This is Why Your Business Should Avoid Taking Investor Money



March 26, 2021 6 min read

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Many entrepreneurs believe they need to raise money from venture capitalists to build a successful startup, but that couldn’t be further from the truth. Rather than chasing capital from investors, it’s often more beneficial to put your head down and commit to a bootstrapped growth approach.

Bootstrapping a startup means starting extremely lean and without any outside capital, whether that be from a major venture capital firm or a local investor that came by way of mutual contact. The startup’s growth is fueled by the revenue

generated by the business.

So, rather than having a pile of money in the bank, a startup is forced to get scrappy both in terms of generating revenue and stretching every dollar as far as humanly possible. Many billion-dollar companies bootstrapped their way to massive growth and valuations — from Mailchimp and Shopify to GoPro and Spanx.

While bootstrapping doesn't sound as sexy as securing funding from a well-known Silicon Valley fund, it can be the more attractive option for some businesses. I bootstrapped my company the entire way, and have never recruited the help from any investors. I started my company in my apartment, scaling it to the eighth fastest-growing company in Canada and more than $160 million in revenue in six years.

I understand the benefits of bootstrapping first-hand, and know my company wouldn't have reached the same level of success if we had those preconceived notions of needing to bring on venture capitalists. To help you understand why you should consider a bootstrapped approach, here are the five major advantages that come when you avoid investor money:

1. You maintain full ownership

Bootstrapping presents you with incredible challenges and many stressful situations, but owning 100 percent of your business is worth it. If you have a co-founder or multiple co-founders, taking multiple funding rounds out of the equation keeps everyone involved and compensated as there is no future dilution.

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2. You have complete control over the direction of your business

The minute you cash an investor’s check, you have someone else to answer to and keep satisfied. Your investors might not have the same vision or experience. But because you’re using their money, they essentially have a say in what you do, when you do it, and how you do it. Simply put, you give up your ability to control the direction of your business.

Without investors, there are no votes when it comes to making decisions. You can make on-the-fly decisions that have an immediate and profound impact on your business. If having full control over the direction of your business is important to you, bootstrapping is hands-down the better option.

My company knew that prioritizing our customers was a recipe for success, so our team did just that. We offered, and still do, an incredible amount of support and onboarded customer success managers. An investor board might not have green-lit bringing on so many team members for those roles. But, being bootstrapped we didn’t have to seek approval. We made decisions based on what we felt would help us scale quickly and successfully.

3. No ‘exit’ timeline or pressure

Venture capitalists invest in startups to make money. Sure, they invest in founders and industries whenever they see potential, but it comes down to the potential return. An investor isn’t going to have te same timeline as a business owner.

There are only so many Facebooks and Instagrams, so most startups don’t see massive billion-dollar returns for venture capitalists. Therefore, venture capitalists will exit at the first chance they get to come out ahead. Some investments fail

miserably, so it's in their best interest to exit as many deals as possible in the green. If you have a long-term gameplan for your business or envision handing it down generation-after-generation, then you'll want to bootstrap its growth.

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4. Knowing you built your business yourself is an incredible sense of accomplishment

There is an incredible amount of satisfaction that comes from knowing you built a successful business with no outside assistance. You feel an amazing sense of accomplishment when you step back and see your hard work turn into a successful business that creates jobs and opportunities, while providing a product or service that customers love.

Many people on the sidelines will credit a successful business to its available capital, saying things like "Oh, they grew fast because they had millions of dollars to scale their marketing and advertising." But when you bootstrap your company's growth, nobody can discredit your accomplishment or take anything from you – you did it on your own and with your own set of rules. For me, knowing that I started a business in my apartment and grew it to more than $160 million in revenue without taking a dime of funding is more gratifying than the monetary aspect.

5. You're forced to build a business model that works

When the success of your business ultimately depends on your ability to generate sales and revenue right off the bat,

you’re forced to build a business model that works. Just look at how massive startups like Uber have become venture capital money pits. The Ubers of the business world aren’t concerned with making money – in fact, they lose money at an incredible rate. While these companies may pay off in the long run, it’s also very risky for investors. These organizations prove that there is demand and they can acquire users, but haven’t proven their business model in terms of profitability.

Bootstrapping forces you to create a business model that works, and quickly. Without positive cash flow, you cannot scale. Without scale, your business is dead in the water. The pressure of having to figure out how to build a successful business model quickly is one that more startup founders should fully embrace and welcome.

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