

# Localization Strategies for Bootstrapped Startups in Indian Market

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## ABSTRACT

Through extensive research encompassing approximately 100 nascent enterprises, the researchers have delved into the intricate ecosystem of bootstrap startups in India. An illuminating revelation emerged as the majority of these budding ventures embarked on their entrepreneurial journey by financing their endeavors through personal savings. This profound insight shed light on the grit and determination of these entrepreneurs, who exhibited a tenacious spirit in navigating the financial landscape. Moreover, the research ventured beyond mere financing mechanisms, exploring various facets pivotal to the success of these startups. From market analysis to operational strategies, every aspect was meticulously scrutinized to glean invaluable insights. Armed with a comprehensive understanding, the researchers formulated insightful recommendations aimed at bolstering the resilience and viability of these bootstrap startups, thereby paving the way for their sustained growth and prosperity in the dynamic Indian business landscape.

**Keyword:** Small Business, Indian Marketplace, Unicorns, Startups

## Introduction

### Bootstrapped Companies

A bootstrap company is a business that is built without external funding or capital injections from investors. Instead of relying on external financing, bootstrap companies typically start small and grow organically, using the revenues generated from their operations to fund further growth and expansion.

Bootstrapping often involves careful financial management, frugality, and a focus on profitability from the outset. Entrepreneurs who bootstrap their businesses retain full ownership and control of their companies, as they don't have to answer to external investors or venture capitalists.

While bootstrapping can be challenging because it requires the founders to invest their own money or rely solely on revenues, it also offers advantages such as greater autonomy, flexibility, and a stronger financial position in the long run. Many successful companies, including well-known brands like Mailchimp and Basecamp, have been built through bootstrapping.

### Challenges faced

Bootstrapping a company comes with its own set of challenges, including:

### Limited Resources

Without external funding, bootstrap companies often have limited financial resources, which can constrain their ability to invest in marketing, product development, hiring, and other essential aspects of business growth.

### **Slow Growth**

Bootstrapped businesses may experience slower growth compared to their venture-backed counterparts because they must rely on organic revenue generation to fund expansion. This slower growth rate can make it challenging to compete with well-funded competitors.

### **Risk of Failure**

Since bootstrapped companies are typically more financially fragile, they may be at a higher risk of failure, especially if they encounter unexpected challenges or downturns in the market. Without a cushion of external funding, they may lack the resilience to weather tough times.

### **Limited Expertise**

Bootstrapped founders often have to wear many hats and may lack specialized expertise in areas such as finance, marketing, or product development. This can hinder their ability to make strategic decisions and effectively manage all aspects of their business.

### **Difficulty Scaling**

Scaling a bootstrapped business can be particularly challenging due to resource constraints. Without access to significant capital, it may be difficult to ramp up production, expand into new markets, or invest in infrastructure to support growth.

### **Difficulty Attracting Talent**

Bootstrapped companies may struggle to attract top talent, as they may not be able to offer competitive salaries or benefits compared to larger, well-funded companies. This can make it challenging to build a strong team capable of driving growth and innovation.

Despite these challenges, many entrepreneurs choose to bootstrap their businesses because it allows them to maintain control, avoid dilution of ownership, and build a company that aligns with their vision and values. With careful planning, strategic decision-making, and perseverance, bootstrapped companies can overcome these obstacles and achieve long-term success.

### **Literature Review**

Qian Ye (2017). This study investigates the impact of utilizing a bootstrapping approach on the initial performance of newly established startups, specifically examining how the collective expertise of the founding team influences this dynamic. The research focuses on startups in their infancy, approximately three years into their development. Data was gathered from the Kauffman Firm Survey, a longitudinal panel conducted by the Ewing Marion Kauffman Foundation spanning from 2005 to 2007. The findings suggest that employing a bootstrapping strategy is inversely correlated with both profitability and revenue growth in nascent startups. Furthermore, the composition of the founding team's skill set plays a significant role in moderating the effects on startup performance. Industry and startup experience within the founding team act as constraints on the growth of bootstrapping startups, while educational background and entrepreneurial expertise facilitate positive revenue growth in such firms.[1]

Block et al. (2022). Bootstrap financing refers to the actions taken by entrepreneurial ventures to maintain liquidity, such as reducing expenses, accelerating receivables, deferring payments, and preselling.

Previous studies have highlighted the significance of bootstrap financing in facilitating the growth of early-stage ventures that face resource constraints. However, there is limited understanding of how bootstrap financing is utilized during crises, when preserving liquidity becomes particularly crucial. In this study, we examine the factors influencing the use of bootstrap financing during the COVID-19 crisis in 2020, drawing on a sample of 17,046 German entrepreneurial ventures. We develop hypotheses based on perspectives related to necessity, human capital, and opportunity cost. Our findings reveal that the severity of the crisis for the venture, the level of private consumption, and the experience in self-employment are positively correlated with an increased adoption of bootstrap financing measures. This research contributes to the literature on bootstrap financing by shedding light on how entrepreneurial ventures manage liquidity during crises.[2]

Narmin Nasibli (2020). This paper aims to address the challenge of securing finance within the funding gap, which has adverse effects on the overall entrepreneurial ecosystem by preventing many business ideas from being commercialized. Additionally, we aim to contribute to existing research and enhance entrepreneurs' chances of success in commercializing their products or services. Therefore, the objective of this study is to explore the internal actions that entrepreneurs can take to avoid encountering the funding gap.

This qualitative multi-case study involved eight semi-structured interviews with representatives from seven tech companies based in Sweden and one in the U.S.A. Employing an inductive approach, we allowed the theory to emerge from the empirical data. Consistent with existing theory, we found that entrepreneurs can mitigate the early-stage funding gap through individual actions such as adopting a proactive mindset, actively seeking funding, taking calculated risks, employing bootstrapping techniques, and at an organizational level, by assembling a highly competent team and fostering strong external relationships. Our findings also uncovered new insights, suggesting that developing a robust business model with a clear value proposition and acquiring education on business management contribute to preventing the funding gap.[3]

Zwane et al. (2016). The prevailing assumption in both academic discourse and public discussions is that the limited availability of financial resources serves as a significant obstacle to the development and expansion of small businesses. Given the challenges small businesses encounter in accessing external funding, there exists a necessity to explore bootstrapping as a means of acquiring resources, thus potentially reducing the reliance on external financing. This study is motivated by the difficulties small businesses face in securing finance through traditional channels. A sample was selected through non-probability convenience sampling, targeting small business owners within the eThekweni Municipality in KwaZulu-Natal, South Africa, resulting in 83 participants completing the questionnaire. The data collected was analyzed using both descriptive and inferential statistical methods. The findings concerning the awareness and utilization of financial bootstrapping as a funding source remain uncertain. However, the study's evidence suggests that a portion of respondents may have inadvertently employed some bootstrapping methods.[4]

Raffi Gabriel et al. (2020). In the initial stages, technology start-ups (TSUs) typically formulate various business models, with cost often perceived as a limiting factor to innovation in this regard. However,

challenging this assumption, we explore the significance of costs in the design of these business models. Through an analysis of twelve case studies of TSUs from Switzerland, France, and the USA, we identified three distinct types of business models: technology-driven, market-driven, and exit-driven. Our findings reveal that costs serve as facilitators, influencers, and mediators within these models. Furthermore, when TSUs operate with a diverse portfolio of business models, costs assume a mediating role. Ultimately, the impact of costs during the business model design phase alters the mechanisms for capturing firm value, potentially augmenting the overall value of the firm. This research contributes in two main ways: (1) It highlights the heterogeneity of technology-, market-, and exit-driven business model portfolios among TSUs; and (2) It expands upon the traditional understanding of costs, portraying them not only as moderators but also as facilitators and mediators, thus providing insights into the new economy from an optimistic and investment-oriented perspective, diverging from Porter's cost leadership strategies.[5]

Anju Singla et al. (2021). Bootstrapping techniques are widely embraced by startups globally and are deemed crucial in entrepreneurship studies. However, the Indian startup ecosystem predominantly emphasizes external funding via debt and equity, overlooking the significance of various bootstrapping methods. Despite extensive literature on financial bootstrapping, empirical studies offer inconclusive findings on how these techniques can bolster the growth and sustainability of Indian startups. This chapter aims to address these inconsistencies by advocating for better financial bootstrapping practices. An analysis of 34 Indian states and union territories was conducted using the Department of Industrial Policy and Promotion's (DIPP) seven-pillar framework. Heat maps were then generated to assess the correlation between startup support and the number of startups in each state. The findings revealed three types of inconsistencies within the Indian startup ecosystem. Additionally, the chapter identifies challenges faced by Indian entrepreneurs and recommends effective bootstrapping techniques based on scholarly evidence. The study offers implications for entrepreneurs and policymakers to adopt non-conventional financing methods, fostering entrepreneurial finance and resource development for economic growth in India.[6]

Robert J. Lahm, JR et al. (2019). Entrepreneurship poses numerous challenges for new business owners, including idea generation, organizational structuring, establishing management practices, hiring employees, and acquiring necessary assets and resources. Among these challenges, securing adequate financial capital stands out as particularly daunting, especially for immigrants who constitute a significant portion of new business owners in the United States. Due to the difficulty in accessing external financing, immigrant entrepreneurs often turn to "bootstrapping" as a primary method to launch their ventures, driven by necessity and compounded by obstacles such as cultural and language barriers. This study explores the intersection of immigrant entrepreneurship and bootstrapping, drawing on initial observations from interactions with immigrant entrepreneurs during small business counseling sessions. The findings underscore the need for further empirical research into the bootstrapping practices of immigrant entrepreneurs.[7]

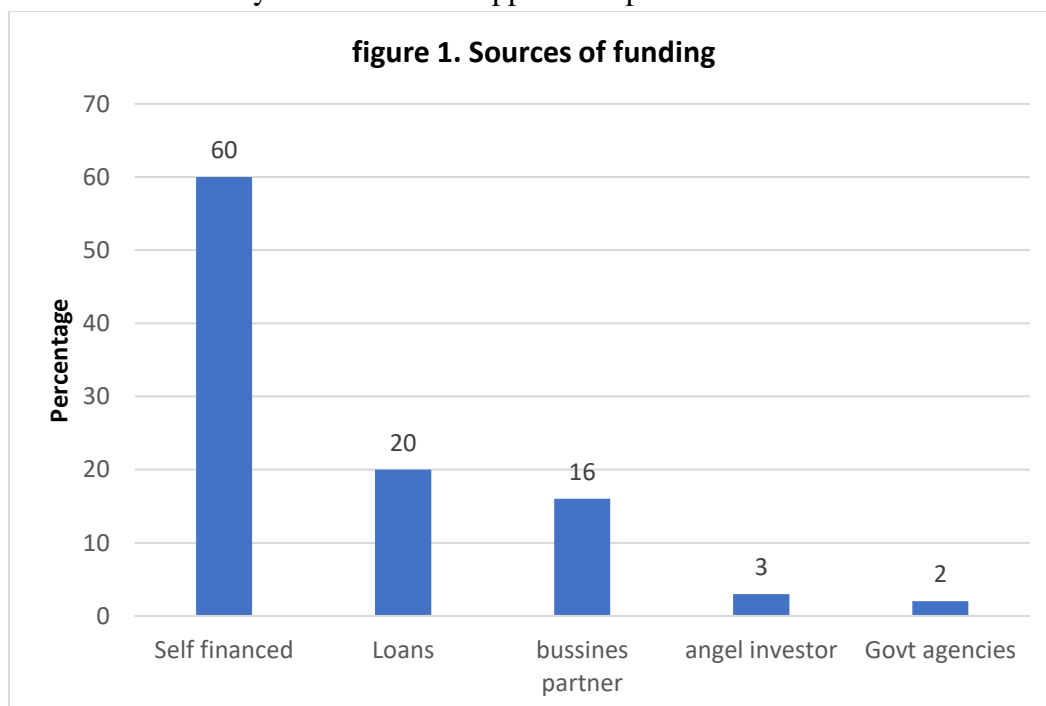
## Methodology

A recent survey conducted on 100 small bootstrapped businesses shed light on their funding sources and the challenges they encounter. The survey involved distributing questionnaires meticulously crafted to gauge the financial landscape and hurdles faced by these enterprises. Through diligent analysis, patterns emerged revealing the diverse avenues from which these businesses secure funding, ranging from personal

savings and loans from family and friends to crowdfunding platforms and angel investors. Moreover, the survey illuminated the common obstacles confronting these ventures, such as limited access to capital, fierce competition, and navigating regulatory frameworks. The findings underscore the resilience and resourcefulness inherent in these small businesses as they navigate the intricacies of entrepreneurship in today's dynamic market landscape.

## Results and discussions

The survey outcomes unveiled significant trends among small bootstrapped businesses: a striking 60% relied solely on self-financing, indicative of the entrepreneurial spirit driving these ventures. Additionally, an overwhelming 80% operated without sharing premises or equipment, underscoring their independent nature. However, a concerning discovery was that merely 40% of customers could pay upfront for services, triggering financial strain. Consequently, this cash flow discrepancy compelled businesses to withhold payments to their employees, highlighting the precarious balance between revenue and expenses in this sector. These findings emphasize the urgent need for innovative financial strategies and customer payment solutions to sustain the viability of small bootstrapped enterprises.



## Recommendations

Business owners, especially those in the initial stages of their venture, should embrace a culture of collaboration. It's essential to educate small business owners about the benefits of sharing resources like facilities, machinery, and equipment, which can lead to significant cost savings that can then be reinvested in the business. Encouraging business owners to share equipment and employees with other businesses, co-share premises, and borrow equipment for shorter durations is crucial. This approach fosters efficiency and resource optimization, ultimately contributing to the sustainability and growth of small businesses.

Small business proprietors can enhance cost-effectiveness by hiring relatives, friends, or students at rates below the market standard and securing loans from acquaintances or family members. This strategy

enables savings that can then be directed towards crucial aspects of the business. Consequently, it optimizes resource utilization, leading to enhanced profitability.

Small businesses can leverage their customer base effectively as financiers or collaborators. This can be accomplished by implementing strategies such as requesting deposits for orders, incentivizing early settlement of accounts, streamlining invoicing processes, providing discounts for cash payments, discontinuing relationships with chronically late-paying customers, and selectively engaging with prompt-paying customers. Additionally, imposing interest charges for late payments can bolster cash flow, leading to enhanced financial stability for the business.

In order to survive and potentially expand, small businesses must engage in negotiations with their suppliers to secure advantageous settlement terms. This entails extending the time taken to settle accounts, opting to lease rather than purchase equipment, acquiring used equipment instead of new, and employing temporary staff instead of permanent employees. These measures facilitate the optimal and efficient utilization of limited resources, thereby ensuring the business's longevity.

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