

6.3: Bootstrapping

6.3.1 What is Bootstrapping?

Bootstrapping is funding a new business with a minimum of outside investment. Ideally, everyone would like to start their new venture with a solid and reliable supply of money, preferably obtained by winning the lottery or inheriting a vast sum from a previously unknown relative. The reality is that many people (if not the majority of people) start their businesses with nothing. No savings, no big gifts from relatives, and no lucky breaks. This is bootstrapping.

By definition, bootstrapping involves running your start-up as cheaply and efficiently as possible, constantly finding ways to minimize your expenditures and squeezing the most out of what you have. Bootstrapping is hard work, but it's good for your business. It teaches you valuable lessons about how to run the business on a shoestring budget, preparing you to make good financial decisions in the future.

6.3.2 Bootstrapping tips that work

University of Maryland business professor Andrew J. Sherman offers ten proven tips for bootstrapping a business:

1. Wear multiple hats in managing your business to save personnel costs.
2. Buy or lease used furniture and equipment, and don't overpay for unnecessary service warranties.
3. Share office space with (or sublease from) a large company that will offer you access to conference rooms, office equipment, reception, or administrative services.
4. Apply for several credit cards at once, and use the available portions as your operating line of credit.
5. Hire student interns willing to forego a salary in exchange for work experience. Better yet, hire a retired executive or family member who may be willing to help out just to stay busy or serve as a mentor. A wonderful resource for this is the Small Business Administration's SCORE (Service Core of Retired Executives) program.
6. Work hard to maintain excellent customer relationships to encourage or require early payment.
7. Commit only to short-term leases and other obligations to maintain maximum flexibility and cost controls.
8. Ask major clients to purchase the key equipment that you'll need to service their account and then lease it back from them.
9. Offer shares in your company to vendors, landlords and key employees in lieu of cash, subject to federal and state securities law and acceptable dilution ratios. (Sam Walton used this tactic when starting Wal-Mart, and his former secretaries and office workers are now multi-millionaires!)
10. Join a commercial barter exchange and use it to acquire key products and services. In some cities, even alternative currencies have emerged as a type of barter exchange and bootstrapping technique. These local currencies have stimulated economic development in small towns and rural areas that haven't yet been affected by the regional gluts of venture capital or where commercial lending dollars aren't flowing freely.

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