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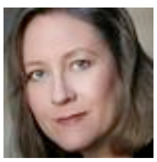
How to 'Bootstrap' Your Business

Forging ahead without external financing is common, particularly in a company's early years. An idea's execution often outweighs the idea—and cash flow management is crucial, experts say

By Karen E. Klein

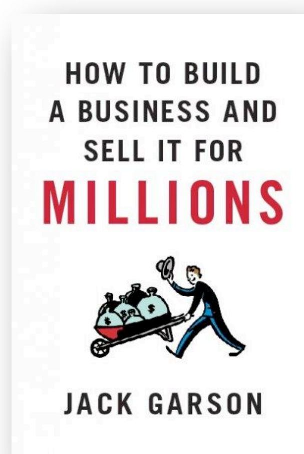


What does "bootstrapping" a business mean and how can I do it? —A.B., Vallejo, Calif.

The term hearkens back to the idea of someone "pulling themselves up by their bootstraps." That phrase—which refers to 19th century high-top boots that were pulled on by tugging at ankle straps—generally means doing something without outside help.

In business, bootstrappers typically rely on savings, early cash flow, and penny-pinching to fund startup companies, rather than seeking external funding in the form of loans or investments. When bootstrapping companies, founders try to line up customers and suppliers early while taking little or no capital for themselves.

Lowering expectations can also help bootstrap a startup, says Robert Ball, chief executive officer of OfficeArrow.com, a site for business owners and office managers that offers its members discounts from large suppliers. "Take your big idea and pare it down into a series of ideas, then execute on the very best portion and activate other parts later," Ball says. Most of the time, it's the execution of a business idea, rather than the idea itself, that determines whether a company becomes successful.



Jack Garson, president of Bethesda (Md.)-based law firm Garson Claxton and author of *How to Build a Business and Sell It for Millions* (St. Martin's Press, 2010), agrees. "You don't need to open your dream business on the first day. It's better to start with a successful hot dog stand than to get halfway through the construction of a full-service restaurant and run out of money," he says.

Don't think that starting a company in a limited way is an admission of defeat. Years of steady revenue and profits can help company founders save up enough to invest in rapid growth once they have built a loyal customer following. "A client started an organic grocery store in cheap warehouse space so out of the way you couldn't find it, even with directions," Garson recalls. "He now has half-a-dozen stores, with plans for a total of 20 in the next few years."

Positive cash flow: priceless

Another tactic you can use is to offer discounts to early customers, thereby creating immediate, steady cash flow. "Offer prospective clients a great rate—perhaps 25 percent off—for the first one-to-two years and get their guarantee of business," Garson says. As a result, "you get a reliable base of business that will cover overhead and put money in your pocket right away."

Positive cash flow removes the need for heavy infusions of startup capital and allows a company founder to pay overhead and support staff. In addition, early customers who love your product or service can be called upon to provide testimonials and referrals to later clients, who will pay full-price.

Early suppliers may also be a source of bootstrap financing, says Deborah A. Osgood, co-founder of Knowledge Institute, the New Hampshire-based company behind Buzgate.org and several other small business sites. "If you have suppliers, ask them to extend payment terms. Share your business plan with them and help them to understand how they benefit when your business grows," she says. Customers who like what you're selling might also be a source of early capital.

Personal savings also play a role in funding almost all startups. Emily Dubner managed to squirrel away $40,000 working as a management consultant before she launched her New York-based company, Baking For Good, a year ago. "I'm just a saver by nature," she says—another trait that helps bootstrappers get started.