

# Colossal Bootstrapping

## *How to Create a Startup With Massive Potential and Fund It With Customer Revenue*

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**Robert Hargrove, Author of *Masterful Coaching***

*I don't know who you are or what your business idea is. What I do know is that, if you want to make your passion your profession or rev up your startup, you don't have to wait for some venture capitalist to give you a lot of money.*

*You can begin the exciting journey of birthing a business on your own by bootstrapping your business with whatever resources you have.*

*You can start by sharing your idea with people and perhaps finding a partner who wants to take the journey with you.*

*You need to start with a big business plan. You need to get close to your ideal customer, understand their unmet needs, create a product or services, and tweak it until people willing to buy it from you.*

*In the process of bootstrapping your business, you will use constraints as a source of innovation, experience a lot of emotions, and have the ultimate self-development and growth experience.*

This chapter is for the passionate entrepreneur who wants to create a successful startup, whether you are as rich as Croesus or as poor as a church mouse. One of the things that is most important to understand is that a startup is not a smaller version of a big company. A startup is a temporary organization in search of a repeatable business model that is profitable and scalable. There are no customers or income.

The founder of the company, whether it's a company with the potential of a Google, Facebook, or Amazon, or if it is a Katy's Cupcakes, Moe's Motor Scooter, or Toni's Take Out, each must go on the hero's journey to find the path to epiphany where he or she can develop customers and generate revenue. This is distinctly different from the path to disaster which many startups face today, which is focused entirely on formal business plans, funding, product launches, and ship dates.

In the beginning, every startup is a "bootstrap" funded by the founder's commitment, passion, and a determination—a gene gone rampant. This chapter provides you with a "masterful mindset" you and every entrepreneur and startup needs to successfully bootstrap your company, along with a step-by-step process for reaching your goals. It's important to point out that bootstrap is the process of creating a successful Startup, where the constraints you experience will cause you to be innovative, as well as to focus on your most important priorities.

**These priorities are expressed in the following 5 questions:**

- *Have you made a decision to cash in on your passion?*
- *Is your startup idea a problem worth solving?*
- *Have you found a product customers will buy?*
- *What do you need to do to sell it and get revenue?*
- *How much time do you have before you run out of passion or cash?*

**IS BOOTSTRAPPING RIGHT FOR YOU?**

The term "bootstrapping" comes from the German legend of Baron Munchhausen who was crossing a swamp on his horse and proceeded to be sucked down into the muck. When he called out for help, no one answered and he was left to his own devices. He reached his arms out to his feet which were still on solid ground and pulled himself out by his bootstraps. This story is a good metaphor for anyone who wants to start a business without all the necessary wherewithal, and has to rely on their own devices.

Today, if you want to become an entrepreneur, you have several paths open to you. If you go to a place like Harvard Business School, Stanford or Wharton, to learn about business, they will teach you how to run a big company. If you take a course on entrepreneurship, the assumptions will still be based on running a startup like a big company. There is a heavy emphasis on business planning (guesses) and seeking venture funding to help you execute, even if you don't really know what to execute on. If you go to Silicon Valley or read magazines like Fortune, Inc., and Fast Company, they too all seem to validate this approach.

What's fascinating is that, while the vast majority of companies in America, including approximately 350 out of the Fortune 500 list, came into existence without a formal business plan, business model, or external funding. Sam Walton, Bill Gates of Microsoft, Larry Ellis of Oracle, Michael Dell of Dell Computers, or John Mackey of Whole Foods successfully bootstrapped their companies, as did the founders of many successful web-based companies like Zynga, Braintree, Storm 8, and Curiously. Yet bootstrapping is not taught in any course at Harvard, Stanford or Wharton, and there are few books or articles on it. Though many great founders bootstrapped their business, the management technology they used has never been extracted.

Jay Abraham and I saw this as a wonderful opportunity to make a distinctive contribution, given that almost 10 million entrepreneurs start up new businesses every year, relying primarily on bootstrapping. Most entrepreneurs follow the startup journey without finding a roadmap or model for bootstrapping that they can apply to their new venture. They are wrong. There is a well worth path, but the problem is, no one has written it down.

## **BUSTING THE BOOTSTRAP MYTHS**

In this chapter, in the service of entrepreneurs in companies of all sizes, we aim to bust the prevailing myths of bootstrapping that, in fact, obscure the path to starting a successful business. Next we are going to provide you a whole new dynamic mindset about bootstrapping your business that will allow you to think about it in ways that you never have before, and which can be practically and immediately applied.

**Myth 1. Bootstrapping is for small people with small companies with small prospects.** The idea that bootstrapping is for small people with small companies may describe some who have funded their own companies. Yet in reality, entrepreneurs who bootstrap their own companies are often those who take what master of myth, Joseph Campbell, calls “the hero’s journey,” leaving the old behind and discovering the next new thing. This often results in creating, without external funding, monster companies that are very innovative and have a big impact. Some examples are:

- **Mike Arrington founded Tech Crunch**, which became one of the most-read tech websites in the world. He owned 85% of his bootstrapped company when AOL purchased in 2010 for \$32 million.
- **Scott Belsky created Behance**, a design website anyone with a passion for a new project can publish on. The results after 6 years of bootstrapping: 1 million projects have been published on Behance in the last 6 months, two million published projects have been viewed more than 1 billion times, and 75 million views occur every 30 days.
- **Sophia Amoruso bootstrapped Nasty Gal** for 5 years to profitability and more than \$30 million in revenues.
- **Markus Frind bootstrapped Plenty of Fish**, one of the largest dating sites in the world from his apartment. His site now has more than 38 million users and has 6 billion monthly page views.

*Why do entrepreneurs celebrate the act of funding?  
My grandfather once told me that, if you got to the  
point where you went to someone for a loan,  
it was the worst day of your life.*

**Myth 2. Entrepreneurs who get venture funding are winners, and bootstrappers are losers.** The business press—Fortune, Inc Magazines, or Tech Crunch—tends to immortalize entrepreneur’s acts of fund raising, while relegating those who bootstrap to the loser’s bin. Yet the truth is often just the opposite, as venture funded companies fail much more often than bootstraps. Netscape, Webvan, and Furniture.com are examples of companies that raised hundreds of millions of dollars during the dot com

boom, ended up going bankrupt, and are now forgotten in the dustbin of history.

Today, the top stories about entrepreneurs in the Tech Press are still about how much money was raised, how many employees they have, how many new products in the pipeline, when in fact, these metrics often don't matter at all. What matters can be found by answering the following questions: *Do they have a great team? Are they building something great? Are customers buying the stuff that they make? Are they profitable?*

*Bootstrapping in reality is funding a business  
with customer revenue.*

**Myth 3. Bootstrapping is about self-funding a business.** The myth is that bootstrapping is about funding a startup without outside investment. The truth is bootstrapping is about funding a business with revenue from customers. As previously mentioned, there are two paths that entrepreneurs and startups take. One is a path to disaster based on VC money, business plans, and focusing on product launch without customer interaction—think Iridium, Webvan, and Segway. The other is a path to epiphany which focuses on customer development. It involves leaving the office and guesswork behind so as to engage in a customer discovery process. In 2006, PG sent a single co-design team to move in with customers and discover their problems. They discovered that people wanted to mop the floor, but didn't want to deal with water. The result: a “waterless mop” called the Swiffer, which is now a \$4 billion dollar business.

*To avoid wasted time and effort, pair customer  
development with agile product development.*

**Myth 4. Entrepreneurs who bootstrap always scrimp and save, work their face off and have nothing to look forward to but struggle.** Jay Abraham has an interesting concept called “the highest and best use” of your time and resources. The problem with many startups, bootstrapped or not, is that they don't have any roadmap to follow, so they wind stuck in limbo, or wasting their time and resources. You will see that there are four

different stages of the bootstrapping process, and each stage requires focusing on a single priority or key action. If you focus on that priority and ignore others, your chances of breaking through and creating a successful business will be infinitely higher.

## Busting the Bootstrapping Myths

MYTH	BUSTED
<b>Myth 1:</b> Bootstrapping is for small people with small companies with small prospects	<b>Busted:</b> Bootstrappers take the “hero’s journey,” often discover the next new thing and create monster companies that are innovative & have a big impact
<b>Myth 2:</b> Entrepreneurs who get venture funding are winners, and bootstrappers are losers	<b>Busted:</b> Venture funded companies fail much more often than bootstrappers
<b>Myth 3:</b> Bootstrapping is about self-funding a business	<b>Busted:</b> Bootstrapping is funding a company with revenue from customers
<b>Myth 4:</b> Bootstrappers always scrimp and save, work their face off and have nothing to look	<b>Busted:</b> The four stages of the bootstrapping process each require focusing on a simple priority or key action

## BOOTSTRAPPING DEFINED

*Bootstrapping used to be thought of as the path you take if you don’t get funded. Today it’s the path you take if you have a passion for a problem you want to work on for a long time.*

Simon Sinek, a friend I met when consulting in the Pentagon, wrote a powerful short book called *First Discover the Why*. According to Sinek, the question every entrepreneur needs to ask themselves before starting their

business is: *What kind of person are you and why are you starting a business? Why you are doing it?* Being able to answer this question determines what path you choose as an entrepreneur...or rather what path chooses you.

Are you a freshly minted MBA who has a great idea for a business but is primarily motivated by money? Are you looking to get funded by some VC firm so you can build a company like a machine? Are you looking to hit the jackpot and make a quick exit? If so, you should stop reading this and fly to Silicon Valley to seek out Angel Investors.

If, on the other hand, you are the kind of entrepreneur who has a passion for solving a problem that is so fascinating to you that you are motivated to work on it for the next ten years, then you definitely ought to consider the art of the bootstrap. Sure, the idea of having a venture capitalist or angel investor fund your business with enough money that you can buy a Super Bowl ad may have its appeal. Yet, just remember that the moment you accept funding, you lose control. You stop being an entrepreneur and you start being an employee.

*“The number one reason three out of four startups fail is too much funding.” Harvard Senior Lecturer Shikhar Ghosh’s conclusion after studying 2000 companies that received venture funding between 2004 and 2010*

## **Not All Startups are Alike: Bootstrapping is the Third Way**

Entrepreneurship has been driven by three great waves in human history. In order to help you better understand what we are calling “Colossal Bootstrapping,” I would like to help you develop a clearer understanding of each of the three paths.

### **1. The Venture Funding or Outcome-Driven Path**

This is the path taught in business schools and one that relies heavily on business planning. Venture funded high-tech startups tend to take business models that are unproven and use capital to execute them. While this model has its successes—Google, Amazon, Cisco—a 2012 study conducted by Shikhar Ghosh of the Harvard Business School of 2000 companies showed that 75% of these businesses fail. According to Ghosh, one of the main rea-

sons they fail is that they often wildly exaggerate the market and build products without interacting with customers. A second reason for failure is “just too much money.” A good example was Webvan, an online grocery that went around the USA building warehouses before they realized there was a lack of demand for web-based grocery shopping.

*The cookie cutter path followed by most small businesses in America is one where you do not need much creativity and innovation, but are good at implementing.*

## **2. The Cookie-Cutter Path**

Cookie-cutter ventures involve the entrepreneur implementing an already invented, successful business model. This path is what most small business in the United States take—doctors, dentists, lawyers, franchises, pizza places, Laundromats. Cookie-cutter businesses are attractive because they have a low barrier to competitor entry, relatively low startup costs, but have little economic impact. These businesses suffer from the fact that, rather than competing in a “blue ocean” based on innovation, they wind up competing in a “red ocean” with many other “me too” competitors based on price. Often the founder is left to spend their whole life stressed out, focused on getting enough cash-flow to meet mortgage payments, payroll, and other bills. They often feel they are hanging by their finger nails from a cliff.

*You build brand equity by following your passion and bootstrapping. If it's something you love, you will win.*

## **3. The Bootstrapping Path**

Bootstrapping is the third way, integrating the best of both worlds. Bootstrapping is grounded in the founder’s passions, talents, and interests. It leverages constraints in building a business to spark game-changing innovation. The business model emerges in the process of interacting with customer’s unmet needs and tweaking the product through a number of iterations until people are ready to buy it. It’s not that bootstrapped companies don’t have opportunities for venture funding; it’s that they often don’t elect

to take it. If they do get funding, they do it in right timing, when they're successfully crossed the "Valley of Death." An increasing number of VC's are following in this direction.

## **COLOSSAL BOOTSTRAPPING**

Is Colossal Bootstrapping coming up with an idea for a \$3100 digital espresso coffeemaker that you fund for ten years from your \$70,000 job at Starbucks hoping to get enough customers to get a volume discount with the manufacturer and bring the down to an affordable \$350 No!

Is it following your passion for a business designed to help make the world a better place and spending 18 months building a wonderful website and developing the product or service without ever testing your hypothesis by talking to customers. No again!

Is it scrimping and saving to invest in the typical corner store where you sell bread and milk, struggling to meet the payroll, suppliers, and mortgage payments or working your whole life trying to make enough money, only to wind up with not enough money? Absolutely not!

As we said at the beginning of this chapter, the process by which entrepreneurs create a successful startup is one in the same as the process of Colossal Bootstrapping we have been describing, not just based on a vainglorious idea, but based on customer discovery.

It takes into account that a startup is a temporary organization in search of a business model innovation that solves a big problem for the customer and is: 1) repeatable, 2) profitable, and 3) scalable. It is funded not by some external investor or entrepreneur scrimping and saving, but by customer revenues.

Colossal Bootstrapping is like a quest for the Holy Grail, except instead of searching for a cup full of mystical powers that promise life and new life, the entrepreneur is searching for a business model that will lead to success and more success.

It's a journey where an entrepreneur takes their idea for a business, develops a rapid prototype, puts it into the customer's hands to test the response, and keeps tweaking until enough revenue starts pouring in that he knows, without any shadow of a doubt that he has a business.

Colossal Bootstrapping takes into account that a Startup is a temporary organization in search of...

### **A Business Model Innovation**

That solves a big problem  
for the customer

**REPEATABLE**

**PROFITABLE**

**SCALABLE**

The typical entrepreneur success story starts like this: Mr. X has a brilliant idea in the bath one morning. He calls a friend and together they build an invention in a garage. They go out and sell it from the back of Mr. X's car, and before you know it, they are both millionaires. If you look at a hundred or so of these entrepreneurial success stories where bootstrapping is involved, you notice that there is a pattern.

These companies are rarely so attached to their original business idea that they go down with the ship when, and if, it fails to create customers. They recognize that a startup is a temporary organization in search of a repeatable business model that is profitable and scalable. Their secret is to leave the office and guess work behind to test their startup hypothesis with the customer, and gain the insights to do many more pivots and iterations than the next guy.

They use the constraints (caused by either failing to get or declining venture funding) to drive innovation and to force themselves to focus on the most important goals and priorities in each stage of the process.

#### **Read Hastings of Netflix's Quest for the Path to Epiphany**

Once you go through a customer discovery process and create some kind of demo that the customer wants to buy, the next step is to create customers standing in line at the mall, merchandise, and a repeatable sales process.

Reed Hastings, founder of Netflix, gives a good example of all that we are saying. He loved watching movies, renting thousands by the time he was 30 years old. One day, Hastings got a late fee for about \$40 for *Apollo 13*. He was embarrassed about it, but came up with an idea. To test it, he ran out to Tower Records in Santa Cruz, California and mailed CDs to himself, just a disc in an envelope. It was a long 24 hours until the mail arrived back at his house, and when he ripped it open, the videos were all in great shape. That was the excitement point, as he thought there might be a big market for mail order videos.

Early on, the first Netflix concept was rental by mail. It was not yet subscription based, so it worked more like Blockbuster. Some people liked it, but it wasn't that popular. Hastings thought to himself, "This whole thing could go down," and he and his team came up with the more radical subscription idea. He knew it wouldn't be terrible, but he didn't know if it would be great. Hastings tells how they launched the service on Sept. 23, 1999 with a free trial—a demo created to see if the customer would buy into it. They knew that they could tell within a month if people would become a paying subscriber. They were elated when 80% went from the free trial to the paid. (Netflix still uses the free trial with up to a 90% renewal today.)

In 2003, Hastings was down in Arizona visiting one of the distribution centers on the outskirts of Phoenix. It was raining, and his umbrella wasn't working, so he walked the half mile from the distribution center to the hotel in the rain. On the way, he got the message on his BlackBerry that they had hit a million subscribers. According to Hastings, "It was this beautiful moment where I was just so elated that we were going to make it. It also was the first quarter that we turned profitable. It was a magical walk."

*Entrepreneurs who create a successful startup,  
almost always bootstrap their company, at  
least in the beginning.*

### **Colossal Bootstrapping is a Context, Not Just an Alternative Financing Technique**

When I first started investigating entrepreneur startups, I thought of Colossal Bootstrapping as what you do to fund your company without inves-

tors. Yet the more I investigated the topic, the more I began to see bootstrapping as a context or place to come from that shapes the way one thinks and interacts. Just as the Venture Funding model is a context that causes people to think in terms of putting on a suit, creating a business plan based on guesses, and seeking venture funding, product launches, and quick exits, Colossal Bootstrapping is a context that causes people to think and interact with the world in a certain way.

*If content is king, context is God.*

Colossal Bootstrapping starts with taking your idea for a business and adopting an experimental mindset. It involves getting out of the building and testing your hypothesis by talking to customers. It involves using constraints caused by lack of money, time, and people as a way to create focus and drive innovation. It involves figuring out the business model, not in advance, but over time in the process of interacting with customers. It involves taking a demo and tweaking it until you have a colossal number people who want to buy it. It involves coming to that magic moment where you say to yourself, *“Aha, I found it! An innovative business model that is repeatable, profitable and scalable. Furthermore, I am now able to finance my business with revenue from real customers. And on top of that, I have more VC and angel investors knocking on my door than I can shake a stick at.”*

## **THE FIVE KEYS OF COLASSAL BOOTSTRAPPING**

If you are the kind of person who likes talking (or reading about) entrepreneurs or successful startups like I am, you could probably make a list of 1001 things that one does to be successful. Yet once you have that list of a 1001 things to do, you discover that there is a pattern. That pattern can be boiled down to five transformational principles that make up the context of Colossal Bootstrapping and everything on that list of 1001 fits into them. The five principles have the power to not only transform who you are an entrepreneur, but to fundamentally change the way you think about startups or business in general... forever.

The point is that, once you are standing inside this context, being a suc-

successful entrepreneur who can bootstrap a company from scratch becomes a natural self-expression. It then becomes a matter of learning how to be effective, whether you are working on your business idea, engaging in a customer discovery process, building a product demo, or getting out from behind your desk and selling.

### **The Context of Colossal Bootstrapping is Made up of Five Key Principles**

- ▶ Follow your passion, but test your hypothesis
- ▶ Build social capital by sharing your passion, inspiring others to help
- ▶ Use constraints to create focus and drive innovation
- ▶ Discover the business model in the process of customer interaction
- ▶ Get out and hustle; but have patience.

*I never wanted to be an entrepreneur, to build a giant company, or become a billionaire. -Richard Branson*

#### **1. Follow Your Passion, But Test Your Hypothesis**

*Do you have a hobby you wish you could do all day? Do you have an obsession that keeps you up at night? Do you have a business idea that fills you with missionary zeal?* asks Gary Vaynerchuk in his book *CRUSH IT! Why NOW Is the Time to Cash In on Your Passion*. Gary spent years helping his father in their family business, a local wine shop. He got the idea that collecting wine could be like collecting baseball cards, a passion he had as a kid. He was not sure that he could sell the idea, so he started looking for a way to test his hypothesis.

Then one day he turned on a flip phone video camera and helped transform the business into a national leader in the wholesale wine industry. True Gary, the first YouTube wine guru, didn't build the business which started as the "Wine Library" from scratch. But using Facebook, Twitter, and YouTube videos of his wine tastings, he bootstrapped what amounted to a multimillion national advertising campaign for zippo. It would have been impossible ten years ago for many people to become an entrepreneur, because of the cost of newspaper, TV and radio advertising. Traditional me-

dia no longer has control—today everyone has a shot.

Gary exudes passion in every one of his YouTube videos and is a force of nature on any stage. He would stay up until 1 am in the morning posting on Facebook and Twitter, as well as recording videos for the Wine Library (over 1000 in five years). He would then wake up in the morning and answer every email he got before doing the things that most human beings do at the beginning of the day.

It's impossible to watch his YouTube videos without wanting some of whatever it is that Gary's got in terms of passion, hustle, and horse sense. "You're unhappy?" asks Gary, "It's time to change your life?" People would call Gary after watching his wine videos and ask him to consult their companies on social media.

Today Gary is not only the partner in a \$20 million wine business, but a very active angel investor with a fast growing consulting company. According to Gary, *"When I am in the investor role, I only want to know two things. Do they care about the customer? And are they solving a really big problem?"*

## **2. Build Social Capital By Sharing Your Passion, Inspiring Others to Help**

It turns out that the secret of exponential growth both for a person and for a business isn't venture capital at all, but rather human connectivity. Think of it this way, every time you reach out and make a human connection with someone, you build social capital which later has the potential to be transformed into economic value.

Today, companies that offer crowd funding like Kickstarter and Quirky make it possible to use social financing so you don't have to look to VCs, Angels, or rich uncles. This route gives you the opportunity to reach out to a big crowd of people who may share your passion for your product idea and who can offer both expertise and material assistance.

You can start a business by being passionate about your idea and sharing your passion with other people, inspiring them in the process to help you. John Cook, founder of Intuit Software, talks about how he founded his company based on a passion he had for applying readily available technology to solving human problems.

One night he observed his wife doing income taxes and paying the bills with financial software that was being sold in the marketplace. He noticed that, while his wife was good at home finances, she was getting angrier and angrier and all the more frustrated. He got the idea that there might be a simpler software program that would solve the problem and make his wife happy. His proposal to the VC community for Quicken, his software idea, was rejected almost 34 times.

After receiving his final rejection, he left the building undaunted only to bump into John Proulx, a friend who was a great software designer. Cook and his friend got into a conversation and the designer was clearly captivated by Cook's passion and his idea for Quicken software. The designer wanted in and offered to build the program and the rest is history.

*If one expects to succeed as an entrepreneur, one had better hope to be born with the tenacity gene dominant.*

### **3. Use Constraints to Create Focus and Drive Innovation**

As aspiring entrepreneurs, we face real barriers to achieving our goals. There's never enough to go around: *not enough time, not enough money, not enough people*. That's a good thing. Instead of freaking out about these constraints, embrace them. The most successful entrepreneurs embrace these constraints as positives that kick creativity into gear and result in smart solutions.

The CEO or founder can plan a pivotal role in this. Rattan Tata, CEO of Tata Motors in India, was driving through Calcutta when he saw a terrible motor scooter crash involving four members of a family. In an interview with a reporter that same day, he made an on the spot commitment to create a new startup at Tata that was going to build a passenger car with a cap of \$2500, without even knowing it was possible. He left in place all the style, fuel, and safety requirements. Can you imagine all of the innovations that had to happen to be able to actually build that car at a profit? The Nano got build in 18 months and is the most popular car in India today.

Yah, you may be thinking, but I'm the entrepreneur of a small bootstrap with minimal resources. How does the idea of using constraints to drive innovation apply to me? Start with reducing the scope of your product or ser-

vice's development project. Get with your customer and ask them what the single most important feature of the product you are going to build is and then focus only on that in the first version. This can lead to innovative product development features, resulting in sales and customer revenue.

Time is another constraint entrepreneurs have to deal with. In coaching entrepreneurs, I often ask them: *If this conversation were taking place three months from now, what would have to happen to be happy with your progress?* This elicits their highest priorities. For example, test the business model with customers, put up a smashing website, build a demo that makes customers want to buy, and so on. The next step is to create deadlines, which are a highly effective way of getting people to focus on priorities and make more effective use of their time.

*Insight drives pivots and iterations.*

#### **4. Discover the Business Model in the Process of Engaging Customers**

Entrepreneurs who bootstrap are very passionate about their thing, but they are less committed to their original idea than they are to discovering the business model in the process of interacting with customers over time. This is not a one shot deal, but a process of iteration which the following story tells.

When Alberto (Beto) Perez, co-founder of Zumba Fitness, was a wiry teenager impersonating Michael Jackson's moves on the streets of Colombia, a night like this one would have been beyond his wildest dreams. A crack of thunder and bolt of lightning ignites the sky outside the Miami Convention Center as Beto, in yellow muscle shirt and shining with sweat, struts across the stage in a dark. For over ninety minutes, he dances to a saxophone and electric guitar. Like flower children at Woodstock with eyes glued on him in hypnotic fashion, 8,000 dancers sing, slam, and undulate in unison with him.

Based in an upscale neighborhood near Miami, Florida, Zumba Fitness has close to 200 employees and a reported market cap of more than \$500 million. CEO Alberto Perlman says it grew 4,000 percent from 2007 to 2010 and 750 percent in the past three years. In an era of social division

and fitness specialization, Zumba has become an amazing mass-market phenomenon.

With Zumba dancing, everyone—your grandmother, your wife, your chubby kid, your shy niece—can be super cool. Almost 15 million people in 150 countries partake in Zumba classes on a weekly basis. Eighty countries are represented at this year's instructors get-together, a yearly gathering that is in large measure part professional training and part tent-revival meeting. Less than a decade ago, it was a startup. Today it has seventy thousand locations in the United States, including roughly 95 percent of major gym chains, offering its programs. TV characters toss off references and classes even take place in venues like the Pentagon.

Did Zumba get any VC money to start its business? Absolutely not! It's a totally bootstrapped company. It came about when Beto Perez, who had a passion for dancing and sharing it, met the son of one of his students, Alberto Perlman, a technology entrepreneur who had just lost his job in the dot.com bust. Perlman watched one of Beto's classes and came up with the idea to do a fitness video that had infomercial potential. Going through the alphabet to come up with a name that matched rumba, Perlman and Perez at last settled on "Zumba." Their first attempt to turn Zumba into a business was selling tapes of classes. Perlman and others recorded Beto and 200 of his students dancing on a beach and played it for the CEO of a business called Fitness Quest, a company that sold Total Gyms and similar products. Fitness Quest produced a collection of tapes and DVDs and marketed them through an infomercial.

Perlman and Perez hired call centers by the hour to push the tapes. They were selling a few hundred thousand units on TV, according to Perlman, but their call centers kept hearing from people who said, "I don't want to buy a video. I want to take a class." The Zumba team then realized that, even though they were succeeding, it was time to radically change the business model and focus on instruction as a business. This they figured might be at least as good of a business as DVDs. (They later bought back the DVD video rights.)

The partners expected 30 or 40 people to show up for their first training session in a Miami hotel in 2003. Instead, they drew more than 200 from as far away as Boston, Houston, LA and Kansas City. By 2005, the company

had trained roughly 700 Zumba instructors, who were pollinating the country. 300,000 instructors all over the world have since been trained in Zumba for \$250 each.

The next iteration came about when many instructors kept returning to Miami. “They wanted to meet with Beto and get a new routine or film his class or talk to him about new music,” says Perlman. The next iteration of the business model was to turn these instructors into entrepreneurs. They needed students. They needed ongoing education. They needed music and choreography. So Beto created the Zumba Instructor Network, or ZIN, a community and educational platform. New infomercials were produced and the company began plowing money into media designed to drive consumers to classes. The instructors began to sell Zumba clothes, Zumba videos, and other paraphernalia.

But how to make Zumba stand out from the classes already in fitness centers? Up to that point, the Zumba taglines had focused on losing weight. Then one day, Perez had an epiphany. It happened when he caught sight of a poster for “Rise,” a David LaChapelle movie. It showed a man and a woman lost in an ecstasy of dance. He took a picture of it with his phone and showed the Zumba partners. Instant insight! Zumba was all about emotion, not just dropping pounds. Joy. Release. The company captured its new dramatic differentiator: *Ditch the workout. Join the party.*

## **5. Get Out and Hustle; But Have Patience**

When our (great) grandfathers game over on the boat, they didn’t sit around thinking about the magic formula for starting a business. They hustled and went to work in the factory to make money to keep the wolf from the door, but later went onto become entrepreneurs and to bootstrap businesses they could be more passionate about.

One of the reasons we are excited about Colossal Bootstrapping is today anyone can make a living doing what they love, because what is possible today, just wasn’t possible five years ago. Today, with a website, social media, and ubiquitous technology, you can be your own advertising company, publishing firm, recording studio, even 3D manufacturing plant.

That said, while it’s great to talk about passion, the truth is that hustle is more important than passion, because business comes down to being able

to execute. Everyone is born with passion, but not everyone is lucky enough to be born with hustle. The good news is hustle can be learned. Hustle means playing 100%, doing everything with a commitment to excellence, devoting yourself to marketing, and never forgetting that in a startup, your job is to sell, sell, sell.

It's great that you have a website, that you use social media, go to conferences, but the best thing about all these things is you can sell stuff on them and make the cash register go kaching, kaching, kaching. Yet you have to be all about caring about your customer, solving a big problem for them, and monetizing everything you do so you can make money to pay the bills and live to fight another day.

It's important to hustle, not just by hanging out with customers or people who are like yourself, but to build brand equity and position yourself so you get to hang out with customers who can write the big checks. As an experiment, think of three venues you could attend where you could fish where the big fish swim.

Patience is another factor that is essential to consider, because the reality is that, while most people go into business looking for a short sprint, business is a marathon and you have to approach it like that. Gary Vaynerchuk says it took him months of posting on social media before anyone responded, by actually buying stuff. If he didn't have patience, he would have given up.

If you read the history of the great entrepreneurs we all admire—Reed Hastings, Steve Jobs, John Mackey—all of them talk about vision, values, hustle and patience. “We scrapped the bottom of the pond for more than a year,” says John Cook of Intuit, “then, we bounced up and started breathing fresh air growing 30%, 40%, and 60% percent a year for the next three years.”

*“The legendary hero is usually the founder of something; the founder of a new age, the founder of a new religion, the founder of a city, the founder of a business. In order to ‘found’ something new, one has to leave the old and go on a quest for the seed idea that will have the potential of bringing forth something new.”*

*-Joseph Campbell, Hero with A Thousand Faces*

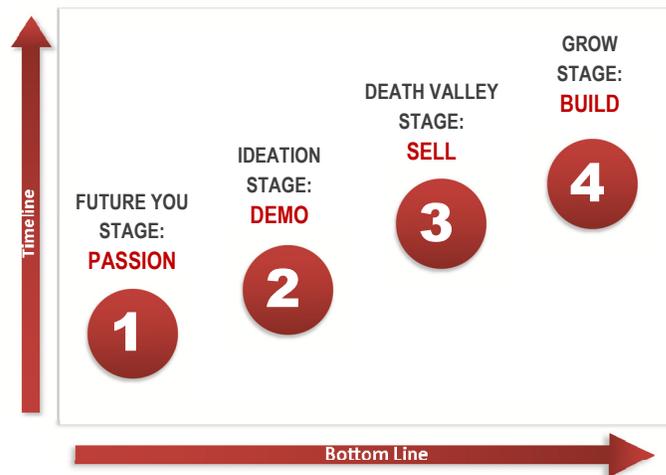
## THE FOUR STAGES OF COLOSSAL BOOTSTRAPPING

Bijoy Goswami, a Stanford Business School graduate and founder of Bootstrap Network, has written about the four stages of bootstrapping. These stages are evolutionary and do not necessarily happen in a linear way. It's also important to know that for each stage, there is only one priority or key action that you need to focus on, and if you accomplish that, you will move to the next stage. In effect, bootstrapping means doing the right thing at the right time.

### FOUR STAGES OF THE BOOTSTRAP PROCESS

#### Ponderables:

- Funding Your Business
- Selecting a Partner
- Testing Your Startup
- Hypothesis
- Business Model Iteration
- Customer Insight
- Customer Development
- Agile Development
- Monetizing Your Business
- Find Business Mentor



*Bootstrapping is an Evolutionary Cycle*

### 1. THE FUTURE YOU STAGE

**Key Action:** Don't follow the secure path society would have you take; follow your passion, talents, and interests.

When Steve Jobs was going to Reed College, he realized that he wasn't getting much out of the experience of earning a degree and felt guilty that his lower middle-class parents were sinking all of their retirement income into the effort. He was so poor he returned coke bottles, he found in the garbage to get enough money to buy lunch, and walked five miles to the

Hare Krishna temple on Sundays for the free dinner buffet.

He dropped out of college, but he decided to hang around and sit in on classes he was interested in. One of them was a class on calligraphy, which he later said was the source of his great interest in creating the most beautifully designed products in the world. Another was a course on typefaces, which fascinated him to no end. Using beautiful typefaces now shows up in the design of all Apple products and all Apple marketing.

The key action to take in the Future You Stage is to have the courage to step away from the path society would have you take, whether it's a 9 to 5 job, a college degree, or a pension and to follow your passions, talents, and interests. As Gary Vaynerchuk says, "There is simply no reason today, with all the entrepreneurial opportunity out there, for anyone to stick with a 9 to 5 job behind a desk that they hate." Look in the mirror and ask yourself what do you want to do with the rest of your life and do it. Once you make that commitment, you are looking are in the Ideation Stage.

## **2. THE IDEATION STAGE**

### **Key Action: Create a demo**

Great ideas for starting a business can come from anywhere—from pursuing your passions, whether it be for high tech or cupcakes, from "connecting the dots," from customer problems or a new technology, from empathizing with customers, or from casual conversations with people you network with.

Once you have an idea for a business, you need to share it with your potential customers in order to see whether it represents a problem worth solving, as well as whether people will buy it. The best way to do this when you are bootstrapping is not go to the time and expense of a product launch, but to create a demo and get it into the customer's hands, so that you can get feedback. If the customer responds in a way that you think they want to buy it, then go back and build the first version of the product.

Ask yourself what a good demo might be to test your business model and/or product with your lead customers. For example, provide a free consult, a sample chapter of a book, a download of an iPhone app, or a pilot of a seminar. Once you have tested your idea with customers through a successful demo, you will find yourself in the Valley of Death Stage

### **3. THE VALLEY OF DEATH STAGE**

#### **Key Action:** Sell

The challenge now is to use the scarce resources at your disposal and get your product to market and start making sales before you run out of cash. This stage is very stressful for almost every entrepreneur and has metaphorically been called crossing the Valley of Death.

It's important in this stage to stop trying to perfect your product, which can waste time and consume a lot of financial resources in the process. Try to get a first iteration of the product out the door by focusing on a single feature that is absolutely the most important to solving the customer's problem.

Entrepreneurs often have a certain degree of what people in professional selling refer to as "Call Reluctance," which is all about the fear of being rejected. Self-monitor your own reasons and excuses for avoiding making sales calls.

You can only overcome call reluctance by picking up the phone and taking action, not handling yourself psychologically. It's like a swimmer who is standing on a diving board and afraid to dive. The only way to get over it is to pinch your nose and dive into the pool. Stop reading this and go sell.

### **4. THE GROW STAGE**

#### **Key Action:** Build a professional team, organization, and key processes

Jeff Bezos talks about the time when he started Amazon, and they were inundated with so many orders, they didn't know what to do. He would get his whole team to the warehouse, packing boxes on their hands and knees, in a great fury, trying to meet the 12 midnight FedEx deadline. One day he said to the team member next to him, "We need knee pads." "No," the guy said, "we need packing tables."

In the Grow Stage, it becomes obvious that your idea has become a business. Growth is starting to occur at a double digit rate and you are not sure how you are going to be able to deliver the product and create a profitable business model at the same time. In order to pull off this slight-of-hand, you need to bring in the MBAs and professional managers and create an organization with different departments and a focused mission. It's important to design key processes for the jobs that need to get done on a regular basis, such as marketing, supply chain, order fulfillment.

## **IN CONCLUSION**

One last thought, Jay Abraham and I read a fascinating study called the Startup Genome report. It was based on research of 33,000 companies. It revealed in bold relief that the distinguishing difference between startups that fail and those that succeed is a founder who has an attitude of learning versus knowing, studying startup thought leaders, and a helpful mentor.

We believe that it was a desire to learn that brought you to this book in the first place. We hope this chapter has provided you with the thought leadership that will guide you in your everyday actions. Yet, if there was one last word of advice we would give, it would be to find a business mentor for your bootstrap journey. You may not be able to afford people like Jay Abraham or myself, but if you keep your eyes peeled, there are probably people who are well qualified in your local area. *Good luck on your journey!*