

How to bootstrap your business to save money

Every dollar you can save when starting your business is one more dollar you won't have to raise. When you're bootstrapping, you're looking to save at every possible opportunity. Unnecessary overhead costs are the last thing you want to deal with, so nonessential expenses should be cut from your budget. And limited resources mean careful spending at every turn.

Follow Pete the Painter as he tries 9 bootstrapping techniques you can use in your own business.

Meet Pete

He's excited to launch his house painting business but doesn't have much money to get it going. Pete wants to bootstrap his start-up without depriving his business of what it needs to succeed.



\$127 billion
Personal income tax paid by Canadians in 2013.
[Source: CBC news]

\$860 billion
Annual payroll of Canada's 1.5 million employers.
[Source: The Canadian Payroll Association]

\$75,443
What the average Canadian household spends each year.
[Source: Statistics Canada 2012]

What is bootstrapping?

It's all about financing your start-up by embracing creative strategies to reduce costs – usually done with assistance or input from others.



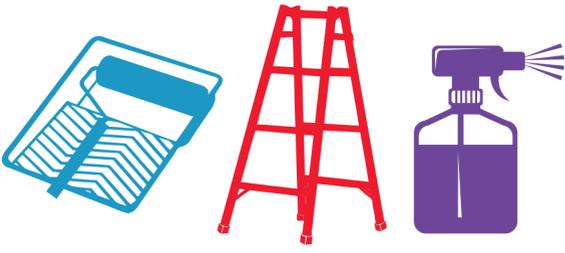
Origins of the term "bootstrapping"

The term comes from the idea of someone "pulling themselves up by their bootstraps" and refers to 19th century high-top boots that were pulled on by tugging at ankle straps.

9 ways to bootstrap your business

Bootstrap: Equipment

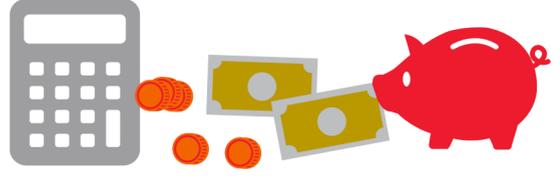
Advice: Make a list of your equipment needs and shop for used gear on trading sites such as Craigslist and Kijiji. If you can't afford to buy used gear, approach business people you know about borrowing their equipment short-term.



Example: Pete goes online to buy decent used equipment including painting ladders, edging tools, spray guns, and a commercial vacuum. He strikes a deal to borrow scaffolding from a window washing company in exchange for referring that business to his customers.

Bootstrap: Financing

Advice: No matter how much you bootstrap your new business will require some start-up capital. Turn to your own savings for some of that money, and contact your bank about setting up a line of credit.



Example: Pete calculates he needs \$9,000 in cash to get his business going. He can comfortably tap into his savings for \$6,000 and decides to set up a business line of credit for an additional \$6,000 in case he needs more money.

Bootstrap: Marketing

Advice: Effective marketing can be creative rather than expensive. Consider doing cross-promotions with non-competing businesses targeting the same customers that you are trying to reach.



Example: Pete makes a deal with a local landscaper to cross-promote business—he will present their flyer offering a 20% discount to his customers, and the landscaping company will do the same for his painting company.

Bootstrap: Customers

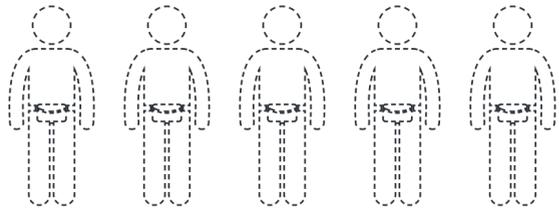
Advice: Entrepreneurs with more time than money can focus on direct selling. It helps to have a powerful prospect hook.



Example: To show prospective customers how great their home would look with fresh paint, Pete takes digital photographs of select homes in his neighbourhood and asks his graphic design friend to alter each image. He prints out before-and-after images, attaches his business card, and delivers the flyer to each home.

Bootstrap: Employees

Advice: Payroll can be the biggest cost category of doing business. You don't want to hire permanent employees until you are sure your business can reliably cover those paycheques.



Example: Pete interviews a pool of freelance labourers he can hire on a job-by-job basis. To make sure he's not caught in a cash flow crunch, he pays his crew whenever he collects the customer payment, which is usually when the job is completed.

Bootstrap: Cash flow

Advice: It's essential for a new business to get money flowing as soon as possible. You can do that by making it really easy for customers to pay you immediately by accepting debit and credit card payment.



Example: In the painting business, customers are willing to pay a 50% deposit to secure the service. The balance is paid when the job is done. Pete leases a wireless payment terminal to collect customer payments on the spot – which is great for his cash flow.

Bootstrap: Personal draw

Advice: Try not to rely on your business to pay you a salary for the first six months. Those funds are needed for marketing, sales and operating costs so the business can get on its feet. Cover your personal expenses through a part-time job, savings and lean living.



Example: To avoid taking a draw from his new painting business Pete decides to rent the basement in his house, stops eating in restaurants, and buy his clothes from second-hand shops. He's prepared to make these sacrifices for one year while his business develops.

Bootstrap: Suppliers

Advice: You need materials or services from a supplier but don't have the cash to pay them. So strike a deal for generous credit terms – you can likely defer payment for 30, 60 or even 90 days because the supplier is hungry for your business.



Example: Pete applies for a credit account with the local paint store, giving him 60 interest-free days to pay for his paint and supplies.

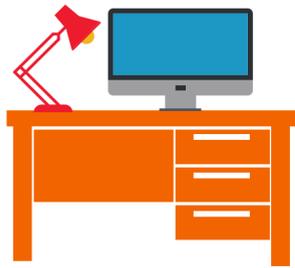


What's your start-up budget?

Combine your capital costs (one-time purchases such as equipment or signage) with six months' of operating costs (monthly expenses including rent, wages & marketing) and you've got a start-up budget. To be safe add 10% for variances.

Bootstrap: Work space

Advice: Don't rent an office yet. Until you're established, you can run your new business from your home, a coffee shop or public place. Check out cost-effective virtual office packages – some feature a live receptionist, a mailing address and access to meeting space.

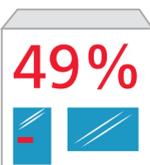


Example: Pete doesn't need commercial office space because he goes out to see customers at their homes. Pete decides to clear out the spare bedroom in his home and operate his business from there.

Benefits to bootstrapping



It's one of most effective and inexpensive ways to ensure your business enjoys positive cash flow because it means less money has to be borrowed and interest costs are therefore reduced.



49% of new businesses will fail within five years – many just run out of cash.
[Source: Startup Canada]

Congratulations!

You've successfully bootstrapped your start-up.

Take a few more steps to save your business money.

- Try the [Scotia Cash Flow for business tool](#) to forecast your money requirements.
- Read this helpful article about [saving money in your business](#).
- See a [Scotiabank Small Business Advisor](#) about affordable banking solutions.