



Excerpted from
FastTrac® TechVenture™



TAKE CHARGE OF YOUR BUSINESS®

A program of the Kauffman Foundation

Bootstrapping

Entrepreneurs can spend too much time worrying about balance sheets, revenue forecasts, and profit and loss statements. Cash is king—concentrate on how many weeks and months of cash you have to support operations. (This defines your runway, that is, how many months you can operate with cash on hand at the current rate of expenditures.) Many great ideas and technologies have been aborted on the launch pad because they did not have enough cash to get to the first gate of external funding.

Bootstrapping, getting a lot done on very little cash, is a common practice for early stage companies. For most start-ups, bootstrapping is an essential first stage because it:

- Demonstrates the entrepreneur's commitment and determination.
- Keeps the company focused.
- Allows the business concept to mature more into a product or service.
- Gives the concept a chance to be vetted by the market.
- Allows some milestones to be achieved.

Relatively early in the process, before you get deeply in debt, decide how far you want to go on personal financial risk (such as by depleting your savings, selling off your stock portfolio, liquidating your 401(k), taking equity out of your home, running up your credit cards, or pledging personal guarantees). This will help you know when to move beyond bootstrapping to finance the business.

Primary sources of the cash necessary for bootstrapping are from the start-up entrepreneur. These include:

- Cash from savings.
- Borrowing against assets, such as your home.
- The careful use of selected credit cards.
- Keeping your day job, while starting the business in off-hours.
- Living off your spouse's wages while starting the company.
- Doing consulting work to provide start-up cash for the business and for living expenses.
- Rushing an early product to market to provide for early revenues and earnings.
- Running extremely frugal operations, allowing the company to grow on internally generated cash earned on the sales of products.

These are some tactics to stretch your bootstrapped cash runway:

- Lease or borrow the equipment you need to acquire new, such as computers.
- Buy fixed assets such as furniture used or from "fire sales."
- Go as long as humanly possible without paying yourself.
- Compensate advisers and consultants with equity, good will, and in-kind services. Salaries end up being the largest part of expenses and once you start paying, you can't cut them off. You will also end up paying FICA and other related expenses which drive up actual cash expenses significantly.

- Call in past favors and rely on personal relationships to get things done for free.
- Use lawyers and accountants to help you with judgment issues, not basic education issues. Negotiate the delay of payments for services until the company is funded. Use public sources to learn the basic parameters before starting the fee clock.
- Be frugal everywhere—drive instead of flying, choose cheap hotels, and use your personal computer and printer.
- Find out the real, unmet need versus shotgun marketing to drum up unqualified sales leads. Spend money on marketing only if you must.
- Post job openings and see who applies. Many will be unemployed people that will work for deferred compensation or equity with the hope of someday getting cash payment.
- Network everywhere to leverage connections and personal introductions by others.
- Get to know the people from whom you hope to get money before you desperately need it.
- Keep records of all out-of-pocket expenses. Once you raise money, you may be able to reimburse yourself first before taking a salary to lessen tax issues.

Continue bootstrapping as long as possible, but know when it's time to seek investors. Postponing fund-raising to the extreme can cripple the company, especially when the window of opportunity is short (as is often the case in technology start-up companies). Potential investors will recognize and value your bootstrapping resourcefulness in starting your company.