Start-Up Part III

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[MUSIC PLAYING] [Inc. Magazine BUSINESS ADVISOR Series Start-Up Part 3] [Bootstrapping To Keep Costs Low-- Keeping Costs Low, Securing A Business Loan, Building A Bootstrapping Culture]

PETER FINDLEY: When you're a new company that has no track record, nobody knows who you are, how do you go tell the world who you are? And how do you do it with no money? [Peter Findley, Founder, Chairman and CEO, Giant Campus Seattle] So we went to a local printing and reproduction shop, a place that prints brochures and does a lot of printing work. And we said, hey, you guys are trying to grow your business, you're trying to make your name known to the community,

PETER FINDLEY [continued]: what if we partnered together? [Partner with like minded companies to share expenses] And if we co-branded marketing collateral, if we co-branded mailers and direct marketing pieces, if you would help us with the cost of that, could we, in turn, give you promotion for the work we're going out and doing? So we went to schools, we went to community centers, we went to shopping malls, and we put brochures and flyers out.

PETER FINDLEY [continued]: And on the flyer was both our logo and their logo, and talking about both of our services. That was a perfect example of how we were able to get in kind donations. We actually didn't have to pay much, if anything, for that marketing. It was very effective, and it worked very well. And without it, we would not have been successful.

ANDREW KRUSE: In the early days it was, you know, we had-- largely, as I said-- we had just credit cards, some savings. [Andrew Kruse, Co Founder, Southwest Windpower, Flagstaff, AZ] And we took that, and started investing it into the business. [Use credit cards and savings to fund your business.] One of the most important things, and any small business does this, is you keep your overhead low. [Keep overhead low and reinvest profits back into the business.] David and I, we lived in the same house. The office was in our house, so all the business

ANDREW KRUSE [continued]: was done there. We didn't have a separate office. The manufacturing operation was a garage. And actually, as a matter of fact, it was a garage that was off the grid. And what I mean by that is we did not have regular access to electricity. We actually made our wind generators that produced charged batteries that actually ran the machines that would build more wind turbines.

ANDREW KRUSE [continued]: So the business was just pay way attention to the overhead, keep everything as cheap as possible. And then we started looking at other groups. You know, government agencies, initially at the state level, that would actually help us with employees. [Reach out to state agencies that may help staff your business.] You know, in doing training programs, and they would help us even pay for some of their wages,

ANDREW KRUSE [continued]: and that would allow us to afford people that would help us build the products.

ROBERT RICHMAN: So any time that we're considering anything that's especially project related or business related, we think to ourselves, how can we get the same results or more, but spending less money to do it. Spending less resources. Spending less time. [Robert Richman, Product Manager, Zappos, Las Vegas] We always like to think about how can we get the same result or better using less money. [Foster a culture of doing more with less.] And so it can be

ROBERT RICHMAN [continued]: anything, in terms of choosing a vendor, or how we do an off-site event, and just getting into this psychology of doing more with less. Our value, do more with less, does work for our CLT, Customer Loyalty Team, here as well. We don't want to do just anything to make the customer happy, such as, you know, give them a lot of free stuff.

ROBERT RICHMAN [continued]: We want to think, OK, how can we make them happy, but not necessarily spend a lot of money? So what we do is develop what we call the PEC, or Personal Emotional Connection. [Encourage employees to find creative, low cost ways to appease unhappy customers.] How can we really develop an emotional connection, a friendship, with our customers? And that's really the value that we create. So rather than, oh, your order was screwed up, let me give you this thing for free,

ROBERT RICHMAN [continued]: we've really developed a relationship with our customers, where they can know that, if anything goes wrong, we're there to fix it, that we really care about our customers.

DAVID PERLA: When we started the company, the degree to which we saved money was really remarkable. [David Perla, Co Founder and Co CEO, Pangea3, New York City and Mumbai] So everything from the computers my partner and I used, or the computers that were given to us-- when we left our jobs, both of us were allowed to keep our computers, and to keep our smartphones-- we used those for Pangea3 at least through the first year

DAVID PERLA [continued]: of the business. [Utilize your personal technological devices when starting.] So technology is an area where you can save a lot of money. We brought in our own phones into the company, rather than go out and buy phones. The first year of our existence, our New York office was donated to us by the law firm that I worked for in the early

DAVID PERLA [continued]: '90s. [Take advantage of all previous business relationships.] I called them up and I asked them would they help incubate our company, as kind of a friend of mine. And they gave us three offices, and a few cubes, and they let us use their paper, and their copiers. So right down to real estate and our offices. We sublet all our space in India,

DAVID PERLA [continued]: so when we went out to seek our people in India, rather than sign leases, we signed subleases, which gave us a lot of flexibility. [Sublet office space to maintain flexibility.] The idea was not to take on commitments for a long time. [Don't take on too much too soon.] All the computers that we used in India, when we started growing, were rented. [Rent equipment to save on short-term cash.] Now, today we buy all ours, because over time it's much cheaper

DAVID PERLA [continued]: to own them than it is to rent them. But at the time, we were preserving cash. So we were able to rent used computers for a very low monthly number. Our network started out as a very small network. We really did it ourselves. Right down to things that today we wouldn't necessarily do.

DAVID PERLA [continued]: So when we went to meetings in Manhattan, when we first started the company, you could often find my partner or I, or both of us, taking the bus or the subway to meetings. [Use mass transit when possible to save on travel expenses, but spend the extra money when your time is limited.] We still take the subway. But oftentimes, we will say to our people, your time is more valuable than sitting on a bus in Manhattan in traffic. Take a taxi. [Balance your time with your budget.] Find

DAVID PERLA [continued]: the fast-- speed is much more important than saving the $10 cab ride. That's a difference. Today we're growing, so that we're trying to move as fast as possible, as opposed to spend the least dollar possible. In 2004, 2005, we were holding on to every dollar as if it was our last dollar.

DAVID PERLA [continued]: Deciding when to conserve money and when to spend it in a growth business is the hardest decision. It's hard even today. When you're bootstrapping, the key is to prioritize every spend, and every decision. [Prioritize your decisions between spending money and saving time.] So we would take the bus to meetings, because the cash was very valuable to us.

DAVID PERLA [continued]: And we had a lot of time between meetings when we were a very young company. However, when we were trying to close our first round of capital, and we needed to fly out to see that investor, we didn't hesitate to spend the money, which was very expensive airfare, because we knew the only way to raise money was face to face.

DAVID PERLA [continued]: How do you balance it? Now, we flew indirect. We didn't take a direct flight, because the direct flight was five times as much as the indirect. Today, everyone flies direct, because our time is too valuable to get stuck in Cleveland, or get stuck in Chicago, going somewhere. At the time, we knew we were going to spend the full day traveling anyway for a three hour

DAVID PERLA [continued]: meeting, so we actually flew, and we transferred. But we didn't hesitate to spend the money to go fly, rather than to try and do it over the phone. We concluded, in order to raise money from someone who was a CEO of a public company, we had to fly and see that person. There's no formula for making that decision.

DAVID PERLA [continued]: All I can say to entrepreneurs wanting to do it is you never know when you're going to get your next dollar. And you also never know when you're going to get your next client. So you have to always be talking to your clients, do everything possible to go see clients, to go see investors, but also preserve your cash. [MUSIC PLAYING]

DAVID PERLA [continued]: [Are You Ready? Researching Your Competition, Learning Your Industry, Fine Tuning Your Business Skills, Hiring The Right People, Identifying Your Business Needs, Seeking Mentors]

KENNETH HULL: Some advice I can give to help start a business and get it to grow pretty quickly in a short period of time is 1, having a pretty good grip on who your competition is. [Research Your Competition.] We did a lot of shopping of the competition before we started the business. 2, being able to make sure customers could find us easily.

KENNETH HULL [continued]: [Make it easy for customers to find you online.] And as far as that advice, that was immediately making sure the internet was a presence for us. 3, making sure you had the core competencies on staff that could take care of production. [Recruit industry pros.] For us and our business, we needed to hire somebody that could do this stuff that wasn't our core competency. So not trying to build a business starting

KENNETH HULL [continued]: with a bunch of people and training them. Hiring the right people to be able to do the job for you.

FREDERICK RUIZ: If I had to go back and say, what would I do different now that I didn't do? [Frederick Ruiz, Co Founder & Chariman Emeritus, Ruiz Foods, Dinuba, CA] It's that I would go work for another company in the food industry, and find out, you know, how to run a business. And what are the important issues in running a food business, or any business. Because I never had that experience. [Get on the job training by first working for a company in your industry.] I started Ruiz foods with my dad right out of college,

FREDERICK RUIZ [continued]: so everything that I learned was by either watching other people do it, or trying to do it myself, and doing it wrong first, but coming back and doing it right the second time. I mean, you learn that it's OK to make mistakes, but it's really important that you learn from those mistakes. [Don't bemoan your mistakes, learn from them.]

JAY GOLTZ: There's entrepreneurship and there's management, and they're not the same thing. [Jay Goltz, CEO, Artists Frame Services, Chicago] And, you know, you need to keep your entrepreneur hat on, looking for opportunities, creating things, but you also need to put your management hat on of watching the boring details. Business is as in school, marketing, management, and finance. [Fine tune your marketing, managing and finance skills.] And you better have a handle on all three of those things, because you can't be great in one, fair in another, and bad in the third one.

JAY GOLTZ [continued]: The reason why business failure is so high is because people never get control of one of those three things, and you can't be good at two out of three things. You have to be at least competent in one of them, and good in the second, and great in the third one. You have to understand about hiring, about management. [Don't count on others to make up for your shortcomings.] You cannot just delegate away your responsibilities. You can't say, oh, I'm not good with the math and the finance

JAY GOLTZ [continued]: stuff, I'm just going to hire an accountant to take care of that. [Never delegate key responsibilities.] There's a lot of incompetent bookkeepers around you could hire, and while accounts have never built a great business, plenty of business has been ruined by bad accounting.

KENNETH R. BANKS: As a small company, resources are always tight. [Kenneth R. Banks, Owner & President, Banks Construction, Baltimore] Generally, they're tight for most companies. And so everything has to be looked at in terms of what are you going to purchase for your company? [Assess your business's needs.] You have to purchase supplies, materials. You have to purchase employees. You have to do those kinds of things.

KENNETH R. BANKS [continued]: [Decide which activities you need to handle in house, and which you need to outsource.] But there are also professional services that you have to-- you have to have an accountant, unless you're an accountant. You have to have a printer. You have to have an attorney more than likely. But then there's other kinds of professional services that you don't have to have, but they can push your business forward. [Be prepared to hire a lawyer, accountant, and other business professionals even early on.] And so everybody, all small business owners,

KENNETH R. BANKS [continued]: have to develop an expertise in understanding what it is that they need, do they have the qualifications in house.

BETTY HUTH: Bite the bullet and get some help from the outside. [Betty Huth, Co Owner, Huth and Booth Portrait Studio, Brandon, FL] There are marketing companies. The power consulting that we use markets just for photographers. They have 65 clients that they work with every year, and they provide them with all of their marketing and sales help. They do sales training. [Consider hiring a marketing

BETTY HUTH [continued]: agency.] And you can find other companies like that in your local area that will be able to help you do your marketing, maybe help you with sales training, will help you in getting the lists that you need.

BARBARA MICHAEL: What I would recommend, as far as getting a creative team together, is you want to start that in the beginning. [Barbara Michael, Owner, Optimal Lifestyles, St. Louis] You might have an idea of what you want to look like as a company. Sit down with a creative person, talk about it, let them give you ideas. It took several months for us to find the right logo, the right idea, the right image that I wanted to get across

BARBARA MICHAEL [continued]: to the general public. [Assemble a creative team to define your brand.] So I would definitely tell people to start from the beginning. Even if you start small, you can always change it.

WARREN BROWN: I talked with different entrepreneurs before I opened up my retail shop, and I wanted to get a sense of them. Like, what are some of the-- not just the successful things that you did to grow the business, but how did you manage it yourself? [Warren Brown, Owner, CakeLove and Love Cafe, Washington, DC] How did you-- how do you last, you know, so you don't burn out? [Turn to other small business owners for advice.] And one of the things that I've read, and people have said,

WARREN BROWN [continued]: is that you've got to be able to start a business and let it operate as if you weren't involved-- you know, that it could survive you. And so I always took that literally, to say, OK, well then that means that I have to not actually be there baking the cakes, because we're about making cakes. [Think about your role in the business.] So if I'm not involved in the physical process of making the product, then maybe the business

WARREN BROWN [continued]: will do fine, and be fine without me. And that's true to an extent. But it really thrives when the energy of the owner is there.

S. PRESTLEY BLAKE: My advice to a young entrepreneur is just work hard, don't look at the clock. [S. Prestley Blake, Co Founder, Friendly's Ice Cream, Wilbraham, MA] [Be prepared to work hard and not watch the clock.] And be honest. Don't try to trick people. Always be fair and square with them. [Be honest.] But you got to work hard, and know everything you can about a business you want to get into.

S. PRESTLEY BLAKE [continued]: That's what my father said. [Be knowledgable about your trade.] If you want to get into the steel business, you should learn everything possible about the steel business. How to make it, how to sell it, how to roll steel, all this and that. And if you apply it, you can't help but be a success. Like the ice cream business. I went to a short course an ice cream making after in business for a year.

S. PRESTLEY BLAKE [continued]: We already knew how to make it, but I wanted to learn more. [Bolster your skill set by taking courses.] So I did. I learned everything possible about the ice cream business. How a freezer worked. How a compressor worked. How to layout a store. How to find a location. I kept myself on the real estate committee for a long time,

S. PRESTLEY BLAKE [continued]: because I knew we were laying the seeds for a good or bad business, if we picked a poor location. I read books of famous people, and how they made it. [Read books by and about great entrepreneurs.] Alfred Sloan, a book by him. I read many of Mr. Penney's books. [Seek advice from mentors.] I read F.W. Woolworth,

S. PRESTLEY BLAKE [continued]: his life story, and several others that I-- can't remember all of them, but I wanted to learn how to be a good business man. [MUSIC PLAYING] [Finding Your First Customer-- Cold Calling, Promoting Your Business, Help From Other Businesses, Tapping Family & Friends]

KENNETH R. BANKS: Marketing as a young business is an entirely different venture. Now, the way I did it is not necessarily the way other people will do it. [Kenneth R. Banks, Owner & President, Banks Construction, Baltimore] But when I started my business, I had no clients. I literally had no clients, nobody that I could call up and say, do you have a job? And I was in a strange city, actually. So what I did was to pull some of my experience

KENNETH R. BANKS [continued]: in selling pension plans and insurance early on in my career, and just went, and just cold called 100 people a day. I would literally call 100-- make 100 phone calls a day. [Cold calling may be your best strategy for finding your first customer.] I want to yellow pages, and I'd start at the A's, and I'd just keep turning pages and call everybody in that book until I developed a clientele.

KENNETH R. BANKS [continued]: [Use your local phone book to identify potential clients.] That's what I did. Now, that's not what most people-- that's not what you have to do. But that's what I did to develop the early on clientele, the client that you need to support your business.

DEBBIE MOORE: We found our first customer by racing him on the freeway. [Debbie Moore, Co Owner, Autobahn Extremist, Rocky River, OH] And after beating him, he pulled us over, asked us what was in our car, who does our work, et cetera. And we told him, well, we do.

MARK KLAIMAN: Well, in the beginning-- I mean, the first thing we did actually was, there's a dog show here every year at the end of January, and Virginia and I basically went to this dog show before we even opened. [Mark Klaiman, Co Owner, Pet Camp, San Francisco] And we got a mailing list, of all things, because we wanted to say, at some point, we are going to open, and we'd like to invite people to come to it. [Attend industry conferences, trade shows, and other events.] We went and visited all the veterinarians in San Francisco,

MARK KLAIMAN [continued]: introduced ourselves, dropped off literature. You know, figured out how to communicate with them. [Visit local establishments and ask the owners to refer business your way.] We talked to Animal Care & Control, and SPCA. I mean, basically, it's the old story of just going out there, and meeting people and talking to people. And getting names and addresses. I mean, back then there wasn't such thing as email. You know, you went out and talked to people.

MARK KLAIMAN [continued]: Virginia and I personally visit every vet clinic in the city at least twice a year. We leave brochures, I mean, part of it is-- I'm actually, of all things, allergic to dogs and cats. Not exactly the best career choice. So I see an allergist, and I get allergy shots. And early on, in Pet Camp's existence, we were talking about how to market,

MARK KLAIMAN [continued]: and, you know, the need to frankly bring gifts to the veterinarians, because they're a huge source of our referral business. And my allergist said, well, never do it over Christmas, because you'll never compete with the drug companies. And he said, stake out something that's yours. [Sweeten the deal for referral sources by offering small gifts.] So we chose Valentine's Day. And so every Valentine's Day, since the first year we've been open, we've visited every vet clinic

MARK KLAIMAN [continued]: in San Francisco with candy and sweets. And then what we started to do is we evolved that to sort of say, well, after the summer-- the summer's our busiest season-- after the summer, after Labor Day, we visit them again, and we bring them something that's more wholesome or natural. So a lot of years, we'll bring them organic fruit from the Ferry Building. Or we'll bring them coffee from one of the local coffee shops,

MARK KLAIMAN [continued]: and muffins baked at one of the local bakeries. Something very hands on, very local. We're a small business. We're San Francisco business. We want to remind people.

SCOTT VINCENT: We would do different things. [Scott Vincent, Co Owner, The Good Earth Peanut Company, Skippers, VA] We did a lot of shows, we did, like, wine festivals, craft shows that-- like, Junior League shows, where they sell crafts, but they also have gourmet foods. [Attend local festivals, craft shows, and other special events.] We traveled all over the state of Virginia, and even to other states.

SCOTT VINCENT [continued]: And we would set up tables, and we would give out samples. And once people tried our product, 9 out of 10 of them would come back and purchase them. And then, while we were doing that, we also had a little notebook, and they would sign it. And then we would mail to them our little pamphlet.

SCOTT VINCENT [continued]: [Distribute company information or samples.] And then later, as we could afford to, we made a little catalog. And we still send catalogs every year to those same customers.

GRACE JHONG DITTMAR: Well, I think a lot of it is just meeting with people, and working through relationships. [Grace Jhong Dittmar, President & CEO, Trusted Mission Solutions, McLean, VA] I think that's always the bottom line, especially when you're starting out your company. If you have relationships that you can leverage, that is always the best situation. [Leverage your previous business relationships.] If you have someone that's willing to help you out, give you a small opportunity, or give you a chance,

GRACE JHONG DITTMAR [continued]: a lot of it is just based on people that you've worked with in the past, who have felt comfortable working with you.

BARBARA MICHAEL: The way my first clients came to me, I was still in a corporation working there, and very interested in fitness. [Barbara Michael, Owner, Optimal Lifestyles, St. Louis] Part of my job at that time was doing presentations on fitness and health. And so people would ask me to work with them on their own fitness plan, and develop that for them, and be a personal trainer. And I would have to tell them I didn't have time at that point.

BARBARA MICHAEL [continued]: [Contact previous co workers, friends, family and associates and ask them to support your new business.] And so, once I left the company, I went back to those people and started working with them. In addition, I found connections in Saint Louis through networking to set up a possible plan to work with some of the local golf pros through the Gateway PGA in St. Louis. What I did was, once I had a connection for the market

BARBARA MICHAEL [continued]: of golf in Saint Louis, I did. I made a connection with the director at that time. We sat down and talked about the possibilities. He was open to it, and I became their fitness education sponsor. [Seek out relevant organizations or businesses that might benefit from a partnership.] And what I did for them was provide yearly fitness education. I write a monthly newsletter for them that goes on their website. And then I allow the golf pros to come

BARBARA MICHAEL [continued]: to some of my fitness classes. And some of them are open to them and their spouses at no charge. And then there are particular plans that they come in and do, and work with me, and those are paid for. And then I work at some of their golf facilities as well.

NATHANIEL WEISS: When I started the company, and when I started looking for the first sale, it was important to target the market. [Nathaniel Weiss, Founder & CEO, LiveProcess, Verona, NJ] To really understand not who the market was for health care or emergency management, but for LiveProcess, who was the customer, who was the person,

NATHANIEL WEISS [continued]: what did they look like? [Know your target customer.] And that helped me go from looking at the LiveProcess market to looking at the LiveProcess customer. [Focus on the target customer and not on the market.] And when I was building the company, I wanted to find the person who was responsible for planning and responding in a hospital.

NATHANIEL WEISS [continued]: So that helped me understand exactly who I had to call. So I would get on the phone and I'd call the hospital. And I didn't know, really, that they were called emergency coordinators at that point. [Contact the person who has the authority to make decisions.] So I spoke to the switchboard, and I said, you know, I have a crazy idea, but I just wanted to bounce it of the person who is responsible for preparing and responding to an emergency.

NATHANIEL WEISS [continued]: And then I started to find out that those people were emergency coordinators, and started to really figure out more of where to find them, and build on that knowledge. And over time, that's what helped me really understand the LiveProcess market opportunity, and close our first sale.