

The Art of Bootstrapping

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Someone once told me that the probability of an entrepreneur getting venture capital is the same as getting struck by lightning while standing at the bottom of a swimming pool on a sunny day. This may be too optimistic.

Let's say that you can't raise money for whatever reason: You're not a "proven" team with "proven" technology in a "proven" market. Or, your company may simply not be a "VC deal"--that is, something that will go public or be acquired for a zillion dollars. Finally, your organization may be a not-for-product with a cause like the ministry or the environment. Does this mean you should give up? Not at all.

I could build a case that too much money is worse than too little for most organizations—not that I wouldn't like to run a Super Bowl commercial someday. Until that day comes, the key to success is bootstrapping. The term comes from the [German legend of Baron Münchhausen](#) pulling himself out of the sea by pulling on his own bootstraps. Here is the art of bootstrapping.

1. **Focus on cash flow, not profitability.** The theory is that profits are the key to survival. If you could pay the bills with theories, this would be fine. The reality is that you pay bills with cash, so focus on cash flow. If you know you are going to bootstrap, you should start a business with a small up-front capital requirement, short sales cycles, short payment terms, and recurring revenue. It means passing up the big sale that takes twelve months to close, deliver, and collect. Cash is not only king, it's queen and prince too for a bootstrapper.
2. **Forecast from the bottom up.** Most entrepreneurs do a top-down forecast: "There are 150 million cars in America. It sure seems reasonable that we can get a mere 1% of car owners to install our satellite radio systems. That's 1.5 million systems in the first year." The bottom-up forecast goes like this: "We can open up ten installation facilities in the first year. On an average day, they can install ten systems. So our first year sales will be 10 facilities x 10 systems x 240 days = 24,000 satellite radio systems. 24,000 is a long way from the conservative 1.5 million systems in the top-down approach. Guess which number is more likely to happen.
3. **Ship, then test.** I can feel the comments coming in already: How can you recommend shipping stuff that isn't perfect? Blah blah blah. "Perfect" is the enemy of "good enough." When your product or service is "good enough," get it out because cash flows when you start shipping. Besides perfection doesn't necessarily come with time--more unwanted features do. By shipping, you'll also learn what your customers truly want you to fix. It's definitely a tradeoff: your reputation versus cash flow, so you can't ship pure crap. But you can't wait for perfection either. (Nota bene: life science companies, please ignore this recommendation.)
4. **Forget the "proven" team.** Proven teams are over-rated--especially when most people define proven teams as people who worked for a billion dollar company for the past ten years. These folks are accustomed to a certain lifestyle, and it's not the bootstrapping lifestyle. Hire young, cheap, and hungry people. People with fast chips, but not

necessarily a fully functional instruction set. Once you achieve significant cash flow, you can hire adult supervision. Until then, hire what you can afford and make them into great employees.

5. **Start as a service business.** Let's say that you ultimately want to be a software company: people download your software or you send them CDs, and they pay you. That's a nice, clean business with a proven business model. However, until you finish the software, you could provide consulting and services based on your work-in-process software. This has two advantages: immediate revenue and true customer testing of your software. Once the software is field-tested and battle-hardened, flip the switch and become a product company.
6. **Focus on function, not form.** *Mea culpa:* I love good "form." [MacBooks](#). [Audis](#). [Graf](#) skates. [Bauer](#) sticks. [Breitling](#) watches. You name it. But bootstrappers focus on function, not form, when they are buying things. The function is computing, getting from point A to point B, skating, shooting, and knowing the time of day. These functions do not require the more expensive form that I like. All the chair has to do is hold your butt. It doesn't have to look like it belongs in the Museum of Modern Art. Design great stuff, but buy cheap stuff.
7. **Pick your battles.** Bootstrappers pick their battles. They don't fight on all fronts because they cannot afford to fight on all fronts. If you were starting a new church, do you really need the \$100,000 multimedia audio visual system? Or just a great message from the pulpit? If you're creating a content web site based on the advertising model, do you have to write your own customer ad-serving software? I don't think so.
8. **Understaff.** Many entrepreneurs staff up for what could happen, best case. "Our conservative (albeit top-down) forecast for first year satellite radio sales is 1.5 million units. We'd better create a 24 x 7 customer support center to handle this. Guess what? You sell no where near 1.5 million units, but you do have 200 people hired, trained, and sitting in a 50,000 square foot telemarketing center. Bootstrappers understaff knowing that all hell might break loose. But this would be, as we say in Silicon Valley, a "high quality problem." Trust me, every venture capitalist fantasizes about an entrepreneur calling up and asking for additional capital because sales are exploding. Also trust me when I tell you that fantasies are fantasies because they seldom happen.
9. **Go direct.** The optimal number of mouths (or hands) between a bootstrapper and her customer is zero. Sure, stores provide great customer reach, and wholesalers provide distribution. But God invented ecommerce so that you could sell direct and reap greater margins. And God was doubly smart because She knew that by going direct, you'd also learn more about your customer's needs. Stores and wholesalers *fill* demand, they don't create it. If you create enough demand, you can always get other organizations to fill it later. If you don't create demand, all the distribution in the world will get you *bupkis*.
10. **Position against the leader.** Don't have the money to explain your story starting from scratch? Then don't try. Instead position against the leader. Toyota introduced Lexus as good as a Mercedes but at half the price--Toyota didn't have to explain what "good as a Mercedes" meant. How much do you think that saved them? "Cheap iPod" and "poor man's Bose noise-cancelling headphones," would work too.

11. **Take the “red pill.”**This refers to the choice that Neo made in *The Matrix*. The red pill led to learning the whole truth. The blue pill meant waking up wondering if you had a bad dream. Bootstrappers don't have the luxury to take the blue pill. They take the red pill--everyday--to find out how deep the rabbit hole really is. And the deepest rabbit hole for a bootstrapper is a simple calculation: Amount of cash divided by cash burn per month because this will tell you how much longer you can live. And as my friend Craig Johnson likes to say, “The leading cause of failure of startups is death, and death happens when you run out of money.” As long as you have money, you're still in the game.

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