



KPMG ENTERPRISE

FuEL Award winners demonstrate staying power?

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For young entrepreneurs, financing and credibility top the list of start-up business challenges. But once they have their foot in the door, and the seed capital has been secured by whatever means necessary, the next hurdle for entrepreneurs is generating and managing growth in a sustainable way.

Success for a fledgling company can be a double-edged sword. While growth in sales and customers is a good thing, without the infrastructure to handle demand, early success can quickly turn into a spectacular failure.

As young entrepreneurs, this year's FuEL award winners have learned in short order what it takes to start a business. However, more importantly, they have also figured out what it takes to keep the momentum going and create a self-sustaining business model.

In some cases, it's as simple as using positive cash flow or personal loans for financing expansion. For those with larger overhead requirements, it means taking a careful and progressive approach to financing different growth stages.

Rattan Bagga's story is a familiar one for this group. Considered too young to secure financing for his Jiva Organics

idea, he says: "I had to work on being tenacious; get references from other stores and prove I had a track record. It was two years before I had a decent size deal. Ultimately it had a positive impact. Now we're totally self-sustainable."

"Entrepreneurs typically don't see the fruits of their labours for two to three years," confirms Kyle Vucko of Indochino. "We're four years in and just scratching the surface."

Vucko raised money for his online men's apparel company with little to offer but an idea.

But that business idea provided a great reason to talk to people - and the rest just followed suit. "I built up a roster of mentors. Four of them became angels. By March 2007 I had raised \$40,000 and just kept learning from there."

Ongoing success is all about the networks you foster, he adds. "I'm always looking for the best people. Once I know them, they introduce me to the best people they knew. As a result, financing to take us to the next level was relatively easy, as long as we keep rising to the challenge and putting ourselves in front of the right people."

Sammy Kennedy, founder of Booty Camp was among the list of lucky entrepreneurs whose start-up requirements were minimal. "I was really fortunate in that the business model I created was self-sustaining. I never had to seek out financing externally," she says. She has expanded her personal training company from one location to

nearly 100 in four years without massive overhead costs, by offering her services through local community centres and other available facilities.

Ray Cao of Loose Button was equally adamant that his business should not have to rely on outside financing to make it work. He did have a fall-back source of revenue though. "Before Loose Button I did consulting for professional services firms. That helped to build the capital for us to feed into the work we're doing."

TalentEgg started off with a mere few thousand dollars, which was all founder Lauren Friese needed to get on the path to success. "Our business doesn't require inventory or any other major capital expenditure. We generate revenues from sales. Within a few months we had a positive cash flow and ended up with a profitable first year."

It stands to reason that not everyone can grow a company on a meagre budget. Building a solid support network is what allowed Josh Sookman at Guardly to acquire venture capital funding when he needed it. "In tandem with speaking with angels, we looked at what grants were available through different government programs. Once we had those angels in hand, it was easier to go out and expand our financing network."

At the age of 24, Debbie Fung was the youngest person to set up her own yoga studio in Toronto. Now 29, she has built up the credibility she needed to expand her Yoga Tree concept to four locations. "There were significant capital needs in

order to do that," she explains. "I applied for a small business loan for \$50,000 at the start. From there I injected my own capital through my personal line of credit, along with some help from the family."

One important success factor for her has been the ability to control costs. "There's a lot tied to having a physical location, because you have leasehold improvements. We did a lot of it ourselves. That really got the ball rolling."

Where the cost of expansion can put a strain on resources, fallback sources of revenue have helped people like Monique Haakensen of Contango Strategies Ltd. stay afloat until the business gained traction. "We run a scientific lab here that has hundreds of thousands of dollars worth of equipment. But I already had R&D contracts in the works so I knew the money was coming. We grew organically by taking our profits from consulting and using them to develop new services in addition to our contract research and development work. Basically, we just did what we needed to do to get those doors open."

Matt Rendall of Clearpath Robotics is the classic garage-based business to full-blown production facility success story. Yet each growth stage continues to demand extensive capital

investment. "It's been a difficult road – and it still is because we are growing so quickly. Each stage presented its own challenges. The first of course was getting started."

At the beginning he used a customer financing model in which customers shared in sales revenues. "That gave us the cash flow to finance our orders," he explains. "While we were growing revenues we started positioning ourselves for government grants."

Rendall has also engaged in a seed round to expand production capacity and take the company to the next level. "We just did what you need to do to keep it going: grow revenues, take advantage of programs and get private equity where we can."

As Haakensen notes, the common thread with any entrepreneur, regardless of their capital requirements or business model, is that it's a lifestyle. "You're always thinking of your angle, your next move, your strategy for your business. Look at pro athletes. They don't just show up and play game. They put in years and years of practice to get to where they are. When they're not playing they are strategizing with team mates, going to the gym, talking to sports psychologists. They're successful because they put time and energy into it."

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