EXCLUSIVE CHAPTER PREVIEW

Entrepreneur

FINANCE YOUR BUSINESS

secure funding to start, run, and grow your business

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Preface

Starting a business is a journey. From the moment you come up with an idea for the next great product or service to the ribbon cutting and grand opening, you will travel a long, sometimes winding, road toward success. And like any other trip you take in life, this one costs money. While many startups begin with cash already in the bank (lucky them!), most aspiring entrepreneurs have to come up with the cash to front their dreams, whether they choose to bootstrap, crowdfund, or go with venture capital.

That's where we come in. The writers and editors at Entrepreneur spend their days researching the latest trends in small business and startup funding, and speaking with the people who pursue our startup dreams as well as those who help those dreams become reality. In this book, we've compiled stories from the trenches from those who have gone before you in the search for business funding and financing. You will hear from entrepreneurs who leveraged their life savings and made investors of family members and those who got their funding through successful venture capital presentations or pitch slams. Some of these startup stories have happy endings involving IPOs or corporate buyouts while others end with the realization that dreams don't always come true. But all of these stories share a common thread—no one makes it without a little help, whether that help comes from friends or loan officers.

In this book, we give you the inside scoop on getting the money you need, plus you'll discover dozens of sources of capital. We show you secrets to financing your business yourself, how to tap into the most common source of startup financing (family and friends), plus suggest places you may never have thought of to look for money. We also introduce you to the idea of turning to the crowd for funding.

You will learn about several different options for financing your business. To begin, you will find out about the pros and pitfalls of bootstrapping while growing your business using tactics like bartering and exploring free services. Do you stand a chance of getting venture capital or attracting private investors? You'll find out after reading stories from investors who know the ropes. And if you're looking for a loan, look no further for the secrets to finding the right bank or other lending institution. We explain what bankers look for when evaluating a loan application—and how to make sure yours makes the grade. Seeking money from Uncle Sam? You'll learn about loan programs from the government, including special assistance for women and minority entrepreneurs. Whatever your needs, you're sure to find great tips and tricks here from entrepreneurs and lenders who know the startup financing landscape well.

What are you waiting for? Your journey begins now.

CHAPTER 1

Introduction

You're excited to start a business. Maybe you have an idea, or maybe you're just fascinated with the idea of launching and growing your own enterprise. You're willing to take some risks, like leaving your current job or going without a paycheck for a while. But there's one tiny logistical hurdle stopping you: You don't have much money.

On the surface, this seems like a major problem—but a lack of personal capital shouldn't stop you from pursuing your dreams. In fact, it's entirely possible to start and grow a business with almost no personal financial investment whatsoever, if you know what you're doing.

Why does a business need money in the first place? That depends on the business. It's not like there's a uniform "startup fee" for building a business, so different businesses will have different needs. It's important to first estimate how much you will need before you start looking for alternative methods to fund your company.

Consider the following things you may need:

- *Licenses and permits*. Depending on where you live, you may need special paperwork and registrations to operate.
- *Supplies*. Are you buying raw materials? What about office supplies?
- *Equipment*. Do you need specialized machinery or software? Do you need computers and/or other electronic devices?
- *Office space*. This is a huge potential expense, and don't forget about things like internet and utility costs.
- *Associations, subscriptions, memberships*. What publications will you subscribe to, and what professional organizations will you need to join?
- *Operating expenses*. Dig into the nooks and crannies here, and don't forget about marketing.
- *Legal fees*. Are you consulting a lawyer throughout your business-development process?
- *Employees and contractors*. If you can't do it alone, you'll need people on your payroll.

The Basics of Obtaining Funding

To start a business with very little money, you can either lower your costs, increase your available capital, or do both.

Your first option is to change your business model to make fewer demands, as listed above. For example, you could reduce your "employee" expenses by being the sole employee at the start. You could work from home instead of renting office space. You can even do your homework to find cheaper sources of supplies, or cut out entire planned product lines that are too expensive to produce at the outset. There are a few expenses that you won't be able to avoid, however; licensing and legal fees will set you back even if you cut back on everything else. But according to the SBA, many microbusinesses get started on less than $3,000, and homebased franchises can be started for as little as $1,000.

Your second option invokes the idea of a "warmup" period for your business. Instead of going straight into full-fledged business mode, you might launch a blog and one niche service, reducing your scope, your audience, and your profit in order to get a head start while slowly ramping up your business. If you start as a self-employed individual, you'll avoid some of the biggest initial costs (and enjoy a simpler tax situation, too). Once you start realizing some revenue, you can reinvest it and build the business you imagined piece by piece, rather than all at once.

Your third option, and the main topic of this book, is securing funding from outside sources. There are dozens of ways to raise this money, called *capital*, even if you don't have much yourself. Here are just a few potential sources:

- *Bootstrapping*. Before you seek capital from others, you need to truly explore everything you can do on your own. This can actually help you get financing from other sources later on.
- *Bank loans*. You can open a line of credit with the bank if your credit is in good standing.
- *Friends and family*. Don't rule out getting help from friends and family, even if you have to piece the capital together from multiple sources. This can be tricky, though, since if the business fails you risk straining the personal relationship.
- *Contests and grants*. Yes, there is such a thing as free money, and there are ways to improve your odds of getting it. There are dozens of contests every year in the United States that award startup money to promising new businesses. And the SBA and a number of state and local government agencies exist solely to help small businesses grow. Many of these offer loans and grants to help you get started.
- *Incubators and accelerators*. These are competitive programs that offer much more than money—although they offer that, too. They provide expertise, networking, and other invaluable help to fledgling businesses.
- *Crowdfunding*. It's popular for a reason: With a good idea and some hard work, you can attract funding for just about anything.

- *Alternative lenders*. Many companies and entrepreneurs are trying to provide small businesses with the capital they need through some truly creative and even revolutionary methods. You just need to know where to look.
- *Angel investors and venture capitalists*. Angel investors are wealthy individuals and firms that back business ideas early on. They typically invest in exchange for partial ownership of the company, which may or may not be a sacrifice worth considering. Venture capitalists are similar, but are typically partnerships or organizations and tend to scout existing businesses looking to expand.
- *VC alternatives and other investors*. Traditional angels and VCs aren't the only choices you have. In fact, most entrepreneurs don't seek or obtain venture capital. We live in a unique time of financial innovation, when even customers can fund entrepreneurs' plans; there are low-interest lending platforms; and, for the first time in decades, business owners can advertise that they are raising capital.

By exploring these options, you should be able to reduce your personal financial investment to almost nothing. You may have to make some other sacrifices, such as starting small, accommodating partners, or taking on debt, but if you believe in your business idea, none of these obstacles should stand in your way. Capital is a major hurdle to overcome, but make no mistake—it can be overcome.

The kind of company you want to build will dictate where you turn for capital and when. Running a one-person operation is very different from creating a 100-employee company from the ground up. Likewise, a triple-bottom-line B Corporation that places as much emphasis on community, employees, and environment as it does on profits is a very different beast from a startup with the primary goal of cashing out after several years.

You also need to think about what your unique needs are and where all this is headed. Are you building a lifestyle or a freelance business? A service agency? Something much bigger that you hope will take the world by storm? Do you plan to include some sort of social impact right into your for-profit business model—say, by giving away one product for every one you sell or only hiring veterans? Or is giving back to the community and society at large something you'd prefer to address later, once you've started making revenue? What do you see as your exit strategy? Having your children take over your business several decades from now? Your employees gaining control through an employee-ownership program? A nice, big acquisition check? Something else? Your answers to these questions may dictate whose money you pursue to fund your business, and when.

It may seem impossible, but one way or another, you need to believe you will find the funding your business needs to get off the ground and succeed. You have a lot of options—probably far more than you thought. The rest of this book is dedicated to exploring those options to see which ones are best suited to you and your vision.

CHAPTER 2

Going It Alone

Bootstrapping Like a Boss

The old saying "pull yourself up by your bootstraps" describes, of course, something that's literally impossible. You can try it—put on some boots, grab your bootstraps, and pull up as hard as you can. If you're like most people, this procedure will fail to suspend the law of gravity, and you will remain firmly planted on the earth. But in the financial world, bootstrapping isn't just possible, it's recommended. It means funding yourself as much as possible. The reasons you should try to fund your own business before seeking outside capital ought to be obvious. Lenders and investors want to see your business thesis proven before they pony up any cash. Investors also like to see that founders have some skin in the game—they like entrepreneurs who've put it all on the line.

There's also something to be said for bootstrapping as long as you can because you're forced to bring in revenue as quickly as possible. Outside investments tend to make business owners comfortable with overspending—money that comes from someone else is somehow easier to spend. Without the hunger bootstrapping brings, it's tempting to put off making revenue for another month, quarter, or even year.

Ten Bootstrapping Tips to Turn Your Idea into Reality

The majority of startups are founded without capital injection from venture capitalists or angel investors. The real numbers are eye-opening—venture capitalists (VCs) fund only 0.05 percent of startups, and angel investors are responsible for funding just 0.91 percent. Take a moment to really think about those percentages in relation to the approximate 543,000 new businesses started each month in the United States.

With the chances of receiving funding so slim, if you are serious about turning your idea into a reality, you are most likely going to have to dip into your own pockets and bootstrap your way to the top. It isn't easy, but it can be very rewarding, both personally and financially, as you retain 100 percent of your equity.

In no particular order, here are ten tips to help you bootstrap your way to success.

Fully Research Your Market and Competition

Before you do anything else, you need to make sure you have a viable business opportunity. Is your proposed product or service already available on the market? If there is competition, how will consumers differentiate between you and them? What makes you better? What is your unique selling point?

Some highly successful software-as-a-service companies have sold their product before they even developed it, to be completely certain there was a market for it. This isn't the conventional way to do it, but it's an example of entrepreneurs going to extremes to be 100 percent positive they had a winner before going all in.

Create a Business Model That Produces Quick Revenue

If you are bootstrapping, you need to make sure your business model generates revenue quickly. If not, you will be dead in the water once you blow through your reserves. Constant cash flow is mandatory—if you look at successful bootstrapped startups, you will see they all generated revenue very quickly.

Handle Your Own Public Relations in the Beginning

Startups can benefit greatly from major media exposure in the beginning, but journalists and editors receive press kits from PR firms around the clock. They don't want to talk to a public relations representative—they want to talk to you! They are much more interested in speaking with a founder than a PR firm, because they want to hear your story just as much as they want to hear about your actual startup.

There are a number of ways for startups to score media coverage, so roll up your sleeves and get cracking.

Provide Ways for Your Initial Customers and Early Adapters to Create Buzz

People love new startups and technologies, and they love to show the world that they are cool, hip, and trendy through social media. Provide ways for your early customers to help put your startup in front of their social audiences.

Allow them to unlock a discount coupon by sharing your website on social media or create a branded hashtag and randomly select winners for prizes. You can even share images of your customers using your product with a designated hashtag on the company social media pages. By appealing to people's egos, you can create instant brand engagement.

Don't Be Afraid to Let Your Website Grow with You

It happens all the time—a startup has a custom website designed, and by the time all the features are built out, they have no marketing dollars left. They use their entire pile of seed money on a great website but then have no way of marketing it—and they turn into a statistic, joining the 80 percent of businesses that fail within their first 18 months.

If you are operating on a shoestring budget, you can use a pre-made theme to get you off the ground and use the majority of your funds to promote and grow your business. Once you have positive cash flow and a proven business model, revamp your website.

Launch Creative Branding and Marketing Campaigns

You don't always have to have the deepest pockets to get brand exposure—you just need a creative approach. A great example is Newcastle Brown Ale's 2014 video about almost making a Super Bowl commercial with Anna Kendrick. The company didn't purchase expensive airtime for the Super Bowl, but it did release a video about how it almost did. The video went viral on social media and got more publicity than an actual commercial would have.

Account for Every Penny You Spend

Keeping track of every penny that leaves your business is crucial. Money vanishes quickly when you start a business. Sloppy accounting can lead to a rude awakening. Use accounting software, such as QuickBooks, or free tools, such as Mint, that will help keep track of your spending and gauge burn rate. Monitor your cash daily—there is no excuse for lazy accounting.

Eliminate as Many Personal Expenses as Possible

When bootstrapping a startup, there isn't a nice comfortable salary that comes with the gig—you have to be prepared to drastically prune unnecessary expenses or eliminate them altogether.

Substitute public transportation for a huge car payment, take on a roommate or two to reduce living expenses, brew your own morning cup of coffee instead of opting for a $4 cup at the local coffeehouse—look at your personal bank statements for the past few months to uncover areas where you might reduce or eliminate expenses.

Do As Many Jobs By Yourself As You Can in the Beginning

There is a big difference between jobs you can't do and jobs you simply don't want to do. If a task requires specific technical knowledge you don't possess, then of course delegate it—but if it's something you are fully capable of but just don't feel like doing, you are creating an unnecessary expense. Do whatever you have to do to make your business succeed, whether that's making sales calls or emptying the trash.

Be Persistent and Don't Give Up

When you are just starting out, there will be many obstacles to overcome. Suppliers and vendors aren't always overly excited to work with brand-new companies, and building consumer trust can be a challenge. You have to be persistent. Kick down doors and dial the phone nonstop to make connections and build relationships. Don't take rejection personally—it is going to happen.

Bootstrapping a business isn't an easy task. It's very challenging—but not impossible.

Bootstrapping in the Real World: Erica Zidel and Sitting Around

Erica Zidel knew that trying to raise funds for her startup would be a full-time job. She worried that chasing after capital would distract her from building the best product she could. So, rather than sweat the investment game, she spent years holding down a day job while bootstrapping her new company on the side.

"I've basically been working two full-time jobs," says Zidel, founder and CEO of Sitting Around, an online community that makes it easy for parents to find and coordinate babysitting co-ops in their neighborhoods. It's a hectic schedule—schizophrenic, even—but it's also thrilling. "When I woke up this morning, I realized that it was Monday, and I got excited," Zidel says.

What's perhaps more thrilling is that she's been able to self-fund Sitting Around with the money she earns from her consulting work. Besides avoiding getting sidetracked with fundraising, Zidel and her business partner, CTO Ted Tieken, have been able to retain 100 percent ownership of the babysitting venture.

"Bootstrapping early on means I have complete control over the vision and the product at a time when even small changes can lead to big consequences down the road," Zidel says. "I wanted the flexibility to make the right decisions, free from a board or an investor's influence. When you have just the founders making decisions, you can innovate much faster."

That focus on innovation has paid off. Sitting Around serves families in the United States as well as several countries abroad. Since the site launched in 2010, its user base has taken off. In 2011, Sitting Around was also one of 125 finalists in MassChallenge, a Boston-based startup competition and accelerator program. Perhaps most exciting of all, shortly after launching the company, Zidel was honored at the White House as a champion of change for her contributions to child care.

The beauty of moonlighting with a startup is that it lets you test a business idea without jeopardizing your financial well-being, says Pamela Slim, business consultant and author of *Escape from Cubicle Nation: From Corporate Prisoner to Thriving Entrepreneur*.

"When you don't know where your monthly income is coming from, it often sets up a fight-or-flight response in your brain," Slim says. "And that's not a good place to be when you're trying to be creative. So having that psychological cushion is often very important for the development of business ideas."

Zidel will attest to that. Thanks to her day job, she's been able to pour $15,000 to $20,000 of her own money into her business. Not having to take on debt or live like a monk has been a point of pride—but it has also been a necessity. "Since I'm a mother, I have to maintain an adequate standard of living for my son," Zidel explains. "While I'm definitely frugal and very conscious that a dollar spent on lifestyle is a dollar not spent on Sitting Around, I'd rather work two jobs than feed my son ramen."

Juggling Act

Bootstrapping a business is not without its challenges. Besides the long hours and the strain on personal relationships, it can be tricky to split one's creative juices between two professional pursuits.

"Being pulled in multiple directions is the hardest," says Zidel. "It takes a while for your brain to switch gears. And when things start to collide, it can be hard to say [what] you should be working on."

To stay productive and sane, Zidel schedules her workdays down to the hour and sticks to a list of non-negotiable items to accomplish each day. Still, she admits, "It's hard to stop working. I really have to force myself to carve out some personal time."

Bootstrapping with income earned not from a single employer but from a cadre of consulting clients comes with its own set of obstacles.

"Sometimes customers require a lot of attention, making it difficult to carve out time for your startup," says Aaron Franklin, cofounder of LazyMeter.com, a web-based productivity tool that ultimately went out of business in 2013. Likewise, he adds, "When you start consulting, it can be tempting to work as many hours as they can pay you."

Either way, your startup loses—which is why it's important to make an exit plan and stick to it. After LazyMeter failed to move forward, Franklin went on to work for Pinterest and Turi as a product manager. "If you make enough revenue to last another month but slow down your startup by a month, you're not getting ahead," Franklin says. "Make sure your efforts are moving you forward, not backward."

Knowing When to Leap

How will you know when to quit your day job? Author Slim advises that once you've tested your idea in the real world and know there's a market for it, you should set specific, tangible metrics.

"For some people, it can be getting a significant amount of traffic on their website or selling a certain number of units," she says. "For some people, it's when they have X dollars in their savings. For some people, it's a date—say, 'Come hell or high water, December 31, 2016, I'm quitting my job.'"

For Nick Cronin, former cofounder and CEO of ExpertBids.com, which connected business owners with lawyers, CPAs, and other consultants, the day came when his web startup began to bring in revenue. After spending 15 months growing his site to 10,000 users—7,000 of them experts—Cronin left his gig as a corporate attorney to work on his startup full time in November 2010. Shortly after, he said, "We [were bringing] in enough money for a developer and myself to work on [the site] and to cover all expenses, including office space and advertising/marketing."

Before quitting his job, Cronin spent a year lining his savings account. "I knew that things were going to take time and that we were going to need a little bit of a runway before I could take a salary," says the Chicago-based entrepreneur. "My goal was to have nine months where, if we didn't make a dollar, I'd be totally fine."

The escape route looks completely different for Zidel. "It's less the number of users and more the rate of growth. We've been testing different components of our business to see what works before we go out to raise money and turn the gas on," she says. "Now we have a lot of great data: what messages resonate, what products make money."

To those who say you're not a true entrepreneur unless you quit your day job, Zidel cries foul. "A lot of people think that to be a successful entrepreneur, you need to be sleeping on an air mattress and working on your business 80 to 90 hours a week," she says. "But I think that definition of success is silly. I'm living proof that if you have a quality idea and you spend your time well and execute it well, you can wind up with something great."

Protecting Your Rep at Your Day Job

Your boss may not be thrilled to learn that you're cultivating a side business. To avoid biting the hand that feeds you, follow this advice from Pamela Slim:

- *Check your employment agreement and employee handbook*. Some companies have a no-moonlighting policy. Others have noncompete agreements that prohibit you from doing your own business with their clients. Others—particularly technology companies—even have policies that nab the intellectual property rights of anything you create even on your own time.
- *Keep quiet about your side project*. Unless your employment agreement requires you to come clean about your after-hours venture, Slim recommends staying mum with managers and colleagues. Yes, some might be supportive of your side pursuit. But, Slim says, once the cat's out of the bag, "Be prepared to be fired as a worst-case scenario."
- *Don't work on your startup on company time*. Just because you love your side project more than your job, that doesn't give you license to slack off at work. Resist the urge to use your work phone and

email to conduct startup business. "Take the calls on your cell on a break, and, if possible, use your own laptop or mobile device to check personal email," Slim says. "Remember, everything is tracked and monitored in large corporations."

- *Don't burn bridges*. Guard your professional reputation as though your life depends on it. "It's never a pleasant thing to be fired for performance," Slim says. "That's not the way you want to go out." Besides, your current employer might be a future customer or investor.

When to Scrimp and When to Splurge

James DiSabatino was the quintessential bootstrapper. In 2011, he used all his savings—plus a $20,000 loan from Dad—to start Roxy's Grilled Cheese, the first food truck to park on city property in Boston. Aside from the fee to form a limited liability company (LLC), his main startup cost was the 12-year-old hot dog truck he bought for $45,000.

"I spent every last dime just on the truck itself," DiSabatino says of the mobile kitchen he initially used to cook and sell the gourmet sandwiches and sides that put his business on the map. He had no publicist, slick website, or grand-opening event. Just the artisanal ingredients he purchased daily to make enough "next level" grilled cheese sandwiches to stay in business another day.

For the first three months, DiSabatino worked 20 hours a day, five days a week, tending bar on his two days off for fast cash. At the time, he had one employee, a pal he paid $10 an hour to help run the truck, plus half a dozen friends and family members who pitched in during lunch crunches, often without pay.

To trim personal expenses, DiSabatino lived in his car for a month, then with his parents for another eight. "I slept in the back seat," he says. "I still keep a pillow there to remind myself what I used to do for my company."

That frugality paid off. Within three years, Roxy's Grilled Cheese had two food trucks, 30 employees, a catering arm, and a sit-down fast-casual restaurant serving its signature sandwiches, beer, and wine. The company was also featured on Food Network's *The Great Food Truck Race* in 2011.

DiSabatino has added a vegetarian fast-casual restaurant to his resume as well, opening Whole Heart Provisions in 2015.

Of course, you don't have to live in a van down by the river to achieve startup liftoff, but you do have to carefully ration every dollar you spend (or charge). That said, some early-stage outlay to protect, promote, and grow a sustainable company is well worth the splurge. Consider these your bootstrapping non-negotiables. Without them, you may not have a business to run for very long.

Respect Law and (Financial) Order

Springing for the necessary legal and financial services to sufficiently protect your company is a must, whether you need help with contracts, patents, trademarks, articles of incorporation, taxes, bookkeeping, or financial reports. How much you pay for those services—and to whom—is up for debate.

DiSabatino went straight to the source to form an LLC, paying the state of Massachusetts $500 online. At the time, he didn't see the need to retain an attorney. He says it wasn't until Roxy's "started to grow and needed to have the infrastructure" that he hired one.

Melani Gordon, CEO of TapHunter, which provides web and mobile tools for the bar and beverage industry, has a different take. "Cheapness isn't always the best," the San Diego serial entrepreneur says. In 2012, when a mentor connected Gordon and her cofounder with a law firm willing to work pro bono, "we thought we were getting the deal of the century," she says. Instead, the entrepreneurs found themselves shuffled between legal interns, whose work was riddled with mistakes.

Frustrated, Gordon hired a more responsive law firm experienced with tech startups. Sure, it was hard to shell out hundreds of bucks per hour, but "setting up your legal entity and your business properly is one of the most important steps," she says.

Gordon had to learn the same lesson when it came to managing her books. Initially, she tried using the bookkeeper from her previous company, a small marketing agency she ran for nearly a decade. But that didn't go smoothly, so she upgraded to a CPA who had worked with tech startups.

"You need to find a service provider who has worked with your type of business before," Gordon says. A bookkeeper who has experience only with construction companies, for example, may not be the best fit for a retail shop or a tech venture.

People Pay for Quality and So Should You

There's a fine line between saving on materials and selling customers short. Getting the best possible deal on the highest caliber of materials to deliver a winning product is key, says Scott Gerber, founder of Young Entrepreneur Council (YEC), an invitation-only organization that comprises more than 1,500 U.S. entrepreneurs ages 40 and younger. "If the initial product ends up being terrible—even if your future product is going to be better—it's going to put a bad taste in people's mouths," says Gerber, author of *Never Get a "Real" Job: How to Dump Your Boss, Build a Business, and Not Go Broke*.

Compromising on quality was never an option for DiSabatino. From day one, he went out of his way to serve high-quality cheeses, meats, breads, and condiments sourced fresh from local vendors. "We wanted to surprise people with how good our food was," he says. "We weren't going to be able to do that by skimping on ingredients."

Restaurants aren't the only startups with high standards, though. Consider Buzzy, a pain-blocking device for children afraid of shots developed by Amy Baxter, a pediatric emergency doctor and founder of MMJ Labs. "All we scrimp on is cheaper paper for our instructions," says Baxter, who began selling the product in 2009. For example, she says, Buzzy's internal mechanics are "obnoxiously expensive," twice as much as any other she tested when prototyping the product. "But none of the other motors I've tried actually relieve pain."

On the flip side, expensive does not always mean better. Baxter laments a decision to replace the low-cost tourniquets she used to include with her product with $40,000 worth of high-end silicone straps. It turned out that medical professionals preferred the disposable tourniquets they already had at their own facilities (which are five times cheaper), and customers using Buzzy at home preferred the Velcro straps shipped with earlier versions of the product (1.75 times cheaper). "I should have market-tested first," she says. Ultimately, Baxter found what worked, and Buzzy has gone mainstream, now used by more than a quarter million patients, in more than 5,000 hospitals and clinics, with more than 75,000 units sold.

Know Where Your Customers Are

How you spend your early marketing dollars to generate leads will vary depending on what you're selling and to whom. Gerber recommends that when selling directly to consumers, focus on marketing tactics that attract the largest swath. "You need to get to the lowest-hanging fruit as quickly as possible," he says.

This might mean taking preorders via a crowdfunding platform or from your own website. It might mean buying web banner ads or signing up for Google AdWords. It might mean exhibiting your product or service at a local trade show. For Sean Moore, founder of SMART College Funding, a financial-planning company in Boca Raton, Florida, that helps high-net-worth families reduce college costs, it meant spending $5,000 on printed brochures that potential clients could take home.

Having "something physical" to hand out at school and parent group presentations is important to Moore, a certified financial planner who started SMART College in 2011. "If I tell them to look on my website, I'm putting the onus on them," Moore says. "It's not their responsibility to find out who I am." Instead, he prefers to hand out information that people can ponder at their leisure and easily share with family members.

If you're selling to businesses rather than to individuals, your top marketing priority should be meeting with potential customers face to face, Gerber says. "You're not trying to build a massive funnel; you're trying to get into a room and shake someone's hand," he explains. Any early-stage marketing costs that don't produce this outcome aren't worth it.

For Baxter, spending thousands of dollars on a ticket to TEDMED, an annual conference for health and medicine innovations that she's been attending since 2012, yields some of the highest ROI. There, she gets to connect with dozens of heavy hitters in the health-care industry, such as international laboratory network Quest Diagnostics, which stocks all 2,000-plus of its U.S. clinics with Baxter's pain-management products.

Build a Solid Tech Foundation

It's tough to run a startup today without a web and mobile presence. Fortunately, the internet is brimming with accessible, affordable digital tools that can get you up and running in a matter of hours.

"Figure out what's available to get you into the game at an inexpensive level," Gerber says. "If there's something that can build you a website for $9.95 a month so you can get started, use it. You don't need designers or web engineers until you have a viable proof of concept."

>> Money Pits: Rein in Expenses in These Areas

Here are some ideas for areas where you can potentially save money:

- *Office space*. Unless you're running a storefront, you have no business leasing an office, says Gerber. Stick to basements, garages, kitchen tables, and cafes early on. If you need to meet a client, rent an hourly meeting space or conference room.
- *Marketing*. If you don't need a $5,000 logo or a $10,000 website to attract and retain your first few clients, hold off. There will be plenty of time to level up branding and marketing efforts as you grow.
- *Employees*. A series of independent contractors might suffice, Gerber says. The trick is weighing when you can financially support a full-time salaried employee—and when your continued growth (and sanity) depend on it.
- *Business consultants*. It's your job to learn what does and doesn't work, often by trial and error. "When you're first starting up, most times hiring a third-party consultant to educate you or tell you what you should be doing is not a worthwhile cost," Gerber says. "If they are not getting you in front of people, if they are not selling for you, they are not helping you."
- *Paid advisors*. "Don't confuse mentorship with partnership," Gerber explains. "Real advisors—people who are truly giving back—should not require equity or compensation at any time."

That's what teen entrepreneur Sam Gold did in 2012 when he launched Yumvelope, a monthly snack-box subscription service that he ran until he left for college in 2015. Sales for Yumvelope more than doubled in the three years Gold ran it prior to shuttering the site. Now in college, he runs a subscription box industry consulting business.

To keep costs down while growing his customer base, the Libertyville, Illinois, entrepreneur spent eight months selling his care packages for foodies through Memberly, an online platform for subscription businesses that charged 5 percent of his sales.

"When you're just starting a business, to go with one of those plug-and-play tools is great," Gold says. "I didn't need all the bells and whistles of a custom website when I had no customers."

Three months into the venture, Gold had enough subscribers to warrant hiring a web designer. As an added bonus, he says, "I was able to go to that firm with a really clear idea of the functionality and design I wanted."

Budget was still a concern, though. Gold first tried to find a designer through the freelance marketplaces Elance and oDesk (now Upwork). Unfortunately, the quality of work wasn't up to snuff.

"Although I was paying rock-bottom rates, I wasn't getting any results," Gold says. That's when he bit the bullet and hired a web design firm referred by another subscription retail business. At several thousand dollars, creating the site "wasn't cheap," Gold says. "But I ended up with a tool that helped me convert customers quickly and efficiently."

The Beauty of Bartering

Bartering as an economic activity may date back into prehistory, but even today it's a thrifty way to snag the products and services your young business needs. However, sometimes it sounds easier in theory than it is in practice.

Take It from the Barter Kings

When money's tight, how can you grow your business? Trade for the items you need, say trading professionals and the hosts of A&E's 2012–2014 original trading show *Barter Kings*. Traders Steve McHugh and Antonio Palazzola have their own approach to trading up to get what they want—on the premiere episode, the pair worked their way up in a series of six trades from a framed gold Elvis record to a powerboat.

While we might not all have the skill to trade up for more valuable items, barter is definitely a useful tool for business owners looking to stretch their budget. Freelance writers often trade writing for website design work and marketing consultations, for instance. In this tough economy, barter has boomed, and online barter exchanges that help you find items to barter for are mushrooming.

How can entrepreneurs barter for what they want without spending a dime, even if they don't have an item of equal value to trade? Here are seven tips from McHugh and Palazzola:

1. *Don't bring cash*. Palazzola has a strict policy of leaving his wallet at home when he goes to a trade. That way, when a trader wants to "even out" a trade by having you add in a few hundred dollars in cash, you can simply say you have no cash available. It's a straight trade or nothing.
2. *Look for the soft spot*. The pair chat up traders to find out why they're selling. For instance, one trader needed to get rid of his son's dirt bike because the boy had broken his leg, and his wife was mad. Another had made a vow to his wife not to ride motorcycles as long as they had kids at home, so the bike had to go. When you know the trader has to ditch their item, you're in a stronger position to negotiate and trade them a slightly less valuable item.
3. *Be stoic*. Never let a trader see you're crazy hot to get an item. Stay impassive and act like you don't care to make the best deal.
4. *Leave some mystery*. When you're listing an item to trade, don't advertise all the details. Post a good photo and leave it with a basic description so the prospect has to call you to find out more.
5. *Craigslist rules*. Both hosts recommend the popular site as the top place to scan for trades. Not everyone posting on there will be savvy about how much their item is really worth, giving you an opening to potentially trade an item.

6. *Know your item's value*. You can't come out on top in a deal if you're not sure what both the item you're trading and the one you're getting are really worth. Often, traders will price items with sentimental value in mind or still have the original retail price in their heads, both of which are irrelevant to the resale market. Bring an experienced trader with you, or have a smartphone handy for checking eBay to establish what this item is selling for today, in its current condition.
7. *Watch out for scams*. There are plenty of shady traders out there, Palazzola says. If you smell something fishy, run the other way.

A Fish Story

What if the product you bring to the table is wild Alaska salmon, halibut, and lingcod? How do you find a web designer who's willing to take payment in fish?

This was the issue faced by Mack Chaffin, co-owner with his wife, Diane, of The Elfish Company, a fish distributor. Although he did a decent business selling fish through his website, at farmers markets, and to a handful of restaurants and grocery stores, Chaffin wanted to expand. (Chaffin has since moved on to other ventures, but his experience with bartering and Elfish remains instructive to this day.)

But marketing requires capital that the Dewey, Arizona–based businessman didn't have. So at the end of 2011, when he discovered The Barter Group, a trade exchange of 450 small businesses in Greater Phoenix, he leapt at the chance to join. *Entrepreneur* cast a line to Chaffin to find out more, and the following is an excerpt from that interview.

Entrepreneur: ***Why join a bartering organization?***

Chaffin: Until now, the farmers market in Phoenix has been my primary source of revenue. I've been looking for ways to expand, to get the word out that we're here. But we don't have the kind of capital needed for advertising. Most of our capital has been used to purchase the freezers where we store our fish and other items to get the business established.

With the current economy, we can't exactly go to a bank for a loan. They're looking for somebody who's been in business a whole lot longer and has collateral. So when I learned about The Barter Group, it was perfect. You don't have to make a huge capital outlay every time you need services. You just swap something.

Entrepreneur: ***How does the group work?***

Chaffin: When an individual wants to purchase some fish from us, what I get in return are "barter dollars," which are kept in my Barter Group "bank account." And then when I need to purchase a product or service, that credit will be there for me to use. It's much easier to do this than having to purchase the fish and still come up with other capital to pay a marketing company for their services.

Entrepreneur: ***What are the fees involved?***

Chaffin: The Barter Group charges 6 percent cash on each transaction as well as a monthly maintenance fee of $10 in cash and $10 in trade. We were lucky enough to get a free membership last year due to a promotion going on when we joined.

Entrepreneur: ***What services do you plan to barter for?***

Chaffin: Next year, we plan to spend $10,000 to $12,000 in barter dollars. We're hoping to do web design, branding, printing, promotional items like T-shirts and hats, print and radio advertising, and strategic marketing, and to expand our social media reach.

It's almost tripling what our marketing budget was before. All you're spending is inventory. If we were to spend $12,000 on marketing, we'd be taking that in cash out of our pocket.

Entrepreneur: ***Why not just barter with other businesses on your own?***

Chaffin: Going through The Barter Group is much easier than calling somebody out of the phone book and saying, "I need you to do this, and by the way, would you like to take some salmon as partial payment?" You don't know whether that would insult them, or they don't like fish, or they just don't want to barter.

Be Aware of Labor and Tax Rules

When Rebeca Mojica, owner and "creative guru" of Chicago jewelry company Blue Buddha Boutique, announced on Facebook that her shop

>> Smart Swapping

To find a bartering organization, begin with the websites of the National Association of Trade Exchanges (NATE; www.natebarter.com) and the International Reciprocal Trade Association (IRTA; www.irta.com)—both hold their members to strict ethical standards. Then try these tips from NATE board of directors member and past president Gary Oshry:

- *Assess the members*. Are the goods and services you need well-represented? Are the businesses established, reputable, and located somewhere that's convenient for you?
- *Check references*. What do current members of the barter organization have to say? How about their local chamber of commerce or Better Business Bureau? Look online to see if there have been complaints.
- *Crunch the numbers*. Most bartering groups charge a one-time membership fee of up to $500 and a small monthly fee; some also charge an annual renewal fee. Many take a 10 to 15 percent commission on transactions.

was moving in 2011, customers responded, "How can we help?" and "I love to pack boxes!" That enthusiasm led her to "hire" three customers to help staff a booth at a craft show. The customers could opt to receive an hourly wage or be paid the equivalent of time-and-a-half in jewelry and supplies. All of them went for the latter, saving her $800—the difference between what it would cost her to hire them at an hourly wage and the cost of materials to make the jewelry.

"It's not a huge number, but for a four-day show, with a total booth staff of six, it makes a difference to my small-business bottom line," says Mojica, who at the time, planned to staff her shows and social media outreach efforts using volunteers, hoping to result in a savings of $250 to $300 per month. Since then, Blue Buddha has gone full-Etsy, with Mojica ultimately closing her shop and focusing all of her efforts on an Etsy venture.

While it's not unusual for small businesses to have friends or even enthusiastic customers who do what they can to see the business succeed, it's important to ensure that you don't inadvertently fall out of compliance with labor laws, says labor and employment attorney Truth Fisher of Advisors Law Group in Miami. In general, under the Fair Labor Standards Act (FLSA), individuals cannot volunteer services to for-profit, private-sector companies unless the activity benefits the employee, such as in the case of an unpaid internship. However, even such internships must pass strict Department of Labor criteria, Fisher says.

According to the U.S. Department of Labor, a company with annual revenue of less than $500,000 is exempt from FLSA requirements. In addition, unless the product is related to providing room and board, it is not a wage and is not subject to federal payroll taxes. States may differ in their interpretations, however. Fisher says the value of the product used as compensation should be at least the number of hours worked times minimum wage. Also, the employer may be liable for any injuries that the individual sustains while working.

"We advise all of our clients doing this," she says, "to have these employees covered by workers' compensation insurance."

Bootstrapping for the Long Haul: Making It Your Philosophy

Anyone who's started a business on a shoestring is adept at bootstrapping, or stretching resources—both financial and otherwise—as far as they can. Bootstrapping doesn't have to stop the second you get your first financing help. It's one of the most effective and inexpensive ways to ensure a business's positive cash flow. Bootstrapping means less money has to be borrowed and interest costs are reduced.

Trade Credit

Trade credit is one way to maximize your financial resources for the short term. Normally, suppliers extend credit to regular customers for 30, 60, or 90 days, without charging interest. However, when you first start your business, suppliers will want every order COD (cash or check on delivery) until you've established that you can pay your bills on time. While this is a fairly normal practice, in order to raise money during startup, you're going to have to try to negotiate a trade credit basis with suppliers. One of the things that will help you in these negotiations is having a written financial plan.

But using trade credit on a continual basis is not a long-term solution. Your business may become heavily committed to those suppliers who accept extended credit terms. As a result, you may no longer have ready access to other, more competitive suppliers who might offer lower prices, a superior product, and/or more reliable deliveries.

Depending on the terms available from your suppliers, the cost of trade credit can be quite high. For example, say you make a purchase from a supplier who decides to extend credit to you. The terms are a 2 percent cash discount within 10 days and a net date of 30 days. Essentially, the supplier is saying that if you pay within 10 days, the purchase price will be discounted by 2 percent. On the other hand, by forfeiting the 2 percent discount, you're able to use your money for 20 more days.

Factoring

Factoring is another way to stretch your money. It involves selling your receivables to a buyer, such as a commercial finance company, to raise capital and is very common in industries such as the clothing industry, where long receivables are part of the business cycle. Factors usually buy accounts receivable at a rate that ranges between 75 and 90 percent of face value, and then add a discount rate of between 2 and 6 percent. The factor assumes the risk, and the task, of collecting the receivables. If your prices are set up to take factoring into account, you can still make a profit.

Other Credit

Customers can also help you obtain financing by writing you a letter of credit. For example, suppose you're starting a business manufacturing industrial bags, and a large corporation has placed an order for a steady supply of cloth bags. The major supplier that you'll source the material through is located in India. In this scenario, you obtain a letter of credit from your customer when the order is placed, and the material for the bags is purchased using this letter of credit as security.

If your business needs to buy its facility, your initial costs may be high, but the building's cost can be financed over a long-term period of 15 to 30 years. The loan on the facility can be structured to make optimum use of your planned growth or seasonal peaks. For instance, you can arrange a graduated payment mortgage that initially has very small monthly payments, with the cost increasing over the lifetime of the loan. The lower initial monthly payments give your business time to grow. Eventually, you can refinance the loan when time and interest rates permit.

Another advantage is that real estate appreciates over time and creates a valuable asset called equity. You can borrow against this equity—lenders often loan up to 75 or 80 percent of a property's appraised value. This also applies to any personal real estate you own. Home equity loans are a popular financing device for new business owners because there's often substantial equity tied up in a home, and the loans are easy to come by.

If you spend a lot of money on equipment, you may find yourself without enough working capital to keep your business going in its first months. Instead of paying cash for your equipment, the manufacturer can effectively loan you the money by selling you the equipment on an installment basis. This helps conserve your working capital while allowing you to use the equipment in the meantime.

Two types of credit contracts are commonly used to finance equipment purchases:

1. *The conditional sales contract*. The purchaser doesn't receive title to the equipment until it's fully paid for.
2. *The chattel-mortgage contract*. The equipment becomes the property of the purchaser on delivery, but the seller holds a mortgage claim against it until the amount specified in the contract is paid.

Leasing

Leasing is another way to avoid financing the outright purchase of high-ticket items like equipment, vehicles, furniture, and computers. With leasing, you pay for only that portion you use, rather than for the entire purchase price. When you're just starting out in business, it might make sense to shop around and get the best leasing arrangement possible. For example, you could lease a photocopier for several hundred dollars a month rather than financing the entire $3,000 purchase price, or you could lease your automobile or van instead of shelling out $25,000 or more for the full purchase price of the car.

There are many ways a lease can be modified to increase your cash position:

- A down payment lower than 10 percent, or no down payment at all.
- Maintenance costs that are built into the lease package, thereby reducing your cash outlays. If you needed to pay employees or a repairperson to do maintenance on purchased equipment, it could wind up costing you more than if you had leased it.
- Extending the lease term to cover the entire life of the property (or use of the property for as long as you wish).
- A purchase option that allows you to buy the property after the lease period has ended. A fixed purchase price can also be added to the option provision.
- Lease payments that can be structured to accommodate seasonal variations in the business or tied to indexes that track interest to create an adjustable lease.

Bootstrap financing really begins and ends with your attention to careful management of your financial resources. Be aware of what you spend and keep your overhead low. If you need to go the top-dollar route, make sure you can justify the expense. Don't choose an overly expensive office or location unless it's really going to pay off in increased sales. Take a look at secondhand furniture—if it works for your office, buy it. Barter for goods and services when appropriate. Buy on promotion to take advantage of better prices offered for a limited time.

Keep a close watch on operating expenses. If interest rates are high, it won't take too many unpaid bills to wipe out your profits. At a 12 percent interest rate, carrying an unpaid $10,000 in bills will cost you $120 per month. Tight margins mean it's costlier to accumulate bills than increase production.