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Need Funding? Better Get Creative

With Venture Capital Scarce, Entrepreneurs Find Alternative Means

By EMILY MALTBY

Sean Conway needed to raise funds for his start-up, Notehall.com, an online marketplace for college students to buy and sell class notes. But a year into the venture he was broke and investors weren't willing to infuse the company with a capital boost.

Mr. Conway's grandfather contributed \$17,000 for marketing and operations, which allowed the company to hit nearly 8,000 users at Mr. Conway's alma mater, the University of Arizona, by January 2009. But the angels and venture capitalists remained skeptical.

"I had invested my life savings and I knew there was no turning back," says Mr. Conway, a 2007 graduate.

So last March he submitted his idea to DreamIt Ventures, a sort of entrepreneurial boot camp in Philadelphia—funded by four economic development organizations—that provides office space and mentoring to fledgling business owners, and helps set them up with potential investors. Notehall.com, one of 10 ventures chosen to participate in the three-month summer program, walked away with about \$500,000 in investments.

Amid a stark climate for venture capital, small-business owners are finding more creative ways to get funding. Some are turning to boot-camp-style programs like DreamIt Ventures, Y Combinator in Mountain View, Calif., or TechStars in Boulder, Colo. Others have found success appealing for funds via television, or even hitting up friends and relatives for cash.

Venture capital deals have been steadily declining since 2007 and are hovering at levels not seen since the mid-1990s, according to data from PricewaterhouseCoopers and the National Venture Capital Association. The amount of funding in the second quarter dropped more than 50% from the year earlier period, landing at 612 investments worth \$3.7 billion.

Yet entrepreneurial activity can remain vibrant even in downturns. A June study by the Ewing Marion Kauffman Foundation, a Kansas City group that promotes entrepreneurship, found that

periods of unemployment trigger individuals to launch their own ventures instead of applying to corporate jobs. These days, like Mr. Conway, they are needing to find alternative paths to reach investors.

After his success with DreamIt Ventures, Mr. Conway applied to be a contestant on ABC's Shark Tank, a television show that gives entrepreneurs a chance to pitch to investors and vie for their money. Through the show, which aired on [Notehall.com](http://www.Notehall.com)'s episode last week, Mr. Conway landed the company an additional \$90,000 after agreeing to give up a 25% equity stake. "The last two weeks have been crazy," says Mr. Conway, who says he hopes for the company to reach 30 colleges by the end of the year. "Everyone is emailing, wanting to partner with us."

Marc Fienberg, head of Story Films Inc., a production company in Los Angeles, also found his enterprise wasn't garnering much respect from the venture capital community. So he tapped some acquaintances from his days at Northwestern's Kellogg School of Management and proceeded to network for about three years.

"I quickly realized that to do this, I'd have to reach outside my comfort zone," he says. "There was no room to be shy or humble."

In total, Mr. Fienberg says he pitched to hundreds of contacts, many of whom scoffed at the idea and told him he was wasting his time. But eventually he found 17 people—made up primarily of Kellogg alumni—who were interested. He flew to meet each in person.

From 2007 to 2009, Mr. Fienberg says he secured between \$1 million and \$5 million. His company's first film, "Play the Game," recently landed in theaters and has grossed about \$500,000 in box office sales.

In this economy, entrepreneurs need to work even harder and put more effort into thinking outside the box, says Bo Fishback, vice president of entrepreneurship at the Kauffman Foundation. "Smarter entrepreneurs are looking to put more sweat equity into the company, not magic \$100 bills."

Mr. Fishback is seeing a trend of more innovators competing online at NineSigma.com and InnoCentive.com. Large companies post challenges on these sites and award money to the winning inventor or problem solver.

Small projects from large companies can be lucrative. That's what William Volk found out after he joined a start-up called MyNuMo LLC, a company that produces games for smart phones. In 2008, he reached out to a venture capital firm that had invested in a company where Mr. Volk had previously worked. "I thought for sure we would get it because I had a track record," says Mr. Volk. But he wound up losing to a competitor seeking capital from the same firm.

Given his background in programming, an undeterred Mr. Volk contacted several companies to see if they'd be interested in a custom smart-phone program. "We were using those smaller projects to keep us going," he said. The projects financed the research and development for MyNuMo's game applications, which are now available online and as mobile-phone applications.

Revenue is expected to hit \$1.5 million this year. "We managed to create a higher number of titles than our well-funded competitors," Mr. Volk says.

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