Ali:

Hi, Jerry.

Jerry:

Hi, Ali, how are you?

Ali:

We are here to talk about important things (laughs) like what are the benefits of not raising venture capital. And another way to phrase that is what are the benefits of bootstrapping?

Jerry:

Yeah, I like- I like the second, uh, reframe of this, because venture capital is a complex subject, and we're coming out of a period, for example, uh, the last four, or five years, where, uh, for too many situations, there's been too great an emphasis on growth for growth sake. And, um, part of that stems from a non-traditional appropriate to venture capital, which was I'll pay high price to invest in your company, because I believe somewhere down the line, in a very short period of time, we'll pay higher price. And if that sounds like a Ponzi scheme, it is. Right?

And one of the great benefits of this time period, which is lots of dislocation, lots of disruption is we're getting back to a kind of more sober relationship with capital-raising. A few weeks back, I was in New York and visit with my old partner, Fred Wilson. And we were talking about this time period. And he sort of looked at, and, you know, he's an old fart like me, and he said, um, uh, "I can't wait to get back to investing the way investing is supposed to be," which is putting capital in a promising young business, where capital doesn't over-fertilize the business, over-grow the business to the point where the business starts to collapse, but, in fact, is the right amount of capital, just like the right amount of fertilizer in a plant at the right time management accelerates growth. That's the traditional venture capital model.

The problem has been we- the returns were so great that if $3 million into a company would help to grow and create a 5x return, then let's put $20 million into the business in the hope of getting that 5x return. Problem is that businesses don't operate that way. So that's one piece of the equation. So that's a model where growth was valued over profitability, where growth was valued over sustainability in a business. Now, let's look at a bootstrap model for a moment. The implicit structure of a bootstrap model is that you have to be profitable from day one. Now, that's hard. (laughs) But there's a tremendous amount of benefit to that, not the least of which is the founding team, the owners of the business get to call shots. And let's be clear. The vast majority of small businesses in the United States are bootstrapped. They just tend not to be very sexy, because they tend not to really sort of drive.

But, you know, the window-cleaning service that employs four people, and then, they g- Like, that's the vast majority of businesses in United States, these small, tiny little business that just have to be profitable. They have to run that way. I r- When I was in high school, I worked for a locker repair company, for each- four straight summers. And Jack Martinez, the guy who ran the company, the way he would price a job is three times whatever it cost. (laughs) So he had implicitly structured 30% margin in the business, right? So among the benefits are you get to run the business the way you wanna run the business. You get to ru- You get to exit whenever you- how you would like to. You may not be able to exit at any given moment that you'd like, but you get to call your own shots, the master of your own destiny.

The downside is when you could use capital to grow, it may not be available to you. The upside is it- it clarifies the mind, and sharpens the focus on building sustainability from the beginning. The last thing I'll say about this is, um, the investor, whom I admire the most, who's written the most about this is Bryce Roberts. Now, how built a form called Indie VC, the investment thesis of which was, "I'm gonna provide capital to businesses least interested, least in need of those- of that capital so that that capital is the right amount of fertilizer at the right time so the plant grows really well." He was a little early in the marketplace. But right now, as we're seeing the collapse of that- that hyper-growth model, um, Bryce seems more prescient than ever before. And I really encourage people to read his writings, and if you're so lucky, get a chance to talk to him, uh, give him a call and talk to him. Tweet at him, and he'll respond to you.

Both pathways are hard. Both pathways are hard.

Ali:

Differently hard.

Jerry:

Differently hard. Choose wisely. Choose what's in the best interest of you. How do you wanna r- uh, a business? You know, when I was an active investor, um, VCs would pejoratively describe a business that was mostly bootstrapped and simply profitable as "a lifestyle business". And, you know, we've spent- Ali, you and I have spent nearly a decade helping people develop a business where work and life were in that healthy relationship with each other, and integrated, in a way. And that's another way to think about a lifestyle business. You know, there's nothing wrong with building a machine that is simply profitable, pays people a good salary, employs people in a healthy way, and does good work in the world. There's nothing wrong (laughs) or worthy of, uh, denigration about doing that.

Ali:

Yeah. I think a well-run business like that, um, that's really clear about why it exists in the world, and what it wants and needs, and where it wants to go, and how it's gonna get there. Even just that level of clarity is so relieving for everyone involved, right?

Jerry:

Relieving and liberating.

Ali::

Yeah. And here we are.

Jerry:

Yeah.

Ali:

We're doing this thing, you know?

Jerry:
That's right. That's right.

Ali:
Thanks, Jer.

Jerry:
Thank you, Ali.