Wal-Mart Gold

Lesson Seventeen Transcript

Copyright Notices

Published by:

Michael Senoff
JS&M Sales & Marketing Inc.
4735 Claremont Sq. #361
San Diego, CA 92117
858-274-7851 Office
858-274-2579 Fax
Michael@michaelsenoff.com

Legal Notices
While all attempts have been made to verify information provided in this publication, neither the Author nor the Publisher assumes any responsibility for errors, omissions, or contrary interpretation of the subject matter herein.

This publication is not intended for use as a source of legal or accounting advice. The Publisher wants to stress that the information contained herein may be subject to varying state and/or local laws or regulations. All users are advised to retain competent counsel to determine what state and/or local laws or regulations may apply to the user's particular situation or application of this information.

The purchaser or reader of this publication assumes complete and total responsibility for the use of these materials and information. The Author and Publisher assume no responsibility or liability whatsoever on the behalf of any purchaser or reader of these materials, or the application or non-application of the information contained herein. We do not guarantee any results you may or may not experience as a result of following the recommendations or suggestions contained herein. You must test everything for yourself.

Any perceived slights of specific people or organizations is unintentional.

Joe: Section 17, financial requirements to be in the game.

Michael: I know we've talked a lot about some ways of getting in this game without a lot of money, but let's talk about some of the details and the realities of financing and getting in the game. Can we go over some things that are important for me to know about?

Joe: Two different ways of talking about financial requirements. One is the financing of your business to get up and going if you're starting a business, and the second is operating once you are going.

One of the very kinds of financing that can work very well for once you're up in business and you need to grow, if you're being successful with mass merchants and you haven't been there before, you might see that you're growing 300% or 400% a year. Any time you're going that fast, you're probably not going to be able to finance yourself with your own cash flow. So, some of the kinds of financing to look into, one is called asset based financing that can be done by a lot of banks. They usually have separate divisions that do this. We had this with our company. What that is, is you are able to borrow based on your accounts receivable and your inventory. The typical arrangement is you can borrow 50% of the value of your inventory, 80% of the value of your receivables, and that changes every day. And then you have a line of credit and your availability of your credit depends on your receivables and inventory each day. So, that kind of financing, if you need to grow fast, works well because it can finance you on a fast growth curve.

In addition to that, if you're actually manufacturing, you're going to have building, equipment, and so on and that's probably the easiest thing to finance if you have some hard physical asset, you can either get a leasing company or a bank to finance that. Real estate is reasonably easy to finance, as well.

The hardest kind of financing is what I had in my second company when we were in the school supply business. We were a marketing company and that's one of the things we've talked about in this course is being a marketing company so you don't have to invest millions in manufacturing. But if you are one, then you have no hard assets. So, the financing is now a little trickier. You don't have equipment or buildings or things to borrow money on. And in that case, you need to set up your financing in advance.

Three of the main kinds of financing that people look at, one is venture capital, one is angel investors, and one is just private contacts you might know.

With the venture capital people, the thing to be aware of there is number one; they're not going to be interested in you unless you need a couple million dollars. They're going to want to have five or ten times return on their money in five years and they're going to want control of your company until you prove that you can do it. So, having lost one of my companies to venture capitalist because we were in need of more money than they were ready to give us, they ended up getting all the control of the company. I'm sort of skeptical about venture capital financing. It's really for those kinds of companies that are going to go up to a hundred million quickly, big, big.

Angel financing is probably a lot bigger than venture capital. It doesn't get the press, but there are angel capital networks in every city and there are also venture capital networks you can find online. But the angel people are individual investors who have money who are looking to invest in something in the field that they know something about. And they can be very good and if you don't have personal contact, business contacts yourself where you can raise money, which most people probably don't have, the angel investors are a good place to go. And another reason they're a good place to go is you don't have need $2million. Angel investors can invest in $100,000. So, if you're at the smaller capital needs, you can be fine with them.

Another way to get there, it all depends on how much money you need, really. If you need $50,000 or $100,000, you might even be able to second mortgages or credit cards. I've known people who started businesses with just a credit card, but that's small amounts of money. If you need millions, then it's a whole different thing.

There is yet another category of sources of money that most people don't know about, but it's where most of the money actually comes from and those are investment banks. And in the case with investment banks, these are the people on Wall Street and they could be dealing with huge amounts of money, but you can get a private company financed by them. And the reason you won't see them on a website or you won't see directories of them or anything, pretty much the only way to get financed by investment bankers is through a personal introduction. So, that's sort of a closed network of people with huge amount of money to invest. I have a friend who is on the board of directors of a venture capital network in New Mexico and he has some investment banking contacts in New York. So, if that's the kind of financing that would be appropriate, we do have some contacts there that we could check with to see if they would be interested in the kind of product you have.

Another way to get there, and in a way is easier than all of that, everything we've talked about so far is partnering with somebody else. If you're a marketing company and you, of course, then have to buy your products somewhere; the company that is manufacturing might be very interested in partnering with you to the extent of where they would help finance you. Especially since one of the things you need money for is to buy your product. If you're arranging with the people who make your product to benefit from that, they're effectively maybe going to give you six-month terms instead of 30-day terms and you eliminate some of the needs for financing that way.

The other benefit to the manufacturer who you're working as a marketing company, manufacturers make manufacturing margins, which aren't all that hot. If they can participate with you in what you're doing at the next level up selling to the retailer, they're getting an additional piece of margin they wouldn't otherwise have by participating with you in your company. And from my point of view, I'd even be willing to have them have a small piece of the company and share in the profits in exchange for financing it. That kind of financing is a lot different than some third party who doesn't know you, is investing in your business, and hoping you can run a company properly. These people are the people who do know your business, they're making your product, they're intimately involved, and it can make some sense if there's interest on their part.

So, in conclusion, there are quite a few different ways to finance your business to get the money you need to be in the game.

The next section is Section 18, where we're going to have tips for international manufacturers and entrepreneurs.

Michael: This is the end of Section 17. Please continue to Section 18.