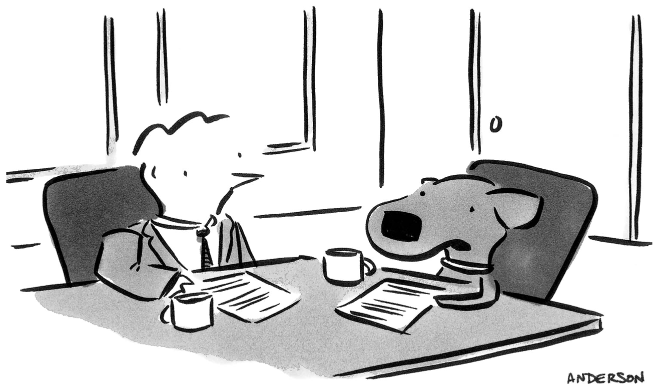
Why startup biz dev deals almost never get done

by Jason Cohen on April 28, 2014

Startups fail at biz dev because their proposals don't make sense to bigger companies. Here's how to change your approach for better success.



"Tell you what, rub my tummy and it's a deal."

As the founder of WP Engine, I receive weekly emails from startups proposing a "win-win" deal. So far, approximately zero have resulted in a successful deal.

Here's what they're doing wrong, and how you can change your approach to business development so that it can succeed.

Distribution is the hardest thing for a young startup, defined as "getting in front of potential customers." Large companies, on the other hand, have solved the distribution problem (proof: 100,000 paying customers).

But, startups make things, often things people love. Larger companies started that way, but scale makes it hard to keep doing that, and deliver quickly. This is one reason why startups can beat incumbents.

When each party's weakness map onto the other party's strengths, that feels like the kernel of a deal.

"Maybe," thinks the startup founder, "I can tap that ass. I mean asset."

But how to gain access? Big companies are surely scrounging around for new excuses to up-sell their customer base. However, big companies are neither adept nor efficient at innovation, thus they lack up-sell materiel. But that's what startups are good at! Fresh product.

Thus, the startup founder poses a deal in classic micro-econ-101 fashion. Let's trade innovation for distribution. Large company should send a few emails to the customer base, generating easy sales at no cost, and the revenues are split. Free money for all.

However, this win-steeped proposal is never accepted by the big company. The problem is, once again, their scale: The amount of revenue in question is not interesting for the big company, yet it requires the big company to spend something not accounted for in the above equation: reputation.

To see exactly how this works, let's use an example from my own company, the largest managed WordPress hosting platform. A typical email will be from a WordPress plug-in or theme author, who has a product for $20, $50, or even $200, that they would like to market to our customers. In additional to the calculus above, they point out that a subset of our customers *must* genuinely desire the functionality of the plugin, and thus this is in fact a *service* to our customers, not to mention a way for both of us to make easy money.

But now let's look at the economics. Let's be extremely optimistic and say 1% of our customer base converts and buys the theme. Let's also assume that WP Engine will receive $50 per sale, which is higher than the typical offer.

Looking at our pricing, you know our smallest customers give us $29/mo, and many (most?) pay $99/mo or more, so assume an average of $50/mo[1] So this biz dev proposal means 1% of our customers will give us an extra one months' revenue. That equates to a 1% revenue boost. For just one month; next month we *don't* get that boost. Increasing revenue by 1% for just one month is completely uninteresting to any company of any size—it's not enough to even discuss.

[1] The true average is higher but this makes the math simple.

To see why, consider that by definition a company earns 1% of their monthly revenue in about 8 hours. Increasing revenue, once, by 8 hours, isn't material.

And in exchange, you're essentially asking us to spam our customer base.

A much better approach for business development is by answering this question:

How can the smaller company make money for the larger company *in the manner that the larger company already makes money?*

Said another way, how can you grow the larger company in a way that matches their existing business model?

In our working example, the question is: How can you create new hosting customers for WP Engine? For example, when you sell your plug-in or theme you could ask your own customers whether they'd like to purchase hosting as well, maybe for a limited-time discount. If you can generate a couple of dozen new hosting customers per month, that can move the needle for us, not because that's a huge percentage of our overall growth, but because that revenue is repeats month after month. Also, even a small customer might recommend others, and we can understand that value even if we don't track it.

With that arrangement in place, it would be easy to justify an announcement to our customers that we have a new partner who is optimized for our hosting platform, both in code and in business, and therefore is a solution they should indeed seriously consider.

If you can bring customers to a big company—even a few—rather than milking their existing customers for a sliver of revenue, you're much more likely to execute a deal that genuinely makes both of you significant money.

Or, find a mechanism that generates material revenue for the larger company. "Material" is 1% or more of their top-line revenue.