Revenue is the Cheapest Form of Capital

Often overlooked as a source for working capital to start and build a business is *revenue* and yet it is the cheapest form of capital. It costs nothing in terms of equity or interest payments and it does not carry an obligation to others whose goals are not always congruent with the founder/operators of the company.

Revenue validates the company's value proposition, creates a base of referrals to efficiently build sales and of course it provides cash flow for the company on a continuing basis. It creates a self-sufficient operation, beholding to no one – other than the customer. This aligns the importance of building, protecting and maintaining the relationship with the customer, the most valued asset of the company.

The argument for seeking investor funding in lieu of revenue is that product R&D has to be financed before the company has something to sell. But that may not be necessary. The company's brain trust has capabilities tangential to what is perceived as the main line business. Looking for problems in the marketplace that this brain trust could solve, and solving them would create revenue. This would be the genesis of a product that will provide proof of concept of the company's vision for its products or services.

Incrementally developing product components, against a grand design, will not only minimize cash requirements but will validate the product as it is being developed. Through mid-course design changes the product can bring incremental value to the marketplace, producing revenue along the way and expand as additional features are desired or sought by paying customers. This process will create a product that is providing a sought after solution by the marketplace, a much preferable position for an early stage company to that of being a product in search of a solution.

While this strategy may not apply across the board, thinking about new product introduction as an incremental process will introduce a least risk scenario. In today's economy finding sources of capital up front from investors is difficult. Recognizing the value of revenue as a source of capital can make the difference.

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