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How VC Investors and Founders Can Salvage a Struggling Partnership

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The relationship between venture capital investors and portfolio company founders is a complex one. When a company does extremely well and its stakeholders make money, there's appreciation all around for the hard work and vision that drove that success.

But there's nothing more stressful for both parties than when a portfolio company perpetually underperforms — taking up a VC firm's valuable time and resources while sitting in a financial no-man's land. Founders feel anxious about disappointing their investors, but sometimes resent the pressure being put on them, feeling that they would succeed if they were only allowed to follow their vision.

For founders, the success of their company is personal. For VC investors, it's a matter of statistics. Under normal conditions, a random sample of 10 venture capital investments might include one home run, five or six others that experience moderate success and a couple of others that stall out between liftoff and orbit.

Investors faced with a perpetually underperforming portfolio company — sometimes called a "purgatory" investment — have few options available, depending on company-specific details and the level of effort they're willing to expend.

3 ALTERNATIVES FOR LAGGING PORTFOLIO COMPANIES

When an investment is deemed unsalvageable, VC investors might be tempted to look the other way as the portfolio company struggles — which can further fracture an already tense relationship. Before doing this for too long, they should explore three other options first:

01

Selling, if possible.

Even if a company isn't excelling on its own, it can add value to another organization through a merger.

The challenge is to locate a suitable strategic buyer, who may not be immediately obvious to some sellers, but could be hiding in plain sight. Many fruitful partnerships have been forged between companies and their competitors, suppliers or customers.

The challenge is being both creative enough to imagine new homes for the company's team and assets, and systematic enough to convert those ideas to action.

02

Exploring an outside partnership.

Sometimes, another party will see the benefits of working together, but might not be in a position to buy a company outright.

In those situations, it might be possible to organize a quid pro quo that isn't a sale but accomplishes the goals of all parties over time, including, for investors, cash returns in the future.

The challenge is opening a discussion with the partner that is broad enough to allow room for creative structuring ideas.

03

Landing a new client.

If a portfolio company is struggling in the sales area, maybe all they need (in the short term, at least) is a little assistance.

While investors bring money to portfolio companies, they obviously also bring a broad network and a landscape view of business opportunities. It might feel to them that, when results have been lagging, there is nothing more to do.

The challenge is to sustain the energy needed for business development and sales, even while considering strategic alternatives. Revenue is the cheapest type of capital, and a little more short-term revenue might buy the time for long-term issues to work themselves out.

When All Else Fails, Shut it Down

If all of the above options have been exhausted or aren't possible for some reason, the only remaining avenue is to liquidate the company. It's the worst possible outcome for everyone. Not only is it difficult and unpleasant, it can make investments feel like a waste if the alternatives above haven't been addressed systematically. We all dislike having to go this route, since it represents failure, even if the failure teaches valuable lessons and provides creative ideas to be salvaged for later use.

How Oaklyn Consulting Assists Venture Capital Portfolio Companies

Every time venture capital investors struggle with an unsuccessful portfolio company, there are trade-offs associated with potential exit options. At Oaklyn Consulting, we help VC-backed companies explore what those options look like — making them vivid, realistic and actionable — and then supporting the chosen merger, sale or partnership option to completion.

While it's always disappointing when a VC investment fails to reach its potential, knowledge can help lead to the best possible solution. With Oaklyn Consulting's expertise and guidance, investors can maximize their return, offer a possible way forward for founders and make the most of a challenging situation.

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