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Profits or Growth? The Entrepreneur's Dilemma

Way back when, startup exits were mostly driven by profits. These days, the really big exits are mostly notable for how fast they are growing – and for those who care to look under the covers, for how much money they are losing. (Consider Lyft's recent IPO: $911 million loss on $2.2 billion revenue; $24 billion valuation.) So what is an entrepreneur to do? Make money the old-fashioned way – by making money? Or, jump on the growth bandwagon – and spend like there is no tomorrow?

One approach to this dilemma comes down to figuring out how lucky you are feeling. Crossing fingers and burning cash while the burning is good will doubtless prove advantageous for some. Until the capital window actually closes, there will be entrepreneurs who sail through the exit window counting their growth-driven fortunes. (I mean, just because you wish for something doesn't mean it won't happen.) Even more certain, though, is that when the supply of capital contracts, more than a few entrepreneurs will be caught with empty pockets.

For those entrepreneurs who want to take a more aggressive approach to the exit window than profitability, but are not ready to play cash musical chairs with their emerging company's future, there is a middle path. A place where growth trumps profit, but only to a point: the point of operating cash breakeven (OCB). Think of it as the difference between investing capital and gambling with it.

For me, investing capital, as opposed to gambling with it, is about driving growth with pricing that covers those costs strictly associated with revenue. So, for example, if your cost of goods sold + actual distribution expense + minimum overhead expense required to support those sales is $X, your revenue should be or at least equal to $X.

If you are at OCB, if the capital availability window suddenly closes, you could employ a "go to ground" strategy and wait for the window to open again without fear of running out of capital, at least not in the short/mid-term. Or, almost as bad, having to raise more capital at a depressed price. You can

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trade growth for time, which is a good position to be in if the alternative is a fire sale of the company.

Note that I am not suggesting that the OCB measure is appropriate at the launch stage of a startup, where the focus is on establishing that you can deliver your product/service at all, and that at least someone will pay some not inconsequential price for it. Validating a market/product fit (and that you can deliver the product) comes before OCB. Nor am I suggesting that your emerging company should establish OCB as a terminal financial model. It is, rather, a financial milestone on the road to the ultimate goal of high margin/volume profitability.

The bottom line is that for those who feel lucky, gambling on growth can pay off: just ask Lyft and the eminent (well, assuming the IPO window stays open – as of course it will, right?) class of Unicorn IPOs. On the other hand, Andy Grove had it right, I think, when he remarked that only the paranoid finally survive. Particularly when you don't have to be too paranoid to play the OCB game.

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