

Bootstrapping To Billions

Gone are the effervescent days when Silicon Valley entrepreneurs bragged at cocktail parties about the millions they raised from venture capitalists. Gone are Super bowl ads and glitzy launch parties. That was so 1990s.

Now, entrepreneurs boast of funding their start-ups all by themselves, without help or hassle, from venture capitalists. I encounter more and more entrepreneurs who are perfectly happy bootstrapping their startups. They say it gives them more control over their companies, while cutting the dominant pressure to repay investors.

Gerry Langler, a general partner at OVP Venture Partners, puts it bluntly: "Venture capitalists have only one goal: they want to make money for their investors and themselves." But entrepreneurs' motivations are more complex.

There's also a lot of proof that bootstrapping works. Just look at Craig Newmark, founder of the famous Craigslist classifieds. Newmark's bootstrapped company has grown like a weed, generating revenues of \$55 million in 2007.

Another solid example of the bootstrapping trend is Sridhar Vembu, CEO of Adventnet and proud parent of the Zoho software suite. Vembu self-funded his company, which in 2008 generates \$40 million in annual revenues and sends \$1 million in profits to the bank each month.

Other entrepreneurs have turned to bootstrapping after getting burned by venture capitalists. The founders of software-as-a-service start-up, Apttus, for instance, raised \$60 million from VCs for their previous company, Nextance, then watched their shares dilute to less than 1%. This time around, they are trying to steer clear of VC money.

It may be common belief that bootstrapping can work for small businesses, but to build large public companies, you need venture capital, right? Not necessarily.

Twenty years ago, Frank Levinson used his own money to start optical components maker Finisar – and he's never regretted his decision. "I founded Finisar 20 years ago on February 22, 1988," Levinson recalls. "We had revenue of \$6,000 in March of that same year – and had revenue from that point forward."

Jerry Rawls, who a few months later joined Finisar as CEO, shared Levinson's philosophy of building the company without venture capital. They both say the decision to bootstrap the company allowed them "to be market and technology patient".

Finisar went public in 2000, 12 years after it was founded, with \$67 million in sales, and almost no outside financing. "It was a really successful IPO," Rawls says. "We went public at \$19. The stock traded as high as \$106 on the opening day and closed at \$89. We were the seventh-largest increase on the first day of trading in the history of all the US stock exchanges. Our market cap was well over a billion dollars. I think our peak market

cap in those days was as much as \$5 billion.” Today Finisar makes over \$400 million in annual revenues.

So you see, dear entrepreneurs, patience pays. And it pays to be patient on your own dime. VCs are not known for such patience. Their fund structures don't allow them to invest with 12- to 15-year horizons in mind. They need to return their funds within 7 to 10 years.

Thus, if you do want VCs on board, try to involve them at later stages. Give them a small percentage of equity while maintaining as much control of your destiny as possible. But if you must take money in the early stages, work with the smart Angel investors who don't hoist a ticking seven-year clock overhead.

This is not to say that bootstrapping is easy – it's not – or that it's the best strategy for all types of ventures. In fact, if an exploding market opportunity is staring you in the face and you want the fastest vehicle to play in that market, venture capital may well be your best path forward.

Good VCs can also be useful mentors if you're an inexperienced entrepreneur looking for guidance. In addition to providing funding, VCs poke holes in strategies and business plans and hold entrepreneurs accountable for their decisions. Today's Valley is chock-full of second-, third- and fourth-generation entrepreneurs who have benefited greatly from wise VCs.

But successful entrepreneurs spend a lot of time "experimenting" with new technologies, markets and business models to figure out what sticks. Involving VCs in the early phases of building is expensive, demanding, and could prove detrimental to the survival of a fledgling venture.