International Journal of Business Management Insight & Transformations
Vol. 1, Issue 1 - 2017

BOOTSTRAPPING: WAY OF BUILDING A BUSINESS OUT OF VERY LITTLEOR VIRTUALLY NOTHING

UMA DEVI SINGH, ANAND KUMAR SAHU

ABSTRACT

Any starting out in business don't realize that that there are more than 20 funding sources available to get the money needed to fund a business vision, idea or project. The sources are broken down into two main groups, Bootstrapping and Equity Financing.

Bootstrapping is when you the Entrepreneur decide to go it alone using on the ground resources from personal savings to second mortgages. Equity Financing is when you the Entrepreneur decide to give up a percentage of the ownership of your company in exchange for needed capital.

KEYWORDS: Bootstrapping, Equity Financing, Business Scalability.

INTRODUCTION TO BOOTSTRAPPING

Bootstrap is a situation in which an entrepreneur starts a company with little capital. An individual is said to be boot strapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company. Compared to using venture capital, boot strapping can be beneficial, as the entrepreneur is able to maintain control over all decisions. On the downside, however, this form of financing may place unnecessary financial risk on the entrepreneur. Furthermore, boot strapping may not provide enough investment for the company to become successful at a reasonable rate.

BOOTSTRAPPING: RELYING ENTIRELY ON ONE'S EFFORTS AND RESOURCES

The term itself originates from the phrase "pulling oneself up by one's bootstraps," and professionals who engage in bootstrapping are known as bootstrappers. These individuals typically rely on personal savings and the earliest instances of revenue to begin funding their own startup companies.

This contrasts with other entrepreneurial actions, which may include contacting external investors and other business professionals to begin funding their operations.

Though not as quick in turning profits, bootstrapping is a steady way to begin compiling revenue and to support future investments by providing the business with a safety net for long-term cost management. Bootstrapping provides professionals with the peace of mind they need to focus on building relations with customers and other professionals.

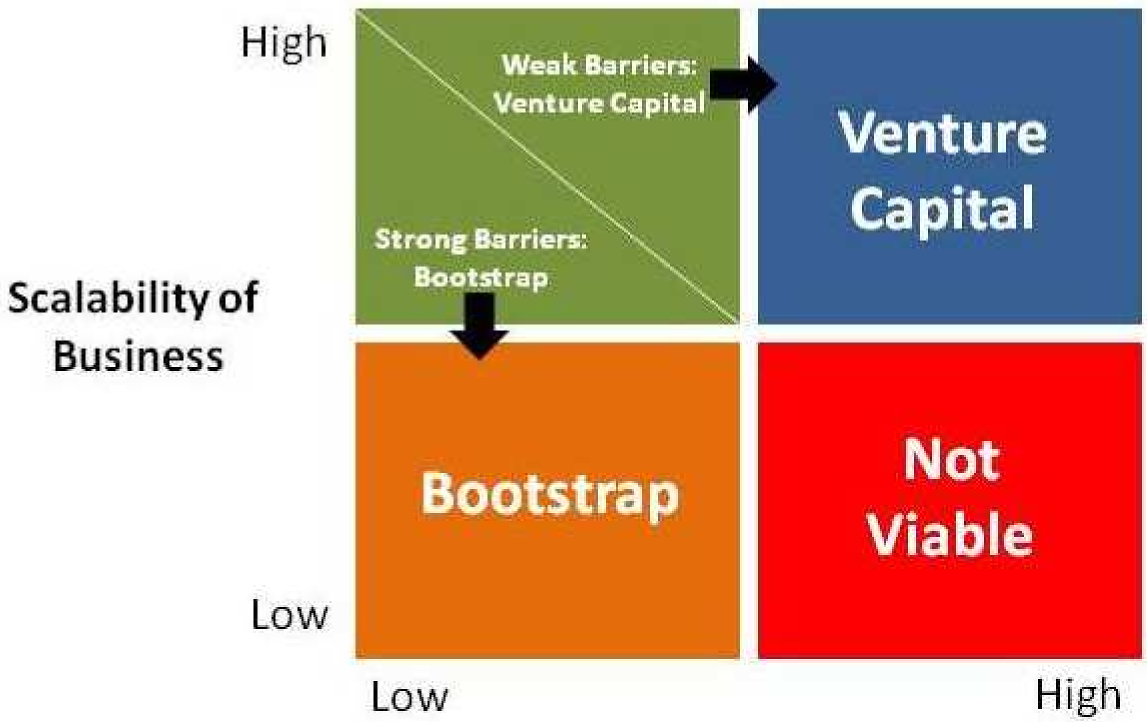

Figure 1.Capital Required Achieving Breakeven Cash Flow

Because the business does not have to rely on other sources of funding, initial business owners do not have to worry about diluting ownership between investors.

Entrepreneurs do not need to issue equity, and they can focus debt on personal sources. Bootstrapping allows business owners to experiment with their brand more, as there is not as much pressure for them to get their product right the first time. With personal startup funds, they can experiment with focus groups until they are satisfied with the results of their venture. However, this also increases the degree of risk for the starter, because they may need to micromanage their source of income as well as their business venture.

One such example of a successfully bootstrapped business is EDS. Ross Perot first started EDS in 1962 with $1,000 he saved up in personal funds from previous employment arrangements.

Through persistence and careful networking, he turned his small startup operation into a multi-billion-dollar company. Studies show that more than 80% of new startup operations are funded through the founders' personal finances. The recorded median in start-up capital is reported at approximately $10,000.

BOOTSTRAPPING EARLY SOURCES

1. Founders' Capital
2. Savings
3. Credit Cards
4. Second Mortgage
5. Venture Leasing
6. Sales Revenue

BOOTSTRAPPING LATER SOURCES

1. Lines of Credit
2. SBA Loans
3. Asset Backed Lending / Accounts Receivable Factoring, etc
4. Corporate Strategic Partnerships
5. Banks that Lend To Start-Ups
6. Government Grants (e.g SBIR, DARPA)
7. Company Earnings

REFERENCES

[1]. Efron, B. and Tibshirani, R.J., AN INTRODUCTION TO THE BOOTSTRAP, Chapman and Hall New York.

[2]. Hall, P., THE BOOTSTRAP AND EDGEWORTH EXPANSION. Springer Verlag, N.Y.

[3]. Hinkley, D.V., Bootstrap methods (with discussions). J. Roy. Stat. Soc. B, 50, 321-337.

[4]. Liu, R.Y. and Singh, K. (1992). Moving block jackknife and bootstrap capture weak dependence.

[5]. EXPLORING THE LIMITS OF BOOTSTRAP, R. Lepage and L. Billard edited. Wiley, N.Y.

[6]. Mamman, E. (1992). WHEN DOES BOOTSTRAP WORK. ASYMPTOTOC RESULTS AND SIMULATIONS. Springer Verlag, N.Y.

[7]. Politis, D.N. and Romano, J.P. (1994). The stationary bootstrap. Jour. Amer. Stat. Assoc. 89, 1303-1313.

