

Bootstrapping vs. Seeking Venture Capital – How to Decide the Best Avenue for Your Business



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Every person who's founded a business knows that financing your idea is one of the hardest but most important early steps. In fact, creating a stable financial nest for your new company might be the difference between a company that thrives and one that fizzles out.

There are two primary methods of financing: looking for venture capital and bootstrapping. Choosing which financing method you go with is a crucial decision that may have long-term impacts on your business.

So, how should you decide which method to pursue?

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Bootstrapping

Bootstrapping is the process of starting a business with no outside funding. This is an achievable way to start your company because you can focus on building your team and product exactly how you want. Further, bootstrapping typically means you'll reach an initially smaller audience, so you'll have time to get feedback from early users before launching to a wide audience.

The advantages of bootstrapping include a bigger focus on customers. Because you don't have a huge nest egg, pleasing your early customers is your lifeline. So, you'll focus more on user retention and building long-term customer relationships.

Disadvantages of this creative financing option include slower growth. Because you're funding yourself, you'll have less access to expensive technology that affords fast production processes. Further, you'll have to rely more on personal savings or debt in order to jumpstart your business.

Seeking venture capital

On the other hand, you may opt to seek venture capital. Venture capital is a type of financing through private equity. In other words, investors put money into your business, betting that it will become a successful venture. By going with venture capital, your business will grow faster, resulting in a quick return on investment.

The benefits of venture capital include less personal risk. You're not pouring your own money into the business, so you don't risk losing your own money. Additionally, getting a loan

from a credible investor will increase your own credibility.

However, drawbacks of venture capital include the expectation to grow quickly and the initial reduction of your stakes as an owner of the business.

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Choosing the best financing option

The decision between bootstrapping and looking for venture capital depends largely on the state of growth that you're in. In fact, many great investors often want to see evidence that you've successfully bootstrapped for the first stage of your business.

But why? Because successful bootstrapping serves as evidence that you're smart and hardworking – and that you've got a good idea.

However, say your business is in an industry that requires a large amount of upfront research, such as the biomedical or electric car companies. In this case, you'll need a huge amount of capital, which will likely require raising money from outside investors. But if you can bootstrap the formation of the company and proof of concept, you'll face less dilution in the venture capital process as the founder. Further, it means you can embrace a lean-and-mean, efficient philosophy toward operations.

In this case, you prove that you're efficient when it comes to using capital. It also proves you're more resourceful than some business owners and entrepreneurs. Further, it shows that you can be innovative out of necessity.

So, if you're creating a good product and your business is successful, you'll begin to gain traction in your industry. Then, there will inevitably come a time when you start to

outgrow the resources that are available to you on your balance sheet. As a result, your own bootstrapping funds will cease to be able to fund your business's growth as aggressively as necessary.

When this happens, it's likely best to raise outside capital. In fact, this is often the best way to take advantage of the opportunity you've created for yourself. In this case, you should have an easier time finding funding.

Why seeking growth capital is easier than seeking startup funding

Historically, it's easier to find growth capital than it is to seek startup funding. So, because you've bootstrapped for a period of time, you've given yourself the opportunity to prove the viability of your idea. As a result, seeking venture capital will be easier as you can approach investors with successful results about your company.

At the end of the day, how you fund your business is up to you. Your own evaluation of the state of your business, the viability of your product and the potential of your business to generate profit should help you determine which avenue is best for you. Bootstrapping and seeking venture capital both have significant benefits and drawbacks. So, you should evaluate where you are in your business when choosing between the two.

Most likely, the best option is a combination of the two. Consider the stage that your business is in when deciding whether to choose bootstrapping or seeking venture capital in order to guarantee the highest level of success.

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