Perks and pitfalls of going it alone

David Brackin built Stuff U Sell, an eBay trading business, from zero to £1m turnover in a little under six years Charlie Bibby

Business Challenges

Self-financing can make growth difficult but some entrepreneurs believe it is a healthy discipline, writes **Jonathan Moules**

Securing outside finance remains as difficult as ever for many small businesses, even as new opportunities appear for the self-same companies to grow.

As a result, the strategy now being adopted by many entrepreneurs is "bootstrapping" – a creative approach to generating growth from their own resources.

David Brackin believes he understands this process well, having built his eBay trading business, Stuff U Sell, from zero to £1m turnover in a little under six years.

The service has certainly benefited from recession, which has driven a lot of people either to seek to raise cash by selling items themselves, or save money by using online auctions to buy goods at bargain prices.

Stuff U Sell makes its money by acting as an intermediary, charging a commission of between 20 and 50 per cent for every sale it completes.

It has been so successful that it now uses a 16,000 square foot warehouse to house its stock, which ranges from DVDs to fully fitted kitchens.

So it is surprising to hear Brackin admit that one of the main reasons he self-funded was that he struggled to get outsiders to grasp the value of his concept. "The eBay selling service was significantly unproven at that stage," he recalls. "To be honest, I didn't know how much it was worth."

But building a business without external funding has many advantages, Brackin insists.

For example, he has never been distracted by the task of having to raise finance when he could have been working on the business. Nor has he ever had .to answer to outside shareholders.

Such freedom is not necessarily a benefit, however. The flipside is that Brackin does not have an outside party with whom to share his ideas – and he has not had the resources to grow as quickly as he would have liked.

However, Brackin claims that lacking funding has, on balance, been a good discipline, forcing him to become obsessive about controlling his finances.

"Once you have decided you are not going to take money, you worry about every cost," he says.

Key to the process, he adds, is a "ruthless focus" on cash flow management, including an in-depth understanding of credit terms.

In the case of Stuff U Sell, the business model also helps, since buyers of items on eBay pay the company before it has to pay the sellers.

Brackin has kept a close eye on his cash burn, and since day one has regularly reviewed how long Stuff U Sell's cash would last.

"We would set a date when we would go out of business if we didn't make our sales target," he explains.

"When we started out, it was the next month, then it became six months out. You get to a point where you are no longer worrying about survival, you are worrying about growth."

Brackin is not alone. Joshua March, chief executive of iPlatform, which helps companies engage with customers via Facebook and other social networking platforms, could not even secure a £5,000 overdraft without personal guarantees.

However, he and his co-founders managed to pass the £1m revenue mark in less than a year of trading. This success, March claims, was down to hard work and "being very prudent" with the resources that the business had.

His cash management techniques include being tight on overheads and using contractors as much as possible before hiring anyone full-time.

Another way to grow a business without external funding is to get the customers to pay for the growth through deposits on work ordered.

This is the strategy employed by Matrix Designs and Sourcing, a supplier of white-label gifts, novelties and toys for large consumer brands in the UK and the US.

This six-year-old business – which employs 19 people in London and Hong Kong – twice had requests for increases to its bank overdraft refused, in spite of a 40 per cent rise in profits last year on a turnover of £2m.

But what most irked founder Charlie Bradshaw was the bank's decision to quadruple its arrangement fees for the finance it did provide to £400 – for seemingly no extra effort.

Not to be beaten, Bradshaw turned to his customers – which included Disney and Borders in the US and John Lewis and Paperchase in the UK – asking them to pay deposits of as much as 30 per cent upfront.

This was not an easy option, Bradshaw admits. "Some flatly refused and even tightened payment terms," he notes. "One increased its payment time to 120 days, which is quite frankly absurd, so we don't work with them any more."

It is important for a business to play its trump cards in these situations, Bradshaw notes. In the case of Matrix, it knew that retailers were able to sell the white-label items it supplied for much higher margins than the branded goods they stocked.

Matrix also offered a flexibility that the branded product suppliers did not provide.

"Brands go to the retailers with a catalogue, whereas we go in with a blank piece of paper and say: 'What would you like us to develop?'" Bradshaw says.

Although he has proved that it is possible to grow without the banks, Bradshaw admits that he has got to a position where he really needs a loan to open an office in the US, where Matrix now makes about a quarter of its sales.

Bootstrapping is all very well, but sometimes what a business really needs is a helping hand.

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