

Bootstrapping Your Start-Up

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Confessions of a Serial Bootstrapper

- Bootstrapping -- What is it and why do it?
- Should you bootstrap *your* start-up?
- Bootstrapping techniques
- Other benefits of bootstrapping
- Examples

Bootstrapping

What is it?

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 external 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.

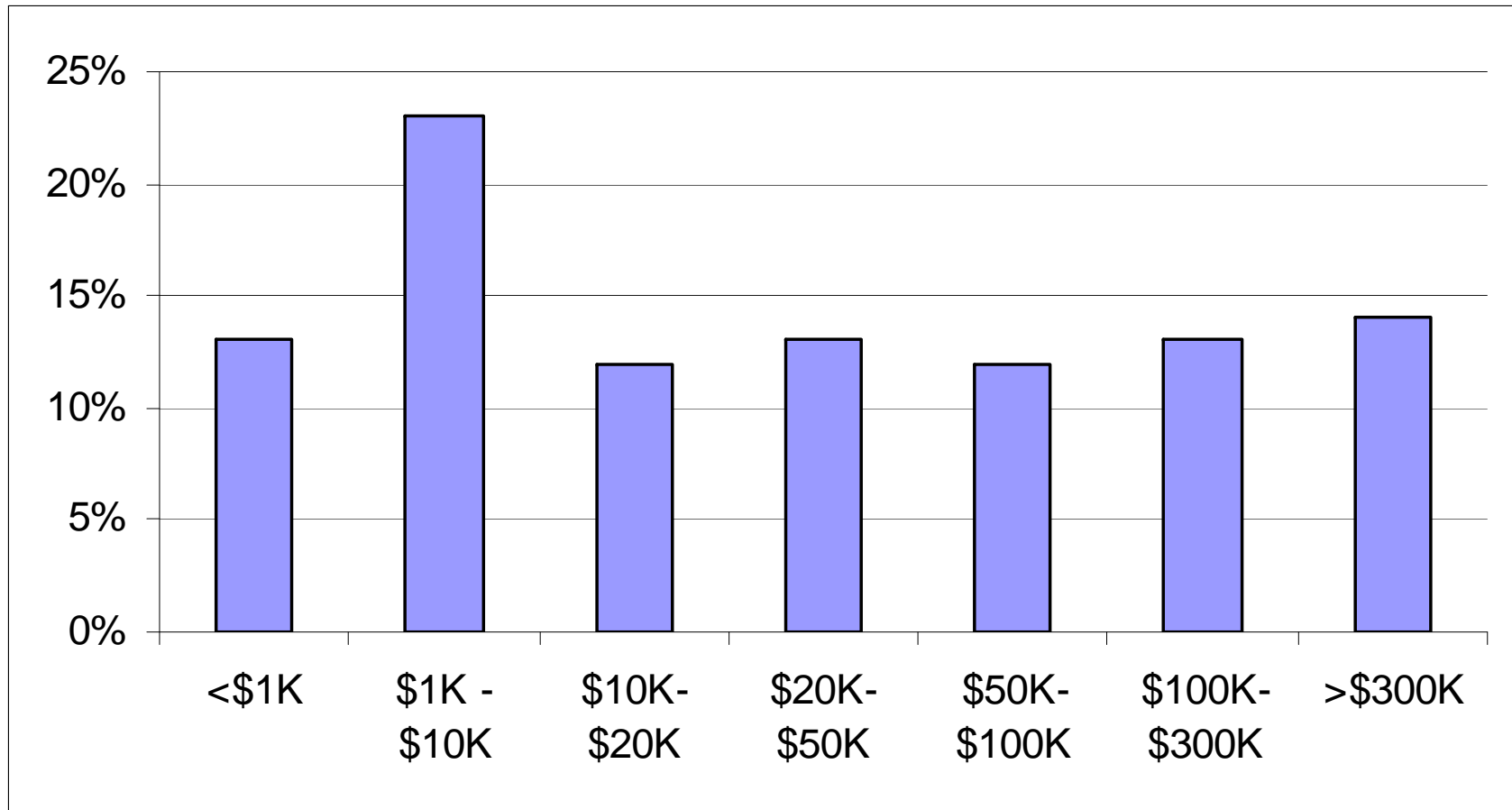
Why do it?

Bootstrapping is the most likely source of initial equity for more than 90% of technology based firms and 99% of all others. Venture capitalists are rarely able to fund small start-up firms (in US, seeking less than \$5 million).

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.

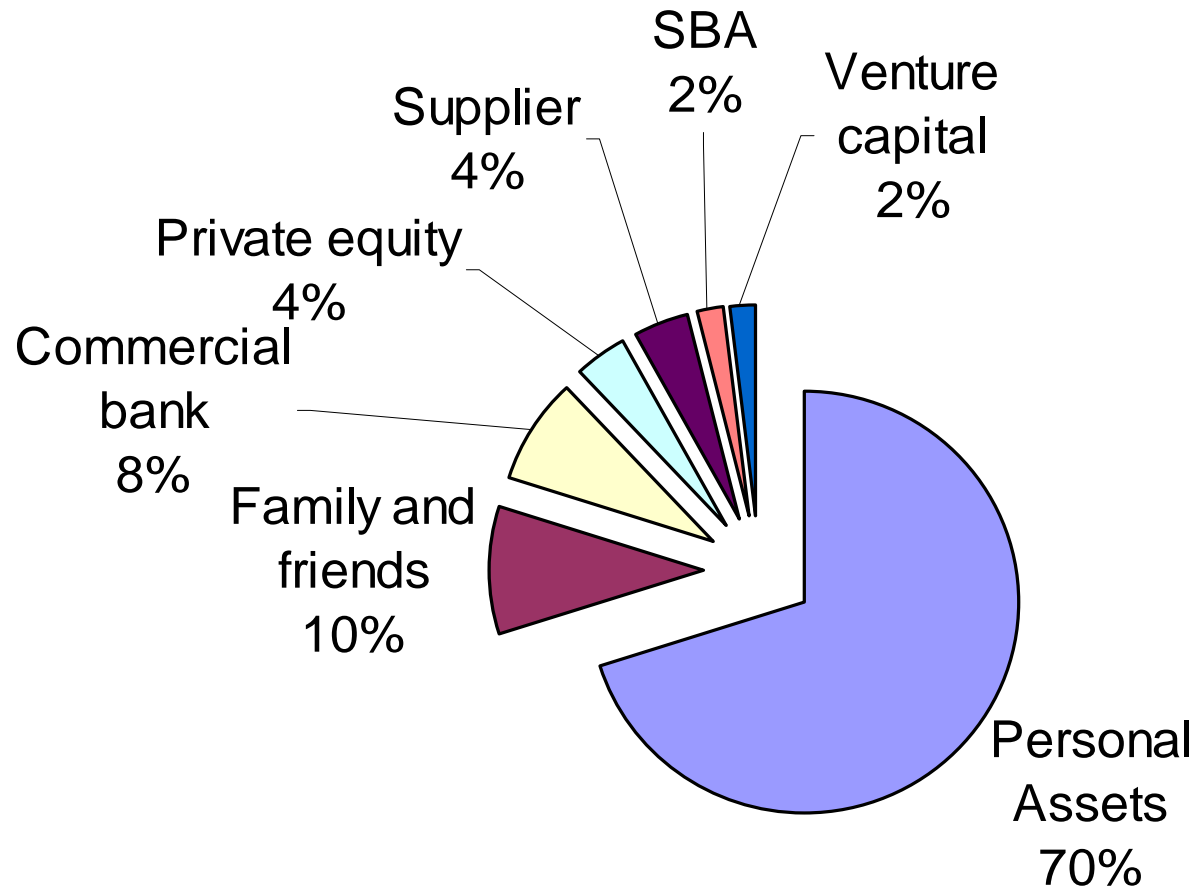
Who bootstraps?

(It's not an impediment to success)



Inc 500 stats: Startup capital

Where does start-up money come from?



Inc 500 sources of capital

Should You Bootstrap?

(Depends on your business model)

<i>Technology</i>	High	No Maybe	No
	Low	Yes	Maybe No
		Low	High

Start-up Capital Needs

3rd Dimension:

- *High Growth*
- *Low Growth*

4th Dimension:

- *Proximity to rich relatives*

5th Dimension: Time and effort trade-off

Many months spent trying to raise money (with no guarantees!)

versus

Same time spent starting business, establishing proof of customer and product, and building traction

Bootstrapping Techniques

How much cash do you need?

Category	Examples
Start-up Expense (Non-Recurring Expense)	<ul style="list-style-type: none">•Legal fees, deposits, licenses,•Office set-up, creative fees, tooling, etc.
Basic Operating Expense (Burn Rate -- Breakeven)	<ul style="list-style-type: none">•Payroll•Rent, telephone, internet, and utilities•General office expense•Essential marketing and selling expenses
Discretionary Expense	<ul style="list-style-type: none">•Sales and marketing programs•Product/service development•Growth initiatives
Other Cash Needs	<ul style="list-style-type: none">•Accounts Receivable•Inventory•Capital purchases•Contingency

Bootstrapping Techniques

Category	Examples
Start-up Expense (Non-Recurring Expense)	<ul style="list-style-type: none">•Legal fees, deposits, licenses,•Office set-up, creative fees, tooling, etc.
<p><u>Do's</u></p> <ul style="list-style-type: none">•Find service providers who specialize in start-ups (many offer special rates or packages)•Defer payments as long as possible (e.g., negotiate payment of deposits over time)•Barter, buy used or scrounge furniture, equipment, etc.•Use “virtual services” (phone switching, software applications, web services)•Co-Habit, share office space & services with reliable partner	
<p><u>Don'ts</u></p> <ul style="list-style-type: none">•Be proud. Tell people you're just starting and have no money. Most will cut a deal.•Shortcut legal work (especially if others are involved in business)•Rent Class A space. Instead, work from home or Starbucks – go to your client's office!•“Invest” in things that are not essential to today's business	

Bootstrapping Techniques

Category	Examples
Basic Operating Expense (Burn Rate -- Breakeven)	<ul style="list-style-type: none">•Payroll•Rent, telephone, internet, and utilities•General office expense•Basic marketing and selling expenses
<u>Do's</u> <ul style="list-style-type: none">•Hire the best people possible but only pay what you can afford (make up for it with stock options, deferred comp or bonuses based on performance, flexible work hours)•Outsource and use temps to avoid hiring (layoffs in a downturn are no fun!)•Focus sales efforts on “low-hanging fruit”•Practice guerilla marketing – low cost ways to get your name out and look BIG•Conserve cash and pay your taxes!	
<u>Don'ts</u> <ul style="list-style-type: none">•Hire people to do things you can do yourself (until you're at 100% capacity)•Pay for more than you need	

Bootstrapping Techniques

Category	Examples
Discretionary Expense	<ul style="list-style-type: none">•Sales and marketing programs•Product/service development•Growth initiatives
<u>Do's</u> Be very creative in negotiating for products and services	
<u>Don'ts</u> Spend money on discretionary programs unless you can afford for them to succeed (i.e., do you have the capital needed to finance the growth that might come?)	

Bootstrapping Techniques

Category	Examples
Other Cash Needs	<ul style="list-style-type: none">•Accounts Receivable•Inventory•Capital purchases
<p><u>Do's</u></p> <ul style="list-style-type: none">•Do everything you can to minimize inventory expenses – outsource manufacturing and distribution, push inventory back on suppliers, negotiate extended payment terms, implement JIT production, etc.•Understand your business cycles (sales, production, payment practices)•Lease equipment rather than purchase	
<p><u>Don'ts</u></p> <ul style="list-style-type: none">•Offer payment terms (unless you have very high profit margins, discretionary cash, and the ability to absorb the occasional bad debt)•Buy anything you can rent, contract out, borrow (or steal!)•Forget that it costs thousands to hire an employee (furniture, equipment, software, etc.)	

Other Benefits of Bootstrapping

Build a viable business from day 1

- You become more scrappy and creative
- Meet and deal with customers right away
- Get to market and cash-positive operations faster

More careful with money

- You squeeze each dollar harder when you don't have many
- Position company to survive in lean times (and they always come!)

Strengthen position to raise growth capital in future

- Build traction that demonstrates proof of customer/product
- Increase valuation (sell less of company for investment)

NetReflector

(How we bootstrapped)

Cash Category	Bootstrap Examples
Start-up Expense (Non-Recurring Expense)	<ul style="list-style-type: none"> •Low Cost Lawyer • Local “startup” developers •Low cost office space in Redmond •No Phone switch (2 line Phones) •“Saved” money on contracts and agreements •Founders put up capital & worked free, found willing mugs to work for equity •Hired C rate employees
Basic Operating Expenses (Burn Rate -- Breakeven)	<ul style="list-style-type: none"> • Abused/Leveraged relationships to get first customers •Changed Business model to add Prof Services •Kept lean and mean •Froze development once it was working. •Switched Dev to Moscow
Accounts Receivable	<ul style="list-style-type: none"> •Quality Clients (MSFT, BP) •Held their data hostage
Capital Purchases	<ul style="list-style-type: none"> •Leased (Gateway & Dell) Web Servers on personal credit, used office equipment. Ebay servers.

Reaxion Corp

(How we bootstrapped)

Cash Category	Bootstrap Examples
Start-up Expense (Non-Recurring Expense)	<ul style="list-style-type: none"> •Used Top 5 Lawyer Perkins Coie •Used Off-shore developers •Abused previous companies office space •Stole phone service •Plagiarized contracts & Agreements •Senior team put up capital and worked cheap/free
Basic Operating Expenses (Burn Rate -- Breakeven)	<ul style="list-style-type: none"> • Changed business model from development to publishing •Focused on low hanging fruit •Played smart developed tools not brute force. •Negotiated well on contracts (OJOM, Paramount)
Accounts Receivable	<ul style="list-style-type: none"> •We starved for 3 months
Accounts Payable	<ul style="list-style-type: none"> •Initially paid promptly, then tightened up
Capital Purchases	<ul style="list-style-type: none"> •Ebay phone switch & Web Servers

Bio

Colin Prior

**Chairman & CEO, Reaxion Corp.
Founder NetReflector**

Colin Prior's passion for technology has taken him from Sun Microsystems in its pre IPO days to his second successful Seattle startup with Reaxion Corp., where he is currently the Chairman and CEO of this high-growth company that publishes and developer of games for mobile phones. In his spare time, he climbs mountains, white water kayaks/canoes, and plays soccer with his wife Nancy.

Mr. Prior, a serial entrepreneur, has been advising Reaxion since its inception in 2001. He was unable to resist the lure and rush of “startup fever” and transitioned over from NetReflector; a company he helped found and led as CEO, to take a full-time position at this exciting new company that is in the hot mobile games space.

Founded in 2001, Reaxion is a privately-held 60 person company headquartered in Seattle, with offices in Moscow, Minsk and San Diego. Reaxion is a market leading publisher and developer of cutting edge 3D, 2D and multiplayer mobile games. With titles available through more than 50 top CDMA and GSM wireless carriers, Reaxion has access to over 160 million subscribers worldwide. Our mission is to create games featuring engaging situations, dazzling graphics, dynamic gaming communities and top entertainment brands. As a mobile entertainment publisher and developer, Reaxion makes it easy for established entertainment companies, including Paramount, Warner Music Group and Nickelodeon, to take their content and license assets to the mobile market. Reaxion has published successful titles including Fight Hard 3D, Pro Curling, Mahjong and Minigolf. Reaxion raised over \$3M of Series A investment, following 4 years of high boot-strapped growth. For more information on the Reaxion, visit www.reaxion.com

About NetReflector

NetReflector is expert at measuring the satisfaction of customers, whether internal or external, all over the world, in any language, using powerfully integrated enterprise online survey technology. Unique in its flexibility and service, they create solutions to fit specific research needs, quickly and cost-effectively, no matter how complex. In business since 1997, NetReflector helps companies gain the valuable, real-time business insights they need for enduring loyalty and