10

Financing Your Dream

Introduction

The boomer generation is changing "business as usual" in two significant ways. First, they are the customers for the visionary businesses that we have explored throughout this book. But they are also creating these businesses and making the products and services they want so they can age well.

If you've been thinking about leaving the corporate grind or starting a business aimed at this juicy market, you're not alone. A study by Challenger, Gray, and Christmas, a leading outplacing company, says that unlike the dot.com era, "This time around . . . the burst in entrepreneurial activity will not be led by 20-somethings, but by baby boomers and would-be retirees in their 40s, 50s, 60s, and even 70s, who are better educated, healthier, and more tech-savvy than their predecessors." The number of self-employed Americans age 55 to 64 has increased 29% in the last five years, according to the Bureau of Labor Statistics, while the number of self-employed people age 65 and older has increased 18%. "All told," the study says, "the boomer-and-older [cohorts] now account for 54% of self-employed workers."[1]

The inevitability of a traditional retirement is eroding. Most boomers intend to work all their lives, and many will have to because they need the income. Some boomers are challenged by adult children who still need financial help; others lack confidence in the solvency of Social Security; and many never funded their own retirement plans. But few boomers who keep working will settle for just any job. Millions of them seek creativity and passion in their work lives. They are more likely than previous generations to want work that reflects their values and identity; they want to make a difference and have fun while doing it.

Boomer-run businesses are also erasing the difference between for-profit and nonprofit companies. In a nonprofit, value is measured by the ability to make a positive difference in society. In a for-profit institution, success is measured by financial returns. Increasingly, we find that businesses can succeed on both fronts. They can do well by doing good.

Throughout the book, you've seen profiles of entrepreneurs who have started their businesses in a variety of ways. But regardless of your motive, or whether your company is a franchise, nonprofit, venture-capital-backed business, or something else, you're going to need startup money. Recruiting is at the heart of building a company, and your ability to attract and retain a top-level team is directly correlated to your financial position. This chapter is a toolkit for making your dream a reality. It shares insights and resources from these entrepreneurs and also basic business sense in funding a company or enterprise.

Becoming an Entrepreneur

Before taking the first step to becoming an entrepreneur, ask yourself these questions. Are you a self-starter? Are you tenacious? Are you passionate? Are you a good listener?

Do you have the stamina to run your own business? Do you have the ability to put in the work necessary to make your idea grow? And what impact will all of this work have on your family?

Most people don't realize the exhilaration of starting a new business until they are doing it. And, once you take the step, you are likely to take it more than once. Entrepreneurs often apply the experience they have gained from past successes or failures to refine the launch of their next enterprise.

Start with a Business Plan

Although the first phase of planning a business is often a chat with a friend over lunch and a sketch on the back of a napkin, you will eventually need to write a business plan. This will be your guide for growing your idea into the marketplace. "Entrepreneurs have passion, vision, and drive, but often they don't have a plan for their business," says Cheryl Mills, associate deputy administrator of the Small Business Administration. "Their innovative spirit needs discipline. They need a roadmap to success and extensive due diligence before investing time and capital."[2]

Careful preparation is important. In these early stages, you should decide how much risk you're willing to tolerate to get your business off the ground. Recently, an older entrepreneur wrote that his son-in-law wanted to go into business with him. He asked us, "How much of our savings should we risk on the venture?" Our answer was, "Less than 20%. For one thing, who knows if your son-in-law is going to be an asset to the business?"

As you put your business plan together, you may discover that there is too much competition or not enough demand. If you persist with an idea that isn't carefully researched, you will risk losing your capital and even going bankrupt. According to Cheryl, "baby boomers are at a wonderful stage in life where they are free to move, because their children are probably grown and they may have already downsized their home. They have savings that can provide seed capital. What could be a challenge is that they are at a stage in life where they are becoming risk adverse, as their productive years appear to be diminishing. Due diligence and having a solid business plan are the key to reducing the risk of failure. Entrepreneurs in their 50s and 60s will have fewer years to recover from failure, so every effort should be made to front load all of the research and competitive analysis."[3]

A good business plan defines your business, sets your goals, and sets your enterprise apart from the competition. It is especially important to spend time on market research so you can define your niche. The more energy you spend in the early planning stages, the better prepared you will be to make good business decisions and handle unforeseen complications.

Bob Hendershott, a venture capital and private equity consultant and professor of entrepreneurship and finance at Santa Clara University's Leavey School of Business, makes sure that all of his students consider the following questions (and be able to communicate credible answers):

- What is the market opportunity?
- What is your product or service, and what is your potential revenue?
- Who will be your customers, and why will they purchase your product or service instead of your competitor's?
- How will you reach your customers?
- How will you calibrate the lifetime value of a customer?
- How will operations be handled, and what is the planned gross margin?
- What are the product development/service development costs?
- Do you need to develop a recognizable brand?
- What is the sales strategy?
- What is the sales pipeline?
- How much financing do you need to start and maintain your business, and where will you get this capital?[4]

You should ask lots of questions having to do with banking, insurance, and other financial matters, and you should consider how the answers relate to your particular business. Remember, every time you tell your story, explain your idea, or share your business plan, you'll actually refine and improve it in the process. You should develop one page of talking points that defines the market opportunity, the problem your business solves, the "value proposition" (what makes you different from competitors), and three supporting points. You should be able to identify the competition—it is almost always naive to assume there isn't any. You should know why your product or service is going to win.

One of the most important abilities is learning how to tell the story of why you will win and why you need financial support. You need to be able to pitch the idea in less than three minutes; this boiled-down version is known as the *elevator speech*. You also need a *pitch deck*, which is a summary of what you are trying to do that you can send around to investors or foundation officers.

The best pitch person we know is Guy Kawasaki. He has not only delivered many pitches, but he has listened to thousands of them. Table 10.1 contains his ideas. If it inspires you, read his bestselling book *The Art of the Start*.

TABLE 10.1 INVESTOR PITCH (FOR BOTH PROFITS AND NOT-FOR-PROFITS)

Slide	Content	Comments
Chapter 1, "Title"	Organization name; your name and title; contact information.	This is where you explain what your organization does. ("We sell software." "We are a church." "We protect the environment.") Cut to the chase!
Chapter 2, "Problem"	Describe the pain that you're alleviating. The goal is to get everyone nodding and "buying in."	Avoid looking like a solution searching for a problem. Minimize or eliminate citations of consulting studies about the future size of your market.
Solution	Explain how you alleviate this pain and the meaning that you make. Ensure that the audience clearly understands what you sell and your value proposition.	This is not the place for an in-depth technical explanation. Provide just the gist of how you fix the pain—for example, "We are a discount travel website. We have written software that searches all other travel sites and collates their price quotes into one report."

Slide	Content	Comments
Chapter 3, "Business Model"	Explain how you make money: who pays you, your channels of distribution, and your gross margins.	Generally, a unique, untested business model is a scary proposition. If you truly have a revolutionary business model, explain it in terms of familiar ones. This is your opportunity to drop the names of organizations that are already using your product or service.
Underlying Magic	Describe the technology, secret sauce, or magic behind your product or service.	The less text and the more diagrams, schematics, and flowcharts on this slide, the better. White papers and objective proofs of concepts are helpful here.
Chapter 4, "Marketing AND Sales"	Explain how you are going to reach your customer and your marketing leverage points.	Convince the audience that you have an effective go-to-market strategy that won't break the bank.
Chapter 5, "Competition"	Provide a complete view of the competitive landscape. Too much is better than too little.	Never dismiss your competition. Customers, investors, and employees want to hear why you're good, not why the competition is bad.
Chapter 6, "Management Team"	Describe the key players of your management team, board of directors, and board of advisors, as well as your major investors.	Don't be afraid to show up with less than a perfect team. All startups have holes in their team—what's truly important is whether you understand that there are holes and are willing to fix them.
Financial Projections and Key Metrics	Provide a five-year forecast containing not only dollars, but also key metrics, such as numbers of customers and conversion rate.	Do a bottom-up forecast. Take into account long sales cycles and seasonality. Making people understand the underlying assumptions of your forecast is as important as the numbers you forecasted.
Current Status, Accomplishments to Date, Timeline, and Use of Funds	Explain the current status of your product or service, what the near future looks like, and how you'll use the money you're trying to raise.	Share the details of your positive momentum and traction. Then use this slide to close with a bias toward action.

The first time my colleagues and I did a pitch for ThirdAge Media, one of the key questions from potential investors was how could we build a media company from the West Coast when so much of the talent (and the advertising base) was located on the East Coast.

We should have listened closer. ThirdAge should have been created as a bi-coastal entity with the sales team headquartered in New Brunswick, New Jersey. This is because we needed our sales force to be near many of the pharmaceutical brands that would eventually provide funding, and much of the media writing talent is based in New York.

It is crucial for entrepreneurs to find out as much as possible in advance about the venture capitalists who support their category. During the pitch, make sure you are *listening carefully,* and write down every question that is asked. The answers can help guide your strategy.

Capital to Make Your Business Grow

There are several ways to finance your business. Often the first source of capital is your own savings, home equity, pension plans, and even credit cards. Millions of entrepreneurs go out on a high-interest limb to pay for materials. It's risky and expensive, but many businesses actually do get launched on Visa and MasterCard.

During this early stage of business ownership, a self-funded entrepreneur is growing the business to show potential investors or supporters that the concept is viable. This first phase is often the one that presents the most challenges and tests your mettle. However, the experiences gained during this time will enable you to make a good case to investors or foundation officers who can step in and provide the capital needed to help the business rise to the next level.

If your business is for-profit, funders will look for you to build revenue—actual paying customers—or they will need to see that you have had previous success in building another business. The first question a for-profit investor will ask is how much revenue do you have, and how consistent is that revenue base? If your business is a nonprofit, a foundation officer will look for two to three years of evidence that you've built something worth funding.

Another source of capital is private loans, often from friends and family. It might be easier to get a loan from your closest friends than it is to get a loan from a bank, but that doesn't mean it's a particularly good idea. Money changes relationships, even the sturdiest ones. You and the person investing need to be clear with each other about expectations and risk. If you choose to accept money from someone you know personally, spend the time and money to work with an attorney and get everything spelled out in writing. Is it a loan or a gift? What does the other person expect from you in return?

There are also other significant drawbacks to self-financing. Without sufficient capital, your business may never reach its full potential. And as the owner and CEO of a self-funded business, it will be up to you to create your own contacts and networks. You won't have access to the robust network of contacts that professional investors have. You may want to join a professional association so you can create relationships that benefit your business.

Small Business Loans

After your credit cards are charged to the max, and perhaps even after you've dipped into your savings as much as you dare, where can you go next? For many, the next logical step is the Small Business Administration. The SBA does not make direct loans to small businesses; instead, it provides loan guarantees to lending institutions, which then make the loan to the business owner.

Another source of government-backed money is small business investment companies (SBICs), which are federally funded, private venture capital firms that mainly offer money to small businesses in risky or high-tech fields. You can often find people who have a lot of business experience at SBICs, and they are usually eager to share their wisdom with young entrepreneurs. You can also turn to the SBA's

Surety Bond Guarantee Program, which includes subgroups such as Minority Small Business Investment Companies.

It is not always easy to get a business loan. The bigger banks often have a hard time making significant returns on these loans, and the interest rates might be prohibitive. But some bank divisions do help small business owners. Local banks and credit unions may court startups, especially for their cash business. Some banks and lending institutions have divisions that specialize in lending to women and minorities. You never know where you may encounter someone who has the right knowledge for your situation. So keep presenting your business plan; even if you don't get the loan, you will benefit from the experience.

Angel Investors

Individual private investors who invest in entrepreneurial companies are commonly known as "angel investors." They make investments with their own money, often in the $200,000 to $1 million range. Angels usually fund companies that are in the startup or first stage of development. But a good angel offers much more than just capital. He or she may also bring successful experience to the table, as well as a wealth of contacts and emotional support.

Greg Chabrier is an angel investor in Silicon Valley. He is a technology sales whiz who made his fortune, as he says, "on the bubble of the bubble of the tech boom." He finds investing in startups thrilling, and it is also his way to give back. Greg has guest lectured at the University of Santa Clara, where the students treat him like a business rock star. Their eyes widen as he shares how he got stock options in his first job as a sales executive with Sun Microsystems. Their eyes grow even wider when he tells of the long hours he put in and how he arrived at work every day at 4:30 in the morning so his car would be in its parking space before the COO arrived.

Greg and potential investments find each other through "friends of friends." They are almost always fledgling enterprises, and the entrepreneur usually still has a day job. "Usually they need the angel money to get out of the garage," he says. There are distinct qualities Greg looks for in ideas and the people who propose them. "I ask four questions: about technical risk, market risk, financial risk, and team risk. In other words, are the specific individuals involved good individuals, and are they going to be able to take this thing and make it go?"

"If I've resolved all the risk issues, if I believe in the team, if I believe there is a financial exit, if I believe in the technology, if I believe in the market, and I have said I am going to put this kind of money aside—after I have all that stuff in my head and I've referenced as much as I can and I can't think of anything else that I really need to investigate—then I'll write a check."

In Chapter 8, "A Family of Our Own Choosing," we introduced you to Seth Socolow, whose Telling Stories software company was able to secure angel financing. He has a small market, but he defined his niche well and he combined a great idea with his technical expertise to create a successful company. He is the type of entrepreneur that angel investors like to bet on.

Angels offer equity capital, which means that they buy part of your company. So if you choose to seek angel investment, you must be prepared to give up some control. Also, your company must be able to provide an "exit" to these investors. They will eventually want to get their investment back, in the form of a public stock offering or a buyout from a larger firm.

Venture Capitalists

Many entrepreneurs seek venture capital only after they know they cannot get a bank loan. That is because there is a big difference between getting a loan and selling equity in your business. If you're trying to decide whether to pursue the venture capital (VC) route, ask yourself if you are you willing to sell equity in your business. Then ask yourself, "Am I prepared to have a partner who will put controls on my organization or take some responsibility in setting up my management team? Can I handle having my business management scrutinized? Am I comfortable with someone looking over my shoulder asking, 'Have you made your numbers this quarter?'"[5]

Not every entrepreneur can say yes to these questions. If you would prefer to remain smaller and in control, then you shouldn't seek venture capital. "The good entrepreneurs put an idea out there and test it with friends," says Jon Staenberg, managing director of Staenberg Venture Partners. "They ask, 'Is this fundable? Would you put money into it? What do I have to do to make it fundable?'"[6]

What VCs have most is prescience, informed by their own long experience as well as reports, success and failure stories, and data for analysis. Once they've invested, most VC firms take an active role in the growth of their companies. They guide the process. They recruit the best and brightest to build the team. They analyze partnership activities. And they seek other financing partners for later rounds of capitalization. The best VCs develop reputations for seeing trends before the rest of us do. Their reputations attract billions of dollars from investors, who are willing to take risks that could result in big payoffs when a company goes public or is acquired.

"We're the counselor, the father confessor, and the coach," says Dick Kramlich, founder and general partner of New Enterprise Associates. "We're equity partners with the entrepreneurs. We do a lot of recruiting for all our companies. If they're needed, we put people on the management team. We put someone on the board."[7]

Before you start negotiating with a VC firm, you should have a solid idea of how much capital your business needs to meet certain milestones. This will help you get exactly the amount of investment capital you need, and no more. Remember, the more investment you receive from VCs, the more control they will have over your company. You don't want to dilute your ownership so much that you're unable to realize your vision.

A venture capitalist may look at hundreds or even thousands of investment opportunities in a year. How do they choose which ones to bet on?

We have seen this process in action by hosting an annual Baby Boomer Business Plan Competition in partnership with Santa Clara University and the American Society on Aging. We invite some of the country's leading venture capitalists, as well as angel investors and business school educators, to judge business plans submitted by entrepreneurs from the United States and a dozen or so other countries. Everyone who enters gets at least one shot at having their plan evaluated by an expert in the field (see the list of judges in Figure 10.1).

The first thing VCs look for in a business plan is whether there is growth potential. David Yarnell says, "The industry has to be large and growing enough and have a structure where a player can grow. That's probably the first screen."[8]

The next screen is whether the goods or services offered by the entrepreneur are really innovative and add value. Jon Staenberg says, "We ask what problem are they solving or what customer need are they serving that isn't being solved or met today. And are they doing it in a way that makes good, logical sense? And if so, how are they doing it so that others can't just copy it? If you can answer that, then we should have a conversation."[9]

Frank Batten adds, "There's very little that's truly unique. How does this idea stand out from the rest? The number-one thing is how are they going to differentiate themselves from their competitors. Warren Buffet has written a lot about this. You want somebody with a large castle and a deep moat around it. The large castle is something that's going to be big enough to be material and worth the trouble of working on it. And then the moat is going to be what keeps the competitors from getting in. What you want is something that's at least partially insulated from competition. Does it have some competitive differentiator or moat around it that keeps the competitive edge?"[10]

"The [boomer] market has requirements that don't exist in any other market," says Greg Chabrier. "They have opportunities that don't exist anywhere else. That's why they are interesting."[11]

Frank Batten, Jr., Chairman and CEO, Landmark Communications (finalist judge, 2005)

Laura Rossman, VP, Lifestage Products and Integrated Marketing, AARP Services, Inc. (finalist judge, 2004, 2005)

David Yarnell, General Partner, Brand Equity Ventures (finalist judge, 2005)

Ilya Oshman, VP, General Manager, Pfizer Strategic Investments Group (finalist judge, 2004, 2005)

Jon Staenberg, Partner, Rustic Canyon Partners (finalist judge, 2005, 2006)

Dick Kramlich, General Partner, New Enterprise Associates (finalist judge, 2004)

Ellen Marram, Partner, North Castle Partners (finalist judge, 2004)

Barry Posner, Dean of the Leavey School of Business at Santa Clara University (finalist judge, 2004)

Richard Rosenberg, Chairman and CEO (Retired), Bank of America (screening and finalist judge, 2004)

Jennifer Fonstad, Managing Director, Draper, Fisher, Jurvetson (finalist judge, 2006)

Michael Goldberg, General Partner, Mohr Davidow Ventures (finalist judge, 2006)

Nancy Kamei, Senior Director, Digital Health, Intel Capital (finalist judge, 2006)

Emilio Pardo, Chief Brand Officer, AARP (finalist judge, 2006)

Brad Vale, Vice President, Johnson & Johnson Development Corporation

FIGURE 10.1 BOOMER BUSINESS PLAN COMPETITION JUDGES

What Do VCs Look for in an Entrepreneur?

VCs look for knowledge, experience, good business ethics, and a record for assembling a good team. An entrepreneur should have good strategic sense, know what to do with the big decisions that need to be made, and be equally adept at running the day-to-day details of the business. David Yarnell says of his investment group, "We're looking to talk to entrepreneurs who have built something before. I'd prefer that their experience not be within a large organization, but they could have been running a division of a decent-sized organization. Have they put some sweat equity into it? I want to know that they have a real proof of concept. I like it when they have really worked hard to get where they are."[12]

Laura Rossman emphasizes the importance of presenting yourself in the most professional manner possible so you'll be taken seriously. Laura's ability to listen to the pitch and recognize value helped AARP grow a revenue stream that now equals about half of the budget of the organization. "Be crisp and clear and to the point," she says. "It's important to say, 'Here's the market, here's why my product will meet the needs of the market, here's how I'd start it, here's how I'd scale it.' Investors want to know your growth strategy and that you understand what the potential is."

Laura is now out on her own; her firm Outside Insite helps companies develop and implement product development and marketing strategies for the 50+ market. "The people who are most successful, and those I always took most seriously, are the ones who had really done the market research, who had looked at what is the potential for this kind of product. Where most people go wrong is in thinking that all people over the age of 50 are one market. The more serious proposals have narrowed it down to say, 'These are the kinds of people who might want this and this is how many of them there are.' It is a very *segmented* market—it is not one lump. So within that marketplace, you've got to figure out where your target is and who are the people who are most likely to be interested in your product. You have to be realistic about whether enough people will be interested to actually scale the product to a reasonable level."[13]

"The passion of an entrepreneur is that of never giving up," says Jon Staenberg. "We often see someone who comes in with an idea and we say no. Three months later they're back and say, 'We've refined the idea and here it is.' And we say, 'that's more interesting, let's take another look at it.'"[14]

Entrepreneurs must have stamina, the ability to change direction quickly, and tenacity. "I consider all forms of athleticism—a mental athlete, an emotional athlete, as well as a physical athlete—to be a plus," says Dick Kramlich. "You see some athletes who flame out; they just don't have the discipline to do it all the time. An entrepreneur who's an athlete has the ability to endure."[15]

What Does a VC Expect in Return for the Investment?

If an investor puts in $1 million today, what would he or she think is a reasonable return in five years? "It depends on how much risk there is," says Frank Batten. "If it's a company with a proven business and established cash flows, we would look for 15% over a period of time. If it's an unproven business model, you'd want 25 to 30% because there's always the chance it could be minus 100%. Whenever there's a chance you could lose all your money, you want the upside to be pretty good."[16]

David Yarnell's group has similar expectations. "As a venture capitalist, the General Partners get a piece of the profits they make for their investors." Yarnell generally looks for a 40 to 55% internal rate of return (IRR)—this is the interest rate that makes net present value of all cash flow equal zero. This often translates to four to seven times his initial investment, depending on how long his firm stays in the deal. "Overall, our fund looks for top quartile returns in the industry," he says. "In the long run, this is an IRR over the life of the fund of at least 20%."[17]

Venture capitalists enjoy rewards that go beyond cash. "Since I've started in this business, I've averaged a return of ten times on my invested capital," says Dick Kramlich. "Beyond that, what I actually receive is tremendous psychic rewards. We have created over one-half million jobs. I regard what we're doing as the headwaters of the capital allocation process, and that is tremendously satisfying."[18]

Finding the Right VC for Your Enterprise

When seeking venture capital investment, get advice from your attorney, accountant, consultant, or other entrepreneurs who have previously raised venture capital. VC seminars and panel discussions, such as the Silicon Valley Boomer Venture Summit, are another good arena in which to gain exposure and make contact with investors and entrepreneurs with experience in fundraising. The National Venture Capital Association is one of the best sources on the Web. It has a trove of information and a wealth of links. Venture Wire is terrific for research as well.

It is a big advantage to work with a VC who is near you geographically because you are likely to have lots of meetings about building the team, reviewing progress, and making deals. You need someone who can go to lunch with the CEO or the partner and find out why they are making their numbers or missing them. The National Venture Capital Association site also includes a listing of venture capital investment companies arranged by geographical location.

On the other hand, VCs specialize in industries in which they believe they can be a market leader. It is always a good idea to find a VC who knows the kind of business you are in. For example, North Castle Partners specializes in businesses that are dedicated to healthy living and aging. The firm can match up different companies that are within their portfolio, and it can open doors to other firms.

Succeeding On Your Own

Some companies are not the type that attracts investors. Todd Healy is a prime example of someone who took a personal passion and turned it into an occupation. In the early 1980s he was an airline baggage handler working the night shift. During the slow times, he made beautiful sketches of historic homes and scenes of Old Town Alexandria, Virginia. His painstaking renderings of each brick and ornament were eventually published as a series of limited edition prints.

Todd founded his company, Historic Cards and Prints, in 1987. He would get up at 5 in the morning and set up a booth at the Alexandria

Farmer's Market. He sold a calendar; offered special original artwork to homeowners; and even had items for sale that children could afford, such as magnets and napkins. He learned a lot by listening to his customers.

"I never had a career. I had jobs," Todd says. "I always did art on the side. I was making $50,000 a year working for the airline, but I was always an artist. Things changed when I had a daughter and wanted to be home at night. With a young child at home and a day job, my art went on hold for a few years."

Todd lost his airline job during the 1990 recession and did not know how to make a living. He decided to pursue his art full time and rented studio space at a friend's art gallery. He thought that if he could make $10,000 a year from the sale of his calendar, he could get by. "The first year, I sold 3,000 calendars. Now, I sell 25,000 calendars."

Todd learned some deep lessons about the patience and perseverance it takes to be a success. "You're not an entrepreneur until you're close to losing everything, and then you find a way to make it work. You really don't know you are an entrepreneur until everything can crumble. That's when you find out you are made of steel on the inside, and that is what carries you through."

Todd ended his relationship with a souvenir company when they took all the profits from the sale of his coffee mugs. He went directly to the manufacturers, adding a product each year and convincing the manufacturer to make smaller lots. Later, he started wholesaling. His wife Laraine is the product manager and comes up with new ideas, such as the linens in their gift shop.

Todd says that building relationships is key to success. Every Monday he writes a personal note on good stationery to every customer who made a purchase the week before. He views this as the best thing that he does to market his business. His customers are loyal and trust him to choose the kinds of frames they will appreciate on the prints; he even sends them elsewhere if he doesn't have a frame they want. Todd does something that is important for every businessperson to do. He views the business as a gift, each customer as a treasure, and the challenge as an invigorating opportunity.[19]

Creating a Not-for-Profit Organization

If you have an idea about the boomer/senior market and you believe you can make a social contribution, a nonprofit organization may be the best path. If you go down this road, you will need to incorporate as a 501(c) 3, and you will need to find a board of directors who can provide direction and financial oversight.

There are several avenues for funding your nonprofit. Twenty-six federal grant-making agencies and over 900 individual grant programs award over $400 billion in grants to nonprofits each year.[20] Websites such as grants.gov and foundationcenter.org are good spots to begin your search.

You have to be tenacious when you look for foundation funding. Grantors receive countless proposals for every idea that is funded. It can take years and a hundred doors that do not open. You have to do your homework researching foundations and program officers and then patiently build your network until you find the right contact. You cannot start and run a nonprofit if you do not have an aptitude for fundraising.

Some foundations that have targeted aging as a key priority include the Archstone Foundation, the Retirement Research Foundation, the MetLife Foundation, the Robert Wood Johnson Foundation, and Atlantic Philanthropies. One benefit of obtaining funding from groups like these is the guidance you will receive from program officers. They act as social venture advisors and can assist with team recruitment, strategic partnering, and market opportunity. One of the challenges of nonprofit funding is the pace at which foundations make decisions—they usually hold only one or two board meetings each year. Program officers also come and go, and foundations can change directions when leadership changes.

First and foremost, a nonprofit organization needs to focus on its social mission. Second, it needs to create a business model that will allow the institution to grow and thrive. Today, many nonprofits are establishing multiple revenue streams with some earned income from sales of publications, research initiatives, and events. A continuing revenue stream of membership sales and retention can help sustain a nonprofit. No one has done this better than AARP, an organization with more than 35 million members over 50. For that reason, many for-profits try to partner with AARP. With more than 35 million members over 50,[21] it just makes sense to cultivate and develop a relationship with AARP.

There are many reasons to form a nonprofit, and the most obvious is to build something great and make a contribution to the lives of many people. This endeavor brings many psychic rewards. A nonprofit organization must have social goals as well as business goals. It is wise to clarify the success metrics for each at six month intervals. It is also wise to manage your nonprofit budget in a fiscally conservative way. Foundations usually make their decisions on a quarterly basis. So if you miss a quarterly deadline, you could miss the funding opportunity until the next quarter. That delay could break a fledgling organization. Or the foundation that funds your nonprofit could hire a new director who could change its priorities and cut your group loose. The bottom line for building a nonprofit is the same as it is for a regular business: you have to believe in your dream and be tenacious. You also need to have a strong and realistic business model. A board with fundraising capability as well as sound governance can be a giant help.

Creating a Franchise

Margit Novack's Moving Solutions (see Chapter 9, " Eldercare: The New Midlife Crisis") and Thomas Peeks' Fitness Together (see Chapter 2, "The Business of Health") are good examples of franchise businesses targeted at aging boomers. For entrepreneurs, the advantage of a franchise is that there is a blueprint and a starter kit. You can also benefit from experience, having a brand, and working with a network of other franchise owners. The downside is that you have to play by the franchise's rules. And if one member of the franchise network doesn't keep his or her service working well, it will reflect poorly on your brand.

Many boomers are taking on franchise opportunities as a way to supplement their retirement income. But once again, driving a successful franchise means doing your homework. Experts recommend doing demographic research and planning aggressive marketing to create a solid customer base. Remember that boomers will use and pay for many kinds of services that their parents deemed unnecessary, such as food deliveries, home cleaning services, and other concierge services. They will also pay for romance: The Right One is now the largest franchised dating service in the country, with 100,000 members and 100 locations.

To learn more, plan to attend a franchise expo. There are many available, from the West Coast Franchise Expo to the International Franchise Expo and the International Mexican Franchise Fair. These conferences showcase hundreds of franchise concepts and cover a vast array of industries at all investment levels.

Owning your own business offers no guarantee of success. But planning and foresight (and a little luck) will serve you well as you pursue your goals. Many new business owners underestimate the time and difficulty it takes to launch an enterprise. Those who've been there will tell you that hard work, patience, and good planning can bring great rewards. There is nothing more thrilling than to make an idea come to life. The thrill of the ride and the lives that are touched can make all of the challenges worthwhile.

Opportunities to Learn More: Resources for Entrepreneurs

There are many resources available to entrepreneurs. Several are featured on Mary Furlong & Associates website at www.maryfurlong.com.

Another worthwhile resource is the Service Corps of Retired Executives (SCORE), a nonprofit organization of volunteers—working or retired business owners, executives, and corporate leaders—who offer free counsel to small businesses. Local SCORE chapters are located throughout the country. SCORE is a partner of the SBA.

The SBA offers many helpful guides for small business owners, from how to create a business plan to how to handle the business finances. You can find its guide at www.sba.gov/starting_business/index.html.

Entrepreneurial magazines, such as *Entrepreneur* and *Forbes*, are another good source of information. The more knowledgeable you are about entrepreneurship and the market conditions for your product or service, the better able you'll be to guide your business to success.

There are more than 1,200 entrepreneurship programs in business schools across the United States, and you can learn about some of the best by visiting the website of the Kauffman Foundation. Another good way to learn more is to attend small business classes or seminars, such as the collaborative program between Cisco Systems and the SBA at Cisco's Entrepreneur Center in San Jose, California.

On the nonprofit side, Grantmakers in Aging (www.giaging.org), an organization dedicated to promoting grant-making for an aging society, has a more complete list of organizations that fund in the field.

Summary

The best ideas need capital to make them grow. There are many business opportunities in the boomer marketplace. And, there are many different ways to fund those opportunities. This chapter provided a blueprint to help you get started. Be realistic about the kind of business you want to build. If you have a big idea and expect to build a global business, you will likely need outside funding. If you want to have a smaller, niche-oriented business, you can choose from a franchise model or learn from some of the emerging entrepreneurs who have self funded or raised angel funding for their enterprise. And, you can also try the nonprofit path and work with some of the foundations that are providing support for good ideas. Being an entrepreneur is a wonderful opportunity; it is more like riding the rollercoaster than the Ferris wheel. You will have giant ups and you will navigate through more than just a few challenges. Whatever path you take, having a successful funding strategy is a key to success.

Endnotes

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6. Jon Staenberg, interview by Helen Gray, June 25, 2005.
7. Dick Kramlich, interview by Helen Gray, May 6, 2005.
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