

# 2011 WCNY Alumni Business Showcase

Facilitating investment in early-stage  
Wharton alumni businesses



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## Fictitious Company Business Cycle

The 2011 WCNY Alumni Business Showcase (ABS) is targeted to companies seeking Early-Stage (Seed and Angel round) capital who are in the Concept / Research Stage; Validation / Development stage or Pre-Commercialization stage of their business cycle. We’ve prepared a story about a fictitious company to explain Business Cycle and Investment Round.

Business Cycle	Investment Round	The story of Best Yo-Yo, Inc.
Idea Stage	Friend and Family Round	<p>Since he was a little boy, Michael loved to play with yo-yos. Even as a college senior at the University of Pennsylvania, Wharton School, he would play with his yo-yo in between his classes. One day, quite by accident he dropped his yo-yo into a bucket that was filled with liquid polytetrafluoroethylene (PTFE), or Teflon®, a chemical that has remarkable anti-friction properties. Michael was able to clean off the yo-yo but was not able to remove the PTFE from the yo-yo’s cotton string. He tried it and found that he was able to do tricks that he had only dreamed of. Michael decided to start a business – a yo-yo business. He felt that there was an enormous opportunity to assemble, market and sell yo-yos with PTFE coated string. His first thought was to target serious yo-yo hobbyists – just like him. He called that market, the low-hanging fruit. He quickly put some numbers together and asked his parents to fund his new business.</p>
Concept or Research Stage	Early Sage: Seed Capital Round	<p>He knew that he was going to need to develop a marketing strategy taking his; product, price, distribution and promotion ideas into account and to then define his target market and the benefit his product would provide. He knew he would also need to write a business plan. He formed Better Yo-Yo, Inc. a Delaware corporation (BYY). BYY set out to target serious yo-yo hobbyists. The plan was well written. It demonstrated that careful research was performed to identify material, manufacturing and distribution costs. The plan also articulated the motivations and behavior of the target. The plan also noted the support of the International Association of Yo-Yo Professionals (IAYYP), which tested the product and determined that “coated strings” would be allowed into international competitions. The plan also noted that BYY had received the “verbal” approval of the category buyer at Sports Authority. The category buyer at Sports Authority was a fanatic yo-yo hobbyist himself. BYY was able to raise \$100,000 from a fellow yo-yo hobbyist who had recently sold his sporting goods company. BYY came up with a brand name, “Best Yo-Yo ™” BYY established a bare bones organization and assembled a small amount of finished goods inventory. Michael’s brother in law who was a CPA and cousin who was a lawyer at a to large NY firm provided assistance on a part-time basis. BYY hired a part time operations/manufacturing person and a sales person, both of whom had worked for Duncan before they retired the largest. Duncan was the largest yo-yo brand in the world.</p>
Validation or Development Stage	Early Stage: Angel Round (some VCs make Early Stage Investments)	<p>In as much as BYY had very little capital; they relied on in-store point-of-sale merchandising and word of mouth to promote their product. The company accomplished a great deal with very little capital. They managed to ship their first order to Sports Authority. Those Yo-yo hobbyists who bought a Best Yo-Yo, loved it. In fact, the IAYYP named it the single greatest product of the century. It became the most used yo-yo at IAYYP tournaments worldwide. Michael and his Seed round investors were thrilled with the acceptance the product was receiving and delighted with the progress</p>

		<p>the company was making until they realized that Sports Authority was not placing re-orders. The category buyer at Sports Authority changed. The new buyer regrettably informed BYY that they were cutting back on SKUs and the market for yo-yo hobbyists was just simply too small for them to continue carrying the product. BYY realized that the sales volume of the independent sporting goods stores that they were also selling was not sufficient to allow the company to really grow. Quite coincidentally, Michael's saw a five year old kid using a Best-Yo-Yo. He spoke with the kid's mom. The mom told him that Best Yo-Yo was the first yo-yo her son was able to use. It was the simplest to learn and provided hours and hours of fun – better than video games. BYY realized that their positioning needed to change. They decided to target young kids, reach moms, and promise that their product would not only be the easiest yo -yo to use but that it would offer hours of fun. With the little money they had left, they set out to lower their costs (the retail selling price needed to be only \$2.00 less than their current price in order to reach this broader market). They conducted market research among their new consumer target and talked to a number of retailers. The research showed tremendous potential demand and enthusiastic trade reaction. The two part timers from Duncan joined BYY on a full time basis. BYY applied for a new trademark – “Easiest Yo-Yo”. They needed more capital so they called on a few VCs that specialized in the sporting goods industry. Most all of the VCs told them that the company was not yet ready for them. They also suggested that they needed to prove that they would be able to protect their technology. BYY set out to file a patent covering the process and method they used to coat cotton string with PTFE. <b>BYY heard about the Alumni Business Showcase (ABS) and entered the program.</b> They did not make it to the final round but two of the Angels who read their ABS profile ultimately invested \$250,000 each.</p>
Pre-Commercialization stage		<p>Satisfied that they were now on the right track, BYY went after Wal-Mart. Wal-Mart issued a purchase order to them for \$1 million representing 10% of their stores. Wal-Mart wanted to test the product before allowing it to be placed into all of their stores. BYY was sure that they were ready for VCs but they were told that they needed to complete two or three full retail cycles (demonstrating sell-through), before they would be ready. BYY went back to the Angel investors who they had met through the <b>Alumni Business Showcase</b>. These investors provided BYY purchase order financing to build inventory to meet the Wal-Mart order.</p>
Commercialization Stage	<b>Growth Stage:</b> Venture Capital Round	<p>The test at Wal-Mart was a huge success. Wal-Mart began the roll-out. BYY received its third re-order indicating that the product would become a normal stocking item. Other retailers signed on also. BYY began promoting Easiest Yo-Yo in parenting magazines. Even though BYY had not yet turned a profit, it was on track to do so by the end of the year. The ABS Angel investors introduced BYY to a number of VCs who they knew. BYY received its first VC investment.</p>