FasterFunding

Better Than Bootstrapping

Business loans as a winning alternative to DIY business startup funding

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In the world of small business startups, the term bootstrapping is often considered the gold standard of entrepreneurial efforts. It conjures up images of the hard-working founder who poured his life savings into his dream. He then worked long days, sleeves rolled up, battling against all odds to achieve success. It's a story rooted in the American Dream, cemented by anecdotal evidence, that has become a part of conventional wisdom.

But is it true? And is it right for *your* business?

While plenty of success stories start with bootstrapping, most successful businesses do not remain bootstrapped for the entire life of the company.

This book explores the realities of bootstrapping and alternatives that might help your business grow faster and with less risk to your personal assets.

What is bootstrapping?

Bootstrapping is a business model in which the founder self-funds the enterprise without external investment or funding sources. Think of it as a DIY approach to financing a startup. It's been a popular approach to start-ups since people began starting businesses.

The term itself is rooted in an old saying, "to pull oneself up by one's own bootstraps," meaning to make it without outside help. The rags-to-riches concept became part of American culture with the writing of Horatio Alger, who told stories of impoverished

From canal boy to president by Horatio Alger, 1881 via Wikimedia Commons.

boys overcoming their humble beginnings to achieve solid middle-class success through diligence and hard work.

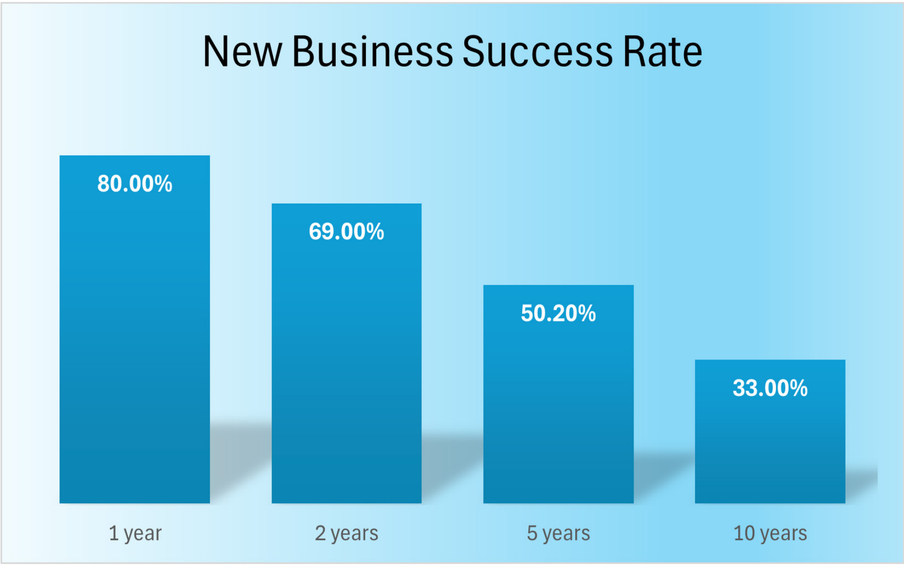
Over time, the phrase has become a buzzword closely associated with entrepreneurial success. This is ironic given that 52% of businesses fail due to underfunding. That helps explain why only 33% of businesses survive past the ten-year mark (Capital Bank).

Is bootstrapping a smart approach to business growth?

Bootstrapping is a popular strategy because it can be an effective way to launch a business. It allows owners to maintain 100% of control and equity. No investors means no outside demands on profitability or operational performance. The business owner can proudly say, "I did it my way."

That's great…if it works.

Depending on several factors, bootstrap businesses can be

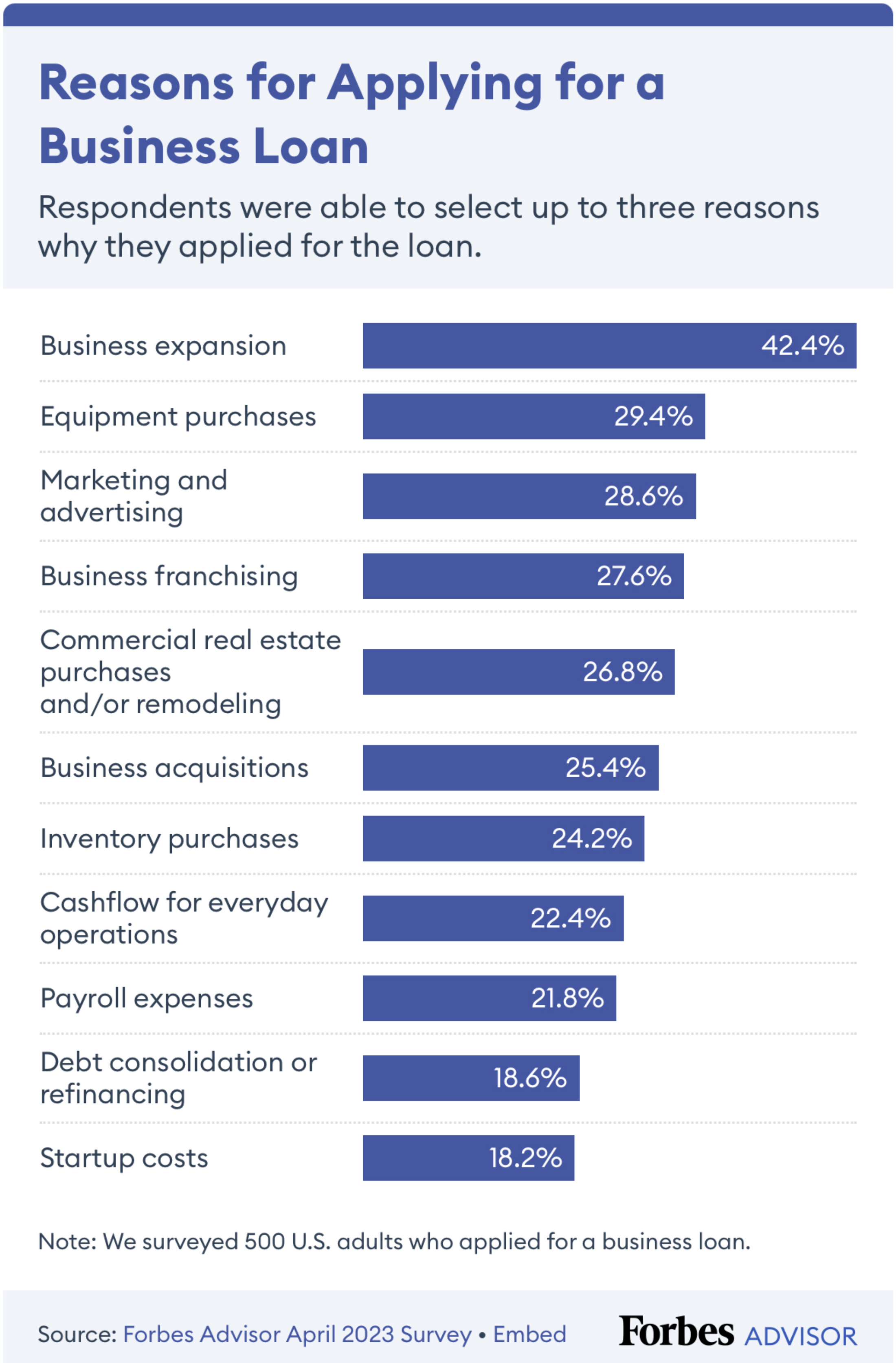


successful. Those factors include:

- The skill and business acumen of the founder and employees
- The business environment (competition, geographic area, industry)
- Start-up costs, including equipment, licensing, legal expenses, etc.
- Overhead (rent, utilities, cost of goods sold)
- Employees salaries and benefits
- Most importantly: access to startup capital

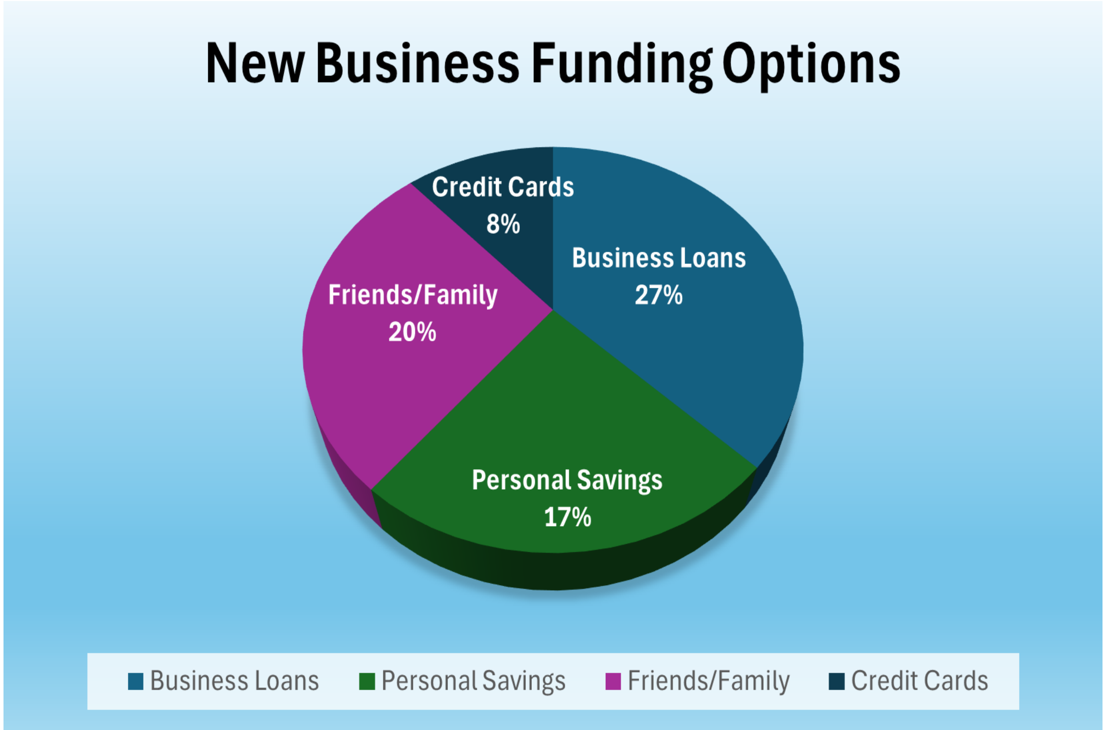
The right combination of talent, market potential, access to personal funds, and a favorable market and competitive environment from the get-go can generate early success. If the timeline from startup to viability extends too far, then the bootstrapped enterprises' lack of resources starts to impede forward momentum. The result can be, at best, slow growth or, at worst, stagnation.

Stagnation, if it becomes a constant state, leads to failure.


Reasons for Applying for a Business Loan
Respondents were able to select up to three reasons why they applied for the loan.
Business expansion
42.4%
Equipment purchases
29.4%
Marketing and advertising
28.6%
Business franchising
27.6%
Commercial real estate purchases and/or remodeling
26.8%
Business acquisitions
25.4%
Inventory purchases
24.2%
Cashflow for everyday operations
22.4%
Payroll expenses
21.8%
Debt consolidation or refinancing
18.6%
Startup costs
18.2%
Note: We surveyed 500 U.S. adults who applied for a business loan.
Source: Forbes Advisor April 2023 Survey • Embed
Forbes ADVISOR

Where does bootstrap funding come from?

According to Forbes, 20-23% of bootstrappers fund their businesses from personal savings, while another 17% borrow from friends and family. Others take out second mortgages on their homes, borrow from their kids' college funds, or use credit cards.



The disadvantages of these options are obvious. The biggest problems arise from depleting one's personal assets, damaging one's personal credit, and damaging one's personal relationships by mixing friends and family with business.

Several reasons why bootstrapping can be disadvantageous:

1. **Personal Financial Strain:** Bootstrapping a business can place significant strain on the founder's personal finances. Entrepreneurs may need to use their own savings, max out credit cards, or take out loans against personal assets to fund the business, putting their financial security at risk if the venture does not succeed.

2. **Slow Growth:** After initial startup costs, bootstrapped businesses rely solely on internal cash flow for growth. As a result, they typically experience slower growth rates than businesses with access to external funding. This slower growth can hinder the business's ability to capitalize on market opportunities and achieve economies of scale.

3. **Reduced Innovation:** Without sufficient capital for research and development, bootstrapped businesses may struggle to innovate and differentiate themselves in the market. This lack of innovation can make it challenging to attract customers and stay ahead of competitors with the resources to invest in new products or technologies.

4. **Limited Scalability:** Bootstrapped businesses often face challenges when it comes to scaling their operations. With external funding to support expansion efforts, they may be able to invest in the infrastructure, talent, and marketing needed to grow their customer base and increase revenue.

5. **Risk of Failure:** Bootstrapping carries a higher risk of business failure, especially in industries with high startup costs or intense competition. Without a financial safety net provided by external funding sources, entrepreneurs may find it difficult to weather economic downturns, unexpected expenses, or other challenges during the early stages of building a business.

6. **Limited Resources:** Bootstrapping often means starting with limited financial resources, which can restrict a new business's ability to invest in critical areas such as marketing, product development, and hiring. Without adequate resources, a business may struggle to gain traction and compete effectively against better-funded competitors.

7. **Limited Networking Opportunities:** Access to external funding not only provides capital but also opens doors to valuable networking opportunities with mentors and other entrepreneurs, both at home and at professional events, conferences, and trade shows. Bootstrapped businesses may miss out on these connections, which can provide valuable advice, guidance, and support during the startup journey.

8. **Difficulty Attracting Talent:** Without the resources to offer competitive salaries or benefits, bootstrapped businesses may struggle to attract and retain top talent. This can hinder the company's ability to build a skilled team capable of executing its vision and driving growth.

While bootstrapping can be a viable option for some entrepreneurs, it has its drawbacks. Limited resources, slow growth, reduced innovation, scalability challenges, and personal financial strain are just a few disadvantages new businesses may face when self-funding their ventures.

An alternative to bootstrapping - how loans can be a game changer for your business

Taking out a loan can often be preferable to bootstrapping for small businesses. Loans have several advantages, one of which is access to a lump sum of money that can be used for a variety of startup and ongoing costs. The “safer” alternative many business owners choose is to fund operations, overhead, or expansion incrementally by using income. Until substantial positive cash flow can be established, this approach may not support the kind of investment needed for growth.

Immediate access to capital allows businesses to invest in essential resources and opportunities without the constraints of limited internal funds. Operationally, this facilitates small businesses' quick reaction to time-sensitive opportunities, such as launching new products, expanding into new markets, or acquiring competitors. An incremental approach to funding, while often seen as a safer path, might actually hamstring growth.

With a steady influx of capital from loans, small businesses can increase their market presence, attract more customers, and generate higher revenues, enhancing their long-term sustainability and competitiveness.

Advantages of loans to small business

1. **Accelerated Growth:** Loans can provide immediate capital, allowing you to scale your business faster than relying solely on bootstrapping, which often requires slower, organic growth.

2. **Resource Acquisition:** With loans, you can acquire necessary resources such as equipment, inventory, or technology, giving your business a competitive edge and saving time on gradual accumulation through bootstrapping.

3. **Market Penetration:** Loans enable you to invest in marketing and advertising campaigns to penetrate the market more aggressively, gaining visibility and customers more quickly than through organic growth strategies alone.

4. **Grabbing Opportunities:** Loans empower you to seize time-sensitive opportunities in the market, whether acquiring a competitor, launching a new product, or expanding into a new market segment, without waiting for sufficient cash flow to accumulate.

5. **Talent Acquisition:** Securing loans allows you to attract and retain top talent by offering competitive salaries and benefits, enhancing your team's capabilities, and driving innovation and growth within your business. Too often, hiring good people comes late in the development of a company—sometimes too late.

6. **Risk Mitigation:** By diversifying sources of capital with loans, business owners can reduce the personal financial risk associated with bootstrapping, protect their personal assets, and maintain a healthier financial position.

7. **Tax Benefits:** Depending on the structure of the loan and the business location's tax laws, the company may be eligible for tax deductions on interest payments, providing potential cost savings compared to using personal funds for bootstrapping.

Conclusion

By leveraging loans strategically, small businesses can optimize their financial resources and maximize profitability, ultimately enhancing their ability to invest in growth initiatives and achieve long-term success.

Additionally, loans provide access to valuable business opportunities and support services that can help small businesses thrive. Banks and other lending institutions often offer guidance and mentorship to borrowers, providing useful insights and advice on financial management, business strategy, and market opportunities. Moreover, establishing a positive credit history through responsible loan repayment can enhance the business's credibility and increase its access to future financing options, further supporting its growth and expansion efforts.

In conclusion, while bootstrapping can be a viable option for some small businesses, loans offer numerous advantages, making them a preferable choice for many entrepreneurs. From providing immediate access to capital and enabling faster growth to offering protection against financial risks and tax benefits, loans empower small businesses to achieve their goals and realize their full potential. By leveraging external financing strategically, small businesses can overcome funding constraints, seize opportunities, and build a strong foundation for long-term success and prosperity.

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About the President of Faster Funding

Paul A. Damiano
A Visionary Financial Strategist and Business Advocate
A leading financial strategist, Paul A. Damiano has been a driving force in South Florida's entrepreneurial and financial ecosystem for more than 25 years. As the President of Fort Lauderdale-based Faster Funding, Paul has facilitated over $1 billion in closed loans and has a proven track record of connecting growing businesses with funding sources and strategies.

Paul created a cutting-edge program, the Business Credit and Finance Suite, fueled by Paul's expertise in Business Credit Building, Blue Chip Servicing, and expedited Business Financing solutions, that jumpstarts growth and improves financial opportunities for businesses poised for growth and expansion. Paul grew up in South Florida, and is a lifelong learner with a passion for travel, fitness, nutrition, and literature.

About the author

Richard Williamson started his first successful business--a graphic design and copywriting agency--while still in college. In the four decades since then, he has held prominent roles as Vice President of Marketing and Chief Marketing Officer in national and international tech, health care, and education-focused startups. As a consultant, he has worked with hundreds of startups, from small local businesses to corporations with multinational operations to develop customer-focused digital and content marketing strategies. He has teamed up with Faster Funding to bring his extensive knowledge of business startups to a new group of determined, growth-oriented business owners. You can find Richard at www.backburnermarketing.com.