Stanford eCorner

Bootstrapping: Still a Great Way to Raise Money

16-01-2002

URL: https://stvp.stanford.edu/blog/videos/bootstrapping-still-a-great-way-to-raise-money

Roizen talks about the importance of bootstrapping and maintaining control of the company in the early stages. Not only do entrepreneurs have to work for a living, they also have to make the money raised last for a longer time. When capital became easily available, Roizen notes that people stop making money the old fashion way: by working. If you make profit, you don’t need other people to invest in your company, she says.

Transcript

The only other thing I would say about that it's both a good time but it's also a tough time is on the tough side not only do you have to plan to work for a long time, but I think every time you raise money you need to make that money last a long time.. It's remarkable to me how many companies didn't raise venture capital many years ago that are successful or how many raised venture capital only after they achieved multimillions of dollars of revenue.. There was this thing called bootstrapping that people used to do you know.. Program on nights and week ends.. Pull teams together.. You had your day job but then you did all that.. And you launched the product and you even used it, ship and sell the product for maybe your former employer's location.. Some of us did.. And that fell by the way side when capital became very, very cheap.. When you could go out and sell very little of your company and get that kind of capital to be able to support your entrepreneurial endeavors for a year or two..

Hey! It was a great idea.. I would have done that too if I could get the time but unfortunately I couldn't.. When I went out to start my company and so we did have to actually make our money the old fashioned way and earn it.. And I think that's a really great thing to do because I think you can maintain a lot of control.. I think you can do.. The ultimate reason why you do that is a really simple one.. At the end of the day, the best assurance that you're going to create shareholder value is to create profit.. If you can create profit, shareholder value will usually follow.. Now there's a lot of people who made a lot of money in the past market by picking a trend early and betting on something.. And you know to a certain extent the greater full theory that there was always someone who is willing to pay more money for that company..

But at the end of the day you know, profit is nature's way of telling you, you actually built something of value.. And you can get real people to pay real money for it, and pay you more money than it cost you to make it.. Profit has another great advantage.. You don't need anyone to invest in your company.. Right? You can continue to survive you know.. We have lots of time.. You can live to fight another quarter if you're actually making money.. If you're not making profit you will have to be beholding to someone who is going to come in and purchase your equity.. And that's going to be real challenged.. Now, does that mean you should never have venture capitalist? Well I would really be dumb if I stood up here and said that...