Business Development = Exit Planning

Most startups and emerging companies miss the opportunity for effective exit planning by not integrating exit planning into their business development activities. The most likely M&A partner is an existing partner, especially if you are making the partner successful. By understanding the relationship between business development and exit planning, you can utilize your partnership efforts to accomplish both objectives.

Startups are often told that exit planning is a dirty word, because investors (mainly venture capital firms) want the startups focused on building the next $1B company. Unfortunately, only .07% of the companies make it into this “Unicorn Club” (http://techcrunch.com/2013/11/02/welcome-to-the-unicorn-club/). Additionally, only 22.5% of venture back companies go public (although that number does seem high), according to The Venture Capital Cycle, 2nd edition, 2006. The remaining startups are left to contemplate a different future: bankruptcy, M&A exit or stagnation (also known as irrelevancy to your investors looking for a return). Of course, everyone knows that significant amount of investor returns comes from M&A exits, which creates a dichotomy between what your investors tell you and the realities that everyone knows. To deal with this dichotomy, startups should integrate exit planning into the business development activities.

Without exit planning, startups often lose significant value in their exit. The startups aren’t prepared for the worst-case and best-case scenarios. In the worst-case scenarios, companies wake up one morning to realize that their funding is drying up and they haven’t achieved profitability. There is the inevitable scramble to find an exit. However, the harsh reality sets-in for these companies when they realize that they haven’t built the necessary partner relationships to facilitate an exit. There is a mad scramble to figure out the potential buyers, who is the right person at the partner to execute on an M&A deal, and how to pitch an acquisition to each company. Often, companies face the terrible introductory phone call of having to introduce their company to a potential buyer and pitch a sale of their business in the same call. The success rate of such “fire sales” is low, and if the company can find a buyer, the valuation is usually pennies on the dollar.

In the best-case scenario, when your company receives its first unsolicited M&A offer, you want to reach out to other potential buyers to solicit competing bids. When companies aren’t prepared, they are forced to pay million(s) to advisors to find other potential buyers. However, if you have done your planning in advance, you should already know who the other potential bidders are, and can save significant fees. Additionally, the window for obtaining other bids is often short, and the other potential buyers are in reactionary mode. The internal process for potential buyers takes time. Many potential buyers can’t respond quick enough to make a serious competing bid.

To avoid these scenarios, you should integrate exit planning into your business development activities. With any business development efforts, you should start by understanding your ecosystem, including your competitors, inbound partners, alliance partners, go-to-market (GTM) partners, GTM alliances and other partners in your ecosystem. As you build your business, you will start forming partnerships with the key players in your ecosystem.

Layering exit planning over your business development activities only requires a slightly different analysis of your partners. You should understand (1) your M&A fit to their organization, (2) the rationale for a potential acquisition,

(3) the partners M&A history, (4) the “M&A power structure” at the partner, and (5) the key decision makers to know for M&A activities. Once you understand these factors, you will have a roadmap for positioning your company for a potential exit.