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To Raise Money or Not, Part 1

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To bootstrap means to use revenue or personal savings to run your operations, explains Josh Reeves, founder of unwrapped inc. Rather than seeking out venture capital, Reeves explains why bootstrapping his own venture allowed him to tinker with his company's product and vision without worrying about the reactions of outside investors. Hearsay Labs Co-Founders Clara Shih and Steve Garrity agree, saying they only sought venture capital to push their company to the next level in product development and to satisfy their customers' needs.

Transcript

So, we're actually fully bootstrapped still. And we did that for very specific reasons. Everyone should know what bootstrap means: Basically using money from operations, cash flow and/or savings to found a company. So, we're in a position where our product was actually making money almost from day one. And so, we actually didn't really need to raise capital. And we really appreciated that flexibility. So, I think one lesson for everyone to learn is you really need to go into the fundraising process with why you want to raise money and what you hope to do with it. And a lot of times companies will go and raise money right off the bat with the expectation that that's a really big success metric to feel like you're going in the right direction. And sometimes, it will be too soon. So, for us having six months at the very beginning of really just pure incubation, trying lots of projects, trying this, trying that, seeing what worked, building it, launching it the next day, improving it based on feedback, that flexibility we might not have had if we had raised money from investors with the specific idea.

And then, if we were like going to change it, they would freak out about that. So, there's a balance there in terms of how long you want to stay bootstrapped. And we really appreciated that flexibility early on. In our view, when you want to raise money, it's really around how to scale the company. You have a good idea of how companies work and you have some profit hopefully. And you want to really expand and reach the next level, not just in a growth cycle but also in a step change jump. In that sense, money is really good to come from that process. Great point of view. So, let's hear our counterpoint. Well, I couldn't agree more with Josh.

Never mind. Well, Steve and I went in six months before we even thought about raising money. And Josh is right, in the beginning you don't know exactly what you're going to do. You come up with a million ideas. And then, you end up going with one. And then, you end up changing it a few weeks later or a few months later. And so, for us we did a lot of prototyping. We did a lot of talking to who our potential users would be. And we finally came up with a product and we said, "OK." We don't look someone in the eye and ask them to write us a check until we know that this thing works and we know that this is something that people will actually want and that they'll pay for and that they'll use. And so, our criteria really was about having paying customers and real market knowledge before we would even pitch to even an angel, much less a VC.

And ultimately, we talked about, is this lifestyle business? Can this just be a single or double or triple? Or would we be happy having that? And we realize that we could but this is actually a much bigger opportunity. And we have stumbled upon something that people would really love to use. It's something that's really changing people's businesses and their lives. And so, I think the primary motivator for us ultimately to raise money was that our customers demanded these features. They wanted these things to be built. They told us that they would pay. They were already paying us. And so, we knew that we needed to accelerate the problem solving cycle to give them what they wanted to achieve their business goals. But why did you take VC money? You could have taken out a loan. You could have borrowed more money.

I mean, you did make the decision, though, to go the VC route. Yeah. I would say that in terms of the amount of money we raised, we really wanted to put all eggs in one basket and put a big bet on this. We've gotten enough validation that we felt comfortable doing that. The other thing was that we found the venture partner that we went with that provided a lot of value. They've done this before. They're really experienced. They have a lot of great connections. And a lot of the areas where Steve and I didn't necessarily have experience or connections. They have really been able to step up even in the few short weeks we've started working with them.

Anyone want to chime in with a different point of view? Yeah? One really quick tangent would be is if you guys are focused or interested in the Web space, a big shift in the last several years, is that you actually don't really need a lot of capital to prototype something. So, if you think about productivity tools like Google apps or Gmail, all the different things that are available now through open-source technologies. The actual cost barrier to go build something and test an idea is much lower than it was like in the last couple cycles of the Web boom, which means you actually don't need to go through that process of fundraising because fundraising does take time away from necessary product development. And so, you want to make sure if you're focused on the Web that you can make the most of it.