

MoS Rapid Response Transcript – Karen Cahn

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KAREN CAHN: We're all in the same boat. We all want to retain our employees and grow our businesses. This couldn't have happened at a worse time. This is just awful for everyone.

A lot of entrepreneurs, both men and women, are really grieving. They're grieving for their plans that are lost, both personally and professionally.

The bill is three months and almost \$400 billion in capital to be deployed. This is unprecedented. It's definitely the largest stimulus bill for Main Street in the history of the United States. That's a fact.

All of the entrepreneurs that are coming on IFundWomen and they are raising cash. I watch the transactions happen by the second and that's what gives me life.

REID HOFFMAN: Hey listeners, it's Reid. We're continuing our special coverage today with an episode all about relief funding and crowdfunding in a crisis. We rushed to bring you this episode on a Saturday because we know how urgent this is for so many of you.

We're joined by Karen Cahn, founder and CEO of IFundWomen. It's her second time on the show, and she's going to walk us through the stimulus package in the U.S.: who qualifies, when you have to apply, and when a loan is a good idea. Karen will also make the case that right now is a great time to crowdfund.

I'm going to hand it off to our editor at large Bob Safian, who was previously Editor in Chief at Fast Company. Bob, you've become a familiar – and a welcome – voice on the podcast. Over to you

BOB SAFIAN: I'm Bob Safian. In this special series at Masters of Scale, we're interviewing founders, operators, and investors who have agreed to share their experiences in the hopes of helping others find their way through. And I'm here with [Karen Cahn](#), the CEO of IFundWomen, a startup funding platform offering crowdfunding and grants to entrepreneurs, as well as business coaching advice and community. She's going to give us a tutorial on how to get the most from the new CARES Act, and also talk us through some of the emerging opportunities in the Covid economy for entrepreneurs.

Karen has appeared in previous episodes of Masters of Scale and is coming to us today remotely from New Jersey as I ask my question from my home in New York. Karen, thanks for joining us.

CAHN: Thank you Bob for having me. I love Masters of Scale. You guys know I'm like the biggest nerd for this podcast. So I even went to Masters of Scale Live in Boston. That's how much of a nerd I am for this. So thanks for having me and I'm excited to share what we've learned, especially around the CARES Act, because it is something that can be beneficial to all of us in the startup economy and in the gig economy.

So not just for companies – for sole proprietors, for 1099 employees. So I think the spirit of the act in saving jobs is great and it's so new. It was just announced, it was just signed by Congress last week. The banks and the fintechs have, frankly, been scrambling to figure out how to regulate this thing and it's – there's a lot to talk about.

SAFIAN: Clearly in recent days you've been intensely dedicated to helping your members and small businesses overall to cope with the impacts of Covid. These are wild days. I know when the federal government passed the CARES Act, some in the financial press described it as a “stimulus package”. I know for affected businesses and individuals, it's really a relief package and so we're eager to hear from you about all this and how to make the most of it in this time, and how much we should be racing or not to take advantage of it.

I wanted to start by asking you how the entrepreneurs and small businesses in the IFundWomen community are feeling these days. Like, what's the mood? It is rough out there. How does it feel when you're hearing back?

CAHN: Well, I think the members of the IFundWomen community feel the same as the members of the whole startup ecosystem. And to be clear, we have men and women on IFundWomen. I think what we're all feeling is grief in some sense, because things were great. We were all sort of hopeful and starting our businesses or maybe in year two, in year three and getting traction. And you know, 2019 for all of its weirdness, was a great year from a business perspective. And I think that a lot of entrepreneurs, both men and women, are really grieving. They're grieving for their plans that are lost, both personally and professionally. They're grieving for their laid off coworkers or the people that they have to lay off. And you know, at early stage startups, these are your family.

The people that you hire in your earliest days are the people that you've hand selected as a founder to help you carry your vision forward. And to have to lay them off – there's a lot of grief around that. There's a grief around being isolated and not being able to have human interaction. So I think that the word grief is the first thing that comes to my mind as to what most people are feeling that they can't articulate. I think people are articulating fear, by their actions and their words, right? And anxiety. Because people are racing to do things that, you know, when Congress signed the bill on Friday, there was a scramble on Friday night and over the weekend to be first in line and get your application into the SBA. And there was so much confusion. And that's what led me to – I'm a pretty calm, I'm very good in a crisis.

I'm sure I'll have a breakdown somewhere down the line when things are fine. But in a crisis, I'm pretty calm. So what I observed was a lot of panic. And so what I did was I trolled the internet to try to find the best expert that was closest to both the bill and the banks that could help just at least explain what the CARES Act was and also how entrepreneurs should be thinking about taking advantage of it, with the caveat that things are constantly changing as we've seen. And that doesn't help anyone's fear and anxiety.

SAFIAN: So where were you when you first heard about the act passing and how did you personally react?

CAHN: I was on my couch at home. I was on my second glass of Sancerre, and if I'm being honest. You know, we've been drinking a lot of wine at IFundWomen on the daily. I don't watch TV and I don't watch the news because that for me gives me a ton of anxiety. So I was kind of keeping my eye on the internet and I knew that the bill was being signed. and so my phone sort of started ringing off the hook. It was from people that were racing to get their applications. Then it was from people that were saying, "You have to be first in line, girl, like start your applications. I'm spending my whole weekend doing my applications." And that's where I was and what I was experiencing Friday night and into Saturday morning. For a minute, I bought into it, I'm not going to lie.

So Friday night was a lot of phone calls from fellow entrepreneurs and advisors, fellow financial services experts who were saying "be first in line." And I bought into it for a hot second. And so Saturday morning I got up really early and I filled out the SBA's disaster recovery loan. They keep changing the name, disaster relief loan. It's not the payroll protection – cause that was the only thing that was up on the SBA website that I could actually apply for. So I filled out the paperwork, I uploaded the things, and it was right then when it dawned on me when I didn't get an email or any sort of communication from the SBA on like, this is not the right thing to do.

Like I had no login, there was no, there was nothing. It was like I had taken this time to fill out the stuff, which I'm glad I did because it got my act together from a, you know, I needed three years of P and L's. I needed obviously your EIN number, all the basic stuff to apply for a loan. But I'd never applied for a loan before. So I had to spend hours digging around my email and my files to get all the stuff. So now I feel like I have my act together, so it wasn't for nothing – but around Saturday morning 11:00 AM after I finished applying and I was like, "Hmm, I don't have any like correspondence from this SBA. What's the story?" I started trolling the interwebs to try to find this expert who I mentioned was close to the bill and close to the banks and so I put up a post on my Instagram and my Facebook and my LinkedIn, just like a little graphic that said, "Seeking an expert on the CARES Act. Please comment."

And I got tons of comments and I found a person through Instagram, a gentleman by the name of Mark L. Rockefeller. You can find him on LinkedIn, and Mark runs a fintech in

DC called StreetShares, and they are one of the fintechs that are going to be the front end to deploy the PPP, the paycheck protection program. So he not only consulted on the bill, he had read multiple versions of it and consulted on it. He has also built the front end technology to help the banks deploy the funds, because prior to this moment in time, only one to 2% of consumer banks have the ability to take loans online, which is why the Kabbages and the online lenders of the world have, you know, exploded over the last five years.

Because prior to today, hopefully, Chase, BofA, CapOne, you know, most of the big banks, you can't apply for a loan online. Like, Chase is my bank. This is not a paid ad for Chase, by any means. Chase is my bank. To get an SBA or to get a small business loan or any loan, I would have to walk, walk my little self into a branch, fill out paperwork, and wait a month. And that's how it worked. And so first of all, nobody's leaving their house. We're quarantined, going IRL into a bank branch is not allowed anymore. So these banks have had to scramble to partner with technologies like StreetShares to be able to handle the applications and be able to process them. And so that's why there's been so many delays.

I mean, listen, a week is not a big delay. It just has been a week of between Congress passing the bill and for entrepreneurs to be able to apply for either PPP or a small business loan, which you can apply for now. We can talk about the differences between the two. But this week has just been a lot of anxiety, a lot of fear. People are laying people off, but then they're like, "Should I lay people off? Cause then I can't include them in my PPP plan." There's a lot of nuances.

SAFIAN: So first of all, should I be in a rush to be first in line? Is the money gonna run out like or, or is the rush to be first in line because I'll get the money sooner? Or is there no rush at all? There's plenty of money and I should just calm down?

CAHN: The honest truth is like most people, like most experts, I don't know, I don't know the answer to that.

SAFIAN: So this is why there's the encouragement or the imperative to act quickly, because we don't know what the implication is.

CAHN: We don't know. So the bill is \$348 billion dollars of capital that is supposed to be deployed by the end of June. So we are now in April. So that's, that's three months and almost \$400 billion in capital to be deployed. This is unprecedented. It's definitely the largest stimulus bill for Main Street in the history of the United States. That's a fact. So the banks and the financial services companies and the online lenders are scrambling to be able to figure out how to fulfill these loans.

So in terms of the panic of being first in line because the money's going to run out, I think that there is not a lot of truth to that. I do think you want to be very deliberate about what loans you are applying for, why you are going to be applying for those loans, what you're going to use the money for, and be well planned out. And once your plan is together, activate it. There's no reason to wait.

So I got my SBA loan in last weekend with no response. And the SBA loan is a 4% loan, I believe it's about a 30-year loan – and they ask for your losses, your projected losses in revenue over the next 12 months, and your losses in your rent or any of your other expenses. So that's the loan that we applied for. I did get an email two nights ago that said, "Thanks for applying for the loan. Go and reapply and there may be a \$10K fast track money you can get." I am definitely waiting to reapply for the SDA piece of it because it just didn't seem, it didn't seem right to me.

SAFIAN: Take us through what the difference is between an SBA loan and a paycheck protection program and whether everyone should be doing both or how do you decide between them?

CAHN: Okay. Everybody should be doing the paycheck protection program. Everybody should be doing this first. Period. Full stop. Here's who can apply for it, which is everybody. You have to be a business, a non-profit. You can be a veterans organization, a tribal business, you can be a sole proprietor, you can be an independent contractor, or a self employed individual. They've covered all of their bases. The purpose of the bill is to save jobs, is to stem unemployment.

So when you think about the purpose of the bill, they're being very inclusive in who can apply for aid. So everybody should be applying for this. Here are some of the stipulations. You have to have been in operation as of February 15th, 2020 which is a minute ago. Okay? So February, 15, 2020. You have to be a registered entity with the government. So paying taxes. So whether you're a self-employed person or whether you're an independent contractor, you have to pay taxes. This can't be like a, "I've been working under the table for cash and the government has no idea who I am because you won't get approved." Making sense so far?

SAFIAN: Yup. Great. So even if I'm a freelance bartender or something like that I could apply for this.

CAHN: As long as you have your 1099, you can apply for this. Absolutely. When you're applying for your lost wages. So for example, businesses like IFundWomen where we have 16 full time employees and we have three 1099 contractors. We can apply for our 16 full time employees with a cap of employees that have a \$100K salary. So the cap on applying is a \$100K all-in actually, for the employees. So we'll get to that in a minute. But I can't apply for my 1099 contractors. I can't say, "Well, I'm spending \$5K a month on my

publicist. I want to apply for that,” because the theory is she is going to be applying on her own for that, for that missed revenue. So that would be double-dipping.

And then the other stipulation is you'd have to have fewer than 500 employees. So just to recap: you can be anyone – business, nonprofit, for-profit, sole proprietor, independent contractor, self employed. As long as the government knows about you and you pay taxes, you should apply for the paycheck protection. And we're hoping that those applications are opening up later today. It's Friday, the third, we've been waiting all week and we're hoping that they're going open up. But we don't know. So that's the paycheck protection.

And so here's what it is. So basically what you do is you add up your salaries for one month – your salaries, your health benefits, and your state and local taxes, not your federal taxes, which is a bummer cause that's a big piece of it. And each employee is capped at \$100,000, and you add that all up and you multiply that by 2.5, and that is the amount of the loan that you can get.

So I'll give you round numbers. Let's just say IFundWomen's monthly payroll with our caps put in place is \$100,000. We would be applying for a \$250,000 loan, and the loan will be forgiven. Now they keep changing the amount of time. At first it was after four months if we still have all 16 employees, that loan will be forgiven, which makes it a grant, which makes it free money, which is awesome. Now I'm reading in certain places, it's eight weeks. So I will caveat all this by saying things are changing like the wind, and I think they'll change even more depending on what banks start deploying these loans. Right?

SAFIAN: But this is free money for you to continue to keep your employees in place. Even if you don't have any revenue, it will cover your cost to keep those people in their jobs.

CAHN: Correct, you do not have to have revenue, but you have to be a registered entity. So when we started to learn about the CARES Act, we had Mark L. Rockefeller come into IFundWomen – through Zoom, obviously – and give a talk to our members about what it all meant. And one of the questions was – and we have a lot of this at IFundWomen cause we service early stage entrepreneurs – “I am a bootstrapping startup. I am my only employee and I'm not paying myself and I am not registered as anything yet. Am I eligible?” And the answer is no.

So if there's anything that people take away from this that are starting businesses, you have to register as an entity. Start as an LLC because VC is drying up right now. If you're going to go for VC, you have to be a corporation. You'll do that down the road, but just cheap and easy register an LLC and start paying yourself, even if it's a nominal amount of money, so that way you're eligible for benefits. But yeah, we have a lot of people in the IFundWomen community that are in that boat and I would imagine a lot of

other bootstrapping entrepreneurs who have used their own money, their own savings, their own credit card to fund their idea – which is never a good idea anyway – and maybe didn't register a business because they don't know if it's going to be a business yet. Unfortunately, those folks are going to be left out on this.

SAFIAN: Now beyond the paycheck protection program, for the SBA loans, how do I decide if that is something that is worth going into you? You rush to do that first, but now you seem a little bit like you're sort of waiting on that. What's the difference?

CAHN: So the difference is, it's a loan. The SBA has been doing small business loans forever. They usually are around 8% and now they are looking at around 4%, so it's much less expensive money, which is awesome. And they require collateral. So for most entrepreneurs that don't have tons of assets in their business, they're putting up their house. You're putting up your personal stuff, collateral, for this loan. So unless you have a business that is generating revenues, generating profits, and is growing, I would not advise taking out an SBA loan. Because if you're not growing, you're not gonna be able to pay back the loan. You're going to be in debt and they're going to come take your house. We are not in that situation. We're growing. We have revenues, and we can pay back a loan.

This recession is something that our generation has never seen. It's going to be potentially as bad as the Great Depression, just in a different way. Unemployment as of today I believe, is like 10 million unemployed people in the last week. Ten million newly unemployed people. And that number is going to keep changing. When you air this episode, it's going to be dated. This is going to go on for a long time and experts are saying that any businesses should have 36 months of runway. We don't have 36 months of runway at iFundWomen and we're doing fine. We don't have anywhere near that. That's the reason for the loan. In my perfect world, I'm not touching that loan, right? I don't need it. I might invest it actually and let it grow, or save it for a rainy day, or pay it back.

But I feel like there's no harm in applying, because number one, I can always turn it down. It doesn't hurt your credit score to apply for a loan. And number two, we were planning on hiring additional engineering staff. I need four engineers. I need a head of product, like, we're growing. So I would use that loan for growth capital. The crowdfunding business was actually born out of the 2008 recession. So the crowdfunding part of our business is actually on fire right now and we need more engineers. That's our specific situation.

I would say if you are a company that's growing and doing well, definitely apply for a loan. There's no downside. And if you are a company that's afraid of going out of business, don't apply for a loan, because you're going to have to pay it back. And being in debt after a failed business – and I've been there before, no shame in that game.

We've all failed and gone into debt funding a business that didn't work. It sucks having to pay back that debt after a failed business.

SAFIAN: You mentioned crowdfunding and I'm curious, is now a good time for crowdfunding? And if so, what should people know if they're gonna go in and try to do that right now?

CAHN: Now is an amazing time to crowdfund and I'll tell you why. And I can speak from IFundWomen's technology perspective, because we built specific features into our platform. For all of your listeners who are wanting to use our technology, feel free. You get immediate cash in your bank account two to three days after your first funder, which is very different from other platforms that make you wait until the end of your campaign or if you're fully funded to start getting that working capital. And especially now, it's so interesting, because we saw from February to March, pre-Covid to post-Covid, our membership 2Xed. And the difference in the new members is that they are established brick and mortar companies that are coming on to IFundWomen to raise immediate cash to help with payroll.

We're the payroll protection plan right now for Main Street, legit, because these businesses are real businesses. They've got customers, their customers want them to stay in business. Think about the restaurants, the hair salons, the nail shops, the things that you use every day in your neighborhood. You don't want them going out of business. So these are the businesses that do the best with crowdfunding because they've got a built in customer base, a built in audience, people that want to help. And crowdfunding is when you the entrepreneur go out and raise very small increments of money to lots of people in your community that add up to just enough to keep your business going. So crowdfunding right now is absolutely something that every single business who is scared should be doing, with no shame in the game.

We have so many businesses that are doing it. There's so many creative ways to message and market during Covid. So we've got different sectors businesses that are marketing through crowdfunding and raising money. We've got the "Help me save my business" people and that is an easy way to market. It's like "Help me save my business, you've come to my salon and I need you to donate a hundred bucks to help me keep in business." That's a no brainer. I just did that for my hair lady. My roots are really bad and you can't see them. But that's a problem for me and I need her salon to survive. So that's one bucket.

But the other bucket, are the market opportunists who were starting businesses before Covid, and we're planning on crowdfunding for their first traunch of capital because it's debt free, it's cash right in the bank. They can start building their proof of concept. So they're actually doing well with crowdfunding because we have been teaching them through our coaching program, which we've made for free during the time of Covid, because we need to teach people how to raise money and market effectively. We have

taught them how to not be tone deaf in this time of Covid, and how to market without being tone deaf, how to market in a time when people are losing their jobs and are not spending on frivolous things – but they will spend to help their friend start a business if that business is something helpful.

And I think we should talk about Maslow's Hierarchy of Needs, because I think something very interesting we're seeing is that the businesses that are crushing it on IFundWomen are the businesses that are serving the bottom three rungs of Maslow's Hierarchy of Needs.

SAFIAN: So you talked with me earlier about this idea of the “Covid economy” and how it's different from the pre-Covid economy. That these sort of “must-haves” of food and shelter and safety are going to perhaps do very well right now versus the certain “nice-to-have” businesses. Can you explain what you mean by all of that?

CAHN: Absolutely. So when you think of Maslow's Hierarchy of Needs, on the very bottom of the triangle, you've got the physiological, basic needs: air, water, food, shelter, sleep, sex, clothing, the baseline for humans to survive. Sex tech businesses are doing really well. Food delivery companies are doing extraordinarily well. Before Covid, I was using HelloFresh. And you know, it didn't even dawn on me that when the quarantine started, my HelloFresh boxes kept showing up. I was like, “Thank goodness for this service because I don't have to go to the market, cause I'm scared to death to go to the market.” Shelter, water. So all of these very basic needs, those companies are going to do well.

Then you move up on Maslow's Hierarchy of needs to safety, right? So personal safety, security, employment, health, your property safety. So we're going into an apocalypse potentially. Right? So any sort of safety that you can provide whether it's, you know, obviously people's jobs are of the utmost importance and that leads to financial security and mental health and mental wellness. That's all part of the sort of bottom two rungs of Maslow's Hierarchy of Needs.

It kind of gets into the third rung of love and belonging, right? Friendship, intimacy, family, and connection. That's another thing that's hugely important, especially as we're isolated. So businesses like of course Zoom, Google Hangout, D-Nice – who's a DJ who was doing these sick sets. He's doing these free dance parties. He did it last weekend. I swear to God I danced all weekend. It was like the most fun I've ever had and I'm just like stalking D-Nice's Instagram Live for when he goes live again.

But it's things like that, that gives you a connection, that are going to do well. So obviously Netflix, all the streaming services, all the creators they're doing well. So yeah, it's, there's a Covid-economy for sure that's happening and it's any of the businesses

that are going to be servicing us in our life of quarantine, which gets boring and sad and lonely. Those are going to win.

SAFIAN: And if you have a business that's sort of further up in Maslow's Hierarchy, further up that food chain, should you be thinking about pivoting into different areas? You mentioned some folks in your network who have pivoted to different kinds of products as the result of the environment we're in right now.

CAHN: Yeah, absolutely. So we have a lot of fashionistas at IFundWomen who were selling, you know, \$200 and \$300 work wear outfits or bomber jackets or things that were nice to have. They have pivoted. So one great example, and if people go to IFundWomen's homepage and search for Taylor Jay, she is a designer out of Oakland, California. Previously she was making really beautiful women's work wear that you would go from like the plane to a meeting. And she has pivoted to making really chic, cool consumer grade facemasks and she literally is selling out. They're selling like hotcakes cause they're pretty – they're not medical grade obviously, but if you think we're not going to all be wearing face masks for the next year or so, we're kidding ourselves.

And we're also seeing people in the fashion industry pivot to making hospital gowns and hospital grade masks and booty covers. And people that are in fashion that have access to fabric are making either medical grade supplies or they're making consumer grade supplies. And I think that's great. That's what you got to do. Every business has to pivot. And it's the businesses that can pivot and really see an opportunity for what people need during these times that are not going to be a change anytime soon. And have the self-awareness to say like, "You know what, people don't need the \$200 bomber jacket. People need face masks and I'm going to supply those to them."

SAFIAN: As we move from the sort of pre-Covid to post-Covid economy, it's a stressful time. And, and I'm curious as a leader what you do to manage your own stress personally and what sort of advice you might give to other business leaders and the rest of us out there about how to get through these times where we are maybe isolated under new kinds of pressure and dealing with uncertainty in a different kind of way.

CAHN: I think do whatever you can do to remain calm. I mean, I also have the wisdom of the age. Even though I don't look it, Bob, I'm 46. This isn't my first rodeo. And so I think that the older founders and the older CEOs I think we're going to handle it better, because we've seen some stuff. I try to get outside every day and take a walk. I try to do yoga. I do have a yoga mat on my bedroom floor. I am definitely listening to Oprah and Deepak's free meditation. They have a month long meditation app. It is free. And I'm doing that in the mornings. I've got my two kids with me quarantined at home and luckily they're being amazing.

And it is not lost on me that most people are losing their jobs, are struggling to feed their families, are fighting with their spouses and are in little tiny apartments in big cities where Covid is running rampant. So I just send my biggest heart message out to them.

SAFIAN: Are there things that keep your optimism up in this environment?

CAHN: Absolutely. And I'll tell you what keeps my optimism up in this environment is all of the entrepreneurs that are coming on IFundWomen and they are raising cash. They, I see it, I watched the transactions happen by the second and people are being super generous. So if you are listening to this and you are a small business, doesn't matter if you're woman-owned, man-owned, it doesn't matter. Come on IFundWomen and crowdfund to get yourself through this time. It will give you something to do. We will teach you how to do it. It will give you structure to your day. Every day you should have a goal of what you want to raise, whether it's \$200, a thousand dollars a day, \$500 a day, it doesn't matter. That cash goes right into your bank account immediately and it will help you get through this time of uncertainty. So that's my positive thing. That's what gives me life.

Our team wakes up every day and we have our daily Slack and Zoom stand up and we're cheering because we are like, "Did you see so and so? They just raised \$10,000 yesterday. Did you see this other person? They just raised \$5,000 and they came from nowhere." So there's a lot of hope out there and I'm wishing everybody the best and come to IFundWomen, and we will help you raise you the cash you need.

SAFIAN: Karen, thank you again for your thoughts and your ideas and your time. We wish you a lot of luck. I'm Bob Safian and thanks everybody for listening.