Research conducted by:

Columbia Business School
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Eugene Lang Entrepreneurship Center

STRATEGIC BUYER CASE STUDY: AN EXCERPT FROM *THE OWNER'S JOURNEY*

Experiences shared and lessons learned from entrepreneurs who successfully sold or transferred their businesses to family members

U.S. Trust was inspired to commission "The Owner's Journey" to address what we observed to be a critical need: better preparing business owners for the eventual transition of their companies. Our advisors, in conversations with entrepreneurs, investment bankers, family business consultants, CPAs, attorneys and others were hearing a consistent and passionate message that early planning and enhanced education about exit options and the exit process were in great need. In our quest to focus on this issue, we came across an earlier Columbia University white paper on exit planning that shared personal stories and insights from owners dealing with reinventing their lives after the sale of their companies. We found their personal journeys to be highly instructive and recognized the opportunity to add to this knowledge base by approaching Columbia[1] to author a follow-up paper to study the exit process from the beginning, to capture how entrepreneurs approached the decision and navigated the transition. The power of their first-hand experiences and the corresponding lessons learned are now captured in this paper and can be accessed by those who have yet to embark upon this journey.

The following case study chronicles Scott Belsky, a young entrepreneur who followed his passion and grew a bootstrap company into a thriving business that connected millions of creative people around the world before being sold to a software company. Scott had not set out to build a business for sale, let alone craft it for sale to a specific buyer. But luck favors the prepared. Scott had been building his company to scale, had raised capital from a highly regarded venture firm, and had been proactive in building a relationship with the new firm. With the lucrative sale of his firm, Scott was able to take steps to provide opportunities for himself, his employees and the firm. ■

Scott Belsky

Age 34, Behance

Sold to a strategic buyer

"It's not about ideas: It's about making ideas happen." These are the words on the home page of scottbelsky.com. Scott is an Entrepreneur with a capital E. On his investments page, Scott states that he looks for "Mission-driven teams that want to lead something worth changing."

Scott grew up in Boston. His father was a surgeon, and his mother was an educator. Design fascinated him as a way of communicating and helping people to understand the world. At college, Scott started as a business major but quickly added design and environmental analysis to his areas of study. Adept with tools like Photoshop and Illustrator, Scott notes that throughout his life, whenever he has grappled with problems, he has used design to create solutions.

Graduating college in 2002, his first job was at a prominent investment banking firm. After almost two years in a finance position, he moved to the executive office to work on special projects around succession planning and leadership/organizational improvement. Scott was able to see how an executive team worked. He also saw the importance of design and used it to show executives how to grasp their problems in new ways. One of his favorite projects involved using design to help build leadership capability. He developed a tool that clearly showed the questions leaders should ask as they were making a decision.

For years, Scott knew that he didn't belong in investment banking. He also saw that the creative community was one of the most disorganized groups on the planet, and yet it was the one that moved people the most. It was the community that "compelled us to take action, to buy things, to become passionate about something, to understand our environment. These are the people that make culture, that move the world forward."

Scott knew that his mission was to organize the creative world. He hired a freelance designer to work with him to flesh out the concept for a new business and at the same time applied to Harvard Business School, as a hedge. In April 2006, he left the investment banking firm and started Behance, a website where people could "Showcase & Discover Creative Work." Behance comes from the word "enhance," which means making one's self or something else better.

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In September 2006, he started at business school, created an LLC for Behance and hired the freelance designer as his first full-time employee. At business school, he quickly found a professor known for her work on creativity in business. He did all of his second-year research under her and lived in New York. At the same time, he worked on building Behance, studied the creative community, and attended classes on Mondays and Tuesdays.

His research encompassed people in all disciplines — musicians, entrepreneurs, and graphic designers who had a history of execution and were especially prolific. That research became Scott's book, published in 2010 and entitled *Making Ideas Happen: Overcoming the Obstacles between Vision and Reality*. Scott published this book for creative professionals and was surprised when it became a national bestseller. His research also clarified the core values for him and his company.

He finished business school in the trough of the economic meltdown in 2008. He remembers that 2008 was a very difficult year for Behance, with many sleepless nights. Behance survived, however, and Scott intensely bootstrapped its growth by using only resources at hand. His motto is that "resourcefulness is better than resources." Behance became the LinkedIn for creatives, connecting millions of creatives all over the world. It is a place where creative professionals post their portfolios and connect with opportunities.

From the beginning, Scott hired only people who wanted to transform the creative community and build something that would give creative people more opportunities. He avoided people who just wanted to be part of a hot startup, and preferred initiative over experience. He would employ the person who wanted to be the incredible front-end developer, not the person who was that already.

Over the years, Scott made his first employee his cofounder/partner and told his team members that he could raise their salaries — or he could give them equity and have funds to hire more people to work with them. The team always asked for equity. From the beginning, Scott wanted his team to think and act as owners.

From 2006 to 2012, he had no more than a few hundred thousand dollars of "friends and family" money come into the company. During this time, Scott was so passionate about his mission and building the company that he had little thought for anything else.

He never pondered the endgame. Even when he made his first employee a partner, they did not discuss the exit plan for another five years.

The first time they discussed their exit was when they raised their first round of funding in 2012. Scott notes, "Does an artist think about the price they will sell a painting for when they create their work? We were just passionate about making this happen. We were relentlessly focused on what our customers were struggling with and the problem we were trying to solve. Financially for the first five years, we just wanted to break even after fairly paying ourselves and our team."

Eventually the team made it clear to Scott that Behance needed money. If the team was to do the very best, they needed more people, faster servers and a long list of other items. Scott knew that if he wanted to keep the excellent team he had hired, he had to bring in capital.

Scott personally handled the fund raising. He crafted the road show and negotiated its details. He admits that he almost ran out of money before closing with investors. Three months before the close, he was confident that the funds would come in, so he encouraged his team to start running the company as though they already had the investment. He sought long-term funders who valued network growth over returns, who had experience with social networks and who were "founder friendly." He rejected some investors who offered higher valuations, but with restrictive terms and board control.

It was a close call, but in early 2012, Scott found the right backers. Behance closed on its first round of funding. They raised about $6 million on a $36 million valuation. Scott notes that they did not have to sell as much of the company as is typically sold in a Series A round of financing, and the majority of the "cap chart" was Scott and his team.

In hindsight, Scott asks himself whether he bootstrapped too long and possibly starved the business of some earlier opportunities. But he concludes that the early austerity allowed Behance to clarify its mission and purpose without the distortion of outside investment. The positive outcome was that Scott and his team were able to own a larger portion of the business through the financing and eventual sale than is typical. He also believes the bootstrapping created a more creative and capital-efficient company.

At the time of the investment, Scott had no clear exit strategy, and the goal was to use the funds to grow. The team grew from twelve to 32 people and focused on the product they were offering, eliminating things like ads previously used to bootstrap them. Behance now had a purer product for its customers, which significantly boosted its growth. The Behance network of creatives quadrupled in one year.

For the four years before the first round of fundraising, Behance had been talking to a large, diversified software company about ways to work together. The company had been a major source of software for the creative community, but it needed to transition to a service business. As a software developer, it had little connection to its customers. Once it made the strategic decision to become a subscription service, Behance became incredibly valuable to it. At the end of 2012, less than a year after the close of the raise, the software company came to Scott and Behance and stated that its future was "community."

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Scott initially thought that it was way too early to be acquired. But the software company kept raising the price, and the more Scott learned about the company's plans, the more comfortable he felt. He used his partner, a couple of key employees and one of his angel investors, a serial entrepreneur, as a sounding board and then took the offer to the team. It was a very lonely time, and he used graphics to help him sort out his thinking. He did not use any paid advisors, as he felt they would be void of emotion. He stresses that only a real entrepreneur who has gone through this ordeal can really give sound advice at this time. In the end, he felt there were four reasons to merge with the software company.

First, financially, the Behance team was in the enviable position that there had been only one capital raise with limited dilution to their ownership. They had two choices. They could say no to the software company but would have to do another raise later for $10–$15 million with further dilution and could build the business for a possible $300+ million valuation down the road. The software company was offering $150 million now. In Scott's view, taking further dilution and market risk into account, this was virtually an apples-to-apples financial choice.

Second was what this meant for customers. The next step in Behance's mission was to connect the creative community through the creation tools themselves, and the software company was the key maker of these tools. Scott believed that integrating Behance's services into that company's tools and cloud offering could make a great impact on the creative process of millions of professionals.

Third, and most important to Scott, was what was best for the team. Scott could see that there were other possible strategic buyers, but he felt they would be unlikely to keep the team together. He felt like this had to be the right move for him, both from a career perspective and financially and culturally. He saw that the software company prized the team exactly as it was and wanted them to continue.

Last, Scott felt that he had control and could take some steps that would benefit his team financially. He believed that the software company's offer was the best investment for Behance's future. The deal closed in late 2012. Twelve members of the 32-person team became millionaires. Scott and his partner continue to work together. In fact, all 32 people who were with Behance at the time of the acquisition were still with the company two years later (at the time of this writing). This is Scott's ultimate litmus test of a successful merger. Two years later, Behance has maintained its culture and is still in the same workspace.

Money has not made much difference in how Scott and his team work and live. The team has stuck together and has been given more opportunities, and the new company continues to reward Scott and the team for doing extraordinary work. ■

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