



## TOP 10: BOOTSTRAPPING STRATEGIES

Nonprofit organizations have been finding creative ways to bootstrap, or self-finance, their work for many years. Bootstrapping is one of the most common forms of capitalizing a business and can be done through a number of cost-cutting and revenue-boosting strategies.

Bootstrapping happens when a business is launched or has been operating with little or no outside money or assistance. Instead, the company opts to fund its start-up or growth through internal cash flow using customer revenues. While nonprofits often face challenges when looking for capital to launch a social enterprise, that should not stand in the way. Instead, they can use the same bootstrapping tactics that for-profit entrepreneurs do.

Below are ten bootstrapping strategies that you can employ to keep working capital in the cashbox as you launch and or grow a social enterprise or nonprofit program.

### 1. Maximize Sales

*Over-delivering to existing customers can be a more effective sales strategy than focusing on new customers* – Satisfied clients are likely to become repeat customers and your best salespeople, telling their friends about the business. Satisfied clients can allow you to reap sales with much less effort than it takes to develop new customers. Generating revenue is the best way to get seed money, as well as other benefits like customer feedback, which helps you refine your offer.

*Don't wait until your product is perfected* – Unless your product is regulated or highly technical, get out and sell on the basis of what you know you can deliver. This will provide the initial cash to ramp up services or production and allow you to gather valuable customer feedback. Products are more successful over the long term if they are refined based on real-time customer feedback.

*Keep the cost of customer acquisition low* – The cost of getting a sale should not outweigh the margin you're going to make, unless the sale is important for the long term. Leverage your existing contacts to build your network and use low cost marketing tools (see Strategy #2) to manage your customer acquisition costs.

## 2. Use Low-Cost Strategic Marketing

*Low-cost strategic marketing efforts generate revenue by being an impetus for sales, while keeping costs to a minimum* – Do a little marketing every day and you'll be surprised how the actions mount up. Prepare a marketing plan. This should not involve a big budget. You can do it on a shoestring, such as getting press coverage or making phone calls. Low-cost options for e-mail marketing and surveying, such as [Constant Contact](#), help all types of small businesses and organizations create professional-looking e-mail newsletters and insightful online surveys, while organizations like [Vertical Response](#) help with e-mail marketing and printed postcard marketing. Finally, organizations like [PR Web](#) help organizations increase the visibility of their news, improve their search engine rankings and drive traffic to their Website.

## 3. Manage Variable and Fixed Costs

*Understand the unit level cost to deliver your product or service* – Once you have a solid understanding of the unit cost, ensure that your sales price allows a generous gross margin while meeting your mission objectives. Know what your competitors are charging to avoid under-pricing and ensure that your price represents the unique value you offer in the marketplace.

*Limit and slowly add in fixed costs only when absolutely necessary* – Fixed costs are those that you cannot avoid, but if there are options, aim to rein in your desires. 'Nice-to-have' purchases can wait until the positive cash balances can take the strain. In addition, if your business requires new labor, consider starting with part-time positions to provide you with greater flexibility. (Add variable costs before fixed costs.)

## 4. Invoicing and Terms to Conserve Cash

*Set an invoicing process and adhere to it* – Be sure to invoice on time or even early. Ensure that your customers pay within 30 days. If they don't, charge a fee for late payments. Create a checklist of administrative questions when closing a sale; for example, can partial payment be made upfront? Can you accept electronic payment of invoices? Would a discount of, say, 5% be acceptable for regular purchases or subscriptions that are paid automatically, as from a bank account or credit card?

## 5. Buy Effectively to Limit Expenses

*Compare the costs of leasing vs. buying equipment; buying it second-hand or re-conditioned, or collaborating with another group to buy and share it* – Bartering may be possible for equipment and services, or between the two. Find barter opportunities online, such as at [Barter News](#).

*Examine the difference in cost between cash discounts and extended credit rates* – monitoring your cash flow is critical. If you don't have the money now, getting extended credit is one option.

*Avoid carrying excessive inventory* – With the exception of items that are difficult to procure and the opportunity to buy in bulk at a heavy discount, it is important to remember that money sits idle when it is tied up in merchandise. In manufacturing, too much work in progress – or in retailing, slow sales – can ruin a business very quickly.

## 6. Reduce Information Technology Costs

*Look to alternative IT sources for savings* – A huge number of free (and good) programs are available. Open source products are free at [Open Office](#). Another area of savings includes basic or earlier versions of software that are made available for free. Many small businesses do not need all the bells and whistles of the latest software versions. Look into web-based software that you can access online for free.

## 7. Outsource Administrative Functions

*Consider outsourcing payroll, bookkeeping and other administrative services* – This is a common practice. A good firm has the experience and can probably do the work much more easily and cheaply than you can. [Outsourcing.org](#) is a Web-based business directory providing information and free tools for suppliers and buyers of outsourcing services. Organizations such as the [Sunday Project](#) provide staff either to complete temporary projects or for general administrative support. Another strategy is to share this back office support with other nonprofit organizations. Click [here](#) to read about how one Minnesota organization, MACC Commonwealth, has followed this strategy.

*Outsourcing computer-related work can be more economical than hiring someone full-time* – Organizations like [oDesk](#) enable buyers of services to hire, manage and pay technology service providers from around the world (i.e. web developers, server administrators, database administrators, etc).

## 8. Obtain Low-Cost Office Space

*Reconsider your office location* – Unless location is critical to the success of your venture (as it generally is with retail businesses), you may avoid spending top dollar for office space. Using existing space that your parent nonprofit or someone else can afford to loan, sharing workspace with other small businesses, or finding other short-term or low-cost rentals are all tactics for lowering office space costs.

## 9. Maintain High-Quality People

*Remember that having quality people doesn't necessarily mean that they have to be on the payroll – Consider commission-only sales brokers or contract employees.*

*Set up an advisory board of good contacts whose advice and support you value – Save money by seeking advice from volunteers instead of professionals. If you choose board members wisely, such a group will enjoy working with you and having the occasional meeting, perhaps over a meal.*

#### **10. Use Help From College Students**

*Leverage low-cost talent from area academic institutions – You may have a business school near you, and its students, particularly graduate students, may be highly motivated to work on real-life projects. You'll probably be able to strike a mutually beneficial bargain, and they may prove to be excellent recruits later on. Additionally, look into the possibility of an AmeriCorps VISTA volunteer.*

To learn more, please view the presentation *Financial Bootstrapping: Small Steps That Yield Big Results*, presented by Community Wealth Ventures and Jim Ansara of Shawmut Construction at the March 2008 Social Enterprise Alliance Conference.