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BOOTSTRAPPING: AN INNOVATIVE TECHNIQUE OF BUSINESS FINANCE

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ABSTRACT

Small and newly started business organizations find it difficult to acquire credit/loans from financial institutions, such as banks, venture capitalists and private investors. By being creative, resources can be acquired through different means, known as financial bootstrapping. This research paper aims to study the concepts of bootstrap finance as an innovative source of raising finance by the business owners. The different methods or techniques of bootstrapping, advantages and disadvantages of using such finance are also mentioned in this paper. Owner financing methods, minimization of accounts receivable, joint utilization, delaying payments, minimization of capital invested in stocks, subsidy finance are the methods used for raising bootstrapping finance. Organizations that need more capital are forced to use more bootstrapping techniques compared to organizations with no need for further capital. The secondary data are collected from the published articles, websites and electronic documents for describing the theoretical aspects of the bootstrapping financing used by the owners as an Innovative Technique of business finance.

KEYWORDS: ***Bootstrapping, Innovative Technique, Equity Capital, Joint Utilisation, Subsidy.***

1. INTRODUCTION

1.1 What is Bootstrapping?

Bootstrapping is a means of financing a small firm through highly creative acquisition and use of resources without raising equity from traditional sources or borrowing money from a bank. In short, "Bootstrapping" means starting a new business without start-up capital. It is characterized by high reliance on any internally generated retained earnings, credit cards, second mortgages, and customer advances, to name but a few sources. **(1000ventures., 2020)**

When companies use this approach for their business culture, they are practicing bootstrapping. Bootstrapped businesses avoid investing except where absolutely necessary and work within their means, finding ingenious ways to get by with less. **(Campbell, 2013)**

1.2 Why Bootstrapping?

Bootstrapping is the most likely source of initial equity for more than 90% of technology based firms. Venture capitalists are rarely able to fund small start-up firms of the quality of the venture, because of their very specific investment criteria and high costs of due diligence, negotiating, and monitoring. Bootstrapping offers many advantages for entrepreneurs and is probably the best method to get an entrepreneurial firm operating and well positioned to seek equity capital from outside investors at a later time.

1.3 Bootstrapping Options

Bootstrapping options available to entrepreneurs can be divided into four categories:

1. Product development,
2. Business development,
3. Minimization of capital needed ,
4. Meeting the need for capital.

2. OBJECTIVES OF THE STUDY

The objectives of this research paper are to study the followings**:**

2.1-To study the concept and techniques of raising bootstrapping finance &

2.2- To study the advantages and disadvantages of Bootstrap finance.

3. RESEARCH METHODOLOGY

This paper aims to study the conceptual framework of bootstrapping finance. So, the data are collected from the different secondary sources as per the objectives of this paper. Such as:

- Published Articles,
- Web content,
- Websites,
- Electronic Documents,
- E-Papers etc.

4. TECHNIQUES/METHODS OF BOOTSTRAPPING FINANCE

The following are the different techniques of bootstrapping finance:

- Customer-related methods,
- Owner-related financing and resources,
- Joint-utilization of resources with other ventures,
- Delaying payments,
- Minimization of capital invested in stock, and
- Subsidy finance.

4.1- Customer-related methods

As indicated by Helleboogh et al. (2010), "client related bootstrapping incorporates techniques that improve income from clients". These strategies would incorporate guaranteeing that the business accelerating invoicing to clients to consider rapid instalments. This permits the business to be supported utilizing its own assets by improving their efficiencies or haggling better with their client so they will pay ahead of time for administrations and merchandise to be provided. Winborg and Landstrom (2001) concede that getting advance instalments improves the working capital of the business which thus diminishes the requirement for outside subsidizing. The business may likewise investigate conceding money limits to clients so as to tempt them to make money instalments rather than credit buys. This would be ideal for the business as it improves the liquidity of the business and the money position.

Examples of Minimization of accounts receivables (customer related)

- Use of interest on overdue payment from customers,
- Cash discounts to customers for instant payment
- Cease business relations with customers frequently paying late,
- Do business with those customers who pay quickly.

4.2-Owner-related financing and resources

This group of strategies respects the immediate or roundabout arrangement of assets from the proprietor or supervisor and family members. As per Winborg and Landstrom (2001), these may incorporate the chief or the proprietor working with assignments in different organizations, family members of the administrator or proprietor working for the business for no compensation or at non-showcase rate. It might likewise incorporate the utilization of the director's or proprietor's private charge card or individual advances/obligation for costs of doing business and purposes, and it might likewise incorporate the retention of the chief's or proprietor's compensation and benefits regarding the business as a speculation (Schofield, 2015). Fatoki (2014) declares that an ever increasing number of new organizations utilize the proprietors' very own charge card to back working costs as it is simpler for the proprietor to get a MasterCard from a bank than private company money. A directors' or proprietor's compensation from different activities might be utilized to back the business. Another recommended way to deal with proprietor related financing and assets is working the business from the proprietors' home rather than independent premises (Daniel et al., 2015). The director can likewise investigate to utilize understudies or late alumni for no expense in the business while they gather the expertise.

Examples of Owner financing methods

- Delay in payment of manager's salary for shorter/longer periods,
- Use of manager's private credit card for business expenses,
- Borrow loans/credits from relative/friends,
- Run the business completely in the home,
- Take the help of friends/relatives for business work etc.

4.3-Joint-utilization of resources with other ventures

As per Helleboogh et al. (2010) and Lam(2010), joint-use of assets includes activities, for example, enlisting transitory staff or re-appropriating. The 'bootstrappers' utilizing this technique additionally make joint usage of assets, for example, hardware, apparatus and property. The examination by Winborg and Landstrom (2001) uncovered that entrepreneurs or supervisors at first needed to share area, at an extremely low rental charge, with a companion who didn't utilize the space. Sharing of room as opposed to purchasing out or leasing own premises spares fire up a ton of required money or assets. Winborg and Landstrom (2001) included that new organizations can utilize the hardware and machines of companions' organizations in the nights at no or next to no cost. New organizations can connect with college understudies in ventures identified with their business thought. This permits organizations to acquire information at no expense or negligible expenses. Organizations can share representatives excessively so as to limit operational expenses.

Examples of Joint utilization

- Sharing of fixed asset with other businesses,
- Sharing of employees with other businesses,
- Sharing of business premises with others,
- Hiring of equipment from other businesses for shorter periods

4.4-Delaying payments

Deferring instalments bootstrapping alludes to techniques that the directors or proprietors of business can haggle with providers and moneylenders to make instalments at later than regular dates (Lahm and Little2005; Schofield, 2015). This technique improves the income position of the business by making instalments sometime in the future, for instance renting hardware where rentals can be paid on a quarterly or half yearly premise. The previous would improve the income position in that instalment is conceded until money is gotten contrasted with the last mentioned.

Examples of delaying payments

- Intentional delay of payment to supplier/s,
- Prefer for Lease equipment instead of buying,
- Deliberately delay payment of Revenue Taxes,
- Buy second hand used equipment instead of new equipments,
- Outsource temporary personnel instead of employing permanent.

4.5-Minimization of capital invested in stock

This group incorporates strategies in regards to the minimization of possess assets put resources into stock. For instance, by utilizing formal schedules, the measure of capital put resources into stock can be limited, and by looking for the most ideal conditions with the provider it very well may be contended that the provider, to a more prominent or lesser degree, really funds there sources put resources into the stock (Winborg and Landstrom, 2001). This technique in the principle incorporate organizations to search out most ideal conditions from providers, co-ordinate buys with different organizations (for mass limits), purchase on credit from providers and practice deal when purchasing or selling merchandise (Tomory, 2010)

Examples of Minimization of capital invested in stock

- Accept best conditions possible with supplier/s
- Use of Economic Ordering Quantity to minimize capital invested in stock,
- Co-ordinate purchases with other businesses,
- Prefer to buy in consignment from supplier/s,
- Practice barter instead of buying/selling goods.

4.6-Subsidy finance

This group incorporates techniques worried about acquiring appropriations from the state associations (Winborg and Landstrom, 2001). Schinck and Sarkar(2012) attest that throughout the years, firms have utilized and profited by government endowments which are appointed to explicit organizations, under specific conditions.

Examples of Subsidy finance

- Subsidy from State Govt. Scheme,
- Subsidy from Central Govt. Scheme,
- Subsidy from DIC & EDP Programme,
- Raise capital from a factoring business.

5. ADVANTAGES OF BOOTSTRAPPING

Bootstrapping offers numerous advantages over other methods of funding a business. These range from the founders being able to retain full control over the business to avoiding stressful, potentially costly debt. **(365businessfinance, 2019)**The owners of a bootstrapped business can:

I. **Retention of full ownership:** Most forms of equity investment, such as angel investment and venture capital investment, require the owners of a business to give up some percentage of their equity in order to secure financing. By bootstrapping, the owners of a business can retain full ownership of their business. If the business is successful, this can greatly increase the value of their equity, as well as their control over the business itself.

II. **Customers are top priority:** Bootstrapped businesses need to generate cash flow quickly, making it especially important that they offer value for their customer's right from day one. This pressure can help entrepreneurs who bootstrap their businesses understand their customers, market and competition faster than their funded competitors.

III. **Reduce financial liabilities:** When a business is in its early stages, even small amounts of debt can seem like major liabilities. Bootstrapping a business, especially without debt, can help the owners maintain a strong balance sheet as the business grows.

IV. **Better deal with slow periods**. Businesses that rely on external financing, particularly debt, often fail when growth slows down. Interest payments, investor milestones and a range of other funding-related liabilities can, and often do, hurt these businesses. Because bootstrapped businesses tend to have fewer liabilities and less strict growth targets, they're often better equipped to handle the fluctuations in cash flow that occur while a business is growing.

V. **Control:** With bootstrapping, the owner is the only contributor of funds. Therefore, the question of sharing control with another person does not arise.. This means that owner can make his/her own decision regarding the business without any recourse to any external investor.

VI. **Freedom:** With bootstrapping, the owner of the business has freedom to take right decisions at right time. The owner is accountable for whole business activities. He/ She has the liberty to create a structure and consider the best option for the business.

VII. **Time saving process**: Fundraising is time consuming. It requires more time to raise finance from external sources. But in case of bootstrapping, the owner requires very less time and energy for raising finance from the innovative internal sources.

VIII. **Conservatism Approach**: Bootstrapping does not allow extravagance. Bootstrapping actually teaches how to spend wisely. Because the money is not enough, the owner needs to evaluate every decision to buy before making any purchase. He seeks if there are better alternatives or if the expenses can be avoided totally.

6. DISADVANTAGES OF BOOTSTRAPPING

There are also several disadvantages of bootstrapping a business, especially compared to other financing options. These disadvantages include:

I. **Limiting a business's growth potential.** Businesses that are bootstrapped often grow organically, but they rarely grow at the same pace as their better-funded competitors. In some cases, this can affect a business's market share and overall strength.

II. **Reducing networking opportunities.** Business financing often comes with valuable relationships attached, from bankers to venture capitalists. By turning down external funding, the owners of a bootstrapped business often limit their networking options.

III. **Increased personal risk.** Businesses funded using external financing can often fail at little to no cost to their founders. With a bootstrapped business, however, the founders could face a significant financial loss if the business is not successful.

IV. **Affecting product or service quality**. When a business is very strapped for cash, it can often affect the quality of the products and/or services it delivers. This is a major risk for a bootstrapped company, particularly during its early stages.

V. **Slow Growth rate:** In bootstrap, it is difficult to grow a business aggressively. The owner needs money to take advantage of business opportunities. When business doesn't have enough money, a lot of opportunities may pass away.

VI. **Lack of access to venture capitalists' supports:** Venture capitalists do not only provide funds. They provide supports that can be helpful to the success of the business. When you bootstrap, you can be denying yourself of these added benefits.

VII. **Lack of image:** The hype that goes with seeking finance from venture capitalists helps in boosting the image of the company involved. But when you bootstrap, people may see you as a lone ranger. This can even lead to loss of business opportunities.

VIII. **Competition:** With fewer resources at your disposal, you may not be able to compete effectively with your competitors. Competitors may be able to spend money on advertisements. Bur with the help of bootstrapping finance, the business is not able to face stiff competition.

7. CONCLUSION

From the above discussion, we conclude that Bootstrapping plays a significant role for the growth and development of small enterprise and newly started business organisation. To sum up, bootstrap finance may prove itself as a useful choice at the beginning of the life cycle of small businesses, which often have no access to external funding and are subject to severe liabilities of smallness and newness. However, it is not just a question of need but also opportunities. For instance, a growing entrepreneur may learn the basics of how to manage a business, how to build business relationships and gain the most of them at relatively low financial risk. Nevertheless, a long-term, dominant business strategy should not be built on the use of bootstrapping practices. The key to business development is innovation and it requires additional resources. Entrepreneurs should also turn their attention to customized solutions when implementing bootstrapping techniques. Although, bootstrapping has some limitations but overall performance has overcome all the limitations. The selection of methods of bootstrapping depends upon the size and nature of the business. A responsible business owner having good communication and entrepreneurial skill must capable of handling business finance through bootstrapping techniques mentioned in the study or any other method as per his/her own business convenience.

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