

## Case 3

# Jacqui LLC

### Should a Young Entrepreneur Accept a Potential Investor's Terms that Require Her to Give Up Control of Her Business?

Jacqui Rosshandler grew up in Australia but was drawn to New York City, where she worked as legal counsel for an interior design company. She put in long hours at her job, but her goal was to one day own a business of her own, just like her father did back in Australia. "If I am going to work this hard, I want to do it for myself," she recalls thinking. One New Year's Day, with her mouth feeling less than fresh, Rosshandler recalled Odor-Go, a breath mint sold in Australia that really worked. She had never seen a similar product in the United States and decided to start a company to produce and market one. She realized that the best way to eliminate bad breath was to treat the source of the problem, the stomach, rather than its symptoms, which appear in the mouth, as most breath mints do. Rosshandler decided to launch a company, Jacqui LLC, and began working with a contract manufacturer to develop a unique breath-freshening product. "Parsley has been used for generations to freshen breath," she says, "but freshening the mouth only, especially after consuming pungent foods, doesn't get rid of the smell that comes from the stomach. We found that a combination of concentrated peppermint and parsley oils, when dissolved in the stomach, provides this fresh feeling from within. Your breath actually smells good from deep inside, not just superficially from the mouth."

The result of several months of work was a two-step breath-freshening product that Rosshandler named Eatwhatever to give her product a trendy, fun image. Customers swallow a gel cap filled with an all-natural concentration of peppermint and parsley oils and then pop one of the package's small white mints into their mouths for instantly fresh breath. Rosshandler came up with a clever tagline, "2 Steps to Kissable Breath," aimed squarely at her target audience—young people—and hired a package designer to create a clever package. She began marketing her new breath freshener herself, walking boldly into the flagship C.O. Bigelow apothecary store in Manhattan and asking, "Who does the buying here?" She actually met with a buyer and left the store with her first sale. "I had no idea what I was doing," she recalls with a laugh. A month later, a friend who worked in public relations convinced DailyCandy, a popular Web site that focuses on fashion, food, and fun, to mention Eatwhatever, generating \$20,000 in orders on her Web site in just 12 hours. With a distributor's help, Rosshandler was able to get Eatwhatever in retail stores such as Zitomer, Ricky's, and Joe Coffee in New York City; Collette in Paris; Terry White Chemists in Sydney; and online at Amazon, Victoria Health, an Shopmasc. Sales volume for the company's first three years of operation was small, never exceeding \$40,000.

Rosshandler had used her own money to create her product and bring it to market, but getting widespread distribution and generating significant sales would require a lot more money than she could invest in her small business. The promising business was about to run out of cash, and Rosshandler was considering shutting it down and getting another job. Then, through her network of contacts, Rosshandler met Arthur Shorin, who had recently sold his business, the Topps Company, which is famous for selling bubble gum packaged with collectible baseball cards. Shorin had extensive knowledge and experience in a similar industry and had an impressive network of contacts. Shorin was impressed with Rosshandler and Eatwhatever and offered to invest a minimum of \$250,000 (more if necessary) to propel the company's growth. There was a catch, however, and it was a big one. In return for his investment, Shorin would own 75 percent of Jacqui LLC leaving Rosshandler with minority ownership of just 25 percent. He also offered terms that would allow her to regain 15 percent of the company, bringing her total ownership to 40 percent, if Eatwhatever met certain financial and performance benchmarks. The offer also included a job for Rosshandler at Artuitive, Shorin's business incubator for start-up companies.

Rosshandler talked to several friends about the deal, and they advised her to reject Shorin's offer, citing what one friend called "draconian terms"; even if the company met the performance benchmarks, she would still own just 40 percent of what was once "her company." Another pointed out that by giving up 75 percent of her company for an investment of \$250,000, she was saying that her company was worth just \$333,333 ( $\$250,000 \div 75\%$ ). Rosshandler listened to her friends' advice but kept thinking, "Isn't owning 25 percent of something better than owning 100 percent of nothing?"

### Questions

- C3-1. What other potential sources of financing for Jacqui LLC do you recommend Rosshandler explore? Explain.
- C3-2. What are the advantages and the disadvantages of using equity capital and debt capital to finance a small business's growth?
- C3-3. What steps could Rosshandler have taken to avoid her company's cash flow problem?
- C3-4. Should Jacqui Rosshandler accept the investment offer from Arthur Shorin? Explain.

Sources: Based on John Grossman, "Help for a Start-Up, but at a High Price," *New York Times*, January 2, 2013, [www.nytimes.com/2013/01/03/business/smallbusiness/a-start-ups-dilemma-a-lack-of-capital-or-lack-of-control.html?\\_r=0](http://www.nytimes.com/2013/01/03/business/smallbusiness/a-start-ups-dilemma-a-lack-of-capital-or-lack-of-control.html?_r=0); John Grossman, "Why the Founder of a Start-Up Chose to Give Up Control," *New York Times*, January 9, 2013, <http://boss.blogs.nytimes.com/2013/01/09/why-the-founder-of-a-start-up-chose-to-give-up-control/>; Caroline Dowd-Higgins, Jacqui Rosshandler, "Eatwhatever," Caroline Dowd-Higgins, March 14, 2010, <http://carolinedowdhiggins.com/2011/05/jacqui-rosshandler-eat-whatever-2/>; "Who We Are," Jacqui LLC, [www.eatwhatever.com/who/who-we-are](http://www.eatwhatever.com/who/who-we-are).