When Is The Right Time To Sell Your Start up?

It's a tough decision to make: to sell or not to sell?

In the case of Tom Smith, who is now the vice president of business development and Strategy at CloudEntr, he thought the timing and circumstances were right to sell his company (a developer of cloud security) to Gemalto .

So what were some the lessons learned? Well, here's a look:

Tom Taulli: You built up IronStratus to be eventually acquired by Gemalto – how did you know when the time was right to sell?

Tom Smith: For me, I think IronStratus was at an inflection point. We either needed to raise a substantial amount of additional venture capital to compete – to invest in the people, build the infrastructure and evolve the product – or it needed to get acquired by a company that had the resources in place to reach the market and evolve the product. Competitors in the space were raising significant amounts of money and they were further along in their customer acquisition and revenue stream development, which made for a very challenging environment.

In general, it all comes down to your assessment of market conditions and the opportunities before you. The common misconception is that you can plan your company to the Nth degree, but the true fact is that all good entrepreneurs always have a number of exit strategies and opportunities in front of them at any given time. When Gemalto came along, it was good timing for them and a natural fit for me. After the acquisition IronStratus became CloudEntr and it accomplished exactly what I wanted.

Taulli: Should every company have an exit strategy in place from inception?

Smith: When you form a company, you have a vision of where you want to go with it. Everyone thinks 'this is going to be a huge company and capture market share,' but the reality is that unexpected things will happen – and you have to roll with them. The nature of your company, however, often dictates whether or not you're a good acquisition target. If you have a narrow focused, single-purpose product, then that tends to make it more likely that you'll be acquired, and you should take that into consideration. If you have a desire for a strategic acquisition – for a big fish to swallow you up – then there are things you can do like integrating with that company's product or gaining competitive wins in that space to draw attention to yourself. If you have a broad product line, however, then it can be more difficult to be absorbed into another company. When you start the company, you don't think exit right at the beginning, you think execution, but you quickly begin to think about where it can go. You ask yourself, 'What defines an ultimate win? Is it becoming the next Google or getting acquired by Google?' You should know the answer.

Regardless, every company should demonstrate they are on a trajectory to build a sustainable and profitable business. Fast growing and innovative companies usually have 'windows' of size and trajectory that the conditions are right to get acquired, or they shoot past and go on to become a public company.

Taulli: How can entrepreneurs weigh the pros and cons of selling or pushing forward to grow the company?

Smith: A lot of the decision is personal in nature and reflects what you are trying to accomplish with your company and career. I am a big believer in having passion about what you are doing and surrounding yourself with talented people who share your vision. If you want to remain a part of your company, you clearly want to get acquired by a company in your space, where you become important to their forward direction. If they're not in your space, you know that they want to simply harvest your customer base and jettison you as a business unit. Of course, one of the cons of acquisition is often your reduced role in the company's decision making process, the policies and procedures, the direction and so on.
An acquisition can also provide numerous benefits too, however. With IronStratus, we had automated the company to be a hands-off, self-service sort of model. I knew that if we wanted to grow to support larger companies, we'd have to build up a lot of infrastructure. When we were acquired, we got an immediate infrastructure that we didn't have before. After getting acquired, you can leverage existing capital, IP, technology, customer and partner relationships and more. There's a lot of good that can come of it.

Taulli: Did you have mentors to assist with this decision? How prominent of role does a Board of Advisors play?

Smith: If you have taken several rounds of VC funding, you will have a formal Board. The challenge is sometimes the CEO and Board have different perspectives on timing and what should be done with regards to an acquisition. Equity ownership drives the vote so you need to pay special attention to where the ownership of the company resides and what influence you have over the various parties. Every CEO should have a set of trusted peers that they can talk to for advice on important business decisions, that are outside the normal day-to-day operations of the company.

By Tam Taulli