Harv Bus Rev. 1992 Nov-Dec;70(6):109-17.

Bootstrap finance: the art of start-ups

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Abstract

Entrepreneurship is more popular than ever: courses are full, policymakers emphasize new ventures, managers yearn to go off on their own. Would-be founders often misplace their energies, however. Believing in a "big money" model of entrepreneurship, they spend a lot of time trying to attract investors instead of using wits and hustle to get their ideas off the ground. A study of 100 of the 1989 Inc. "500" list of fastest growing U.S. start-ups attests to the value of bootstrapping. In fact, what it takes to start a business often conflicts with what venture capitalists require. Investors prefer solid plans, well-defined markets, and track records. Entrepreneurs are heavy on energy and enthusiasm but may be short on credentials. They thrive in rapidly changing environments where uncertain prospects may scare off established companies. Rolling with the punches is often more important than formal plans. Striving to adhere to investors' criteria can diminish the flexibility--the try-it, fix-it approach--an entrepreneur needs to make a new venture work. Seven principles are basic for successful start-ups: get operational fast; look for quick break-even, cash-generating projects; offer high-value products or services that can sustain direct personal selling; don't try to hire the crack team; keep growth in check; focus on cash; and cultivate banks early. Growth and change are the start-up's natural environment. But change is also the reward for success: just as ventures grow, their founders usually have to take a fresh look at everything again: roles, organization, even the very policies that got the business up and running.