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WHY YOU DON'T NEED VC TO BUILD A BILLION DOLLAR BUSINESS

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Silicon Valley venture capital is like a very successful lottery.

Although the business press is filled with exploits of VC-funded ventures, the reality is that 94 percent of billion-dollar entrepreneurs took off without VC, and only about one in 10,000 entrepreneurs truly benefits from VC. Yes, there is flash and dazzle and a few billionaires are created. But it is hit-or-miss, mostly miss.

You would not recommend a career of buying lottery tickets to your children or pick it for yourself. For entrepreneurs who want to reduce the role of luck in their success and improve their odds, here are six reasons why you don't need VC, based on the track record of America's billion-dollar entrepreneurs.

You Can Build A Big Business Without VC

One of the most common myths in business today is that entrepreneurs need VC to grow big. One of the reasons for this belief is that VCs love to publicize their home-run successes, which gives entrepreneurs the impression that the success would not have happened without the VCs' investing acumen and sage guidance. Is this true? Are VCs really the wise sages of the venture world?

Billion-dollar entrepreneurs are unicorn entrepreneurs. They started and built a venture from startup to over $1 billion in sales and valuation. There are only about 6,000 U.S. corporations with sales in excess of $1 billion. Companies with over $1 billion in sales and valuation are rarer still. And entrepreneurs who started and built their venture to this level are the rarest.

The reality is that 94 percent of America's billion-dollar entrepreneurs in the VC age took off without VC, and 76 percent never used it at all. VC works for one or two entrepreneurs out of 10,000, and it has mainly worked in Silicon Valley where more than 90 percent of billion-dollar entrepreneurs used VC, but where most delayed seeking VC and stayed in control. VC has not done well outside Silicon Valley where more than 90 percent of billion-dollar entrepreneurs avoided VC, and the rest delayed.

America's billion-dollar entrepreneurs kept control of their ventures and the wealth created mainly by using smart skills and strategies to find their billion-dollar opportunity, develop their billion-dollar strategy, finance with control, and launch their billion-dollar business. No matter what stage of the business stage or cycle you are in, if you want to rejuvenate your business and your growth, it may be time to look at how billion-dollar-entrepreneurs built giants from the bottom of the business world to the top.

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You Keep More of the Wealth without VC

VCs seek control, but unicorn entrepreneurs keep control of the venture and wealth created. Billion-dollar entrepreneurs control the venture and keep more of the wealth created by avoiding or delaying VC. Those who delayed VC kept about two times the wealth created than those who got VC early. Those who avoided VC kept about seven times the wealth created than those who got VC early.

It pays to delay or avoid VC. By delaying VC, entrepreneurs stay on as CEO, and avoid having a professional CEO run their venture and change their vision. Steve Jobs, arguably one of the greatest entrepreneurs of the VC age, lost control of his venture by getting VC early. If any of the four CEOs between Jobs I and Jobs II had kept Apple successful, Jobs would not have been invited back to Apple.

Most venture capitalists have a poor track record and most of their ventures fail. Your venture capitalist may not be a home-run financier and your venture may not become a home-run under the VC model. If you get VC from the wrong venture capitalists, the odds are that your venture is unlikely to succeed. Estimates are that about 20 VCs earn most of the profits in the VC industry. These are the VCs who finance home runs. You are better off picking the right venture capitalist for you after take-off from those who will be seeking you out—if you need one.

Be capital-efficient till take-off. After take-off, you can get growth financing on your terms.

99.9 Percent of Entrepreneurs are Unlikely to Benefit from VC

Very few entrepreneurs get VC. VCs only fund 1 out of 1,000 ventures. 99.9 percent of U.S. entrepreneurs don't get VC. If your business plan depends on getting VC, you may be better off not starting. Or move to Silicon Valley. But if your goal is to build a big business, whether or not you get VC, you can learn how. That is what 94 of 100 billion-dollar entrepreneurs did. The other six percent either developed billion-dollar technologies, such as the cardiac pacemaker, or were follow-on unicorn entrepreneurs like Elon Musk.

Most VC-funded ventures fail. VCs fail on 80 percent of their investments. Due to the high risk in emerging industries, most VC-funded ventures fail. VCs lose money or break even on about 80 percent of their investments. This means that even VCs, the only professionals who invest high-risk capital in high-risk ventures, cannot forecast success—assuming that they are rational and would not fund the losers if they could foresee that they would be losers.

Very few VCs succeed because there are few home runs. VCs have home runs on approximately one percent of their ventures. They need home runs to succeed. According to Andy Rachleff, Ron Conway's fund that invested in Google only broke even. Since home runs are only about one percent of VC-funded ventures, which amounts to about 15 to 30 ventures per year, and there are about 600 VC funds, most VC funds don't do well.

VCs fund only after there is evidence of high potential to dominate an emerging industry, after "Aha." No one identifies potential before Aha. Steve Jobs was rejected by about 10 VCs. So were the Google founders. Types of Aha can include previous-venture Aha, technology Aha, strategy Aha, and billion-dollar-leadership Aha. Since most products or services can be imitated, about 96 percent to 98 percent of VC is provided after there is strategy Aha and leadership Aha.

Mark Zuckerberg got angel capital only after he had thousands of users for Facebook. And he got VC when he had millions. Until then, he used funds from family and friends, and his own expertise to take off.

You may not be in the right location for VC. VCs have mainly succeeded in Silicon Valley because most home runs are there. Of the top 50 VCs in the U.S., about 98 to 100 percent are in Silicon Valley. Outside Silicon Valley, you may not get VC, or you may get it from lower-tier VCs who don't have a track record of great success.

You may be in the wrong industry. VCs have mainly succeeded in emerging industries. Emerging industries offer billion-dollar-potential and home runs. Home runs were mainly in semiconductors in the 1960s, in personal computers and biotechnology in the 1970s, in telecom in the 1980s, in Internet 1.0 in the 1990s, and in Internet 2.0 in the 2000s. If your venture is not in these emerging industries, you may not get VC or may not succeed with it.

You may have selected the wrong strategy when you picked the VC option. The capital-intensive strategy is to seek angel capital and then venture capital. But getting angel capital does not mean entrepreneurs will get VC or succeed with VC. Angels invest in about 60,000-70,000 ventures each year. And VCs invest in about 3,000-4,000 ventures each year. This means that about 95 percent of ventures that get angel capital do not get VC. These entrepreneurs need to know how to grow with the limited capital they get. It is difficult to switch from a capital-intensive strategy to a capital-efficient one. If you pick a capital-intensive strategy and do not get VC, your venture may be doomed. Be capital-efficient till take-off. After take-off, you can get growth financing on your terms. By being in a stronger position, Mark Zuckerberg was able to control his VCs and get voting control over his company even though he owned less than 30 percent of Facebook.

Use Skills and Strategies to Find Your High-Potential Idea

The idea stage is when you find your opportunity and develop your strategy. Billions are spent each year by entrepreneurs, organizations, and corporations to find the next hot innovation. But how exactly did unicorn entrepreneurs find their successful ideas and develop their successful strategies? They used smart skills and strategies (for more on this, see my book *Nothing Ventured, Everything Gained*).

Smart Skills | At the idea stage, unicorn entrepreneurs had the following skills:

- **Technology skills** in an emerging industry or trend. Many of the entrepreneurs had the skills they needed to jump start their ventures in the emerging trend. The most notable one was Mark Zuckerberg who was a master programmer. He was hired to write the code for a linking app and ended up writing the code for Facebook.

- **Sales skills.** Most of the unicorn entrepreneurs had sales and marketing skills. Nearly 80 percent of the unicorn entrepreneurs I interviewed were experts at sales and marketing.

- **Financial skills:** Unicorn entrepreneurs were financial experts, knowing how to grow more with less. They knew how to manage money and design their business model for capital-efficiency. Michael Dell developed a business model where customers paid him in advance. He used this capital to grow.

Smart Strategies | Unicorn entrepreneurs used smart strategies to find their opportunity and develop their strategy. Here is an example of one strategy to find the opportunity and one to find their business strategy.

#1. Find your opportunity on an emerging trend: Most of the billion-dollar entrepreneurs jumped on an emerging industry or trend and dominated it. Examples include Bill Gates (PCs), Steve Jobs (PCs), Michael Dell (PCs), Jeff Bezos (Internet), and Mark Zuckerberg (Internet). New fortunes will be made in the industries emerging today, including artificial intelligence, Internet 3.0, transportation, online education, and the gig economy.

#2. Innovate in the business strategy, not in the product. While many believe that product innovation is the way to riches, most unicorn entrepreneurs focused on business-model innovation. Examples include Walton (big stores in small towns), Zuckerberg (linking in universities first), and Kalanick (cabs without cabs). They imitated in the product and improved in the business strategy to dominate their emerging industries.

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Use Skills and Strategies to Finance and Launch Your High-Potential Business

Financing and launching are the key hurdles in the growth of a venture. Many entrepreneurs seek the wrong financing, develop capital-intensive plans, and participate in pitch contests to seek funding—usually from the wrong sources. Or they fail to launch successfully with the capital they have raised. Unicorn entrepreneurs avoided VC till take off, and most avoided it altogether. They used smart skills and strategies to finance and launch their venture.

Smart Skills | At the financing and launch stage, unicorn entrepreneurs needed to know how to:

- **Find alt-financing:** They found financing that did not seek control. They used a variety of sources, ranging from debt and leasing to angel capital and alliances.

- **Operating frugally:** Unicorn entrepreneurs were able to operate with minimal assets and costs because they had skills in the industry. Bill Gates knew how to write software, as did Mark Zuckerberg. Sam Walton was a master retailer. Steve Ells (Chipotle) was a trained chef. Dick Schulze was a salesman for Sony at the dawn of the consumer electronics industry before he started Sound of Music, and then Best Buy.

- **Launch, re-vision, and pivot:** Most of the unicorn entrepreneurs launched their ventures with minimal financing, usually from friends and family and maybe one or two angels. After they launched the venture, they re-examined the industry, found the fulcrum to dominate, re-launched, and succeeded. Travis Kalanick started Uber as a limo rental service before re-visioning to a car-sharing company. Bob Kierlin pivoted Fastenal from a vending machine concept to a retail store concept. Sam Walton from Ben Franklin stores to Walmart. Bill Gates from writing code to selling operating systems. Your first business strategy may not be the best. Learn the skills to re-vision until you find the magic formula that works.

Smart Strategies | Unicorn entrepreneurs used smart strategies to finance and launch their venture. Here are some examples of financing and launching:

- **Finance to take off with control.** Unicorn entrepreneurs financed their ventures with any kind of financing that allowed them to grow and retain control of their venture. The primary sources included:

- **Reduce taxes.** Ray Barton who built Great Clips into the nation's largest hair cutting salons, planned his expansion exquisitely. He timed his growth rate so that all his pre-tax income was used for growth. After reaching the desired level of sales, you can ease up on the growth and benefit from high cash flow.

- **Reduce cash needed for growth by being finance-smart.** Fastnal's Bob Kierlin learned that if he avoided all assets except inventory, turned his inventory at least three times per year, kept his gross margins at 50 percent, and trained 30 percent new managers each year, he could grow at 30 percent per year from internal cash flow.

- **Seek equity you control.** This means you use angels and the current incarnation of angel financing, crowdfunding. Gates, Zuckerberg, and Bezos got financing from angels before getting venture capital. By reaching Aha before seeking VC, they controlled the venture and kept more of the wealth created.

- **Get financing from the business chain:** This involves financing from customers, which is what Michael Dell did, or from suppliers, which is what Dick Schulze did to build Best Buy, and Richard Burke used to build UnitedHealthcare.

- **Strategic alliances:** Mike Bloomberg used a strategic alliance with Merrill Lynch, who funded his venture. In addition to financing, an alliance also gives credibility.

- **Development financing:** There are many sources of financing from local, state, and federal governments. Some of the shopping centers that housed Walmart stores were funded with government funding.

- **Scalable loans and leases:** Scalable and revolving loans and leases, that can increase with higher sales and be paid off with cash flow, can be a good tool to grow without VC. Even though it has to be repaid when the asset is extinguished or used up, new assets are created that could be used for new financing on a revolving basis. Examples of entrepreneurs who used scalable loans and/ or leases include Sam Walton and Dick Schulze.

- **Stage-based financing:** Before Aha, hardly anyone wants to fund you. After Aha, you have to beat interested financiers off with a stick. Get to Aha.

- **Launch your venture after testing.** Unicorn entrepreneurs tested alternative venture strategies. After they found the right strategy, they raised additional financing to dominate their industries. Richard Burke (UnitedHealthcare) took over a failing health-maintenance organization, tested an alternative strategy in one state, made it work, expanded to other states, and then went public.

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Use Skills & Strategies to Dominate

After take-off, billion-dollar entrepreneurs *controlled* their ventures, *developed* the organizational structure for competitive advantage, and *led* to dominate the industry. Not everyone can do this, which is one reason why many end up plateauing or failing.

Smart Skills and Strategies | Billion-dollar entrepreneurs developed the skills needed to successfully grow and dominate their industries with the following skills and strategies:

- **Control:** As the venture grew from a small operation to a major enterprise, unicorn entrepreneurs needed to learn to control it, which included having to get the right information and knowing the right time to take action. Don Kotula built Northern Tool by getting key information on a daily, weekly, or monthly basis. Ed Flaherty built Rapid Oil Change by developing a system to monitor each store, controlling the cash being collected every day and reducing theft.

- **Organize:** Larger companies need to know how to find the right employees, motivate them, train them, reward them, and promote them. Unicorn entrepreneurs learned how to do all of these. Dick Schulze found the right people based on monitoring for those who could both sell and also make suggestions to improve the operation. Glen Taylor of Taylor Corporation built the largest wedding invitation printer in the country. He started as an intern, ended up owning the business, then bought or built more than 80 businesses in the printing industry. He did it by training managers and rewarding them handsomely, offering them up to 90 percent of increased profits. This skill to organize for high-performance is especially important in a strong economy, which is likely to have labor shortages.

- **Lead:** Without leadership skills, the billion-dollar entrepreneurs would never have built their giant companies. These entrepreneurs had the skills to master each step of the growth from finding the opportunity to developing leaders. Get (and teach) the right skills for each stage. Know how to master each stage. Glen Taylor learned these skills at executive education programs at universities such as Harvard.

VCs themselves cannot forecast who will succeed and who will not. So they wait for proof of potential and then gamble on the ones that look promising. Interestingly, they still fail most of the time.

America's unicorn entrepreneurs grew with skills and smart strategies to find the right opportunity, develop their dominating strategy, finance for control, and launch without VC.

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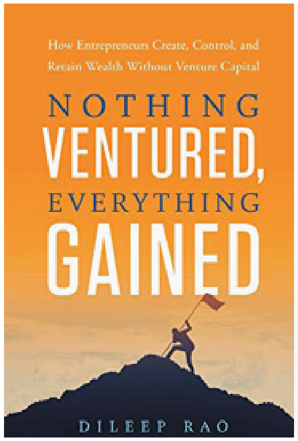

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