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Grow revenues before seeking VC funding

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Small businesses owners want to grow their companies, but their ability to expand operations is limited by their own profitability or otherwise lack of capital.

Faced with this dilemma, many turn to venture capital firms (VCs), which embrace high-risk, high-growth startups and offer the money and management they desperately need to meet the growing demand for their product.

Money may not make the world go 'round, but it certainly helps when financing a high-growth new business venture. And there are no shortage of VCs to turn to. But while many small businesses rely on VC funding, few CEOs really think about the strings attached to all that cash, and what it means to their company and customers.

VC funding may appear less desirable in comparison with revenue-based funding, for example. Consider the differences between the two:

1. VCs dilute the startup's equity every time they invest and want board representation. Clients, aka revenue, don't want equity; they want results.

2. VCs want a certain level of control over a startup's financing. Clients want control over their financing.

3. If VCs invest more than once (e.g. at Stage 1 and Stage 2), they start to dilute the founders and early stakeholders to a point that they no longer own the company. Clients who buy more than once are satisfied — and become key references for gaining new clients.

4. VCs are convinced the only measure of success is a very large exit. Clients believe success is finding a supplier that helps them solve a problem. They may want a startup to be successful, but not necessarily very large.

5. The more VCs you get, the harder it is to attract VCs. The more clients you get, the easier it is to attract other clients.

6. VCs don't really help you get clients, unless they own the client. The more clients you get, the easier it is to get VCs.

7. Sometimes you need VCs, but you always need clients.

8. Clients are afraid of you flipping your company. VCs insist on it.

9. Banks often lend money based on client receivables with low rates of interest. VCs have clauses where they lend you money, but it's usually convertible to equity.

10. You can usually keep most clients happy if you provide good service. VCs tend to always want more.

Certainly, VCs play an important role in maintaining a vibrant economy and fostering the entrepreneurial spirit, but VC funding is not the right choice for every startup at every financing stage.

Weigh your options before turning to a VC, and determine the level of involvement clients play in supporting your company and its future.

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