

FOREWORD BY CONGRESSMAN RO KHANNA

raise capital on your own terms

how to fund your business
without selling your soul

J E N N Y K A S S A N

Praise for *Raise Capital on Your Own Terms*

“This is a crucial, powerful resource for businesses that need money to make their dreams come true. There are so many investors out there who are looking to move money off Wall Street and into their community. Jenny shows you how to connect with them so you can build a better world together!”

—**Kate Poole, Founding Member and Leader, Regenerative Finance**

“An insightful, practical, enriching book for entrepreneurs and organizations looking to build their businesses without venture capitalists. A much-needed alternative voice for entrepreneurs!”

—**Aner Ben-Ami, Managing Director, Candide Group**

“*Raise Capital on Your Own Terms* is a perfect motto that speaks directly to entrepreneurs. We have all that we need to create a better business funding system, and Jenny lays out the path forward.”

—**Vicki Saunders, founder of SheEO**

“Jenny Kassan’s new book turns the way entrepreneurs should look for capital upside down. It is a book for any entrepreneur, but especially mission-driven ones.”

—**Alicia Robb, PhD, founder and CEO, Next Wave, and Managing Partner, Next Wave Impact Fund**

“Jenny Kassan is an expert on raising capital from friends, customers, and community and a leader at creating terms of investment that work for everyone.”

—**Morgan Simon, author of *Real Impact***

“Jenny Kassan is the go-to small business advisor. With this book, she shares her proven strategy for helping businesses raise capital on their own terms, in alignment with their values, by guiding them to finding like-minded, supportive investors.”

—**Kristin B. Hull, PhD, Director, Nia Community Fund**

“Jenny Kassan’s book is both inspirational and practical. It is inspirational because it lifts the shroud of mystery over raising capital, and it is practical because she walks the reader through the process in well-written, bite-sized chunks. This is a must-read for those new to raising capital as well as many who may think they are ‘old hands’!”

—**Vince Siciliano, CEO, New Resource Bank**

“This should be the Bible for entrepreneurs building a small business. It makes the daunting task of raising capital easy to navigate through clear and detailed advice and innovative legal options and ownership models. These proven strategies from a national expert can empower everyone with a business plan while helping evolve capitalism into something more conscious and regenerative.”

—**Michael Kramer, Managing Partner, Natural Investments, and coauthor of *The Resilient Investor***

“A major problem plagues the entrepreneurial sphere. Many of the best businesses don’t reach their potential because they’ve not been empowered with information about how to raise capital in a way aligned with their own vision and goals. This book is a solution to that problem. It’s an invaluable and groundbreaking resource that I would recommend to all entrepreneurs to expand their thinking and develop their unique right approach to raising capital. We have needed this book for a very long time, and now it is here.”

—**Tara Mohr, author of *Playing Big***

“The process of raising money often dehumanizes both sides. Jenny Kassan outlines a path that allows business owners to retain their integrity and raise capital on their own terms and investors to support the real value created by business owners. A more local, more grounded, more connected kind of economy is what the legal techniques described in this book guide us toward. This is the kind of world I want to work for. I am glad to be in her orbit.”

—**Kevin Jones, cofounder of Socap, Good Capital, and Neighborhood Economics**

“Jenny Kassan fulfills a desperate need for entrepreneurs seeking capital. Her book addresses the emotional, psychological, and practical barriers to seeking funds in an interconnected and easy-to-understand way. I can’t recommend this book enough.”

—**Nikki Silvestri, founder and CEO, Soil and Shadow**

“I’m so excited about this book! Jenny Kassan has been at the forefront of community capital, and readers could not find a better coach, mentor, and guide to this innovative way of raising capital. Prepare to have your old notions of how to raise capital turned upside down!”

—**Amy Cortese, author of *Locavesting***

raise capital on your own terms

HOW TO FUND YOUR BUSINESS
WITHOUT SELLING YOUR SOUL

Jenny Kassan

Foreword by Congressman Ro Khanna



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a BK Business book

Raise Capital on Your Own Terms

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*To my parents, Art, Liz, Joan, and Linda,
for making everything possible.*

*To Michael Shuman, Marsha Murrington,
and John Katovich for believing in me.*

And to my husband, Vinnie.

*Jane Jacobs brought us together and continues
to inspire what we do every day.
I can't believe my luck!*

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A NOTE TO READERS

Legal disclaimer: This book serves as a guide and resource, but is not legal advice. Qualified professional counsel should be consulted for questions on your specific situation.

For readers located outside the United States of America and those seeking investment from outside the United States of America: The author is an attorney with knowledge of the law of the United States. The US laws are designed to protect US-based investors. Companies based in other countries or companies raising money from outside the United States are likely to be subject to non-US laws and should seek counsel from an attorney with knowledge of the laws of the country in which they are based and/or the countries from which they are seeking investment.

Keeping up with changes in the law: The world of raising capital, including the law that governs it, changes from time to time. For readers of this book, we have created a website with additional resources and updates: jennykassan.com/bookresources. For details on the website and other resources, see the resources section at the end of this book.

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FOREWORD

I couldn't agree more with the first sentence of this book: entrepreneurs are heroes.

Although big businesses advocate for their interests with powerful PACs and armies of corporate tax attorneys, small businesses often struggle just to survive. Yet in spite of all of the challenges they face, they have always been the backbone of our country's economy.

Small businesses represent 99.7 percent of all employer firms and employ more than half of private sector employees. Sixty-four percent of new jobs were generated by small businesses over the past fifteen years.

For our economy to thrive today, it is crucial that entrepreneurs continue taking risks to start new companies.

Since the recession, less credit has been available to small businesses. To boost our nation's economy, we need to make it easier for entrepreneurs to access capital so that they can build their businesses and hire more employees.

Trillions of dollars are invested by Americans, but almost none of that investment goes to small business. This book gives entrepreneurs the information they need to access capital from a larger number of smaller investors, opening up vast untapped resources and democratizing investing. It is a one-of-a-kind resource for entrepreneurs who want to bring in investment capital on their own terms—no matter

whether nonprofit or for-profit, early stage or seasoned, on the coast or in the heartland.

In 2012, the federal government increased the legal options to facilitate investment crowdfunding. Jenny Kassan is one of the nation's leading experts on the law governing these creative tools.

The widespread use of the strategies presented in this book will unleash a new wave of entrepreneurship across America.

This book is a must-read for entrepreneurs in need of more resources and for any American who wants to invest in the vibrant small business sector of our economy.

Congressman Ro Khanna

INTRODUCTION: YOU CAN RAISE CAPITAL ON YOUR OWN TERMS

Entrepreneurs are heroes.

You have a dream to make a difference in the world with your product or service and make money doing it. Lots of people have dreams like that. But you are bold enough to do what it takes to turn that dream into reality.

Being an entrepreneur is not easy, but every year, hundreds of thousands of men and women in the United States decide to take a risk and start a new business.

We small business owners quickly realize that outside funding is necessary, or at least highly desirable, for our businesses to get off the ground, operate until they break even, and grow to their ideal size.

Many of us turn to our personal resources and assets as a source of business funding. We may use personal credit cards, get loans from family members, take out second and third mortgages, drive Uber, or list our spare rooms on Airbnb. We also operate on a very tight budget. We buy low-quality equipment, try to build our own websites, forgo a salary, put a moratorium on family dinners out, and generally tighten our belts for the sake of our businesses.

What we entrepreneurs need is funding that does not require sacrificing our personal credit rating, our health, our energy, or our well-being.

WHAT ARE THE RISKS OF RAISING FUNDING?

Unfortunately, we may shy away from seeking outside funding because of the stories we hear about the risks of bringing on outside investors.

The story of Ben & Jerry's Homemade Ice Cream is a cautionary tale of how raising funding can take your business in a direction you never intended. There are numerous such stories of mission-driven, idealistic founders losing control of their companies, only to see them begin to shed many of the things that made them great in the first place. It's stories like these that make many entrepreneurs hesitant to raise money.

Ben Cohen and Jerry Greenfield opened their first ice cream shop in Burlington, Vermont, in 1978. From the beginning, they cared about more than just profit. Ben & Jerry's "measured its own success by asking: 'How much have we improved the quality of life in the community? And how much profit is left over at the end of each month. If we haven't contributed to both those objectives, we have failed.' . . . For its 'Chocolate Fudge Brownie' ice cream, Ben & Jerry's purchased brownies from Greyston Bakery, an entity whose 'mission is to provide employment and support services to former homeless, low-income and disenfranchised people and their families.'"¹

In 1984, they offered stock to Vermont residents—about eighteen hundred households became shareholders—and soon after, they took the company public.²

As the market for premium ice cream got more crowded, the company began to face challenges. "In 1994, the company's annual report disclosed that sales growth

slowed and it had suffered its first financial loss. By 1999 the stock had dropped nearly 50 percent from its peak, because of the company's weaker financial performance."³ This attracted interest from corporate buyers who believed they could turn things around by focusing more on the bottom line and less on the mission. *The Economist* opined that "even caring shareholders would rather that Ben & Jerry's gave its profits to charity than becoming a charity itself."⁴

When Unilever, a global corporation that owns brands ranging from Vaseline and Dove soap to Breyer's and Lipton, made an offer to buy the company at well above the current share price, the board felt that it had no choice but to accept, fearing lawsuits from disgruntled shareholders.⁵ "Ben walked away from the deal with \$41 million. Jerry got \$9.5 million. . . . Yet Ben and Jerry have also said that losing control of their company was one of the worst experiences of their lives, and they still don't want to talk about it."⁶

The good news is that this can be avoided. You can raise capital on your own terms and not be subject to the whims of investors who care only about maximizing profits at any cost.

THE RIGHT FUNDING—WHERE DO YOU FIND IT?

You may have heard about Ben & Jerry's and other horror stories of company founders losing control of their businesses after raising money. But you need funding! You need funding that allows you to pay yourself a reasonable salary, that allows you to hire the help you need so that you can use your genius where it will contribute the most, that gives you

the space to take good care of yourself so that you don't burn out and feel like giving up.

So you decide to explore the options. Maybe you Google something like "small business funding." The first links in the search results are advertisements for online lending sites that charge outrageously high interest and fees. These should only be used as a last resort when you absolutely must have an infusion of cash immediately. If you plan ahead, you should never have to turn to this incredibly expensive source of funding.

Then you see something about small business loans. You may talk to a few banks and find that you don't qualify because you don't have collateral or you haven't been in business long enough. According to a recent study, only 38 percent of businesses with revenues less than \$5 million qualify for a bank loan.⁷

What about crowdfunding? You consider a Kickstarter campaign, but you worry that so many people are doing them these days that you will get lost in all the noise. And the amounts are pretty small. The majority of successful donation-based crowdfunding campaigns raise less than \$10,000.⁸

What you need are investors!

When you hear the word "investor," what do you picture?

When I ask this question, most people describe a man in a suit (or, if in Silicon Valley, maybe khakis and a button-down shirt) in a fancy office spending every workday combing through pitch decks, executive summaries, and due diligence, and barking tough questions at terrified entrepreneurs. These are the kinds of investors who will not allow

you to raise capital on your own terms. These kinds of investors expect you to accept *their* terms, take them or leave them.

I call these folks *professional investors*. These are wealthy individuals and organizations, sometimes investing their own money and sometimes investing on behalf of others. They come in many flavors: angel investors, venture capitalists, private equity funds, family offices, private foundations, wealth managers, and so on. These are the kinds of investors who pushed Ben & Jerry's to sell to the highest bidder. (Of course, not all professional investors put financial return ahead of all other considerations. There is a growing movement called *impact investing*, which considers community and environmental impact as well as financial returns when making investment decisions.)

When entrepreneurs think that professional investors are the only source of investment, many of them quickly dismiss the idea of raising capital.

I hear them say things like this:

- ✦ Why would these people even consider investing in my business? I doubt I could give them what they're looking for.
- ✦ I wouldn't know how to get my foot in the door with these people or even how to find them.
- ✦ Don't these investors want to take control of the businesses they invest in? Don't they even sometimes fire the founder? I'm not ready to give up control.
- ✦ How could I stay true to my company's mission and values if I had to focus all my efforts on giving my investors the highest possible financial returns at any cost?

If you limit yourself to seeking funding from professional investors, you may be right to have fears and concerns. As we'll discuss in greater detail, these kinds of investors tend to follow a very specific investment model that is not a good fit for most businesses and may well not be a good fit for you.

The good news is that there are many sources of investment capital, and even if professional investors aren't right for you, I can almost guarantee that there are investors out there who *are* right for you. We will talk a lot more in later chapters about all the options, but for now, just know that businesses of all kinds can raise money from investors. Just because you don't have the type of business that would be attractive to professional investors or you're unwilling to accept the strings that come with their investments does not mean that you cannot raise hundreds of thousands and even millions of dollars from investors. There are investors who will be happy to support you *on your own terms* and not push you to sacrifice your goals and values.

HOW TO TAP THE MOST ABUNDANT YET OVERLOOKED SOURCE OF BUSINESS FUNDING

This book takes you through a step-by-step process to design a capital raising plan to tap the right investors for you. Statistically speaking, these investors are likely not professionals. They are far more likely to be regular folks with day jobs that do not involve investing. These people are by far the most abundant source of investment capital, yet very few business owners consider tapping them.

There are six basic steps to creating a capital raising plan that is customized to your particular situation. You *must* design a capital raising plan that fits who you are, your goals, and your values. Using a one-size-fits-all approach to bringing on investors is one of the surest ways to make your life a living hell. It is critical to create as much alignment as possible between what you want and what your investors want. Don't rush into raising money. Use this book to create a plan that will result in more peace, joy, and prosperity in your business and life.

Never trust anyone who tells you there is only one way to raise capital. There are infinite ways, and there is at least one that is right for you. This book takes you through a step-by-step process to design your plan—the one that inspires you, excites you, and is in complete alignment with your goals and values.

These steps are not linear—creating your capital raising plan is an iterative process. For example, what you discover when working through step 2 may lead you to return to step 1 and make refinements. Each decision you make will help you refine your other decisions, so don't hesitate to revisit steps until you feel that your plan is doable and that it truly reflects your uniqueness.

The following is a summary of the steps that we will cover in detail in this book.

Step 1: Get Clear on Your Goals and Values

Your goals and values are the foundation for your capital raising plan. To some, this may seem obvious, but it amazes me how many entrepreneurs attempt to find investors