



Finding Money You Didn't Know You Had Borrowed money may only buy you borrowed time. How to get the capital your business needs without loans or VC investment.

By Verne Harnish

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(FORTUNE Small Business) – Like a lot of entrepreneurs, Scott Bryant, Paulette

Gilmore, and James Taylor have more ideas than they have cash. But the familiarity of their situation is little consolation as the trio grows AdFocus, which they launched last August. It doesn't help that their high-tech company (a Reston, Va.-based firm developing technology to enable the mass e-mailing of videoclips) is a costly endeavor. "We really need money to deliver an industrial-strength service right from the start," says Bryant, who estimates he'll require at least \$3 million for salaries, technology licenses, marketing, and office space. Conventional wisdom would dictate that AdFocus needs an angel or a VC in a very generous mood.

But that kind of conventional wisdom can be costly. That's what I shared with Bryant and his partners when they came to my consulting firm, Gazelles Inc., for help. I reminded them: Attracting angel investors or VCs can be a distraction, plus they'll want a piece of you, and bank loans may load you up with debt that can later bury your firm.

So how do you get the money you need? Try skipping a formal funding round and bootstrap your businesses instead. Even if you have heavy technology and manufacturing needs, consider tweaking your operations for more efficiency, drafting contracts so that customers fund R&D, and negotiating harder with suppliers. If you stay flexible, exercise patience, and look in the right places, you might find the capital you need.

That was the case for Michael Shinn, founder and CEO of Secure Software Solutions in Chantilly, Va. "Raising capital is a tremendous time drain," says Shinn. "I was afraid we would miss opportunity if we didn't get to market

quickly." Rather than take the time to raise capital, Shinn created a hybrid company, offering consulting services while developing his computer systems security product. A blended business model is usually a no-no in most VCs' books, but it worked well for Shinn. Consulting provided an instant source of revenue and proved invaluable to product development. "It let us test our product with real customers, rather than building our technology in an ivory tower, which is what guys tend to do when they get a lot of funding," says Shinn.

But what if you've got a manufacturing business that you're trying to get off the ground? How do you find capital then? "Two of us kept our day jobs," explains Bill Petty, co-founder and CEO of Exactech Inc., a Gainesville, Fla., public company (EXAC, Nasdaq) that makes artificial hips, knees, and bone grafts. Petty (a surgeon) and co-founder Gary Miller (a bioengineer) kept working while they built their company, which launched in 1985. All the while, they chatted up other surgeons and medical industry contacts that they hoped to convert into clients.

To keep manufacturing costs manageable, Petty and Miller weren't above a little bartering. "We didn't have the money to lease the high-end CAD system we needed to design our product, but one [of our] vendors had just purchased one and wanted to learn how to use it," recalls Petty. "So we went in on weekends and used the system and in turn taught their operators how to design our kind of product." And when it came time to manufacture their designs, Petty and Miller still didn't have much cash, so they offered vendors Exactech stock options instead.

Frugality continues to serve Petty and Miller well. In the beginning there was no money to hire an army of employees, so the men did everything themselves. (With free administrative support from Petty's wife, Betty.) "The advantage of doing everything early on is that we can now relate to what goes on today, from the regulatory side and dealing with the FDA to design, legal, production, selling, collecting bills, and shipping—we've done it all ourselves," says Petty. "Nobody can fool us."

When it does come to large purchases, "you negotiate harder and in many cases just ask," says Dennis Dautel, who launched faithHighway, a provider of Web design and hosting services to churches nationwide. "When we first started, we bought a large software license that we negotiated down, paying roughly 30% of what our competitors paid," says Dautel. He did the same thing when leasing servers, paying \$3,500 a month when the going rate was \$20,000. How? Using lessons from Roger Dawson's Power Negotiating series (Career Press, \$15.99), Dautel reassures vendors that they're his top pick but gently reminds them that he has a duty to his investors to keep costs down and an obligation to work with the lowest bid.

If you're trying to get to market or gain market share, time is a terrible thing to waste. All in all, you may find it easier, not to mention more efficient, to land paying customers than to scavenge for money. Says Shinn: "I like building companies the old-fashioned way, having customers and revenue from the beginning." Sounds like advice to bank on.

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