough part is how those relationships may be affected if your venture fails.

Make sure you treat this money as you would any other legal arrangement and have agreements in place. They should include clauses on risk and how you agree to failure. Contracts are made for "when" and "if," not when everyone is feeling good about things. Use them.

If your credit is bad, there are options—albeit very expensive. There are lots of "hard money lenders" out there. Some are big companies such as OnDeck and other private groups with cash that just want a huge return. Their terms might be as high as 12 percent

to 30 percent, and they require repayment on a daily or weekly basis in auto debits.

For some businesses, these companies serve as a bridge loan and can usually be done quickly. We love a company called Fora Financial.

Crowdfunding on sites such as GoFundMe, Kickstarter or Indiegogo is a unique animal you might choose for lots of reasons—other than a place to find money. It's good for search engine optimization; you may even choose to use it as a selling platform or a place to test your product to find early adopters and get opinions.

You may raise a few bucks, but don't expect this to be a sole manner of fundraising. It's a small-potato universe.

Most companies start with "friends and family rounds." Sometimes this is called "seed funding" or "angel investment": The amount you ask for is based on what your product is, what it costs to make it, get it to market—and spend at least 1-2 years of marketing. That could be from \$50,000 to \$5 million.

With investors on board, you must use their money for your business—not your rent, dinners, or personal life. There is a very heavy penalty (read: prison) for those who misuse this money.

The next phases

Series A and Series B are the next rounds of tranches that are usually sought after a company has proven viability.

Series A is the second stage of start-up financing and the first stage of venture capital financing. B is a type of equity-based financing, which investors are provided with preferred shares in exchange for their money.

This kind of funding method usually is leading up to a desired IPO—which is the sale of shares that makes it a public company—and of course with that comes loss of control as well, boards of directors and big-boy/girl business time.

The thing about investors is, they invest in people. The only time they keep the entrepreneur onboard is if that person is smarter than the investors.

Entrepreneurs should stay focused on the reason they started: to make money. But first, you need money to make it go. 🍀

Alyson Dutch has been a leading consumer packaged goods launch specialist for 30 years. She operates Malibu-based Brown + Dutch Public Relations and Consumer Product Events, and is a widely published author.

