

## **What is “Bootstrapping” and how can it be beneficial to small business owners?**

Bootstrapping is a type of “self-funding” that small business owners can use to reduce the “costs” of doing business. Often entrepreneurs must use all of their creativity to beg, borrow, or find the resources they need to start and/or grow a new venture. Bootstrapping in its simplest definition is the practice of getting by with as few resources as possible and getting the most out of those you have.

Bootstrapping at a more complex level is the process of analyzing the operation to discover ways to save money and to put cost saving measures into place. This practice can also produce added benefits for the business which include improved operational efficiencies, and the opportunity to learn more about the company from the inside out. An added benefit can also be that by becoming more efficient and cost conscious, the entrepreneur can actually put the organization into a stronger position which may help it qualify for additional financing.

### **Bootstrapping Examples Include:**

***No or low rent.*** Many small business owners start their businesses by using a residence for office and workspace. Paying rent takes cash that could go directly into the business. Garage and basement startups are not myths. Sometimes incubator space is also available which is often subsidized. Sharing office space with a larger business is also an option.

***Bartering of goods and services.*** Perhaps you can trade services – for instance web site development for an engineering firm in exchange for producing a prototype of a product. This is an area where it pays to check with an accountant to make sure that what you are doing with regard to bartering has a paper trail and is legal.

***Renting or leasing of equipment.*** Often an expensive piece of equipment can be rented as opposed to buying it for the startup phase of a business.

***Used equipment.*** Usually the latest and most sophisticated equipment is not needed in the early stages of manufacturing and test marketing. It is often possible to find a piece of used equipment at excellent prices to fill short term needs. The same also applies to office furniture for example.

***Suppliers’ help.*** Suppliers may be willing to help in many ways with the hope that in the future a new or growing company may become a major customer. They may be willing to help you with funding inventory until you are able to receive payment from your customers. They may be willing to provide you with longer than customary payment terms to help you get started or grow your business. Establishing a close and honest relationship with suppliers can pay back in the future.

***Sell Wholesale.*** If a small business has a product to sell it can be beneficial to sell to a wholesaler and let them use their expertise to set up and manage the distribution channels for the product.

***Customers' help.*** Sometimes customers will prepay for a future delivery of goods or services. A purchase order from a large company even if it is contingent on delivery of the product or service to a defined specification may help in securing a working capital loan. If prepayments and purchase orders are not an option it will help cash flow to collect accounts receivable as soon as possible even if it means billing for services more than once a month.

***Cooperative purchases.*** As small companies begin to scale up, often they can find ways to work with other small companies to create a buyers' club to purchase products and services in volume at lower costs.

***Outsourcing.*** A growing business will need a number of professional services that are not required full-time and may make sense to outsource. These include payroll services, bookkeeping and tax return preparation. Using independent contractors, temporary workers and services from other businesses is another option.

***Do It Yourself.*** Computers and specialized affordable software give small business owners the opportunity to create marketing materials, manage sales efforts, and keep track of budgets and bookkeeping functions.

***Credit Cards.*** Credit cards have always been a source of funding for new and existing ventures. Credit card funding is quick funding of the business. Entrepreneurs can take advantage of "no interest for six months" offers and they can keep rolling it over, but this method can adversely affect personal credit ratings if done too often. Another disadvantage is that obtaining funds through credit cards can cost much more than bank loans, and if the enterprise is not successful, the credit card payments will continue and may place the small business owner in personal financial jeopardy.

***Family and Friends.*** Friends, family and "fools" are very popular sources for startup capital because "they" are not as worried about quick profits and paybacks as professional investors. Usually friends and family do not investigate the business very well and are not familiar with the risks. To guard against the risks of failure and to avoid being blamed in the future by the friend or family member who makes the loan, the best method is to provide the same level of disclosure to them that would be provided to the most sophisticated investor. It is important to resist the temptation to keep the venture on an informal basis. A contract should always be developed and employed with friends and family.

Just as there are many different kinds of entrepreneurs, there are a multitude of bootstrapping techniques to help businesses stay lean and flexible while employing aggressive and unconventional ways to generate revenue, minimize cost, and ultimately

to maximize profits. The most important thing to remember is to be creative and ethical at the same time!