Tool #9

Getting Resources When You Have No Money: Bootstrapping and Resource Leveraging

Getting Resources When You Have No Money

Those in poverty frequently have severe resource shortages and very limited access to formal or informal sources of investment. This is why an entrepreneurial mindset is so critical for success. Specifically, the entrepreneur must focus on developing his or her capabilities in three key areas:

- The ability to see things as resources where others do not see them as such;
- The ability to stretch resources and apply them in new and different ways;
- The ability to utilize the resources of others without paying for them, or paying much less than they are worth.

More specifically, two general (and overlapping) approaches are adopted by the entrepreneur. We label these *bootstrapping* and *resource leveraging.*

a) The Bootstrapping Concept

Bootstrapping refers to using the resources the entrepreneur has at hand to accomplish outcomes. The entrepreneur is starting a venture with very little money, and pulls himself or herself up by the bootstraps. It is a proactive attempt to make the most of things under the entrepreneur's control. Absent any outside funding, the individual instead uses his/her own resources (including credit cards), does as many tasks himself or herself (e.g., figures out how to create their own website or keep their own books), and stretches resources to the limit.

Below are a number of examples of bootstrapping techniques. The low income entrepreneur is bootstrapping when paying bills as late as possible while collecting from customers as early as possible, using unpaid interns, selling on consignment, using supplier credit, and accelerating receivables.

Sample Bootstrapping Approaches

- Use of owner's credit cards
- Loan from relatives/friends
- Withholding salary for self
- Assignments in other businesses
- Relatives working for non-market salary
- Cease business relations with late payers
- Use routines for speeding up invoicing
- Use interest on overdue payments
- Offer same conditions to all customers
- Borrow equipment from colleagues
- Own equipment in common with others
- Co-ordinate purchases with other firms
- Create own website, do own bookkeeping, etc.
- Practice barter instead of buying/ selling
- Lease equipment instead of buying
- Delay payment to suppliers
- Delay payment of tax
- Use routines in order to minimize inventory or stock
- Negotiate best conditions possible with suppliers
- Obtain subsidy from local or state government or agency
- Offer customers discounts if paying cash
- Raise money by selling physical assets or accounts receivable
- Choose customers who pay quickly
- Use free resources from the internet
- Share premises with others
- Use a cash box instead of a cash register

A core aspect in many bootstrapping approaches is the concept of resource leveraging. More than just stretching resources, it extends bootstrapping in an attempt to tap a wide variety of resources that can often seem well beyond the entrepreneur's control.

b) The Leveraging Concept

It is normal to assume that if one wants to do something innovative like start a business, it will cost money, and that if one needs a resource, I have to find the money to buy it. Yet, this is a misguided notion, especially for the low income entrepreneur. Purchasing or owning the resource should more typically be is the *last* option considered, not the first.

How does one gain access to a resource without purchasing it? It becomes necessary to rely upon the diverse mix of things that are at hand or readily available. The low income entrepreneur focuses on the concept of resource leveraging---and is core to every resource decision that he or she makes. To leverage is multiply the outcome of one's efforts without a corresponding increase in the consumption of resources. Consider a man trying to move a large boulder who finds he simply does not have the strength to move it. But by placing with a length of pipe or timber (a lever) under the boulder, he is able to move it. So the low-income entrepreneur must look for levers.

When launching and growing a venture, leveraging can involve:

- Using someone else's resources;
- Doing more with fewer resources;
- Mobilizing a resource that others do not typically recognize as a resource;
- Utilizing resources in ways they have not traditionally been used;
- Playing resources off of one another to accomplish results;
- Combining resources in novel ways to accomplish an outcome.

In practice, leveraging can take a number of forms. The table below elaborates on thirteen specific types of leveraging approaches. Entrepreneurs can borrow, share, or rent the resource. They can outsource, partner or collaborate with a competitor to get the resource. They can play resources off of one another or capitalize on their personal status.

Thirteen Examples of Leveraging Strategies

- **Borrow the resource from someone:** Using a resource owned by someone else on a temporary basis, particularly when they are not using it, such as a vehicle, tool or employee;

- **Barter:** Provide a service or product or give some other asset in exchange for the resource;

- **Share:** Utilize excess capacity, unused space or some other underutilized resource owned by someone else, such as an empty office, a machine when the business is closed, or a prominent area where messages might be posted;

- **Contract:** Sign a contract to use the resource for a fixed term rather than be committed to it indefinitely, such as a temporary employment contract;
- **Lease or rent:** rather than purchase the resource, attempt to lease or rent it for a defined period of time;
- **Outsource:** instead of doing a task or function yourself, and having to purchase the necessary equipment, tools and supplies to do so, rely on an outside firm to provide the function or service, thereby lessening your fixed investment;
- **License:** Use someone else's property (often intellectual property) by paying a licensing fee tied to activity or usage, such as where you are charged per unit fees for the amount of the item that you make, use or sell;
- **Partner:** Form a business partnership with the resource provider in order to use a resource they control;
- **Consignment:** Rather than purchase the inventory, sell things owned by others on consignment, where you pay them only when an item is sold;
- **Give equity:** Give the resource provider partial ownership in the company in exchange for the resource;
- **Ham and egg:** Use one resource to obtain another, such as where you use the fact that you are doing business with a certain customer in order to get business from another customer, or you are thinking about hiring a particular person because hiring that person might make your business more attractive to someone else you are trying to hire;
- **Collaborate with other businesses:** Rather than simply compete, look for areas where you can collaborate with other firms, such as joint purchasing arrangements to achieve volume discounts;
- **Exploit personal status:** Take advantage of your status as a minority, women, veteran, disabled person, or based on some other personal characteristic in order to win a contract, get a loan, or obtain some other resource;

Consider two examples of resource leveraging, the first involving social entrepreneurship. A community soup kitchen, in attempting to feed the poor and homeless, leverages relationships with local three- and four-star restaurants to acquire their excess food at the end of each evening, while also enhancing cash flow by leveraging the basic soup kitchen facilities to start a catering business featuring ex-convicts as the wait staff. Going further, an innovative program is developed with local public schools, bartering for use of the school kitchens during the hours they are not used in exchange for teaching culinary skills to students, and in the process producing more meals for disadvantaged members of the community. A second example can be found by considering a young man whose dream is to bring enhanced computer literacy to the inner city. He starts a business that involves computer classes, a low-cost internet café, and rebuilt computers sold for low prices. He initially offers the classes in local churches, and is able to get free announcements in the church bulletins. He visits a new radio station that is serving this community and barters for a fifteen-minute radio show on technology topics in exchange for some computers and computer training for the radio station staff. He makes a similar offer to a woman who owns a house on a prominent traffic intersection in exchange for advertising his business on the side of her house. Instead of using an employment agency or help wanted ads, he hires as employees the best students taking his courses.

When attempting to leverage resources, there are three questions the low income entrepreneur continually attempts to address:

1. What internal resources do I have that I am not fully utilizing?
   (e.g., extent to which I am making full use of my website, packaging, vehicles, sales and service people, or any other assets under our control);

2. How well am I leveraging relationships with people or companies in my network?
   (e.g., extent to which I am capitalizing on relationships with suppliers, vendors, producers of related products or services, financiers, distributors, and customers);

3. What untapped or underutilized resources exist in the community or marketplace?
   (e.g., extent to which I have attempted to utilize churches that are not used for many hours of the day, kids who are opinion leaders, houses on prominent corners, walls in restrooms, table tops, car bumpers, abandoned buildings, school kitchens during summer, stay at home moms or dads).

No matter a person's status in life or how limited their financial capital, and regardless of the kind of business they are trying to start, resources are abundant. Realizing this requires that the person does not assume resources have to be purchased or owned. To leverage is to empower the individual by creatively finding ways of accessing what they do not own. In fact, because of technological advances that have seeped into every walk of life, we exist in a time where much more can be accessed by entrepreneurs for much less.