IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 23, Issue 3. Ser. VI (March 2021), PP 16-19
www.iosrjournals.org

Bootstrapping your own Startup – A bitter medicine

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Abstract: *A startup is an entrepreneurial venture which is in its earliest stage of operation. The basic genesis of most startups revolve around solving common problems by providing simple as well as creative services to the people. When we talk about a startup business, 'idea' is the seed which sprouts and gives birth to an operational business. In order to transform the business idea into a value and revenue generating reality funding plays a very vital role. Many aspiring entrepreneurs start with enthusiasm but soon they start losing steam as it is not an easy task to raise funds, especially for a new business which is yet to be operational. Because convincing investors to invest in the business is an uphill battle as there is no prior performance reports for the investor to examine and build confidence instead there are only projections of the performance. This lack of proper funding crushes the seed or the idea of the startup business. There are humongous number of cases where the business could not be started even though they had a 'killer business idea' due to lack of funds, whilst there are numerous examples of entrepreneurs with small business ideas who succeeded in the market by being the investor themselves but whenever this idea of the entrepreneurs investing their whole life savings without taking any external funding is put forward, it creates a sense of fear and uncertainty in the minds and it raises the most toughest question of 'What if?'. The main objective of this paper is to study the methods, significance as well as the challenges associated with Bootstrap Financing.*
Keywords*: Financial Bootstrapping, Entrepreneur, Significance*

Date of Submission: 18-03-2021 Date of Acceptance: 01-04-2021

I. Introduction

A startup is a venture or a business which is in its earliest stage of life. The crux of a startup revolves around a problem for which the startup provides a solution in the form of a product or a service in return making some profit out of it. Startups have made a huge impact on the lives of the people, they have changed the life style of the people, cleared out many problems and improved the quality of life. Every business need fund to carry out its operational activities. There are various methods to raise funding for a startup, in this paper we will be discussing about bootstrapping of finances. It is one of the oldest methods using which many entrepreneurs till date start their business. There are many startups which have achieved success using the bootstrapping method of finance. It can also be called as entrepreneurship in its purest form because here the entrepreneur does not take any external assistance and completely depends on his own capital, idea, luck, strategy. There are many startups which still use this method because it is one of the most feasible ways to raise finances for the startup but only if the capital requirement is small.

Methodology: This study is done by studying and referring theoretical data available from various online resources. This is purely theoretical paper.

Objectives

- To study the various methods of financial bootstrapping.
- To identify various significances or advantages of financial bootstrapping.
- To identify various challenges associated with financial bootstrapping.

Theoretical concepts of Financial Bootstrapping:

The situation in which an entrepreneur starts a company with little fund, depending on money other than outside investments is described as financial bootstrapping. An individual is said to be boot strapping when he uses his own financing way to found and build a company.

When an individual starts a company with little to no assets, then the company is said to be in bootstrapping. Generally, most of the start-ups are started by first raising capital through angel investors and venture capital firms, but here the scenario is different bootstrapped founders rely on their own personal savings, sweat equity, quick inventory turnovers, lean operations and a cash runway to become successful. For example, in a company the orders are taken before and with that money the product is created, developed and delivered itself through the funds acquired before.

A typical company which follows bootstrapping finance undergoes three stages

Stage 1: Seed money

In this stage the company runs from the founder personal savings or family and friend's money to get going. Or else the founder starts it as a side business, where he continues to work a day job to keep body and soul together. But somehow, he acquires the enough resources to get the business off the ground.

Stage 2: Customer funded money

The stage is all about getting money from the customers. The customer funding is helps back into the business. It is what actually keeps the business operating and eventually grow with funds. Growth is slow, because the business has first met its operating expenses to stay back in business.

Stage 3: A word about credit

Bootstrapping does not mean going out to get a big loan to start a business. Yes, along the way some start-ups may take on loans or lines of credit. Others lean heavily on credit cards. A few may get grants. But those typically short-term fixes to fund specific growth activities such as buying equipment or hiring more staff or to even out of cash flow dips. It's not so much about using credit as the main source to start the business, but rather as a secondary source to keep it operating and grow it. The founder still has to pay the monthly payments or debt service, out of funds earned in the business.

Methods of financial bootstrapping

There are various methods which are associated with financial bootstrapping. All of these might not suitable for every entrepreneur.

a) **Limit the scope of the product:** When funding is not very abundant it is always advisable to make a standard product with necessary features which aid in functionality instead of adding additional features which will increase the cost and increase the burden. These may be added at a later stage.

b) **Pooling up of personal savings & assets:** In bootstrapping method all the savings, cash balance, credit cards and other investments are to be brought together to bring as much own resources as possible instead of outside resources without relying on outside funds.

c) **Factoring of accounts receivable:** Factoring can be a very good financial tool to utilize, in this method the entrepreneur sells the accounts receivables to most probably a buyer from commercial institution and takes money from them after a discount of 10-15%. It can be a very fruitful tool as it reduces the chance of money getting stuck in receivables.

d) **Trade Credit:** Trade credit has become common in todays business world. Here the suppliers give goods with the option of buy now and pay later. This gives a buffer window for entrepreneurs to make sale and earn revenue. Trade credit is to used cautiously.

e) **Real Estate:** There are many different ways to take advantage of this. If there is a requirement of a facility, leasing is always an option as the costs are very much lower. Overall it will decrease the cost of the startup making it easy for the entrepreneur. There are also many advantages associated with buying a facility as the value increases as the time passes.

f) **Equipment Leasing:** Quite similar to real estate, leasing is advisable when there is a requirement of high value machinery or equipments for manufacturing as owning them may increase the cost of the startup. There are many suppliers out there whose primary business is leasing out equipments.

Significance of financial bootstrapping:

a) **Lesser cost of capital**

When a company involves in debt raising the monetary cost of interest on the investment increases, if it goes for fund raising it involves the emotional cost such as sharing decision power. But bootstrapping is a cheap alternative compared to both debt raising and fund raising, it can reduce the monetary as well as the emotional costs.

b) Power in decision making process

Since there is no outer individual part involved in the company, the power cannot be diluted and the founders have choice to take the right decision.

c) Increased innovations in the company

Bootstrapping makes the individuals to finish the larger works with limited resources. This involves a culture of more innovative ideas, where everyone looks for ways to minimize the use of available resources.

d) More concentration on thebusiness

When there is no stress of raising funds for the company, founders and employees can concentrate more on improving the business.

e) More responsiblewith regards to the company

As a sole investor in the company, he maintains prime responsibility. Most of the people in charge of their own business will give it their all. As humans, we are more inclined to take care of anything extremely well when have definite ownership.

Challenges associated with financial bootstrapping

Financial bootstrapping maybe the choice of many startup entrepreneurs due to their many advantages but it is always to be noted there are several challenges or disadvantages if one decides to go the bootstrapping way, some of the challenges may have long term implication on the business. Few of the challenge are:

a) Slow growth: It won't come as a surprise if it is said that the growth generally reaches a point where it feels stagnated, even though there is lot of scope for advancement. This happens because there is little to no money left for the expansion of the business, this can be fatal for the business after few years.

b) Invisible cash: It is one of the most common problems associated with financial bootstrapping. here the startup makes sales and earn cash but following the bootstrapping method whatever is earned is again to be pumped back into the business nothing is to be retained or kept back. Here there is money circulating in the business but nothing is left for the entrepreneur to use.

c) Connections & Networking: When an entrepreneur decides to depend totally on his own money and skill instead of using or taking help from external sources like venture capital or angel investors, he loses out on making a connection with the people who are already in the business arena and won't be able to enjoy the benefits of a solid network.

d) Business potential & valuation: Even though the business is a good one, when one decides to not take any external help in financing the business, it restricts their business after sometime and the true potential of the business is not achieved. Also, businesses who follow bootstrapping are generally valued less.

e) One-man different roles: Being an entrepreneur is a dream for many and seeing it come true is very delightful but it is very stressful task in managing the startup as the entrepreneursmay lack in many areas and they are still in the infant stage. The already tough job of an entrepreneur becomes more stressful when he chooses to bootstrap as he squeezes out all the resources, skill, energy he has with full dedication. Here he plays a role of entrepreneur, financer, developer, customer service relation expert, eventually it becomes very tedious.

II. Conclusions

Bootstrapping finance is considered to be one of the oldest methods of financing a startup but it still has lot of benefits like the entrepreneur holds the complete control over the business which enables them to take faster decisions, even the cost of capital is less when compared to other methods like debt financing but there are also many challenges which an entrepreneur has to face if they opt for bootstrapping finance for instance the rate of growth will be very slow, business will be valued at much lower value than it actually should be. So it would be wise that an entrepreneur initiates the business using bootstrapping finance and after it reaches a certain stage they have to adopt debt financing as using only bootstrapping finance for a very longer period may not work out because there will be limited amount of capital available at the disposal of the entrepreneur and he/she may not be able to expand the business when the time is right.

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Dr.P.V. Mohini, et. al. “Bootstrapping your own Startup – A bitter medicine.” *IOSR Journal of Business and Management (IOSR-JBM)*, 23(03), 2021, pp. 16-19.