



Stanford eCorner

Don't Play with Other People's Money

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Video URL: <http://ecorner.stanford.edu/videos/2355/Dont-Play-with-Other-Peoples-Money>

The key problem with venture capital remains simple: You're playing with other people's money. David Heinemeier Hansson, partner at 37signals, believes that using venture capital removes the accountability that's inherent when an entrepreneurs use their own money. When it's your own money, he continues, you want to make more of it faster, so you don't just put out a product without a price. The urgency you get from spending and making your own money is the most powerful driving force for an entrepreneur.



Transcript

I think the key problem with venture capital is first of all, you're spending other people's money. When you're spending other people's money, you care much, much less about said money. When you're spending your own money, you care very deeply about this. When we're hiring a new person at 37signals, I'm spending my money. I'm going to get a lesser dividends cheque at the end of the year. Do you think I care then about which person I'm going to hire? Do you think I'm just going to hire some bozo just to fill up the org chart or to impress somebody else, the press? I don't know. No. That's not worth 120 grand. I guarantee you that. Secondly, when it's your own money, you want to make more of it faster which usually means that you can't just put out a product, a product that doesn't have a price.

You can't just sit idly by "Oh, we got two million eyeballs after two years. It's really cool." No. Nobody cares. Do you think your banker cares? Do you think you can pay up your credit card with two million eyeballs? No, you can't. You need to have an actual product that has an actual price so you can make actual profits. And being forced to get to that point sooner is the best thing for a business. The worst thing for business is when you have no constraints, when you just have as long as the timeline as those five million will carry you. You're going to make a lot of terrible, terrible decisions. And you're going to waste a lot of time on stuff that just doesn't matter because you don't have that sense of urgency. The urgency you get from spending your own money and earning your own money is the most powerful driving force for an entrepreneur.

So, get there.