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### **Risky Financing for Cash-Strapped Startups**

**The founder of fast-growing Bakery Barn explains three "don't try this at home" strategies that worked for him.** by [Kerry Miller](#)

As a CPA, Sean Perich knew that fiscal responsibility was a must for any fledgling business, including his own sports nutrition bakery, Bakery Barn. By hiring his unemployed or underemployed family members (and paying them low wages), Perich was able to keep labor costs down. And other handy family members pitched in as needed—helping to repair refrigerators, replace old plumbing, and paint walls. "It was really a no-frills operation," Perich says. None of the Bakery Barn staff had business cards, he says, until 2003, the company's third year in business.

By 2005, Bakery Barn had done over \$9 million in sales, but it was still operating on a puny \$25,000 credit line. At that point, Perich had already tapped all of his own resources—and those of his friends and family. The line of credit was co-signed by [Perich's father](#) (BusinessWeek.com, 4/19/06) in exchange for a 20% stake in the company. "We couldn't get any [bank financing](#) (BusinessWeek.com, 3/12/07) from anybody," Perich says. But that didn't stop him from forging ahead—living off of his fiancée's income while reinvesting all the profits back into the business.

Financing primarily with cash flow meant that Bakery Barn's production schedule could be touch and go. "There were times when we would literally have people show up for work and we had no raw materials ready to bake anything, because we didn't have any money in the bank," Perich says. With hundreds of thousands of dollars' worth of checks literally in the mail, the company often was forced to stop production for up to 10 days—then "work like crazy" until the next batch of supplies ran out. But keeping the lights on also required some more creative—and risky—financial maneuvering. What follows are three last-ditch strategies Perich used to grow Bakery Barn into a \$6 million business, which he prefaces with a disclaimer for other cash-strapped entrepreneurs: "This is what worked for us, but we don't recommend you try it."

#### **Put the Whole Farm on the Line**

When Perich couldn't get the cash to buy the \$40,000 packaging machine he'd need to fulfill the order from Bakery Barn's first big client, Apex Fitness, he made a risky move: buying a \$140,000 townhouse with no down payment, draining his fiancée's 401(k) to cover the closing costs. The next day, a friend employed at a bank reassessed the home for \$180,000, and Perich took out a [home equity loan](#) (BusinessWeek Small Biz, October/November 2007) for the difference to buy the necessary machine. Perich says the risk paid off—the Apex deal ended up being the turning point for Bakery Barn, grossing over \$1 million for [the company](#) (BusinessWeek.com, 11/26/07) that year. "But we could have lost everything."

#### **Pay Vendors Late**

By [paying its bills late](#) (BusinessWeek.com, 11/14/07), Perich says Bakery Barn essentially got 0% interest loans from the company's vendors. Most of the time, Perich says, he told them up front that Bakery Barn (which worked on a 60-day production cycle) wouldn't be able to pay its bills in 30 days. "They'd give me 45, and I'd take 60 anyway," Perich says. Understandably, he got a lot of angry phone calls. With some, Perich says, "I knew, O.K., I can stretch him to 80 days before he gets really, really mad." Other times, he'd have to take his business elsewhere. "Our vendors unwillingly helped us finance a lot of our business on 30-day increments," Perich says. "It's not a very popular thing to say, but sometimes it's the only financing you can get."

#### **Work Outrageous Hours**

Perich knew that deadlines weren't as flexible when it came to [major clients](#) (BusinessWeek.com 8/29/07) like Wal-Mart ([WMT](#)) or Target ([TGT](#)). "With the big guys, once you're out, you never get the chance to get back in," he says. "They have everybody in the world trying to get on their shelves." At one point in 2005, Perich realized that fulfilling an important order bound for 7-Eleven ([SE](#)) would require everyone on staff to work 18-hour shifts for 21 straight days—and then some. They hired as many temporary workers as they could fit into their tiny space, and four of his core employees worked three 24-hour shifts in a row.

At the end of 2005, Bakery Barn received an award from the Pittsburgh Technology Council as one of the fastest-growing companies in the region. Suddenly, Perich says, banks that had rejected him on multiple occasions were calling. New investment has since enabled the company to truly scale up—including a new 28,000-square-foot facility, upgraded equipment, and new hires with related business experience.

In retrospect, Perich says Bakery Barn's earlier financial escapades were "absolute insanity." For years, the stress of it all often kept him up at night with worry. "Honestly, I look back and wonder how we did it," he says. "It was a hell of a way to operate a business. But for us, that was reality."

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