

BUILDING A BUSINESS

Entrepreneur
finds money
elusive as crucial
selling season
draws closer



Phoebe Routiedge, left, and Gabriella Guerra talk with Gabriella's mother, RealKidz founder Merrill Guerra, before going out to model plus-size clothing.



Photos by WILLIAM ARCHIE/Detroit Free Press

Phoebe Routiedge, 10, left, and Gabriella Guerra, 11, model plus-size clothing for RealKidz Inc. in Ypsilanti. The start-up company wanted to improve its Web site so it hired a photographer to take photos of young girls wearing its clothing.

Funding isn't child's play

By KATHERINE YUNG
FREE PRESS BUSINESS WRITER

Four weeks ago, first-time entrepreneur Merrill Guerra thought all her money problems were about to be solved.

At the MidMichigan Innovation Center in Midland, the chief executive and founder of RealKidz Inc. had just delivered a presentation about her Ypsilanti start-up company in front of 15 potential investors. The wealthy individuals belonged to a Midland group called the BlueWater Angels that provides seed money for fledgling companies.

After answering many questions, Guerra went to dinner with some of the investors and her husband, Juan. As they were eating at a local Italian restaurant, BlueWater's lead investor joined their table with exciting news.

The group wanted to invest \$250,000 in RealKidz for a 25% stake in the company, which specializes in clothes for plus-size young girls. The only caveat: The money wouldn't be released until RealKidz came up with \$50,000. The investors say that the business needs at least \$300,000 to become profitable.

Guerra already had two local angel investors willing to commit \$25,000 each. But in the days after getting the good news, she couldn't locate one of them. The woman didn't return her phone calls or e-mails.

About this series

In Michigan's diversifying economy, thousands of workers are starting new businesses. This year, the Free Press is following the ups and downs of two of the state's newest start-up companies, Boombash LLC and RealKidz Inc., as they try to turn their dreams into reality. Today, we look at RealKidz, but stay tuned for a coming update on how Boombash is faring.

To find earlier stories in the series, see the special report in the Business section of www.freep.com.

Guerra even had other people contact her, but to no avail.

So Guerra started looking for other potential investors. "I'm a lot less stressed finding this last \$25,000," she said at the end of May.

RealKidz needs more money. It's trying to sell its first batch of clothes, but also needs to order a much-improved second line so it will have enough inventory on hand for the important back-to-school sales season.

The company's cash cushion has dwindled to less than \$10,000. Guerra had thought that RealKidz could quickly

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generate enough revenue from its first line of clothing to pay for additional production, but so far she's only made one sale.

A big part of the problem is the company's Web site, currently the only way for people to buy RealKidz's clothes.

Guerra discovered that many people were having difficulty finding her Web site, www.realkidzclothing.com. They would type www.realkidz.com, only to find an obscenity and a hung-over young man hanging onto a toilet bowl.

Fortunately, the owner of www.realkidz.com agreed to sell that site to Guerra for \$500.

RealKidz also belatedly realized that it needed photos of plus-size young girls wearing its clothes, not the static pictures of shirts and pants posted on its Web site.

So the first week of June, a local photographer took some snapshots of Guerra's daughter, Gabriella, and one of her friends wearing RealKidz's pants and shirts. In addition, Guerra added a credit card protection feature to her Web site to make it more secure.

Even with these adjustments, the company still must market itself. It had launched an advertising campaign on Google but halted that in order to make improvements to its Web site.

Without any marketing, the RealKidz site is getting only about 20 hits a day.

Guerra plans to soon start advertising on Google again. In the next few weeks, her Web site may also get a boost from an upcoming BusinessWeek story that will feature RealKidz.

Relying on the Internet isn't the company's only strategy. It plans to hold a meeting at the end of this month with five women who have expressed interest in selling RealKidz's clothes. That could be the first big step toward setting up a network of independent marketers that RealKidz hopes will eventually become its chief sales vehicle.

But just as things appeared to be getting better, Guerra suffered a major setback. On June 4, she received a call from



WILLIAM ARCHIE/Detroit Free Press

Phoebe Routiedge and Gabriella Guerra take instruction from photographer Myra Klarman of Ann Arbor while modeling in Ypsilanti.

BlueWater's lead investor. One of the potential investors who had thought he could commit \$100,000 to RealKidz would only be able to come up with \$10,000.

"Who would have thought it would be this hard?" a disheartened Guerra asked upon hearing the news. "There's something to be said for capitalizing things yourself, but I'm not fortunate enough to be in that position."

Unlike some other entrepreneurs, Guerra and her husband aren't willing to leverage their Ypsilanti house in order to get a small-business loan. With two small children, they don't want to go into debt. They've already cashed out almost half of their 401(k).

A few days later, Guerra learned that two other BlueWater investors had changed their minds about investing in her business. However, the angel group got another of its members to replace one of them.

Guerra finally did locate the local angel investor who had been missing. She had been out of the country. But instead of \$25,000, she now only wanted to invest \$10,000.

To help out, Guerra's parents offered to put \$10,000 in their daughter's company. That's on top of the \$25,000 they've already spent.

To reach her \$300,000 goal, Guerra needs \$115,000. But a more pressing concern is coming up with the \$25,000 it will cost RealKidz to produce a second line of clothing for the back-to-school season.

The company needed to put in its orders last week for the clothes to arrive Aug. 1. The more things get delayed, the more likely it is that RealKidz will miss a critical sales period.

"Until the money is in the bank, you can't count on it," said a frustrated Guerra.

With the pressure mounting, RealKidz lowered its prices Thursday to try to generate sales. Guerra planned to notify the dozens of people on the company's e-mail list. She also had to let her recently hired administrative assistant go.

Though things looked bleak, the Stanford graduate thought she had a chance to turn things around. The organizer of a start-up business plan competition called the Great Lakes Entrepreneur's Quest had recently told her that RealKidz had been selected as a finalist. The grand prize: \$25,000.

On Thursday afternoon, Guerra drove to Michigan State University to attend the awards ceremony, hoping that luck would be on her side. Each finalist would have to deliver a three-minute pitch to potential investors.

But shortly after arriving, Guerra discovered that RealKidz had narrowly missed out on being a finalist. The organizer had given her bad information.

With her hopes dashed, Guerra must now figure out other ways to keep her business alive.

Contact KATHERINE YUNG at 313-222-8763 or kyung@freepress.com.

"Until the money is in the bank, you can't count on it."

MERRILL GUERRA, founder of RealKidz Inc.