



ROB WOODS/Special to the Free Press

Merrill Guerra, CEO and founder of RealKidz Inc., can relax a little in her Ypsilanti office. The company has the funding it needs to begin producing a new line of children's clothing. "Looking back at the year, it's kind of amazing I survived as long as I have," she said.

Investors follow through

RealKidz can make new clothes, market wares, add sales help

By KATHERINE YUNG
FREE PRESS BUSINESS WRITER

After nearly a year of delays, disappointments and small triumphs, it had all come down to one pivotal event for Merrill Guerra and her Ypsilanti start-up company, RealKidz Inc.

Could the business obtain the \$150,000 it so desperately needed?

Without the money, the company, which designs and sells plus-size clothes for young girls, wouldn't be able to produce a line of spring clothes, market its existing products or significantly expand its fledgling network of independent sales consultants.

In early November, forces beyond Guer-

ra's control threatened to derail the first-time entrepreneur's dream. Stung by the stock market plunge, wealthy people who invest in start-ups began snapping their wallets shut, afraid to take more risks.

At the time, Guerra, RealKidz's 38-year-old CEO, had been waiting for weeks for the \$150,000 that a few of these investors had agreed to put into her company.

Nov. 7, the day Guerra thought the money would arrive, came and went without the promised checks.

She didn't panic. Her investors had assured her that they were still on board. But

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KATHERINE YUNG

Small firms may create state bailout

Katherine Yung covers the Michigan economy.

As a weary Michigan braces for more economic blows, I find myself heading into a new and uncertain year with something this state so desperately needs.

Hope.


And it doesn't depend on another comeback for the Detroit automakers, a massive public works program or wind turbine factories.

It's not about money or new industries. It's about people.

Smart, creative and passionate folks like Merrill Guerra and Cesar Nerys, two entrepreneurs who moved to Michigan in the last few years and are working hard to build businesses in the state they

See YUNG, 5E

What's been happening to Ann Arbor-based Boombdash? Catch up with them on 5E.

 From start-up to their first year in business, see photo galleries of Boombdash and RealKidz Inc. on FREEP.COM.

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with so much bad news in the media, Guerra couldn't help but worry.

A week later, RealKidz's long struggle for capital finally came to an end — at least until spring. It secured its first round of financing, no small feat given the meltdown in the financial markets.

"It's a huge relief," Guerra said a few days after picking up the checks. "There's so much I can do now that I'm freaking busy. I'm going in 20 different directions."

Guerra and Laura Hamblin, RealKidz's director of sales and network development, set to work, meeting consultants from a California network marketing company on the Friday before Thanksgiving.

The consultants helped RealKidz craft a plan for its sales network. By Jan. 9, the start-up aims to recruit 25 independent sales representatives who will become members of the RealKidz Founders Club. The five representatives currently selling RealKidz's clothes will become part of this group, which will enjoy special incentives and other benefits.

With the consultants' help, Guerra and Hamblin also devised an official compensation plan for RealKidz's sales representatives. It includes eight levels, from style consultant to executive vice president.

With the investment money, RealKidz can proceed with plans to produce new clothes. In early November, Guerra and her husband drove to the eastern end of the Upper Peninsula to inspect a facility where state prisoners make uniforms and other clothes.

Impressed with the quality of work, Guerra decided to hire these workers to make her company's new spring line. She has already given them patterns so they can make the first samples. And early this month, Guerra flew to Chicago to attend a fabric show.

RealKidz's spring line will feature new items such as a special-occasion dress, cargo shorts and a tank top.

In the meantime, Guerra has switched to a different Web development firm to help boost the company's slow sales. The new vendor plans to make RealKidz's Internet site — **realkidzclothing.com** — easier to navigate and advertise the business on search engines like Google and Yahoo.

Until now, the start-up has lacked the money to do any marketing.

But selling clothes at full price in Michigan's battered economy can be a struggle.

On a frigid Friday night in late November, two RealKidz sales consultants, Kelly Ruby and Melissa Stanley, stood inside the gym at Lakes Elementary School in Brighton, manning a table displaying a few of the company's pants, sweaters, tops and skirts.

Much to their disappointment, the small crafts bazaar drew few people. But the two women vowed to press on.

"The economy is just killing us," Stanley said. "But the need is definitely out there."

Ruby, who has had better luck with sales, said she has received many positive comments from people who see the clothes. "It would be nice to sell more because financially things aren't that great," she said. "But I realize it's going to

About the series

In Michigan's diversifying economy, thousands of workers are starting new businesses. This year, the Free Press followed the ups and downs of two of the state's newest start-up companies, Boomdash LLC and RealKidz Inc., as their founders sought to turn their dreams into reality. Today's stories are the concluding installments. To read previous stories in the series, see the special report in the Business section of www.freep.com.

take time."

As RealKidz headed into the final weeks of the year, Guerra received an unpleasant surprise. Her husband, Juan Guerra, learned that his employer, an auto supplier, planned to make huge job cuts. For more than a year, the couple and their two children have been living off of Juan's salary.

"My first reaction was despair," Merrill Guerra said. "You have got to be kidding."

For two to three weeks, the Guerras did their best to cope with the uncertainty. Though Merrill is now paying herself a small salary, it's not enough to support a family. But she tried to think positively.

In early December, the family got good news. Juan would not lose his engineering job.

With a new year rapidly approaching, Merrill is looking excitedly ahead, eager to turn RealKidz into a success. She's thankful that her dream didn't die as so many start-ups do.

"Looking back at the year, it's kind of amazing I survived as long as I have," she said. "All along from the beginning, there's been a force greater than me keeping this business from dying."

"The longer we survive, the more we've learned," she added. "We can go forward."

Contact KATHERINE YUNG at kyung@freepress.com.

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Entrepreneurs may be source of our bailout

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now call home.

Throughout 2008, I closely followed their journeys, watching as they tried to turn their ideas into reality amid one of the toughest economic climates in decades.

Like most start-ups in their first year of business, there have been plenty of disappointments and setbacks. In the middle of the summer, I didn't think Guerra's business, RealKidz Inc., which designs and sells plus-size clothes for girls, was going to make it.

Sales of its first line of clothes never took off, and the Ypsilanti company was running out of money.

But the first-time entrepreneur proved me wrong. Not only did RealKidz survive, but it managed to raise \$150,000 from investors this fall and is preparing to sell a spring line.

Nerys was equally surprising, but for completely different reasons. The former AT&T executive and his two partners, both veteran entrepreneurs, seemed to be following a set of magical rules for how to successfully launch a business.

I kept waiting for them to encounter a major pothole in their carefully laid plans for Boomdash LLC, an Ann Arbor search-engine marketing firm. But so far, they haven't had to deal with a major crisis.

Both start-ups are now on their way to creating a few desperately needed jobs for Michiganders next year. RealKidz is even providing work for prison inmates at a cut-and-sew facil-

Start-up success secrets

Many things must be considered before launching your own company. RealKidz Inc. and Boomdash LLC provided some valuable lessons in their first year of business:

- Picking the right partners is crucial.
- Raise as much money as you can before launching your business and spend it as sparingly as possible.
- Find a niche or a market that hasn't been adequately served.
- Make sure you can survive without a salary for a long time.
- Don't give up if nobody wants to buy your product. Improve or change it or try a different sales tactic.

- KATHERINE YUNG

ity in the Upper Peninsula.

Guerra and Nerys are not unique. Around the state, thousands of entrepreneurs we never hear about are diligently laboring long hours every day of the week to build their own businesses, risking their savings and putting their ingenuity to work.

Their ranks are likely to increase as thousands of laid-off auto workers move into other industries, launching their own start-ups.

These entrepreneurs are a critical part of Michigan's economy. From 1991 to 2005, the latest year for which data is available, the only segment to add new jobs in the state every year was businesses with fewer than five employees, according to Richard Temkin, Michigan district director for the U.S. Small Business Administration.

"That's where the future is," he recently told a group of economic development and workforce officials in metro Detroit.

To be sure, many start-ups fail and most don't employ large numbers of workers. But when combined, those that do survive are creating a dynamic, innovative economy that's less vulnerable to global competition, recessions and other challenges than the big business-oriented environment of the last several decades.

The state should be doing as much as it can to help its more than 800,000 small businesses

succeed. Boomdash has benefited from renting affordable office space at an incubator run by the economic development group Ann Arbor SPARK.

But more needs to be done, particularly when it comes to helping start-up companies obtain seed money to put their ideas into action. Guerra struggled most of this year to find investors. The state's growing number of angel investor groups didn't help.

I worried that Guerra and Nerys might move their companies out of Michigan. After all, it's not hard to find more inviting, not to mention warmer, places to grow a small business.

But Guerra, Neal and Nerys vow to stay, with Neal insisting, "Michigan is a great place to start a company." This kind of attitude astounds me. Bashing the state, Detroit and the governor has almost turned into a daily sport, bolstered by the recent public humiliation of the auto CEOs.

But Michigan's entrepreneurs haven't succumbed to the woe-is-me mentality.

I don't know whether RealKidz and Boomdash will survive another year. Start-ups are particularly vulnerable during a national recession.

But no matter what happens, as long as the state continues to attract and retain people like Guerra, Nerys and Neal, it will have a bright future. And plenty of hope.

Marketing firm is on track

Start-up from Ann Arbor avoids many pitfalls

BY KATHERINE YUNG
FREE PRESS BUSINESS WRITER

Throughout the year, the experienced Boomdash team had avoided the pitfalls that cripple so many new businesses. But as fall turned into winter, it ran head-on into two unavoidable obstacles: a national recession and the financial markets crisis.

The Ann Arbor search-engine marketing firm had seemed to be immune from Michigan's tepid economy. Most of its customers are outside the state. But with a recession now affecting the whole country, Boomdash's customers are spending less on online advertising, which reduces the amount of fees the company earns.

"It's something you have to deal with," said CEO Doug Neal. "The reality is businesses have to advertise. We know there's an opportunity."

The start-up is now working with eight independent telephone directory publishers around the country, including its newest addition, Metro Directories in Atlanta. The publishers' sales representatives sell Boomdash's products to their customers, who are mostly small businesses eager to establish a sales presence on the Internet.

Boomdash has about 65 customers, a bit below its goal of 80 to 100. They consist of all kinds of small businesses, such as dentists and plumbers, with the majority in the company's first test-market in Louisiana.

Boomdash hasn't broken even yet, but its revenues continue to slowly rise. "It's steady, but flatter than we would like it," said Neal, who tightly manages the finances.

The turmoil in the financial markets also has delayed Boomdash's plans to obtain venture capital. For most of this year, it has been diligently building relationships with



PHILAN M. EBENHACK/Associated Press

Boomdash executives, from left, are Chief Technical Officer Jack Horner, Kim Corcoran, founder Cesar Nerys, Alan Hand, vice president of engineering; region director Adrian Fortino and Doug Neal, chief operating officer.

venture firms in California.

Many venture firms have been cutting back on new investments because they have to funnel more money to their existing portfolio companies, which can no longer tap public markets for funding. In addition, some venture firms haven't been able to raise as much capital as they planned.

Since its costs are low, Boomdash doesn't need venture money to survive in the short term. But the money would have enabled it to expand more rapidly. Now, it will have to wait.

Neal had gone through a similar experience when the tech bubble burst at the start of the decade while he was trying to raise financing for his previous start-up.

"A lot of them are very supportive," he said of the venture firms following Boomdash.

Amid these setbacks, Boomdash got an unexpected surprise. In recent weeks, two companies outside the state have approached the company, interested in acquiring it.

Boomdash's partners aren't rushing to sell, but they are

talking to these companies. "We're keeping all options open," Neal said.

With the economy in a tailspin, Boomdash is monitoring its expenses. It's held back from hiring employees. And the Boomdash team in Michigan still does business from cubicles in a start-up incubator in downtown Ann Arbor rather than a nearby office the firm had been looking to rent.

Jack Horner, a Boomdash partner and the company's chief technical officer, and Alan Hand, its vice president of engineering, continue to work from their homes in southern California, opting not to rent an office yet.

Horner, Hand and several contract software engineers are steadily expanding Boomdash's product offerings. This month, the company unveiled new advertising landing pages designed for the popular iPhone. And early next year, Boomdash's search engine marketing products will work with Yahoo, not just Google.

So far, Boomdash hasn't had to spend much money on advertising. Cesar Nerys,

Boomdash's founder and chief marketing officer, is still following up on contacts he and Neal made in late October while attending a directory publishers' convention in San Antonio.

As Boomdash entered the final weeks of the year amid an increasingly gloomy economy, Nerys and Neal seemed determined to ride out the financial storm, aiming to stay focused through the holidays.

"We're just working through our plans, keeping costs down," Neal said.

Boomdash's partners do take satisfaction in how much they've achieved so far. Though this isn't their first start-up, they have learned that every new business presents different challenges and experiences.

"Building this company has been one of the most personally satisfying things that I have done," said Nerys, a former AT&T executive. "We have literally done that thing which a lot of people have aspired to."

Contact KATHERINE YUNG at kyung@freepress.com.