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How Entrepreneurs Can Create a Seamless Exit for Early Investors

By Frank Williamson

A successful business might start with a good idea. But turning that idea into reality takes money. That's why entrepreneurs look to early investors — often friends or family — to provide the crucial initial funding to keep their businesses running until they achieve sustainability.

Sometimes, an innovative new business finds its customer base right away and grows quickly. But much more frequently, progress is slow, operating costs run higher than expected, and investors end up tagging along in the business much longer than they initially expected.

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While I normally advise entrepreneurs to set a timetable early on for the exit of their early investors, the fact is that for many startups, long-term plans are in a constant state of flux. At a certain point, even if conditions aren't opportune, the owner needs to figure out a strategy to get those early investors their money back — and keep them happy during the process.

Here are some thoughts on how to do that:

1. Be responsive. If you've got early investors who've made it clear that they want to get out, the most important part of managing them is letting them know that their desire is something you're taking seriously. If you're just starting to evaluate prospective buyers, keep investors updated on your progress so they know you haven't forgotten about them. If talks with a buyer have gotten serious, make sure that investors are looped in and aware that a buyout could be imminent. The risk of not being responsive to investors is that they throw up their arms and do something you don't want them to do — such as offering their stake to new investors, who might be disruptive or not have the company's best interests at heart.

2. Help early investors understand what a realistic transaction looks like. Find a transparent, systematic way to scan the market, so that you can go to investors with accurate information on what the options are. It's possible that the amounts being offered by prospective buyers won't line up with investors' expectations, leading to skepticism that you haven't been thorough enough. Make sure that whatever market research method you choose is backed up with as much evidence as possible to help make your case to investors.

3. Try to understand early investors' level of urgency. If your investors are anxious to get out as quickly as possible but aren't happy with the price, you may need to convince them that a real transaction price today is a better deal than working on an exit for the next couple of years in pursuit of something better.

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Help them understand the difference between valid interest and bottom-fishing interest. Some buyers might simply want your company because they see the value that can be squeezed out of it. Others might be genuinely interested in the future of what you're doing and see the potential of combining their company with yours. For the sake of the remaining stakeholders in your company, try tosteer investors toward supporting the path that holds the greatest long-term benefits for the business and isn't simply the quickest path to a payout.

4. Do no damage to your business. As you search for a deal that will please investors, don't forget that you also need to keep your business functioning as normal. You don't want to harm your chances of finding a good deal by getting distracted from the day-to-day responsibilities of serving existing clients and bringing in new business. There's no doubt that essentially doing two jobs at once can be a challenge — which is why entrepreneurs often work with an independent advisor who can help think creatively about potential buyers and thoroughly vet any promising options.

When a company follows these guidelines and builds a foundation of trust with its early investors, the result can be a deal that's good for all stakeholders. My firm recently advised a business facing pressure from early investors wanting to exit. Our client, a company that does sports marketing for colleges, had raised money to expand to high school sports marketing, but found that its model didn't work as well for high school sports programs. When growth didn't happen as quickly as the company had hoped it would, its early investors began pushing the founder to locate a buyer so that they could get their money back.

We helped this client explore the available options that would provide an exit for early investors while carefully considering the future of the business. In the end, our client was purchased by a larger company offering technological solutions for athletics programs, resulting in a return for investors, as well as continued jobs for the company's employees.

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By selling the potential of what they could do together, our client and the buyer entered their new relationship with enthusiasm and a sense of purpose. If you're an entrepreneur who's not normally in the capital-raising business, it might seem nerve-racking to be pursuing and evaluating opportunities with prospective buyers. Whether you end up selling to a competitor, a business partner or a venture capital fund, it's important to nurture your relationships with investors. With luck, you'll find a deal that gives investors the exit they're looking for while opening your business up to new opportunities.

Frank Williamson is the founder of [Oaklyn Consulting](), a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.