

BAS Hooks: Attempting to snare funding

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ABSTRACT

The tasks associated with Sonie Janiro's founding of a new venture in the southeast region of The United States of America, named BAS Hooks, are described and discussed in this case. Entrepreneurial behaviors associated with conceptualizing, designing, and starting-up this new venture are also discussed to provide insight into BAS Hooks' business model. Sonie's abilities to recognize and evaluate a business opportunity, to analyze the risks and threats associated with starting the business, to align valuable resources, and to identify key stakeholders who can potentially render support in various ways to facilitate the start-up of operations are also summarized in the case. Assessment of the overall business model of the new venture and the likelihood of BAS Hooks being perceived as a low- or high-risk investment opportunity for potential financiers is facilitated by details conveyed in the case. Having reached the point in the process of starting up the new venture where seed funding is needed, Sonie is concerned about the independent risk assessments to be made by the five potential financing sources that she identified: friends and family, commercial banks, angel investors, crowdfunding, and governmental agencies. She continues to struggle with determining which potential investment option is most suitable for the new venture's short-term financing needs related to manufacturing requisite inventory and paying for certain future operating costs.

Key words: business model, potential financiers, venture funding

INTRODUCTION

Sondra (Sonie) Janiro, founder of BAS Hooks, pondered her next step as she hoped to attain support from a list of potential financiers she compiled. After approximately one year of brainstorming, prototyping, resource gathering, and business planning, Sonie struggled with one of her most significant entrepreneurial challenges yet: attaining funding for her start-up venture. Since the genesis of her new product and subsequent founding of her new venture, Sonie thought she had completed the work necessary to start manufacturing large quantities of hooks for use in multiple industries. This led up to the sales of their first lot of 60 hooks to professionals working in the food and beverage service industry to test and prove concept and design. Yet, even after the sales of all the ‘proof of concept’ hooks to demonstrate the utility of their product, Sonie was still left to decide which means of financing to use to start up operations. With numerous financing sources identified, Sonie weighed the potential likelihood associated with attaining funding from each source, given the inherent risk associated with funding BAS Hooks, as she tried to decide which source would be the optimal public or private entity to solicit for requisite seed funding.

VENTURE CREATION

The founder of BAS Hooks, Sonie Janiro, visited a local restaurant and pub outside of the city of Nashville, Tennessee (USA) after work one day. That day, after five minutes of dialogue with the bartender, something on the bartender’s belt loop area caught Sonie’s attention. She was intrigued by a hook-like device that was attached to the bartender’s belt loop. After Sonie’s inquiry related to the device, the bartender explained that the hook served to attach her bottle opener to herself between bottle openings to fulfill orders. The bartender further explained that she manufactured it by soldering three metal pieces that she had found for purchase from a local hardware store. She felt that this personal hook saved her a significant amount of time that she would normally spend locating her bottle opener when behind the forty-person bar area she serviced.

UTILITY AND MARKET

Immediately after the bartender’s explanation, Sonie thought, “I’ll bet every bartender in every bar and restaurant in the world would like to try that!” This marked the moment when Sonie realized the potential of her own soldered creation for use in bars and restaurants. With this insightful moment of discovery, Sonie thought about the prospects of starting a business focused on the manufacturing and commercialization of her own carefully designed hook device. Soon after she completed her ideas pertaining to opportunity evaluation and market identification, the potential markets Sonie identified grew beyond the scope of just the bar and restaurant industry. Sonie thought she could pursue sales in the hair styling industry and automotive service industry as well.

RESOURCE GATHERING

Aware of the inherent factors that both facilitated her efforts as well as those factors stacked against her and her soon-to-be new venture, Sonie decided to officially start her new

venture two months after she first had her ‘ah-ha’ moments. After some thought, she settled on the company name, ‘BAS Hooks,’ a name derived from the place where she first thought about starting her business, ‘a bar,’ and her first name. Next, she applied for and obtained proper legal documents and a tax identification number.

With legal documentation obtained, Sonie strategized and planned the details associated with manufacturing and commercializing the hooks. After approximately three months brainstorming, designing, and prototyping, Sonie settled on the final design for use in prototyping. Key features of the product included that customers had six uniquely sized hooks and four different face plate sizes to choose from as they constructed their hooks based on personal taste. In addition, customers had the option to personalize their hooks and faceplates with stickers and LED lights, and even had the option for the hooks and faceplates to be powder coated in any color desired.

as indicated in Figure 1 and Figure 2 (Appendix)

Shortly after the hook was designed, Sonie identified a vast source for the raw steel materials needed for the manufacturing process that would allow her to market the hooks as hooks completely manufactured with repurposed steel – rationalized to be a very important source of competitive advantage in the future. No other competitors in this segment of the hand tool industry claimed this about their raw materials. Sonie discovered that all the scrap steel produced during the construction of very tall buildings in the urban areas near where she lived was available for pick up and reuse, free of charge, provided she hauled away the scrap steel from the various construction sites during nighttime hours.

Sonie then decided that the manufacturing of the hooks would occur for at least the first year of operation utilizing a local manufacturing facility that specialized in manufacturing unique metal products. Sonie, along with the manufacturing firm’s vice president of marketing, negotiated the terms of the production agreement to include the revisiting and revising of the agreement on an annual basis. The facility had enough capacity to fulfill orders in lots as small as one hook, up to 1,000 hooks daily, depending on forecasted demand schedules. In addition, lead times at the local manufacturing facility would not be an issue for BAS Hooks given the 24 hours a day/7 days a week operation schedule of the highly automated local manufacturing facility.

In addition to the repurposed raw material usage during the manufacturing process, Sonie decided the hooks would be packaged in one hundred percent recycled corrugated material, also sourced locally. This packaging was designed with a very simple logo and kept its brown cardboard coloring on front and back. Sonie wanted to market the simplicity of the hooks and the hooks’ utility, and not be known for flashy packaging and unfounded claims.

Sonie decided to share selling responsibilities with one other ‘part-time’ outside sales representative of the new venture, and for at least the first four or five years the representative would remain focused on selling large lots of hook orders in a business-to-business (B2B) fashion. Initial key sales orders would be facilitated by using Sonie’s professional networks of managers and executives working in the food and beverage service industry throughout the southeast region of the country. The focus of the soon-to-be hired sales representative was to be on selling in other service industries where hand tools and personal accessories were important to

the rendering of service, like the hair styling industry and the automotive servicing industry. Sonie envisioned that once BAS Hooks had established its customer base within the southeastern region of the country after three to four years of production, utilizing additional channels such as wholesaling companies, web-based retailers, and direct-to-consumer (D2C) methods would facilitate the exponential growth of BAS Hooks in the company's growth and maturity stages of development.

LOOKING TO THE FUTURE

The anticipated future annual costs of production, sales, and general administration, as well as estimated future annual revenues were included in the company's proforma income statement. The BAS Hooks proforma income statement detailed the need for Sonie to secure seed funding of approximately \$300,000 dollars to start up operations at the expected scale. Two-thirds of the three hundred thousand dollars in seed funding was needed for initial inventory. The remaining one hundred thousand dollars was to be used for the first two or three years' of operating expenses, depending on sales revenues as indicated in Table 1 (Appendix)

With most materials, processes, and costs necessary to manufacture and package her hooks planned for, Sonie decided to apply for protection against theft of their product ideas and technology. She wanted to safeguard the product design from future efforts to replicate it through the attainment of a provisional patent, and then eventually through the nonprovisional patent application process. So, after approximately 50 hours of documenting and then applying to the national patent office, Sonie safeguarded the hook with a provisional patent issued to her. This intellectual property-related award made Sonie feel very secure about the potential for the long-term success of BAS Hooks.

One of the only other significant tasks that remained before start-up was demonstrating that Sonie's product and her new venture were legitimate. The thoughts of Sonie were that the sale of a significant number of hooks to local restaurant and service industry professionals would prove the product was legitimate. These sales were needed to provide evidence to potential financiers that BAS Hooks was worthy of the seed funding it needed to start up and operate through its first three years of operations. Through her network of friends who worked in the food and beverage service industry, Sonie sold all five dozen 'proof of concept' hooks she had manufactured and packaged for sale. The \$600 in revenue earned from the sixty hooks sold nearly equaled the cost of the materials and labor required to manufacture them.

After the celebration of sales, Sonie checked to ensure both the manufacturing facility employed to manufacture these sixty hooks and the packaging company used to aid the sale of the hooks had ample capacity to significantly scale up. Sonie expected BAS Hooks to have annual manufacturing orders based on its Year 1 and Year 2 forecasted demand of approximately 30,000 hooks each year. In addition, the purchase price of \$10.00 per base unit was thought to be adequate for at least three to four years after start-up. The cost of each manufactured and packaged base unit was approximately \$7.00 during the prototyping phase, and sure to decrease significantly as economies of scale were realized after start-up.

FUNDING DECISIONS

With their provisional patent attained and having tested and proved that her design concept and product deserved a share of the market for specialty tools and devices, Sonie

embarked on the last task necessary to complete before start-up: securing seed funding. Sonie really did not want to refinance her modest home to fund the new venture. She valued her home at approximately \$300,000, with the home being owned outright. In addition, Sonie did not want to withdrawal money from a 401K account or from her own personal savings account. The total of Sonie's savings account was valued at about \$20,000 at the time.

After researching her options, Sonie identified five sources of external seed funding in her efforts to avoid self-funding BAS Hooks. The first option was to utilize friends and family as financiers. Another option would involve applying to commercial bank loan officers in the general area of the company headquarters. A third option was identified as soliciting and pitching angel investors who in the past had funded small- to medium-sized ventures operating in the manufacturing sector. A fourth option, crowdfunding, was also believed to be a viable choice at this stage of the development of BAS Hooks. And finally, Sonie identified the Small Business Administration (SBA) as another potential financing option. Each funding source had requirements that Sonie weighed during her seed funding decision-making process.

Sonie identified certain details and circumstances concerning her new venture that she hoped would make the decision-making process concerning seed funding easier. Though even with a general assessment of all the key positive and potential negative aspects of BAS Hooks identified, the choice of which financing option to target was still undetermined, as the entrepreneur grappled with properly and fairly assessing BAS Hooks' investment risk level. Sonie was left wondering if BAS Hooks would be viewed as a high-risk investment or a low-risk investment by certain potential investors given the new venture's positive and negative attributes? In addition, she continued to struggle with determining which potential investment option was most suitable for the new venture's short-term financing needs, given the anticipated sensitivity to risk each potential investor would likely demonstrate. Sonie continued with thought and deliberation regarding which would be the funding source that would provide the fairest deal as indicated in Table 2 (Appendix)

APPENDIX



Figure 1. Hook front (prototype)

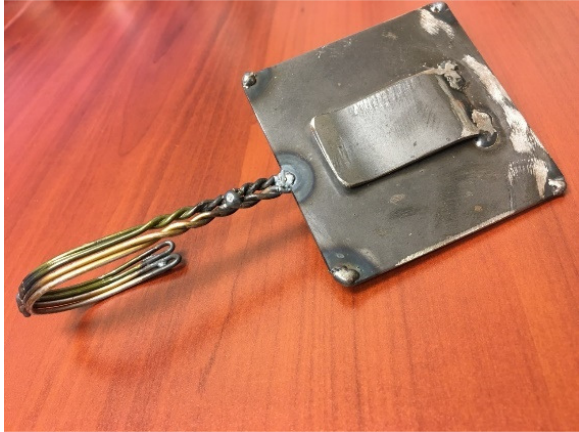


Figure 2. Hook back (prototype)

Proforma Income Statement
BAS Hooks
2024 through 2028
(all numbers in \$000's)

	2024	2025	2026	2027	2028
REVENUE					
Gross Sales	\$280	\$340	\$380	\$420	\$480
Returns and Allowances	20	20	24	24	28
Net Sales	\$260	\$320	\$356	\$396	\$452
COST OF SALES					
Beginning Inventory	\$0	\$80	\$80	\$80	\$80
Manufactured Goods	260	200	208	236	240
Total Goods Available	\$260	\$280	\$288	\$316	\$320
Ending Inventory	80	80	80	80	80
Total Cost of Goods Sold	\$180	\$200	\$208	\$236	\$240
Gross Profit	\$80	\$120	\$148	\$160	\$212
OPERATING EXPENSES					
Selling					
Salaries and wages	\$30	\$30	\$32	\$34	\$38
Commissions	5	5	6	7	8
Advertising	10	10	10	12	12
Other	2	2	2	2	2
Total Selling Expenses	\$47	\$47	\$50	\$55	\$60
General/Administrative					
Salaries	\$20	\$22	\$24	\$26	\$28
Employee benefits	2	3	4	4	5
Payroll taxes	4	5	5	5	6
Insurance	5	5	5	5	5
Rent	12	12	14	14	15
Utilities	7	7	8	8	8
Depreciation	5	5	5	3	3
Office supplies	1	1	1	1	1
Travel	13	11	10	10	10
Other	4	4	4	4	4
Total General/Administrative Expenses	\$73	\$75	\$80	\$80	\$85
Total Operating Expenses	\$120	\$122	\$130	\$135	\$145
Net Income Before Taxes	\$(40)	\$(2)	\$18	\$25	\$67
Taxes on income	-	-	3.6	5	13.4
NET INCOME	\$(40)	\$(2)	\$14.4	\$20	\$53.6

Table 1. Proforma income statement

Sonie’s Assessments of Potential Investment Options

	Friends and Family	Commercial Bank	Angel Investor	Crowdfunding	Small Business Administration (SBA) or Similar Governmental Office
<i>Type of agreement related to the financing option</i>	Loan to equity stake (e.g., simple agreement for future equity or convertible note)	Loan with collateral	Loan without collateral and/or payment for equity stake	Payment for product or some form of recognition	Payment if qualified, with repayment necessary in some instances
<i>Expected risk sensitivity of funding source relative to other sources</i>	Medium	High	High	Low	Low
<i>Likelihood of BAS Hooks attaining requisite financing</i>	Medium, due to relationships	Medium, due to collateral	Low, due to lack of relationships	Low, due to lack of relationships and lack of product pizzaz	Medium, due to meeting the requirements

Table 2. Investment option details

DISCUSSION QUESTIONS

Pre-assigned reading related to Osterwalder and Pigneur’s book, “Business Model Generation (pp. 200-223)” (2010) is required prior to discussing these questions.

1. Consider the steps taken by the entrepreneurs in this case. Map those entrepreneur behaviors to the general entrepreneurship process and identify whether each of these entrepreneurial actions were intentional or just inadvertent.
2. Based on the nine elements included in most business models, identify and describe the building blocks that make up BAS Hooks’ business model canvas as they are described and alluded to in the case.
3. Assess the risk associated with seed funding from the points of view of the five potential funding sources mentioned in the case using the pro forma financial projections as well as your completion of BAS Hooks’ business model canvas.
4. Recommend the best option(s) for obtaining seed funding based on your initial risk assessments and likelihood of each potential investment entity granting funding to BAS Hooks. Include discussions related to why each of the five potential investment options is viable or not viable in your recommendation.

REFERENCES

Osterwalder, A., & Pigneur, Y. (2010). *Business Model Generation (pp. 200-223)*. John Wiley & Sons, Inc.