



Starting a Business with Little Cash: the Bootstrapper's Way

By William Keyser

Introduction

Starting and operating a business with little or no money, or assistance from outside investors, is entirely possible. Before you try to raise a loan or seek capital, give financial bootstrapping a try. The chances are you'll be able to come up with creative ways to avoid giving away equity or pay high interest rates, while having more cash to build the business.

Financial bootstrapping offers the lowest-risk way of starting an enterprise while maintaining your greatest freedom of action. There are many ways to keep working capital in the cashbox. When you've read about the ones below, you'll be able to come up with many more of your own.

Sales is Job #1—To Get the Cash Flowing

Before delving into the bootstrapper's toolbox, make sales the most imperative job. Be sure to over-deliver and not over-sell. Satisfied clients will come back for more and tell their friends, allowing you to reap sales with much less effort than the first time around. Of course, you must have long-term goals, but you should make "next week" your time horizon.

If you put sales at the top of your priority list, marketing is a close second for your attention. Do a little marketing every day and you'll be surprised how the actions mount up. Prepare a marketing plan. This should not involve a big budget. You can do it on a shoestring, like getting press coverage, for example; it costs nothing but your time and some careful preparation. You can start with your local press or the journals that cover your industry and expand from there. You can design and print your own stationery (business cards come first).

Get Paid On Time to Conserve Cash

Invoice on time or even early. When the invoice is prepared, make sure you know to whom it should be sent (in the accounts payable department is best). But take care: the customer company may have special procedures for approving invoices, so follow their rules.

Ensure that your customers pay within thirty days. There's no point in your new business playing banker to established firms. If you've made it plain at the outset that you have a 30-day settlement period, there should be no problem. Hesitating to contact the customer will cost you money.

Here's an example: The working capital required to finance monthly sales of \$10,000 with an average settlement period of 45 days is \$15,000. If the settlement period stretches to 60 days, you need an extra \$5,000 in the business. By this simple illustration, you can see how much easier it is to have \$10,000 in the business by getting settlement in 30 days than it is to go to the bank for a \$10,000 loan on which you have to pay interest. Just imagine that you get a loan of \$20,000 at 15% interest. Your monthly repayments would be more than \$1,800.

Purchase Economically

As well as raising the bridge by selling, you can lower the water by buying—effectively. There are some big choices that will effect your cash and thus your seed money. Look closely at the relative costs of leasing vs. buying, or buying second-hand or re-conditioned equipment. Maybe bartering or reciprocal trade would be possible in equipment and services, or between the two.

Examine the different costs between cash discounts and extended credit rates. Your cash flow may be the determining factor here; if you don't have the money now, you'll have to have extended credit or find another solution. It could be that you don't need to own the equipment at all and you could sub-contract the work at lower cost or you could buy the equipment together with another user if you're not going to need to use it full-time.

Outsourcing Can Conserve Cash

Many businesses shy away from outsourcing, especially since outsourced overseas call-centers have often received a bad press. It does not have to be that way and as an indicator, 400,000 US tax returns were prepared in India in 2005 (McKinsey Quarterly). More frequently still, companies use outsourced payroll and bookkeeping services.

You can always take the work back in-house when the business has grown and cash or time is at less of a premium. In fact, any so-called 'back-office' jobs can often be outsourced effectively.

Delay Paying Rent

Of course, it's nice to have fine premises at the best address, but unless you're in a business like retailing, where location may be part of what makes or breaks the enterprise, you should not be tempted to take on premises out of your league. Your startup may be one that you can set up at home, or you can share workspace with others. There may be a disaffected building available where short-term or low-cost rental is possible while you're finding your feet.

Having no fixed workspace may be even better if your trade is plied on the Internet. Try a free wireless service café if there's one near you that has an owner happy to have you, but make sure you buy plenty of coffee and Danish pastries!

Low or No-cost Bodies

Above all, your business will depend upon the quality of the people that work in it. That doesn't necessarily mean that you have to have them on the payroll.

At the inception of your company, you're unlikely to recruit a Board, but you can set up an advisory board of good contacts whose advice and support you value. If you chose wisely, such a group will enjoy working with you and having the occasional meeting, perhaps over a meal. You may also be able to establish a support group of peers, such as other entrepreneurs, with whom you can share experience to mutual advantage.

Students can be an excellent source of motivated contract workers. You may have a business school near you and its students, particularly graduate students, may be highly motivated to work on real-life projects. You don't have to exploit these young people; you'll probably be able to strike a mutually beneficial bargain, and they may prove to be excellent recruits later on. You'll have an opportunity to gauge their worth in a working situation.

Public Money—Don't Count On It, But Grab What You Can

If a business cannot be sustained without grant or cheap money from Government sources, then it's unlikely to be viable in the longer term, with the possible exception of businesses in the social enterprise field.

However, if there are government soft loans, loan guarantees, or other incentives to be had, go for them. In many parts of the world, not just in the US, there are special breaks for underprivileged or disadvantaged groups in society.

New Money Sources Are Worth Checking Out

The Internet has enabled a new source of funding that you might want to consider: P2P, or Person-to-Person loans. In the US, there's Prosper (www.prosper.com), where you can list the loan you seek and private lenders can choose to make one or not. Rates depend on how the borrower is rated. Of course, you'd have to check out rates in your own case, but there are examples of P2P rates being less than half those asked by traditional finance companies.

To help facilitate this process is Circle Lending (www.circlelending.com), a specialty loan administration company that manages P2P business loans and mortgages. They provide everything customers need to formalize and repay private loans. Given that the majority of private financing for startups comes from family and friends, this management service probably has a big future. Default rates seem to be lower than average.