In January 2004, as Jim began work on drafting an SBIR[6] grant proposal, his parents helped out by investing $12,500 in the venture. That same month, while attending a wind energy conference sponsored by Brown and Rudnick, Jim overheard an investor saying that he was interested in putting a recent entrepreneurial windfall to work in socially responsible ventures. Jim decided it was worth a try:

I gave him my three-minute spiel on the compactor. He said that it sounded interesting, but that he was into wind power—after all, this was a wind-power conference. "Well then," I said, "have I got a business plan for you!"

That afternoon Jim sent the investor the most recent version of the data acquisition buoy business plan. That led to a three-hour meeting where the investor ended up explaining to Jim why the DAQ was such a good idea. Jim said that the investor also understood how difficult it would be to get the venture fully funded:

[The investor] said, "Well, I sure wish you were doing the Data Acquisition Buoy, but I can also see why you're not." I assured him that my passion was, of course, off-shore wind, and that it was something I was planning to do in the future. So he agreed to invest $12,500 in the compactor—but only because he wanted to keep his foot in the door for what SPC was going to do later on.

In February, after the folks at Vail had come back with their favorable review, Jim called on his former internship boss at the Spire Corporation. Roger Little was impressed with Jim's progress, and his company was in for $25,000. In April, the team earned top honors in the 2004 Douglass Foundation Graduate Business Plan Competition at Babson College. The prize—$20,000 cash plus $40,000 worth of services—came with a good deal of favorable press as well. The cash, which Jim distributed evenly among the team members, was their first monetary compensation since they had begun working on the project.

Although SPC could now begin to move ahead on the construction of the next 20 cabinets, Jim was still focused on the search for a rather uncommon breed of investor:

This is not a venture capital deal, and selling this idea to angels can be a challenge because many are not sophisticated enough to understand what we are doing. I had one group, for example, saying that this wouldn't work because most trash receptacles are located in alleys—out of the sun.

Here we have a practical, common-sense business, but since it is a new technology, many investors are unsure of how to value it. How scalable is it? Will our patent filings hold up? Who will fix them when they break?

Earlier that spring Jim had presented his case in Boston to a gathering of angels interested in socially responsible enterprises. Of the six presenters that day, SPC was the only one offering products that were designed to lower direct costs. During the networking session that followed, Jim said that one group in particular seemed eager to move ahead:

They liked that Spire had invested, and they seemed satisfied with our projections. When I told them that we had a $25,000 minimum, they said not to worry—they were interested in putting in $50K now, and $200K later. In fact, they started talking about setting up funding milestones so that they could be our primary backers as we grew. They wanted me to stop fundraising, focus on the business, and depend on them for all my near-term financing needs.

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[6] The Small Business Innovation Research (SBIR) program is a source of government grant funding driven by 10 federal departments and agencies that allocated a portion of their research and development capital for awards to innovative small businesses in the United States.

At this point I felt like I needed to play hardball with these guys; show them where the line was. My answer was that I wasn't at all comfortable with that, and that I would be comfortable when I had $200K in the bank—my bank. They backed off that idea, and by the end of the meeting, they agreed to put in the $50,000; but first they said they had to do some more due diligence.

Momentum

By May 2004, the Seahorse Power Company had a total of six team members.[7] All SPC workers had been given an equity stake in exchange for their part-time services. The investor group expressed deep concern with this arrangement, saying that the team could walk away when the going got tough—and maybe right when SPC needed them most. Jim explained that it wasn't a negotiable point:

They wanted my people to have "skin in the game" because they might get cold feet and choose to get regular jobs. I told them that SPC workers are putting in 20 hours a week for free when they could be out charging consulting rates of $200 an hour. They have plenty of skin in this game, and I'm not going to ask them for cash. Besides, if we could put up the cash, we wouldn't need investors, right?

As Jim settled into his seat for the flight to New York, he thought some more about the investors' other primary contention—his pre-money valuation was high by a million:

These investors—who still haven't given us a dime—are saying they can give me as much early-stage capital as SPC would need, but at a pre-money of $1.5 million, and dependent on us hitting our milestones. With an immediate funding gap of about $50,000, it's tempting to move forward with these guys so we can fill current orders on time and maintain our momentum. On the other hand, I have already raised some money on the higher valuation, and maybe we can find the rest before the need becomes really critical.

Preparation Questions

1. Apply the Timmons entrepreneurship framework (entrepreneur-opportunity-resources) to analyze this case.
2. Discuss Jim Poss' fundraising strategies. What other options might be considered for raising the funds SPC needs? Is this a good investment?
3. Discuss the growth strategy. What additional market(s) should Poss pursue?