My Startup Couldn’t Raise VC Funding, So We Became Profitable. Here’s How We Did It — And How You Can Too.



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It’s no secret that the startup world is hardcore. Half of startups fail before year five, and only one in ten survive in the long run. Recent economic trends aren’t too encouraging either. Last year saw a 38% drop in global startup investment and a 30% decrease in the U.S., specifically. Moreover, of the available funds, a significant amount was gobbled up by trendy artificial intelligence startups. So, if you’re not in AI, the picture may appear even more grim.

Today’s founders have to come to terms with the fact that the

VC funding round they've been working toward might not materialize. Though this has always been the case, the bar is now so high that a plan B is essential — how will your business survive if it doesn't receive funding?

Alternative startup funding is one increasingly popular option, e.g., taking out a loan with a traditional credit institution. But this isn't for everyone and definitely not for pre-revenue startups because the bank needs to see how you will repay the loan. Plus, collateral — or the lack thereof — may disqualify any software or other startups up front, as, unlike VCs, banks don't operate on faith.

So, if nobody's giving you funds and you don't have the runway to hold out until the ecosystem picks up again, there's only one way your startup can grow — become profitable.

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Why profitability needs to be top-of-mind even if you're doing well

I have been actively fundraising for my on-demand Consumer Packaged Goods (CPG) startup since its inception three years ago. First, we raised $1.9 million in pre-seed capital for building out our business core, which we did — securing the necessary partnerships, putting together a base of operations, developing our software and growing the team.

With a solid foundation and proven business model, it was time to scale, and we sought VC partners to help us ramp up our operations. What I expected to be three to six months of active fundraising turned into a year that bled into the next and, to this day, is ongoing.

Despite demonstrably positive business results and a slew of warm contacts and cold pitches, investor response was tepid.

Interest came with conditions and homework – “Let’s reconnect when you achieve these figures.” But when we did, the goalposts shifted. Fundraising started to feel like a goose chase, and the increasingly turbulent economic environment didn’t do us any favors either.

Right now, competition is intense and startups that investors would swarm just a few years ago might not get a second look today. With that in mind, founders should avoid placing all their eggs in one basket and hedge their bets by approaching growth in a profit-oriented direction.

Because if you don’t, you have two equally unappealing options: going bust or getting chained to an opportunist investor who will pay pennies on the dollar.

Three things a founder must do to be profitable

Four months ago, my startup reached profitability for the first time. It came after more than a year of active work and planning, and here’s what it took.

1. Change your mindset

The main job of a startup founder is to raise funds – this is something that gets drilled in at incubators, accelerators and other mentorship programs. Accordingly, a founder’s focus often lies in beautifying their startup for investors, i.e. finding ways to boost KPIs even if it’s unsustainable, focusing on design over functionality, and spending big in marketing to demonstrate growth.

When pursuing profitability, this must be unlearned. Growth cannot be cosmetic, and for many, that demands a change in mindset. Goals and priorities must be redefined. Forget maximizing sign-ups; focus on paying customers; forget vanity

metrics; focus on conversions; forget your personal wants; focus on business needs.

Note that this doesn’t mean you should stop fundraising, but you probably will have to revise your pitch deck.

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2. Optimize your business

A changed mindset is not enough—you need to get in the trenches and optimize, optimize, optimize. For a regular business, your runway is limited, and if you don’t bring your balance sheet into the green, then it’s game over.

Here’s one specific area to pay attention to: startups often hyperfocus on client acquisition and neglect user retention. They’ll pay through their nose to get a signup but invest little in ensuring clients stick around, leading to a profitability-killer combo of high CPA (cost per acquisition) and a high churn rate.

As my co-founder always tells our clients: “All you need is 100 loyal customers for a successful full-time business.” We adopted the same mentality, going for quality over quantity.

Tackling this was a cornerstone of our journey to profitability. We went to great lengths to understand specifically when and where our clients churn and put all our effort into answering their pain points to ensure people keep using our services. This way, you’ll get more bang for every buck you’ve invested in acquisition.

3. Expand your offering

Unless you’ve been striving for profitability since day one, chances are it’s going to take you a very long time to reach it. In fact, it may be impossible to reorient your business

quickly enough. For this reason, it’s wise to look into additional revenue streams that can support your business while it turns over a new leaf. This can be anything from additional services to new products. For example, my CPG startup allows anyone to start a side hustle or full-blown business selling on-demand supplements, cosmetics, and packaged foods. However, to start selling, our customers need to set up an online store where they can direct their customers.

While our customers found our platform easy to use, they struggled to set up a store — so we began offering assistance with this as a separate service. Essentially, we leveraged our existing expertise to offer ecommerce development services, which was critical in extending our runway.

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