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**About Self Capitalization—
What is Bootstrap Capital and Why do Entrepreneurs Really Need it?**

Is lack of access to capital really the main barrier to entry for most entrepreneurs? I believe that the stated lack of access to capital by many would-be entrepreneurs is more of an excuse than anything else. Here is my (absolutely unscientific) bar chart of what I think are the main sources of capital for startups. (I leave it to a future grad student to prove it or disprove it.)

Home Equity Loans *****
Soft Capital # *****
Supplier Credit *****
Consulting *****
Pre-sales/Launch Clients *****
Credit Cards *****
Deposits, Retainers ## *****
Receivables Factoring *****
Financial Leasing *****
Partners/Debentures *****
Trading/Speculating/Reselling *****
Strategic Investors/Partners### *****
Banks *****
VCs *****
Government Grants/Tax Credits *****
Angel Capital ****
Franchising ***
Accretive Buying/Selling **
ESOPS#### **
Sponsorships **
Patents and Royalties **
Collectibles Sales *
Business Competitions *

Mom, Dad, Rich Uncle Buck, co-guarantors

Plus Progress Payments and Draws

Investment by competitors (a form of 'cooptation'), near competitors (another form of 'cooptation'), future clients and future suppliers

Employee Stock Ownership Plans

This is just my experience talking—who knows I may be wrong but most entrepreneurs are, by definition, people without money. Again, in my experience, people with money are not entrepreneurs, they are called ‘old money’ and old money anywhere, tends not to do very much—it sits around collecting coupons not starting high-risk new enterprises.

I always laugh when my students in entrepreneurship at the Telfer School of Management at the University of Ottawa go to a bank for the first time and ask for a loan to start a business—Canadian banks only want to lend to people with collateral; i.e., people who already have money. It took 2006 Nobel Peace Prize winner Muhammad Yunus of the Grameen Bank to realize that a bank’s real job is to lend money to people who *need* it—a completely novel thought, it turns out.

Dr. Yunus also realized that the way out of poverty for the vast majority of people on this planet is to become (at least at first) micro entrepreneurs. In fact, Grameen Bank lends on a priority basis to people who have the greatest need and the least money! And you know what? Their loan loss ratio is tiny and they make a profit too.

If Canadian Banks had their way, they would probably do zero small business lending. It takes very few bank resources to approve a home mortgage, give out a credit card or make an auto loan. Banks think nothing of approving a \$350,000 home mortgage—if your credit score (your Beacon Score) is high enough—in minutes. But go to the bank for a small business loan of \$350,000 and you will find that: a) they need a massive amount of data from you and b) they need an expensive infrastructure in terms of on-the-ground bank managers, loan officers and back office types to approve your loan application. I believe if it weren’t for the fact that successive Finance Ministers lean on the Chartered Banks in Canada, they would choose to turn down every small business loan request.

Other students will tell me that they want VC funding. I believe that most startups have about as much chance of attracting VC funding as they have of winning the annual Ottawa Hospital Lottery and probably less. First of all, most business startups don’t have the growth prospects to attract VC funding. Secondly, most startups are in industry sectors that don’t appeal to VC funds anyway. Thirdly, most startups should be much further along in their development before they go after VC funding, if they ever do. If your business has real cashflow and real customers and clients, you are on a much more even footing with respect to negotiating a fair agreement with VCs, if that is what you choose to do. Finally, it is much more efficient for Canada if VCs fund more mature companies that are at a stage where large capital injections are: a) less risky, b) more inclined to be put to wise use by (now) experienced entrepreneurs.

So if you plan to start a business and you don’t want to give up control and a ton of equity to VCs and Vulture funds, learn everything you can about self capitalization—you are going to need it.

Dr. Bruce