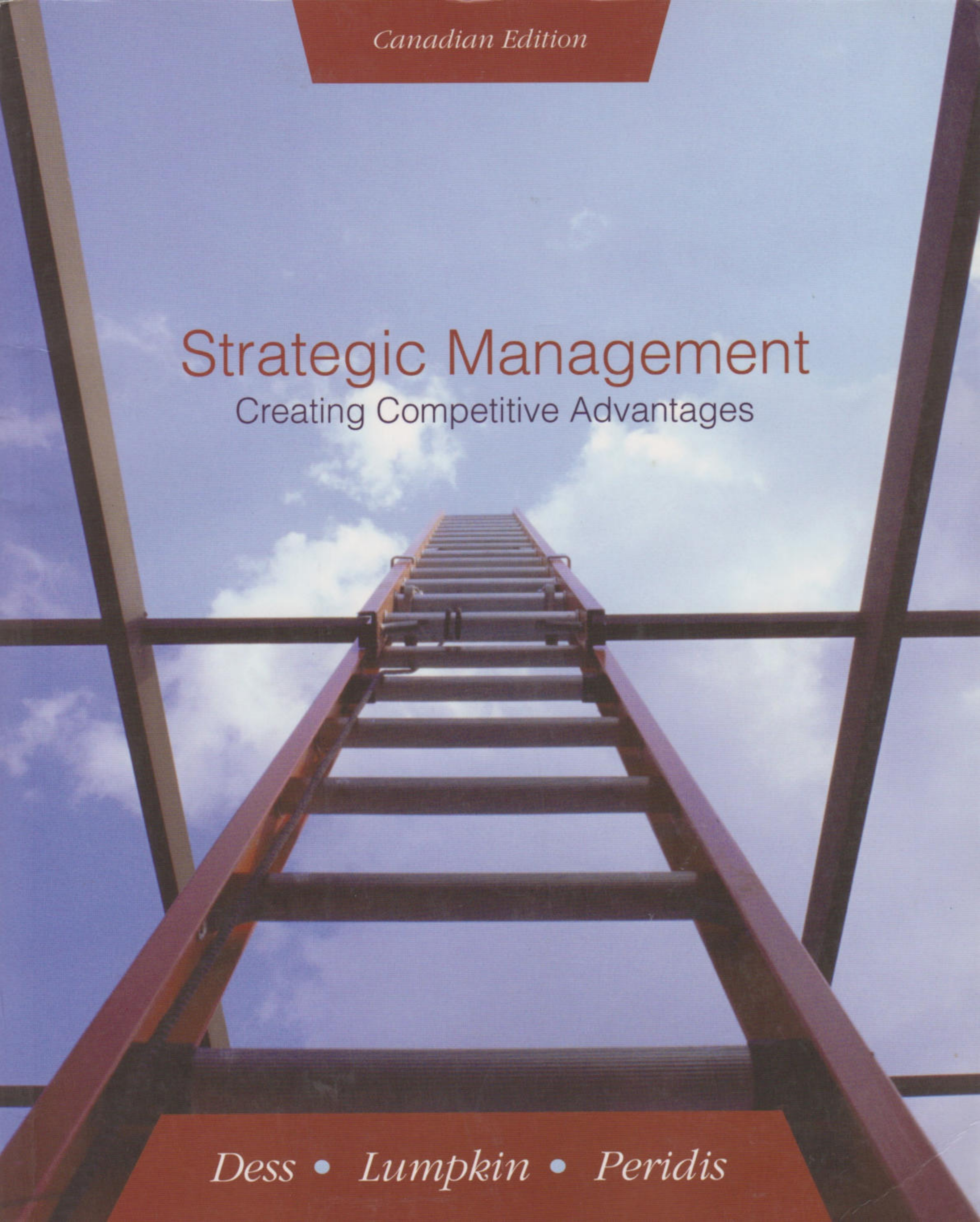
Canadian Edition

Strategic Management

Creating Competitive Advantages



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investors or venture capitalists. For the young start-up, this involves getting the most out of every dollar and doing without anything but the bare necessities. It may mean buying used equipment, operating out of a basement, or forgoing a new car purchase in order to reinvest in the business.

The typical new business owner has just $4,000 invested the day the business opens.[31] Not surprisingly, then, bootstrapping as a way to make ends meet is a common practice among start-up entrepreneurs. For example, Brad and Gia Boyle of Moab, Utah, got their start running Walkabout Travel Gear out of a 37-foot recreational vehicle. Using a motor home as an office not only helped them save money on rent, it also kept them in touch with their industry—travel. Their bootstrapping philosophy is expressed in a quotation on their Web site: "A tight budget is the mother of adventure." In a recent year, the business brought in about $250,000.[32]

Bootstrapping may shift a start-up's priorities. To successfully bootstrap, a new firm may have to get cash-generating products or services to market quickly in order to jump-start cash flow. As a result, the new firm may postpone development activities or investments in technology. Consider the example of Stacy's Pita Chip Co. In 1996, founders Mark and Stacy Andrus were operating a successful pita-wrap sandwich business that was ready to grow. But customers kept asking for the baked chips they made every night from leftover pita bread and handed out free to customers waiting in line. "We thought we could get bigger faster with the chips," said Stacy. The couple, who were still paying off six-figure student loans, decided to take their chips nationwide. The business they created is a model of bootstrapping efficiency. The paper sign on the door, folding tables, and used dining room chairs are the first signs of their spartan approach to business. They also saved over $250,000 buying used equipment. "Everything goes into the business," said Stacy, who takes home a scavenger-level salary. But it has paid off. Their baked pita chips annual revenues recently hit $1.3 million, with sales in 37 states.[33]

If personal savings and bootstrapping efforts are insufficient to finance the business, entrepreneurs must turn to other sources of funds. One of the most common mistakes business founders often make is trying to launch a business with insufficient capital. Seeking external sources of financing is often essential for start-up success.

Funding that comes from others, unless it is a gift, will take one of two forms: debt or equity. There are important differences between the two types of financing.

- ***Debt.*** This refers to borrowed funds, such as an interest-bearing loan, that must be repaid regardless of firm performance. To obtain it usually requires that some business or personal assets be used as collateral.
- ***Equity.*** This refers to invested funds, such as in shares of stock, that increase or decrease in value, depending on the performance of the business. To obtain it usually requires that business founders give up some ownership and control of the business.

There are many possible sources of external funding. One of the most important sources is family and friends. They can be especially helpful during the very early stages of a new venture. Among the 2003 *Entrepreneur* list of the 100 fastest-growing firms, 18 percent received start-up financing from family and friends.[34] This type of financing may be in the form of either debt or equity. Doing business with family and friends, however, can be a delicate matter because personal relationships are very different from business dealings. To avoid creating hard feelings, it is best to treat money loaned or invested by an acquaintance or family member in a businesslike way. Both parties should have a clear understanding about whether the money is a loan (debt) or an investment (equity). If it is a loan, the terms of repayment should be specified in writing. It is important to be as