

MONEY

The Secrets of Bootstrapping

BY ROBERT A. MAMIS

18 ways to grow or survive by substituting imagination, know-how, or effort for capital. Tactics for the savvy but cash-strapped CEO: 18 ways to grow -- or survive -- by substituting imagination, know-how, or effort for capital

Quick, name a sector that has added jobs in the recent past. Electronics? Retail? Automotive? Oil? Home construction?

Give up? The 16 unassuming companies described in the following pages did. They created some 1,075 jobs from scratch. Assuming that each company was operated at first by no more than two founders, that's an increase in new jobs of 3,260% -- generated in those same recession-struck industries, at that.

The distinction between capital-dependent and wit-dependent commerce has never been as apparent as it is today. Banks are now far more timid than they were in their lending frenzies of the 1980s; consumer confidence is virtually nil; venture capital has withered (not that a true bootstrapper panders to it any); suppliers don't take credit risks; markets are crowded and competitors cutthroat; and cost of entry into just about every endeavor from candles to computers is formidable.

If the past few years constitute unfertile ground for companies *with* money, they have to be an utter wasteland for those that lack basic access to it. Yet in the last decade many businesses that began with absolutely no capital have grown more briskly than businesses that were awash in it. Their currency: bent rules of thumb. By hook and, by some standards, by crook (see "The Ethics of Bootstrapping," September, [Article link]), their brilliance comes through figuring out how to tap the money of others, or how to substitute imagination, knowledge, or sweat for money in the first place. That's all bootstrapping is.

Still, today's bootstrapping founders don't seem quite as daring as the swashbuckling niche exploiters of the '80s. They're more likely to be microexploiters within a niche: offering a fresh twist on how someone else is doing something, a product that another has neglected to deliver, or a service that others don't provide. Understandably, the founders in these pages tend not to have had vast empires in mind when they started their companies, so much as the

less-risky goal of securing a modest corner of entrepreneurial turf. No doubt this era has shrunk the American Dream to tough-times dimensions, and if sometimes founders' creations grew beyond that, it wasn't for those founders' lack of trying to keep their companies at manageable sizes.

There's no course book of bootstrapping techniques, but there ought to be. As the following advice demonstrates, the approach has much to teach -- and even companies that have progressed beyond their bootstrap days would do well to relearn some of the proven tactics. (See "Getting Back the Fever," September, page 6.) Here are 18 of the best:

* * *

1. Get in on the dawn of an era. New niches pop up with regularity these days, but they don't come with ready-made standards for how to conduct business. Those practices develop over time, and until they do, bootstrappers have unique opportunities. When "900" pay-per-minute phone service was introduced in the late '80s, a flood of merchants entered the market at the other end of the line. It occurred to only a handful, among them **Worthington Voice Services Inc.**, of Worthington, Ohio, to develop and market computerized systems to handle the incoming calls. Founders Gregory Speicher and De Trinh dropped out of jobs in the PC industry, pooled \$800 to buy an accessory that allowed them to digitize speech, programmed the software, and constructed a demo. Working out of Speicher's mother's basement, the two cold-called profferers of 900 services. When they got orders, they asked for up-front deposits to cover the purchase of the hardware -- virtually the entire cost. "Our customers were as new to the game as we were," explains Speicher of the team's bravado, which wouldn't cut the mustard in ordinary commerce.

Top Bootstrappable Industries Recommended by Experts

* Consulting; desktop publishing; valet parking. -- *Bernard H. Tenenbaum, director of the George Rothman Institute of Entrepreneurial Studies, Fairleigh Dickinson University, Madison, N.J.*

* Outsourcing services for business.

-- *Reid Gearhart, director of external communication, the Dun & Bradstreet Corp., New York City*

* Group travel; mail order; specialty job shop.

-- *Howard H. Stevenson, professor of entrepreneurial management, Harvard Business School, Boston*

* Software; anything sold by subscription. -- *William A. Sahlman, professor of entrepreneurial finance, Harvard Business School, Boston*

2. Tap Vendors. In economically flourishing sectors, this put-it-to-'em tactic doesn't stand a chance. But when trade is off, not only can vendors and suppliers be cajoled into extending

credit to the uncreditworthy; they can also be used as an inexpensive research-and-development arm. Ronald Jackson, founder (on \$500) of **Contract Manufacturer Inc.**, a maker of flatbed trailers and horse carriers in Madill, Okla., relied on sales-hungry suppliers to execute both his engineering and his budgeting. "Find someone who's looking for clients," advises Jackson. "Many suppliers have in-house expertise and big CAD systems. I tell them I'm coming out with an advanced product -- a new-style fender, for example -- and they say, Let us run it by engineering. So I give them a sketch, and they come back with the engineering and the design and the cost on it. It's not a paltry effort; I'm talking maybe \$5,000 worth for nothing."

Like many bootstrappers, Randy Amon, cofounder of **ABL Electronics Corp.**, in Timonium, Md., tried to get his suppliers to extend long credit terms even as he was persuading his customers to pay invoices promptly. "We expected COD from our customers, but we *paid* net 45 or net 60," he admits. "I don't see anything wrong with using your vendors to help fund your business."

* * *

Top Five Sectors with Exploitable Downtime

1. Steam engines and turbines
2. Asphalt paving and roofing materials
3. Shipbuilding
4. Aircraft and missile parts
5. Transportation equipment, space vehicles

Source: U.S. Bureau of the Census

* * *

3. Do Consulting. Countless businesses have been launched on initial revenues radiating from consulting contracts. All you have to do is know more than your clients -- not difficult. **Wind River Systems Inc.**, of Alameda, Calif., started with one consulting contract, over the course of which the company's now widely sold retail products were developed. The approach, according to founder Jerry Fiddler: "We'd ask, 'So, you'd like an automated system? We'll do it cheap, because there are some general-purpose pieces we want as part of our repertoire as a software company; in return, we'll retain rights to them.'"

4. Establish in Locales with Lots of Vacancies. Even the most tenuous of bootstrapped enterprises can carve out favorable deals in areas where landlords are desperate for the

slightest promise of tenancy. Around 1986 Houston was one such setting. Things were so bad then, recalls Forrest Henson Jr., who in 1986 founded chemical distributor **JTS Enterprises Inc.**, that landlords would grant large concessions simply to sign up a renter. Henson struck an arrangement for a three-year lease that called for virtually no rent early on. "The lessor gambled that we'd *both* last three years," he remembers fondly. Act fast if a prime location is available cheap, Henson advises. Houston has already recovered. "You could still do it in some areas of town," he says, "but no longer in the area I'm in."

The Five Most Vacant Metropolitan Areas

1. New Orleans -- 28.4%
2. Miami -- 26.1%
3. St. Louis -- 26.1%
4. Houston -- 25.9%
5. Dallas -- 25.8%

Source: ONCOR International (as of year-end, 1991)

* * *

5. Operate out of Your Home. Not only did Barry Mower, founder of \$14-million **American Playworld Inc.**, in Ogden, Utah, work out of a home office, he demonstrated and manufactured his first product -- a basketball backboard -- in his backyard. But, Mower says regretfully, "I could only do so much like that before I had problems." The town-father flaw: his home wasn't zoned for business. The bootstrapper solution: "We rented a storage building, one of those small garages, to establish a commercial address -- and actually did some of our work down there, too."

6. Take out an Ad; See What Happens. Some newspapers and magazines offer casual terms, leaving the ad taker sufficient time to determine whether his or her wares have market appeal before the bill comes due. For its first boating-equipment catalog in 1989, **The Rigging Co.**, started in a Portsmouth, R.I., basement, bought a small ad in a monthly sailing magazine. As founder Jim Miller describes the process: "I wanted to advertise in advance, not having any sense of whether anyone was interested in the wire and stuff we'd be selling. I used a photo to represent the cover. When I got back 5,000 requests -- probably 5% of the magazine's readership -- I thought, Hey, this must be a good idea!" It was. The company hit more than \$1 million in sales its next year.

Three Good Vehicles for Your Initial Ad

1. *The Wall Street Journal*: two-inch-by-two-inch display ad costs \$3,488; only requirement is insertion order on letterhead; bills anybody in 30 days, no money down
2. *Barron's*: two-inch-by-two-inch classified ad costs \$1,072; bills in 30 days
3. *Electronic Buyers' News*: One-inch-by-four-inch display ad costs \$1,460; bills in 30 days but will knock off 5% if you pay in advance

... And Three That Are Not So Good

1. *PC World*: Inside cover costs \$27,140, plus a 15% premium; credit required for new customers
2. *Macworld*: Inside cover costs \$24,995; new companies pay in advance
3. *PC Week*: Two-inch-by-two-inch display ad costs \$6,300. Runs credit check

Source: Inc. research

7. Skimp on Payroll. Maritime Services Corp., of Hood River, Oreg., which outfits the interiors of cruise ships, employs craftspeople of various disciplines. One cost savings, says founder George Selfridge, is that craftspeople generally have their own tools. More important, "one of the considerations of working for a bootstrapped start-up [with long-term job potential] is that often it's willing to do jobs for a little less. The key to making it as a bootstrapper is to start profitable from the very beginning. And the way to do that is not to pay very well."

8. Get Customers to Pay Fast. The Rigging Co.'s Jim Miller claims an average collection time of 28 days. "We use our newness and smallness as a lever. It's an appeal that's kept everyone paying us. Otherwise you wait -- and wait."

9. Coddle Suppliers. Some bootstrappers take it out of their vendors. But Brian Shniderson, of **Premiere Merchandising Inc.**, in Inglewood, Calif., looked to his customers. "We never put carrying the business on our suppliers. We put it on our clients. We'd tell our clients, We're giving you good service at a great price, we're working our butts off, and we need to be paid within 10 days. We made sure the suppliers got paid no matter what. That way, there's nothing they wouldn't do for us."

10. Don't Sell at Retail When You Can Take Orders at Wholesale. Stuck (by choice) in the sparsely populated reaches of central Maine, with no phone and no electricity, Roxanne Quimby and her apiarian partner, Burt Shavitz, started a business they called **Burt's Bees**. Quimby and Shavitz bottled honey in kitchen canning jars, cast candles out of beeswax on a wood stove, threw the finished lot into a pickup truck, and hied off to seasonal crafts fairs. After two years it struck Quimby that "being on the road every weekend and coming back and

making candles and going on the road again was ridiculous." Plus, the team's market was limited to the territory they and their tiring Datsun could span. They plowed their meager profits into an indoor space at a *wholesale* show and sat in it and wrote orders. That, Quimby says, is when the business took flight. "We concentrated totally on wholesale," she says, "because it was easier to open markets that way than by retail." The company now sells more than 100 gift and skin-care products and is about to launch a line of country clothing. In 1992 it'll take in about \$4.2 million.

11. Do It Yourself. Because bootstrappers often come from backgrounds other than business, they mistakenly assume they don't know how to run their companies as well as the textbook-trained do. That's not necessarily so. Because Richard Cheng of **Eastern Computers Inc.** was a professor of engineering, when his company got a major, multiyear contract, he hired a seasoned ex-banker to be full-time "chief everything." The first year out, the banker lost money. Cheng fired him, took a leave from his college job to try to salvage something from the disaster, and turned the contract profitable immediately. The Virginia Beach, Va., company hasn't lost money since. Cheng's secret: "I didn't know the rules, so I ran it with common sense."

12. Fake It Till You Make It. Being new and tiny, how do bootstrappers assure suppliers and customers of their ability to pay or deliver? By convincing them they're *not* new and tiny. "One thing I realized very quickly is that people want to see fancy offices, fancy letterhead, fancy everything," says founder Michael Kempner of **MWW/Strategic Communications Inc.**, in River Edge, N.J. He didn't have fancy anything, but he had a friend in advertising who did. Kempner moved into the friend's office at no expense, on the quid pro quo understanding that his public-relations firm would steer advertising in the friend's direction. He even moved in on the ad company's name: "I put a slash on it, added 'Strategic Communications,' and looked like I was part of a big company. It was all a mirage at the beginning. As far as my clients knew, here I was with a fancy name in a fancy office. Those were important, or people wouldn't hire me. This way, they came upstairs and saw 40 employees and thought they were working for me. I never told clients those people *didn't* work for me, and they never asked." Since then, the company's adjunct, MWW, has gone under. Kempner's major problem: "Now that the company's not fake anymore, I'd like to change the name; I hate it, but it's too late."

Dennis Brozak founded **Design Basics Inc.**, a direct mailer of home-construction plans, in his Omaha home. After six family-burdening months, he signed a 30-day lease on an executive suite type of office downtown. Because of the office's formal parking lot and receptionist, "being there created a certain impression. I appeared to be the biggest there was, because others at my level were still operating out of their houses. When you add the other things that don't seem important but actually are -- letterhead, business cards, titles, someone

else answering your phone, things like that -- you take on the look of size."

* * *

Top Five Techniques for Seeming Larger than You Are

1. Rent a unit in an executive suite; clients assume the common receptionist is exclusively yours.
2. Rent a small space in someone else's big space; clients assume it's all yours.
3. Issue business cards with various titles; be your own vice-president of sales, director of R&D.
4. Deliver your product speedily. Imply it's your manufacturing that's deep, not your need to collect.
5. Never answer the phone "Hullo."

13. Get Several Bank Loans. If borrowing from a bank seems improbable to a bootstrapper, think how borrowing from *four* institutions must seem. Says Barry Mower of American Playworld: "We needed about \$16,000. I applied for four different loans at once -- short-term loans such as those from credit unions -- on the basis of my personal credit. I had to apply for them simultaneously in order to do it; otherwise, the applications would have counted against one another. The interest was four times what it should have been, but this was desperation financing."

Top Loan a Bank Is Likely to Make

Second mortgage against your house, car, and worldly possessions

Top Dozen Loans a Bank Is Not Likely to Make

One through 12; any, if you *really* need the money

14. A Little Begging Goes a Long Way. Here is how Michael Zeiders of health-care provider **Zeiders Enterprises Inc.**, in Woodbridge, Va., viewed leaning on clients to pay promptly: "If I had any receivables that looked as if they were going to be anything but right on time, pride didn't keep me from picking up the phone and telling someone I *absolutely* needed the money. I never encountered anybody who thought that to be degrading or considered it to be less than a professional response. They recognized that a small, new firm needs cash in a prompt fashion." A related tactic: when certain clients (mostly government agencies) were habitually late, Zeiders would "try to find the key person there who could change the code in the computer to make the payment come out on time."

15. Perform Cheap Market Research. Jon Jordan founded truck-stereo-equipment maker **Southern Audio Services Inc.**, in Baton Rouge, La., with \$400, a sum that went into parts to construct a woofer-in-a-tube loudspeaker and install it as a traveling demo in the back of his pickup truck. How did he know there was a market for it? "Basically, my target market was *me*, and I was confident that if I really liked it, I could damn sure convince every other 20-year-old out there, too." Even if the new speaker was a great idea, there was no money to pursue it -- the bootstrapper's predicament. As Jordan, joined by his equally broke brother, saw it: "We had to justify the product by selling enough of them, then figure out a way to get them built. What was the worst-case scenario? We'd drive around and call on a bunch of dealers, come back, and not be able to fill the orders. So they'd scratch their heads awhile, wondering, What ever happened to those guys who came by here with that pickup truck?"

Undecided whether to quit their salaried jobs and go into business, Randy Amon and his partner, of **ABL Electronics**, implemented what they recall fondly as "the market-research minute": They called up one computer store. "We asked them, 'If we made a cable that connected opposing equipment, would you buy it?'" Amon relates. "Not only would they buy it, they placed an order with us on the phone. We didn't even have a company yet, or a product. They said they'd pay us \$35 apiece for five cables. We went out and bought the stuff to make them with -- \$60 from my pocket and \$40 from my partner's." To this day, that ratio remains the split of business ownership.

* * *

16. Open Multisupplier Channels for Credit Terms. If one supplier won't give you liberal enough terms to proceed apace, what should you do? Charge a small quantity from a number of different suppliers at the same time. "I'd never done anything real big," explains **Contract Manufacturer's** Ronald Jackson of his inability to get much credit extended to buy vehicle parts. "I picked three or four major suppliers and built a real good credit rating with each one; I paid them early, discounting the invoice. I'd buy a few tires from Goodyear, a few from Goodrich, a little steel from Nucor. I'd buy maybe \$3,000 worth of product from each and get 30 days the first time. I used those companies as my credit references to gain credit with other suppliers. Some of them are very strict: on the 31st day they get excited; others have it in their system that they don't start being concerned about it until it's 15 days past due. You learn which ones are which and use them accordingly. If they don't really notice payment is past due for 15 days, you take 45 days. But don't ever hang your creditors out," he urges.

17. Change Direction. Maureen Barten of **Z-Barten Productions** started out in a Culver City, Calif., apartment, laboring over hand-painted greeting cards "that cost nothing but time to produce." They sold well enough, but Barten couldn't churn out enough of them to consider the custom-cards industry a growth situation. So she moved into faster-to-produce collages --

cards onto which were pasted tiny plastic figures, colored chips of paper, and such. It wasn't so much that the customers loved them, as that customers kept asking where they, too, could get those cute little sprinkles. Barten saw the writing on the wall: she became a full-time -- and high-growth -- confetti maker.

18. Never Say Never. More often than they care to admit, bootstrappers are so green that occasionally they're unfamiliar with the parlance of their chosen trades. Jon Jordan of **Southern Audio Services** faced the situation head on -- more or less. After Jordan made an initial impression, the customer asked how much he needed to buy to qualify for a freight order. "I don't have any idea what you're talking about," confessed Jordan, grasping that he'd better not blow it here. "With most manufacturers," explained the customer, "if you buy a certain amount of product from them, they'll pay the freight." "Oh, we do that. Our policy is if you buy six pairs, we bring 'em to you -- but if we do, we need the money COD, because I'm a new company and cash flow is important to me." Done, said the customer.

"Man, how easy this is!" Jordan congratulated himself.

— Christopher Caggiano and Michael P. Cronin contributed to the reporting of this story.

THE BOOTSTRAPPERS

'91 sales '91 Mentioned

Company Founded On (millions) employees in text Line of business

ABL Electronics '81 \$100 \$4.4 39 12, 15 manufactures computer cables

American Playworld '78 \$800 \$13.9 157 5, 13 manufactures, markets playground equipment

Burt's Bees '89 \$400 \$1.5 40 10 manufactures, markets gift items

Contract '76 \$500 \$5.6 68 2, 16 manufactures flatbed and

Manufacturer horse trailers

Design Basics '83 \$1,000 \$2.1 28 12 sells house-construction plans

Eastern Computers '80 \$0 \$49.8 350 11 manufactures electronic equipment

JTS Enterprises '86 \$2,000 \$18.9 3 4 markets, trades petrochemicals

Maritime Services '86 \$1,000 \$3.9 30 7 constructs ship interiors

MWW/Strategic '86 \$0 \$3.1 24 12 provides public relations services

Premiere '87 \$1,200 \$3.5 12 9 provides promotional goods

Merchandising and services

Southern Audio '83 \$400 \$6.0 65 15, 18 manufactures truck-stereo

Services components

The Rigging Co. '88 \$250 \$1.2 10 6, 8 sells boating equipment

Wind River Systems '83 \$0 \$17.1 125 3 manufactures computerized

operations

Worthington Voice '87 \$800 \$9.1 9 1 designs 900-number automated **Services** answering

Z-Barten Productions '84 \$200 \$1.4 25 17 manufactures, markets confetti

Zeiders Enterprises '84 \$0 \$3.5 90 14 provides mental-health counsel

GETTING BACK THE FEVER

For established businesses with entrenched and sometimes profligate habits, it can be tough to regain a resource-thrifty mentality. Here are a few first steps toward a bootstrapping make-over

Most companies, like most people, grow fatter with age. How do you recapture the passion for making do that characterized your business's climb toward fiscal viability? Try these recommendations from CEOs who have nurtured a culture of bootstrapping even while growing their companies large:

* **Adopt zero-based budgeting.** To distinguish between necessary expenses and excess, demand that every budgeted line item be justified instead of allowed to grow by percentages. For Tom Golisano, founder of Paychex Inc., a payroll-processing company with 450 people at its Rochester, N.Y., headquarters, the annual budget process consumes up to 60 hours of his time each spring -- and the same amount for other Paychex managers. "It's a lot of time," he says, but it's needed to analyze key numbers such as cost of goods sold and selling expenses, to compare them with prior years, and to be certain that budgets rise only if they have to.

* **Consider each new project a start-up.** Pat McGovern, chairman of International Data Group, a Boston-based company that has launched more than 186 magazines and newspapers and 46 trade shows, provides each new project team with a fixed amount of capital and its own

location -- "in a low-rent district, in a loft, somewhere that says, 'limited resources,' " and where people won't be working next to more mature ventures. "We've had people go to the wall," says McGovern, "but the advantage of running out of cash is that they always find a way to survive. We haven't had to blink yet on our refusal to give out more money." People running the projects get phantom equity, which presents the opportunity for big earnings.

In McGovern's view, people "succeed best if they spend most of their time with customers and if they are forced to adjust their product to the needs of the market." Giving new, bootstrapped ventures some autonomy, he says, spurs them to do those things; it also forces the people heading the projects to become entrepreneurs themselves, requiring them to understand and accept the discipline of business plans, manage cash flow, keep costs in line, and create a work style that reflects competitive rigor. "If there's an umbilical cord to the corporate treasury, people will think of a thousand reasons to delay."

* **Spread budget accountability throughout the company.** Give complete autonomy and responsibility for hitting budgets to as many people as possible. For companies with, for instance, branch offices, that can mean setting up incentive bonuses for the managers who stay within their budgets -- providing "built-in encouragement to be thrifty and make good value judgments," says Golisano.

* **Artificially restrict cash resources.** Don't keep all available cash in operating accounts; change the way cash reserves are perceived by labeling them differently. James McCann of 800-FLOWERS, a mail-order flower company in Westbury, N.Y., puts cash that isn't immediately needed for working capital into a separate account, forcing the company to think of that money as a distinct asset. "Psychologically, it's not cash that's available. As individuals and companies, we go through a cycle of not being as good as we should be at managing money, and we get into trouble with control. With a separate account, it's easier to focus on that money's not being available for the short term."

* **Evangelize about bootstrapping.** At Cabletron Systems, in Rochester, N.H., cofounder Craig Benson uses a slide show "to remind people what you stand for; you can't expect someone to understand your philosophy unless you communicate it to them." Though Cabletron has grown to \$290 million in annual revenues and has a work force of 2,300, it remains notorious for its metal desks, ratty cubicles, and bare-bones ethic. Benson, the president, and CEO Bob Levine claim to spend 20% of their time promoting and explaining the company's culture of frugality. — *Leslie Brokaw*