Video Transcript: “Where do Entrepreneurs Get Their Money?”
https://youtu.be/U470xXKfDyE

MALE_1: [00:00:00] Most young companies need money which may or may not come as a big surprise. But they do, the number one source they get money from is from their own savings. Whether it's a few hundred dollars or even thousands of dollars, that's what we tend to tap first. A lot of companies don't get money from any other place. They get money from their own savings. Then after that, they're lucky enough to be cash flow positive, they're profitable. We talk a lot as if all companies require all sorts of external capital. The reality is that more than half of young companies get all their funding from a combination of founder savings and then cash flow from the business, and we're out of here.

Next up on the list is another one that catches, I think, people by surprise, and that's credit cards. Almost every young company you can think of to one [00:01:00] degree or another was funded on credit cards. It is the single largest source of capital for young companies after founder savings.

Then the next place where they tend to get money is from friends and family. After I've tapped out my credit card and I've used up all my savings, I turn to people I know and say, hey, will you help me? That's the third biggest source of capital.

Then the next place is banks. The banks are a totally weird situation because with banks they get a lot of attention, but they actually fund very, very few young companies. But it's not their fault. You have to think about the way bank lending works and how shareholders want banks to lend. They want them to lend money against secured assets. Young companies don't have any security, they have nothing to secure it against. The joke in the industry is, is you can get all the bank funding you want as a start up, as long as you don't need it.

Then the last piece is venture capitalist, and they get the lion's share of the attention, which in some ways is warranted, your Googles and apples and FedEx's and many others all have venture capital money inside of them. But the reality is, and this is from Kaufman Research, [00:02:00] less than 20% of the fastest growing companies in the United States took any venture money. That's not because the VC's wouldn't give it to them, it's because they didn't want it or didn't need it because they had all those other sources. I don't need money and I certainly don't need money on these terms because venture capitalists, unlike banks, they don't lend against secured assets. They give you money in exchange for shares, so they take some of your company away. My answer is if you don't need it, definitely don't get it. There's no question the venture industry has become staid. The irony is it's intended to fund disruption and yet it's an industry that has become complacent.

Interestingly, over the last five or six years we've seen the emergence of other mechanisms for funding like AngelList. These kinds of peer to peer funding sources as people increasingly provide capital in smaller amounts, but more people doing it directly. Having said all of that though, venture capitalists are hugely important for those young companies that don't have access to bank funding, but our growth companies, they have the prospect of being a five million or a $10 million company in a couple of years. [00:03:00] They need that growth capital to get there quickly. It's a race. The way you play the race is by getting money from people like venture capitalists, who give you the money. You can compete with other people who are racing as fast as you are. If you can run a company off cash flow and some combination of credit card, your own savings and friends and family Bob's [inaudible 00:03:21] run, run. You keep all the equity because you know there's no better thing than being in full control of your own destiny.