

VC Perspective Series: When Not to Take VC Money – as Told by a VC

TheFunded.com [Open Letter](#)

Posted by Rebecca Lynn on 2010-07-22

PUBLIC:

The VC Perspective Series invites selected venture capitalists to offer their opinion and advice on fundraising and the venture capital industry. If you would like to suggest a topic, please add it to the thread found [here](#).

I'm a VC and love what I do. I have the amazing job of working with entrepreneurs everyday to help them grow their businesses. So it might seem odd that I'm giving you reasons for not taking venture money. To be clear, I'm not saying you should never seek venture capital. Some of the most valuable companies on the planet today were funded by VCs. But taking money from a venture firm means that you are signed up for a specific growth path, and your goals and the goals of a VC must be aligned. Some startups are either too early or were never meant to take venture capital money.

In my opinion, it makes sense to bootstrap your company when you're in the concept testing stage. If you can't sell your product or service to prospects, then you probably don't have a company. Don't try to raise venture capital so you can test your idea. First, many VCs, like me, prefer to fund companies with at least some traction and momentum. And, you don't want to sell equity in your company before you have a proven business model – you won't have as much leverage with the VCs and will likely need to give a lot away. Wait, and go for venture dollars when you have a proven concept.

Angels and super angels have grown a great deal in number and stature in the last two years, and I think serve an important role in the company-creation continuum. Companies in the early stage of development should seek angels because the structure of their terms is suited to this stage. They are typically simple convertible note documents.

Be wary of venture firms with angel funds. Even if they are called something else, all the VCs know who they are. The issue is that if the venture firm does not fund you in your Series A, you can be left an orphan. If the venture firm that seeded you won't fund you, why would someone else? It is better to raise an angel round from angels.

Now let's say you've tested your concept and built a nice business that is getting traction and has revenue. Ask yourself what you want out of life. There are a lot of businesses out there with \$5 to \$30M in revenues that are profitable, but they are not generating "venture returns." However, they are very nice businesses to own and run. Will netting \$100K a month and running a small business make you happy? Then stay put. But if you want to swing for the fences and become a

global leader in your space, you should consider bringing in trusted VCs with the network and the capital to help you. Our firm invested in Apple in the late 1970s when they decided to swing for the fences. Once you take venture money, you are signed up for a growth path that leads to a liquidity event (sale or IPO) in the next 5 to 7 years.

As an aside, I also have some definite opinions on how to handle incorporating your company in the early days, but that might be best left for another post. Word to the wise: There are very few reasons to be incorporated as a Delaware C Corp right out of the gate, except to make your lawyers richer. (Did I say that?)

About the author: Rebecca Lynn is a partner at [Morgenthaler Ventures](#). Based in Menlo Park, CA, she focuses on early-stage investments in consumer verticals including financial services, advertising, healthcare and education. She has a JD/MBA from the University of California at Berkeley as well as an engineering degree from the University of Missouri