

**Bootstrap Financing;
The Story through Paint
Jennifer Wong**

Some people find gambling entertaining. Personally I can't stand it. The thought of losing my hard earned money in a matter of minutes just makes me uneasy. So when we talk about financial risks I also become a little uneasy. The benefits of owning your own business are extremely appealing, work when you want, spend time with family, do something for yourself, but the possibility of losing everything holds me back.

Whenever I decide to start my own business it will have to involve as little financial risk as possible, that's where bootstrap financing comes in.

A bootstrap is a small loop of leather or other material that is found on the top rear or sides of a boot. The purpose of the bootstrap is to help you pull your boot on. Bootstrap financing is about helping yourself. When I thought about what could be done with a small capital investment I started to look online and realized there are many options available. In addition, I also discovered some unexpected downfalls of bootstrapping when speaking with my friend Kim Sturman, a past entrepreneur. I will briefly describe bootstrap financing and give some *key learnings* that kept repeating themselves in my research.

When studying the topic, I read a lot of bios on successful companies that started with very little. I found there really is no solid definition for bootstrap financing; it is more of an idea or process. It can refer to the start up phase or early growth period. It can mean little or no outside financing. It can also refer to obtaining cash from tighter controls or creative ideas. The definition of bootstrap financing I decided on was the funding of a new or young business thru minimal outside capital relying mostly on the entrepreneurs ingenuity, efficiencies and own cash.

When speaking with Kim Sturman, the founder of Creative Finishes, a faux painting service, I found that she touched upon a point that repeatedly came up in my research, *be an expert in your field*. Kim had lost her job as a Retail Sales Manager and had a little bit of savings to fall back on. Other than a mortgage payment she was debt free. A hobby of hers was to create the illusion of marble, stone or other effects on home interiors, also call faux painting. She decided to attend a course to master the technique. With the experience she already had and the course to back her up, Kim felt that this was critical to her success. “I had worked in sales for so long that once I got in front of a potential client I could easily sell them. Luckily I had the painting skill to back it up and my business grew from word of mouth.”

What does this have to do with bootstrap financing? Because of her experience in sales she got the job and then her quality of work enabled her to find more jobs without the extra cost of advertising. Many bootstrappers have to find *cheap alternatives* to traditional avenues dealing with marketing, financing and sales. Also being an expert in your field gives you *inside knowledge* to what is missing and what is going to be successful in the marketplace. Taking that course really prepared Kim for what customers would ask for and what was trend right at the time ensuring she could deliver what the consumer wanted.

With a little bit of savings and not a lot of debt Kim was in a pretty good position. However after flying to Kentucky from Salt Lake for a \$2000 faux painting course she started to get a little worried. That’s when her family helped her out. Bootstrapping relies on *creative money management* as well as help from family and friends. Cash advances on credit cards and payments in advance are a few of the many ways start ups

make it to the next job. With only a few tools used at home Kim would need additional hardware to start the business, not to mention paper supplies and an ad in the yellow pages. With a small loan from her parents and her own credit cards, Kim managed to take care of these needs and make her mortgage payment on time. Her painting service also allowed for up front partial payment so she could use that money to buy the supplies she would need for the job.

Over and over we have heard that start ups need to present the image of a big successful company. How do you do this when you are short on cash? *Focus on the essentials* that will create the most bang for your buck. Kim had no need for a fancy office or brochures, she was relying on word of mouth. Her essential costs were her tools and a professional looking invoice and estimate sheet as well as high quality business cards. “I wanted my cards to reflect the “creative” in Kim’s Creative Finishes. I figured this is what gets passed on to the neighbor who compliments my client on their décor.” Creating a service based firm like Kim’s also enables the entrepreneur to save cash by not having to invest in a lot of unnecessary inventory.

So with bootstrapping, the financial risks are limited but what are the repercussions? I hadn’t really thought they existed until researching the topic, but found that the decision to go cheap might not be a good way to grow your business. Personal risk preference can hold a business back from its potential. Many small business owners mix personal and business accounts so financial decisions tend to stay on the conservative side. There is also the constant need for cash in a growing business, and many beginning business owners underestimate this, dealing with situations as they arise which may not be conducive to the best solution. Another potential problem is letting

family or friends who are involved in the business sway your decision making so that you are not thinking about what is best for the company.

Kim decided to start her business at a time when she felt that she didn't have a lot to lose. Her intention wasn't wealth accumulation but to support herself and have some independence. Unfortunately owning this small business wasn't always fun. "A lot of my jobs were starting to come from California because of some friends who I had done work for. The only problem was I lived in Utah. Since I couldn't really afford to hire help on a regular basis, it was difficult for me to cultivate more work in my home town." Her growth was restricted because of financial constraints.

Another unexpected downside was she got lonely. "There were some times between jobs that I was really stretching it, and anything unnecessary was not purchased. Things like eating out, movies, trips with friends. And on top of that I was in business by myself; the days were awfully quiet when I was on a job." Coming from interacting with people all the time really made Kim miss the day to day communication.

The downsides to bootstrapping makes me think twice about the idea, why not take a bank loan from the SBA. It really depends on the long term goal of your business and what kind of growth you're projecting. If you don't want to be trapped in your small business many companies start with the bootstrapping technique and do well enough to attract banks or investors. If a lifestyle business is what your looking for bootstrapping can get you there but long term financial plans seem necessary to maintain the business.

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