5 Questions to Ask Before Including Services in Your Bootstrapping Strategy



June 26, 2021 5 min read

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Most tech entrepreneurs these days stay away from services because investors are looking for high-margin, repeatable revenue. Service revenues don’t command the same multiples that product revenues do.

When I decided to bootstrap my startup, I never expected to be selling professional services. I quickly learned, however, that offering services tied to your product can be incredibly useful when bootstrapping. When my company started offering design and development services utilizing our low-code

development platform, these services led to high-margin recurring revenue and greatly improved unit economics. These services also drove a tremendous amount of customer success.

But, service offerings are not for everyone. Here are a few questions you should ask yourself in order to determine whether services should be part of your bootstrapping efforts.

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Do the services have good margins?

For bootstrapping to work, you need a healthy margin. At one of the companies I founded, our professional services were a necessary element of customer onboarding since product implementation was incredibly complex and not self-service.

Our professional services margin was -20%, which eroded our cash significantly. In this instance, service was not a revenue center but a loss leader – something we had to offer to secure the more valuable recurring revenue. If you find yourself in the same boat, services will never be a viable bootstrapping strategy. They could, however, be a tool you utilize to drive the rapid growth of recurring revenues.

Does the market/customer want the services?

Many technology products simply can’t be used by most people without a services component. At my company, we found that even though our low-code development platform could be utilized by people with minimal coding expertise, certain segments of our user base simply didn’t have the inclination to build their solution on our platform. We also discovered that even with powerful tools, many people wanted to leverage the expertise of an experienced software design team.

This prompted us to spin up a services team that could charge for design and development as an initial project and even provide ongoing development services on a monthly basis. Going this route is driving a three-to-six month payback on sales and marketing investment for us. Do these types of opportunities exist for you?

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Can your service offering eventually be outsourced to an ecosystem of providers?

Services can serve as a bridge to help fund platform losses up to a point where outsiders can take over. Building an ecosystem can create an awesome flywheel effect, whereby participants not only become service providers but a channel for bringing in new product sales — without the expense of having to add to your own sales team.

Salesforce and Workday both did a brilliant job of executing this strategy. Ideally your product will gain enough acceptance that you can sell off your services division for additional profit.

Do services provide you with more customer intimacy and enhance your retention metrics?

A customer's switching costs go way up when there is both a human and technological connection to your product and services. This sort of intimacy can provide a significant boost to your retention metrics and ensure predictable revenue.

Having great people to support clients can make up for early product deficiencies and create a level of trust that a pure low-touch product cannot. This is especially important in the early days of any startup's product lifecycle.

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Can bootstrapping with services strengthen your product development?

Launching a services division also provides another benefit: the chance for you to "eat your own dogfood." It's a fact that when employees use their own product, it gets markedly better. At my company, we rotate core team members in and out of the professional services team to ensure every engineer feels what our customers feel. I believe this leads to product brilliance.

Now I'm not advocating you become a services company, but having a product company with a service business could stave off having to secure venture backing before your product is more mature. This can help you avoid things like dilution, a loss of control and the pressure to grow fast for a speedy exit.

As someone who's previously founded two venture-backed startups, I like how bootstrapping with services is allowing my company to grow more thoughtfully. We have time to think about product/market fit before scaling up, we're not pursuing growth rates that our platform can't support, we're making smart hires and we're scrutinizing the ROI of all of our expenses because every dollar counts.

Additionally, we are vetting the utility of our own product with real-life customers and creating a virtuous circle of feedback to drive new features. I feel like it's the smarter

way to evolve a business like ours — building a company for the long haul versus hitting some arbitrary goal to secure additional venture capital.

There is one important consideration before bootstrapping with services: You'll want to make sure you're growing (albeit at a deliberate pace) and not just treading water. That's why the above questions are something you'll want to consider before following my lead. It's critical you feel confident that you'll create enough runway and customer success for your ultimate business model to take shape, while not letting services become a distraction.

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