Entrepreneurs on Funding vs Boostrapping

What is Boostrapping?

When faced with the necessity of financing your start up, Bootstrapping is an option that should be seriously considered. In it's most basic definition, Bootstrapping can be defined as financing your startup with personal savings and/or some combination of support and aid from others. Of course the term has far deeper ramifications, after all what exactly does this self funding consist of? Well, let's talk about that.

Every business to some degree will adapt Bootstrapping methodologies - which might just as easily be defined as a financial form of 'making do'. Most start ups (80%) are originally funded by the founder's personal finances. Stretching your resources - financial, physical and every other way - is what is normally termed Bootstrapping. What it means for your bottom line is that at the end of the day you will be spending less of your company's limited funds, with the knock-on effect that you won't need to be continually borrowing cash,. In addition to that, your outflows to cover interests on any loans will be significantly reduced.

This is not an easy strategy to adopt, especially as the entrepreneur assumes all the financial risk. Additionally, the extremely limited resources this entails can slow growth and even negatively affect the product development. One important caveat - if you go into debt to fund this start up - you are assuming a huge measure of risk. If you can wait it out, then it might be best to hold off over investing until you have the proper financial resources at hand.

Additionally, the resultant lower cash reserves will affect how you build your company in the short term - staffing, office and associated costs need to be looked at from a new perspective if they are drawing on a smaller pool of funds. This is where running your business will require your imagination and innovation.

For the entrepreneur, however, the upside is that full control over the company remains in their hands, and all their energy can be poured into the product and not into seeking seed capital or pitching to venture capitalists. This can also be a way to create amazing breakthroughs, as you need to really embrace innovation, not just in product development, but in survival. Being able to maximize every resource and put your best efforts towards supporting the goals you are striving towards.

Throughout this process, it is important to keep your feet on the ground. Perseverance and independence isn't just about sticking it out through the hard times. It's about making the right decisions for the right reasons. Bootstrapping requires you to be a realist - know when to cut your losses if something is not working out.

Aside from start up capital, there are some other practical aspects to Bootstrapping that will enable your financial resources to be preserved.

A Few Ways to Put Bootstrapping into practice - It's all in the details

Overall of utmost concern when adopting a bootstrapping approach is the careful attention to controlling your outlays and managing your resources. Expensive overhead unless it is proven to increase sales are the kind of luxuries that you can do without. You are far better to consider more creative business management strategies such as barter, taking advantage of promotions and keeping a strict eye on your operating expenses.

Also, remember, when you have grown used to working within certain funding limits to constantly question yourself. Have you outgrown the reasons why you were budgeting to begin with? Are your costs cutting methods delaying interactions with customers - are they costing you money? If the answer is 'Yes'. It might be time to change methodologies, because after a certain point you are stifling your own growth by not investing enough into the business. Missing opportunities, by not seeking outside funding - when you are read - can be a huge mistake.

5 things you need to remember when Bootstrapping
1. **Try to hire a team that will work for equity to save your cash** - when people have a vested interest in the success of the business, it can inspire greatness. It also inspires attention to detail and perseverance.
2. **Don't mistake your budget for a wish list - plan your expenses - but don't indulge -** When your spending is not helping to close a deal or win customers, you need to re-evaluate.
3. **Do you need that office?** Take advantage of the modern trend in co-working and remote offices. Save money now - you need it.
4. **Embrace financial strategies** - Lease and don't buy! Also consider trade credit or deferred payments as legitimate strategies to save money.
5. **Draft a business model that will maximize your revenue** - know your market and make sure that you are taking advantage of your chance to earn revenue. Regular fees for uses, or e-commerce vendors are great ways to build a business.

Bootstrapping - the right choice?
Remember this approach to a start up may get things off the ground quickly, however, for immediate returns this may not be a great strategy.

On the plus side, for a true creative spirit this is a great opportunity to mold a brand to your liking. If you are not reporting to outside investors, then the pressure is off to a certain degree. Remember, it is your personal assets that are at stake here.

When you hire your team, remember to find those with a similar mind set and work ethic to yours. If you are going all in, you want everyone else to go all in with you.

One downside can be that your ability to work with outside vendors or suppliers can be affected by a perceived lack of credibility. If your financial support comes from traditional or respected venture capitalists or funds, you may find that there are certain doors that will open. However, in the end, the rewards might just be worth all that risk.

Successes:
When Spanx was founded by Sarah Blakely in 2000 she used $55,000 of her own savings. She operated under the conscious strategy of saving money, and even handled her own copyright filing to save money on a lawyer. By 2016, she still owned 100% of Spanx, with a personal fortune estimated to be over $1 billion.

Funding

So are you an entrepreneur with a great idea for a start up, but you need capital? Well if the product you are dreaming of making is good enough - in your mind - to be appreciated by your market, then maybe it's time to start knocking on some doors.

There is no reason why you can't make your dream into a reality, all that is required is planning, drive, and financing. Sounds easier than it is, of course. But there is one quite popular method for financing you new business, which is seeking investors to provide funds for your start-up.

Funding doesn't have to be all about pitching to a shark tank filled with venture capitalists. The options are are many nowadays.

Ways to fund a startup

1. Crowdfunding

Crowdfunding entails positing your business and product information on any of the many crowdfunding sites that can be found on the internet nowadays. Kickstarter allows you to request funds, but other sites allow you to issue short term loans for interest. Some even allow businesses to sell purchasers an equity stake in start ups looking for funds.

2. Angel Investors
An angel investor is an already successful entrepreneur who has reached a level of success and wants to put some of their resources back into a worthy start up. These are great investors to win over. They often come with the experience and connections that can truly drive a business to the next level.

3. Venture Capitalists
These are the big rollers of the funding world. Generally entering the picture once a company is off the ground and has some success to exhibit, venture capitalists will offer funding in exchange for equity, and sometimes debt financing. These types of investors can also bring much needed capital in the form of experience in business. These investors will have certain requirements of those start ups that they invest in - including proof of a business model, an extensive valuation and projected growth.

4. Banks
If you are looking for credit facilities and other financial assistance, banks are a reliable source of capital. There are also many banks that are looking to invest in start ups. This type of funding would require you to have an extensive, and convincing, business plan.

5. Bridging Loans
These loans are issued to cover financing needs in the case of infrastructure costs or overhead expenses. These are often offered by specialized providers and are known to be friendly to start ups.

6. Partnerships
Teaming up with a colleague who shares the same vision and drive can be a great way to raise financing without loosing control. However, there are long term applications that should be considered, especially if the business becomes profitable!

Funding gets complicated
There are many reasons why funding could be a complicated issue for any business. Someone else's money often also comes hand in hand with someone else - and they have opinions, requirements and their own vested interests.

Also, raising this original investment is not as easy as it used to be. More and more, those with the power to get your wheels turning are looking for proof of concept - this later-stage investment is for those businesses which can prove that their idea can generate buzz, and money.

How can you lure funding into your start up?

1. **Due Diligence - is your concept foolproof?** Later lawsuits or unforeseen scandals will not please investors. Taking a risk on your business does not mean that the investor is completely risk adverse.
2. **Show me the money** - So you are asking for money, what are you going to do with it exactly? This money is to fund and grow your business, so be prepared to talk about the fine details.
3. **Demonstrate a strong market knowledge** - it isn't just about your idea, it's about your customers. Know what they want, and how you are going to give it to them.

Investors are worth the risk

While there are many caveats about getting involved in funding and bringing investors on board this may not be a correct assumption. Of course when you bring in investors you are bringing along their interest and their requirements, but does this have to be a bad thing? No. With a significant injection, you can pick up the pace at a far faster rate than a bootstrapped funded business can.

Bootstrapping is certainly a solution for many types of businesses, but it requires a drive and dedication that may not suit your needs. Anyway, funding will be needed by Bootstrapping start ups eventually, as their financing needs for growth increase. A question to ask here now is, if you can fund something for a while on your own without accruing debt, maybe this could be a great way to test the waters.

Weighing the risks and demands of allowing outsiders to acquire equity in your business is a necessary step before you start to seek funding. If you decide to go it alone on your own funds to begin with, you may have a stronger position to negotiate from when it comes time, down the line, to meet with outside investors. You will be able to demonstrate your success, and you will know your market and product that much more. Selling a stake in your company is not the same as giving something away, and with proper management you can maximize your benefit from your relationship with them.

At the end of the day, the number one risk factor for any start up is not having enough money to get anything off the ground. If you do not have sufficient capital, or you do not have any personal resources to invest then you will not be starting any business. At the end of the day, making a pragmatic decision about your ability to budget and self fund (as a bootstrapper) or your acumen and persuasive ability to locate investors are in your hands. Both methodologies have merit, you simply need to decide which of these not only suits your business, but also suits your character and way of doing business.