Stanford eCorner

Startup Growth Rates

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For the venture capital model to work, the most successful companies in a venture capital portfolio need to grow extraordinarily fast. Bessemer Venture Partners operating partner Jeff Epstein lays out the cadence required to reach $100 million in revenue by the eighth year of a startup’s lifespan.

Transcript

Instructor If you go to a large fund, 00:00:05,270 which has a billion dollars or more under management, they're looking for home runs.. Venture capital business is in a way it's like playing baseball, where instead of getting four runs for grand slam, you can get 100 runs for grand slam or 1000 runs for grand slam.. So people in the venture capital business on average know that many of their investments are gonna fail.. Often a third of all investments in venture capital, the investors lose all their money and a third of the time they about make their money back.. And then the remaining third, the profitable third, they have to make a big return to get a good return overall on their entire portfolio.. And they're looking to make a 10X return or even 100 times return.. And they're looking in many cases for a company that could be worth more than a billion dollars for a large fund.. So for the company to be worth more than a billion dollars, the revenue has to be over $100 million, let's say just order of magnitude.. And to get there within a venture timeframe, meaning eight years, you have to have growth approximately triple triple, double double.. So let's say you're a company like Jordache, and you get to 2 million of revenue by the third year..

And then in not just revenue, but the profit margin in our marketplace you'd have to look at just not just revenue, but also what's the take of the marketplace.. So that number being 2 million by the third year, then you wanna triple it.. You wanna grow very fast.. We go from 2 million to 6 million, meaning that the take rate for a marketplace where the revenue for a software company, and then triple again from six to 18 and then double, double, double.. And then you get to over $100 million of revenue in the eighth year.. And let's give a real example of this Shutterstock.. A company where I served on the board for nine years, was founded by Jon Oringer, this is an image of Jon with a camera there.. He was the founder.. He started it in 2003.. It's a B2B marketplace for images..

And by Shutterstock's eighth year, they had 500,000 customers.. Customers were paying on average, $2 an image.. They were buying 100 images per year each.. And if you just multiply that out 500,000 times two times 100, that's $100 million of revenue in their eighth year.. And when they started, they thought this is what we could do, and they actually achieved it.. So that kind of growth is something which most large venture funds will say I don't know whether you can do it.. I know some of the companies I invest in won't be able to do it, but my ambition is that every company invested has the potential to do that.. And then in this next slide to show some other examples and you can see how in recent years, some companies have been growing even faster.. Cornerstone, a HR software company took 12 years to get to 100 million of revenue.. Coupa took eight years, Shopify, six years and Twilio, HashiCorp, Slack, and UiPath even faster..

So this is possible to get to 100 million of revenue within this sort of two to eight year timeframe to the very best companies...