

BOOTSTRAPPING YOUR BUSINESS

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Bootstrapping enables entrepreneurs to operate their startup companies with minimal infusions of cash from others, allowing the entrepreneurs to postpone raising capital from outside sources and to maintain 100% ownership of their companies. After capital has been raised from friends, family, angels or VCs, bootstrapping is the technique entrepreneurs use to “extend the runway,” that is, to postpone raising additional capital until key milestones can be met. Meeting milestones demonstrates the viability of the company and increases the valuation of the company when raising money, and allows the entrepreneur to maximize personal ownership in the company.

Bootstrapping can take many forms, but can be divided into personal or business sources of cash and/or reduction in expenses, as is shown in the chart below:

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ACTION		Source of cash	Reduced use of cash
Personal	Keep day job	x	
	Working spouse	x	
	Delay/minimal salary to self and others		x
	Use personal car/computer/equipment		x
	Mortgage residence	x	
	Using savings	x	
	Maximize credit cards	x	
	Other sources of debt	x	
Business	One partner keeps day job	x	
	Consulting while starting company	x	
	Negotiated delay in vendor payment		x
	Negotiated delay in landlord payment		x
	Advances from customers	x	
	Advances from partners	x	
	Selling other products ¹	x	
	Early commercialization ²	x	

¹ As a sales representative or distributor for another company

² Quickly developing and selling products to generate revenues for the company. Need not be the “killer application” or a product with all bells and whistles.

Sometimes it becomes necessary to provide incentives to assist the entrepreneur in bootstrapping the company. Options (or warrants) to purchase stock in the company can be offered to employees, vendors (including landlords), customers and partners. Permanent or temporary exclusive relationships can be used to motivate vendors, customers and partners.

Why bootstrap your company? Why not simply raise money from angels or VCs? Equity investment is the most expensive source of capital for starting companies. Why? Debt (if available) may cost 5 to 20% annually. For highly successful companies, equity costs over 100% per year. Don't raise the funds needed to start your company from equity sources unless you absolutely must do so! And there are additional reasons to bootstrap, rather than raise money now:

- Fundraising takes much more time than most entrepreneurs anticipate. The time dedicated to raising money could be more effectively used to develop and commercialize your first product. Generate revenues (and profits) early – by bootstrapping the company.
- Raising money too early, before meeting substantial milestones for success, decreases the valuation at which money can be raised thereby increasing the percentage of ownership new investors will require to complete the transaction. Bootstrap the company – keep 100% ownership.

Entrepreneurs have been bootstrapping startup ventures from the beginning. It is a time-proven method for extending the funds available to start a company until the cash generated from earnings is available to fund the growth of the business.