

# How much money does it take to start a successful company?

You can't start a business without a lot of money. The question no one ever answers is: How much? So let's talk about that. Whether you're bootstrapping or raising capital, these are the numbers you need to hit.

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I've founded, run, and exited a couple startups on my own with nothing but credit cards and moxie. I've also been a part of startups that raised tens of millions of dollars in outside investment before much larger exits. The startups that raised venture capital dollars were, in the long run, easier to navigate through the early stages, quicker to get to growth and scale, and ultimately had more prosperous outcomes for everyone involved. But I wouldn't recommend it for everyone.

Despite conventional wisdom, outside investment isn't a panacea for the entrepreneur. It's fraught with risk, pressure, and often impossible expectations. But here's the thing. Bootstrapping is also a proposition that comes with risk, pressure, and often impossible expectations, it just comes from a different source.

If you don't have a cash hoard as fuel for growth, you're going to wind up spending the cash equivalent in time, resources, and other forms of capital to get to the same place.

Before I drop numbers on you, let me make a qualifier absolutely clear. The

numbers I'm using aren't based on science or hard data. This is an experiential exercise rolled up into figures that are understandable, so you can get a sense of how much cash, equity, time, called-in-favours, and, well, moxie, you're going to have to ultimately spend.

So please understand I'm not saying it takes exactly \$X to get to a Y outcome. I'm saying it takes the equivalent of X cash spend to get to a Y outcome that isn't just a plateau, but a step up to the next level on the ladder to exit.

## It takes about \$10,000 to get an idea into a proper executable state

Go ahead, tell me it doesn't. On some level I'll agree with you. But then I'll go back to all the times I spent less than \$10,000 to get an idea off the ground and all the times I spent more than \$10,000 to get an idea off the ground, and I'll tell you the difference always gets compounded during future stages.

Let's look at the math. Say your time is worth a minimum of \$20 an hour. Don't use your salary, because the job market always overpays for talent. Instead use a number closer to how much you'd pay to take one of your daily chores off your plate.

Now let's also say you spend an honest five hours a week dedicated to making your idea a reality. It'll take you about two years to get there.

If you're more talented and experienced at ideation and execution, your time might be worth \$50 an hour (and that's about where I cap it, even for myself). And let's say you spend a solid 40 hours a week working hard on reaching your ideation goal. Then great, you've reduced your ideation time from two years part-time to five weeks full-time.

Be honest with your talent, your experience, and the opportunity cost of dedicating your time, and do your own math.

## It takes about \$50,000 to bring a worthy MVP to market

The good news is this number has come way down in recent years. The bad news is that it's still not zero.

This is the budget number I hear from every entrepreneur who wants to outsource the development of their product — software, hardware, retail, or otherwise. It also happens to be the number that my associates who run the

kinds of firms that develop MVPs in software, hardware, retail, and otherwise, tell me is the minimum for which they can produce something decent.

It's kind of coincidental. It's a nice round number. You can pay less, but you'll get less. You can develop it yourself, but go back to the hourly opportunity cost of what your time is worth.

I also need to stress that just because you build an MVP doesn't mean you've successfully proven its viability. So give yourself enough runway to push that MVP through launch, make sure you can measure the results, then have enough money left over to act on those results, good or bad.

## It takes about \$250,000 to start a truly viable company

You can start a corporation that doesn't generate any revenue or even sell any product for about \$500. But that's not a business, that's not even a proper shell company.

Add up all the costs of doing business, all the out-of-pocket expenses, all the development, sales, marketing, and support costs. Add in the amount of money you've raised, and the time and costs to close those investments. Add up the equity handed out to various parties for various reasons.

And finally add up all the opportunity costs of sinking everyone's effort into your company as opposed to applying those talents to another, more immediately profitable pursuit.

If all this adds up to less than \$250K, I commend you.

## It takes about \$1,000,000 to get to a scalable growth stage

This is the requirement to enter into the growth stage, and it can either be achieved by investment, customer profit, or a combination of the two.

Note that I said customer *profit*, not customer *revenue*. A million in annual revenue is difficult to achieve, for sure, but it's not a number you need scalability to hit. I've done \$1M+ annual revenue with a services company, and I got there pretty quickly, but I spent most of that revenue earning that revenue.

Scalability is a true balance between having enough resources at your disposal

to be able to create synergy across those resources, and maintaining a limit on those resources in order not to burn through your runway.

That's a delicate balance, and it's where the good entrepreneurs elevate their game. By the time you achieve this balance, you've probably burned through \$1,000,000 in time, cash, debt, and profit to get there.

## It takes about \$10,000,000 to get to a positive exit

Before we quibble about the size of the number, let's agree on the type of "exit" we're aiming for.

I'm not talking about an exit that's an acqui-hire or a fire sale or a lowball offer that results in a few people making a few bucks. I'm talking about the acquisition of a good-sized team that has created valuable intellectual property, and those people having worked and/or invested for a few years with the expectation of a valuation at a proper revenue multiple.

Then I'm just doing the math backwards. For the mean employee to realise enough of a reward on the exit to be commensurate with the sacrifices they've made, using their annual salaries as a benchmark, you need to hit a big number at exit.

You can move the levers on number of employees (50-200) and median salary (\$75-\$150K), but you're probably looking at a minimum acquisition price of \$20M — \$100M. Then move the levers again on valuation and revenue multiplier (2x to 10x) and the investment required to get there is somewhere in the \$10M range, give or take a bit.

It's really hard to bootstrap your way into a \$20M — \$100M exit, but not impossible.

## Bonus: It takes about \$100,000,000 in annual revenue before you should consider an IPO

That's not spend, that's revenue. Every CEO I know who took a company public pegs this number as the goal for IPO. It's also the magic revenue number needed to hit that \$1B valuation and become a unicorn.

You can agree with the numbers or not, that's fine. What I don't want you to do

is underestimate them, and think that if you can just get \$10,000 out of an investor, you're well on your way from idea to exit. Or that a couple hours a week here and there with a no-code platform will have you swimming in customer revenue in no time.

One way or another, time or money, we all have to hit the same marks before we get to the next level.

*This article was originally published on Medium by Joe Procopio*

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