How to Bootstrap Your New Small Business

Knowing how to bootstrap your business is an often overlooked topic for new entrepreneurs. Although it's a very exciting prospect, The Small Business Administration (SBA) states around 25% of businesses fail in the first year. To be a success, every bootstrapping business must be planned carefully to ensure sustainable growth.

So, are you ready to pull your business up by the bootstraps? In this guide, we'll show you how it's done:

The Steps to Successfully Bootstrapping Your Business

Make a Solid Business Plan

Your first priority should be to create a business plan. Very few start-ups survive without one. A business plan is a document that defines your business objectives and how you will achieve them.

Business plans are critical in any start-up, but in the world of self-financing, they act as a roadmap to help you spend your limited resources wisely as you pass each milestone.

Think of that dream you want to achieve and research what's required to get there. It will take you some time, but it's a critical part of any business launch.

Every successful business plan should include:

- Cover Page and Table of Contents
- Executive Summary
- Company Description
- Market Plan and Analysis
- Organization and Management
- Service or Product Development
- Marketing and Sales
- Financing Analysis
- External Funding Requests
- Appendix

Read our guide on how to write a business plan.

Key Stages of a Bootstrapping Business

Bootstrapping businesses usually include three successive stages:

- **Beginning Stage**: The founder maintains their regular job while starting the new business on the side.
- **Customer-Funded Stage:** The business begins to be funded by customers. Once expenses are met, growth begins.
- **Credit Stage:** The founder focuses on funding the growth of the business, such as by investing in new equipment and hiring new staff.

Choose a Business Entity

The next step in bootstrapping your business is to choose its legal structure. Registering a business entity can ensure it's separate from your personal assets and personal liability.

Choosing a business entity will affect many things, such as the type of application you need to file, legal obligations, and tax implications.

Common Types of Business Entities

- Limited liability companies (LLCs)
- Corporations
- Partnerships
- Nonprofit corporations

Our business entity guide explains each type of entity in detail.

Certain types of businesses cannot qualify to be certain types of entities. The requirements vary within each state, so you should check your state's laws to see if your business would qualify for the desired entity.

Choose a Business Model

Successful bootstrapping business owners need to create a sustainable business model that brings in consistent revenue. This is your only route to survival, as you won't be getting any outside investment.

Your business model will detail the strategies used to sell products or services, to which markets, the costs incurred and the resulting revenue.

When choosing a business model, you should consider:

Cash Flow

You must choose a business model that emphasizes cash flow. **The ultimate killer for 82% of bootstrapped businesses is running out of cash.**

Cash flow business models ensure you have enough money to plan for the future, cover costs, delays in payments, market fluctuations, pandemic restrictions, and economic recessions.

Every bootstrapping business' cash flow model will be different, but they all consider three critical factors:

- The total cash you expect to have at the start of each month.
- The cash coming into your business.
- The cash going out of the business.

Cash Flow Forecasting

Cash flow forecasting is an essential step and includes:

- **Scenario Planning:** Modeling scenarios such as late payments, equipment replacements and vacation time to see how much cash you would need.
- **Tracking Overdue Payment:** Overdue payments are a common cause of cash flow issues. Monitor late payers and the impact they have on the bottom line.
- **Managing Surplus Cash:** It may be rare to have excess cash in the bank, but if so, you need to plan how to use it optimally.
- **Tracking Targets:** Cash forecasts will allow you to see if the business is on track to reach its goals so that you can adjust your budgets actively.
- **Seasonality:** The interest in many products and services fluctuates across the year. You need to determine when cash receipts are higher or lower and plan how to manage the working capital to cover the quieter times.

Your Customers' Needs

Your business model must provide value to your target audience, consider:

- Who are your customers?
- What are their demographics, behaviors and likes or dislikes?
- What are their purchasing patterns?
- How will you solve their problem?
- How will they buy your product and at what price?

Value Proposition

Value proposition is all about what your customers will gain from your product or service.

For example, Spotify solves the difficulty of buying physical records or downloading songs, and Uber allows for cheaper and on-demand taxi services.

You must consider if your business model can stand out from the rest while still offering a worthwhile purpose.

Your Market

CB Insights says that 42 percent of small businesses fail due to a lack of market demand.

Is your target market interested in your product or service? If not, do you need to reconsider a different niche or market?

Study your competitors and see what they do to stay relevant and successful. Then you can consider ways to go one step above them. Analytics tools such as Quantcast, Alexa, and Google Trends can give you a good insight into your competitors and their trends.

Scalability and Growth

Scalability is about how you will manage the demands to increase profit margins and sales.

It's usually best to implement scalability over time, but you should have a clear vision with milestones set from day one.

Consider questions such as:

- What business model and plan changes will be required as your business grows?
- When will you need to hire more staff?
- What partnerships could you make?
- What marketing strategies will be required to improve growth?
- What technology might be required to handle your growth?
- Will you need to outsource?
- Will you need to change location or add a brick-and-mortar location?

Costs and Time

As a bootstrapping entrepreneur, it's essential to take a strategic approach that won't alienate end-users with extreme prices to cover high startup costs.

You also need to consider what non-monetary costs you can manage. While 29% of entrepreneurs started a business to become their own boss, will you be able to commit to the required number of working hours? If not, what can you do to solve this within your budget?

Revenue Streams

Many business ideas are successful as they focus on multiple revenue streams. You should consider multiple options for revenue, so your eggs aren't all in one basket. Then you can play around with your models until you find the one that fits.

Customer Relationships

Customers need more than just a product or service. They need to come away feeling happy to have used your business. That entices them to come back for more and spread the good word.

You should consider:

- How you can gain customers.
- How you can retain customers.
- How you will ensure they have a good customer experience (such as through staff, payment and support).

- How to create a sense of loyalty.

Get The Necessary Permits

Your business idea will require the necessary license and permits. These will vary with each state, county or city where your business is located. Visit your state's website to learn what is needed.

For example, there are many industry specialist permits for construction, auctions, farming, restaurants and retail.

There are also Federal licenses that must be required. You can check if your business needs one here.

Common Bootstrap Business Permits and Licenses

- General business licenses
- Federal and State Tax ID numbers
- Sales Tax Permits
- Home Occupation Permits
- Zoning permits
- Health Permits
- Professional Permits
- Environmental Permits
- Sign Permits
- Building or Construction permits

Decide Whether to Be Digital or Brick-and-Mortar

The rise in online business has led many businesses to question their real-world presence. In 2019, e-commerce and door-to-door sales hit over $667 billion.

Physical locations come with additional costs such as rent, branding, electricity, office space, water, cleaning and employee costs. Some brick-and-mortar start-ups may also find it hard to compete with web-based businesses, with lower costs and more flexibility.

The Small Business Administration reports that 50% of all small businesses are home-based. However, going digital will require marketing investments and social media knowledge. Plus, trust is easier to build through a physical location which can be crucial for a locally-focused business.

The decision should be taken carefully, considering its impact on your business model. Some industries will also be better suited to brick-and-mortar stores, such as gas stations, restaurants and hair salons.

Can I Bootstrap My Business with Credit Cards?

Business credit cards can be a valuable option for bootstrapping businesses. For example, those with introductory 0% APR promotions can give you the chance to finance your business from day one without interest fees. Google and Guitar Hero were funded with credit cards in the early stages.

But relying on credit cards is a financial risk, especially if you have fluctuating sales. Your personal and business credit scores could get ruined. You must have a plan, goals, lean costs, and pay down debts as soon as possible.

Pros of Credit Cards:

- Funds are available at any moment.
- No need to search for outside investment in times of need.
- Can be used in emergencies.
- Travel rewards can reduce travel expenses.
- Use them for recurring bills to cash in on credit rewards.
- Build a good credit history which may help you take out a loan in the future.

Cons of Credit Cards:

- Increased liability.
- Potentially high-interest rates.
- Budget uncertainty.
- It's an extra thing to manage.

What Types of Businesses Are Good for Bootstrapping?

- **Early-stage Companies:** Usually don't require large capital and investment, allowing for gradual growth.
- **Serial Entrepreneur Companies:** Founders usually have funds from the sale of a previous company.

Successful Bootstrapping Companies

The following successful companies all started as bootstrapping businesses:

- Apple
- Cisco Systems
- Coca Cola
- Dell Computers
- eBay
- Hewlett-Packard
- Meta
- Microsoft
- Oracle
- SAP

What Types of Businesses Are Not Good for Bootstrapping?

- Businesses that lack enough capital to launch as safely as desired (would likely be better off seeking venture capital).
- Start-ups that want to grow fast and quickly disrupt the market.