

# The Art of Bootstrapping

by Guy Kawasaki, AlwaysOn 12/5/08

In early childhood you may lay the foundation of poverty or riches, industry or idleness, good or evil, by the habits to which you train your children. Teach them right habits then, and their future life is safe. - Lydia Sigourney

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 for most organizations is bootstrapping. The term bootstrapping comes from the German legend of Baron von Munchhausen pulling himself out of the sea by pulling on his own bootstraps. That's essentially what you'll have to do, too.

**🎬 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 upfront capital requirement, short sales cycles, short receivables terms, long payables 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.

**🎬 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 percent 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, each can install ten systems. So our first year sales will be 10 facilities x 10 systems x 240 days = 24,000 satellite radio systems. That's a long way from the conservative 1.5 million systems in the top-down approach. Guess which number is more likely to happen.

**🎬 Ship, then test.** 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, unwanted features, not perfection, come with more time. By shipping, you'll also learn what your customers truly want you to fix. It's definitely a trade-off 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 should ignore this recommendation.)

**🎬 Forget the proven team.** Proven teams are overrated—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.

🎬 **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-progress 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.

🎬 **Focus on function, not form.** *Mea culpa:* I love good form. MacBooks, Audis, Graf skates, and Breitling watches. But bootstrappers focus on function, not form, when they are buying things. The function is computing, getting from point A to point B, skating, and knowing the time of day. These functions do not require the more expensive form. All the chair has to do is hold your butt. It doesn't have to look as though it belongs in the Museum of Modern Art. Design great stuff, but buy cheap stuff.

🎬 **Pick a few battles.** Bootstrappers pick their battles. They don't fight on all fronts because they cannot afford to. If you are starting a new church, do you really need a \$100,000 multimedia audiovisual 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.

🎬 **Understaff.** Many entrepreneurs staff up for what could happen, best case, even though they say they are being conservative. "Our conservative (albeit top-down) forecast for first-year satellite radio sales is 1.5 million units. We'd better create a 24/7 customer support center to handle this." Guess what? You sell 15,000, 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.

🎬 **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 e-commerce 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 nothing.

🎬 **Position against the leader.** Suppose that you don't have the money to explain your story starting from scratch. Then don't try. Instead, position against the leader. Toyota introduced the Lexus lines of cars by positioning them as being as good as a Mercedes but half the price. Toyota didn't have to explain what as good as a Mercedes meant. How much do you think that saved it? "Poor man's Bose noise-canceling headphones" would work, too.

As my friend Craig Johnson, the great Silicon Valley corporate finance lawyer, 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, and outlasting the competition is one of the hallmarks of bootstrapping."