

# Why Startups Sell For Millions with No Business Model



By Dev Aujla

For the last three years I have been immersed in the startup world. Many of my friends work for startup companies, I've written a book that covered many startups that trend towards the social good spectrum, and I have been recruiting and working for many of the companies myself, here in New York.

During this time, I felt like I was missing something--some major point that everyone else understood but me. I wondered what purpose all of these startup served, and wrestled with understanding how so many of these businesses could be sold for millions, or even billions of dollars, when most made little to no profit and lacked concrete business models.

I kept quiet about my questions, afraid to admit that I just didn't get. When I shared my feeling with close friends I boiled it down to an impression that it must simply be all pretend. It must be one of those ideas that will eventually self-correct and everyone will then realize they have been believing in a fake shared reality. It was a philosophical response that I obviously didn't share with many.

Then, I had the chance to work with a 50+ billion dollar company on a short term consultancy and I heard the board members and C-suite employees talk about acquiring and investing extensively in these small, profitless startups, as well as the venture capital funds that fund them. I finally got it: It's all about research and development.

It isn't pretend at all. It is a simple value proposition that doesn't rely on the companies having a business model but rather relies on the knowledge they learned. It is outsourced research and development. All these calls to "disrupt" industries at the end of the day is different language for what used to be called R+D.

Let's look at it more closely. It would cost a large car company, for example, \$100 million dollars to research and develop the best new LED light bulb themselves. For the record, this isn't an obscene amount of money within the scope of a multi-billion dollar company.

Then you have a VC firm that has a look at the industry and notices that it costs this manufacturing company \$100 million to do this R+D work, and they figure out how they can do it cheaper. How? They put \$25 million into a whole portfolio of LED light companies. Let's say one of those companies develop the best new LED bulb, in which case the business can be sold to the car company for \$75 million, and the car company still saved \$25 million they would have spent if they did the R+D in house. Of course the numbers are made up but you get the idea.

Large companies buy VC-backed start-ups without real ways to make money for three reasons:

## To Learn Something

The cheapest and only way for big corporations to learn everything they can about their industry and to inform their future investments is to invest in startups that are at the forefront of research and innovation in their field. The same way we as individuals would go to University to gain access to and absorb information, big companies gain an immense amount of knowledge from groundbreaking startups. Often they will buy companies only for the learning in order to inform future investments. It can also be as a way of laying the groundwork so they can investigate if they want to start building a product pipeline in this new area.

## To Fill Their Product Pipeline

Companies need a steady stream of new potential products to sell or integrate into their core products. Although most of these acquisitions won't end up being used, a few will make it through the funnel and become real, sellable products. For internet companies this product pipeline looks like new ways to acquire users, and new ways to monetize markets. For car companies it would look like LED light bulbs.

## To Acquire the Team

This is a form of corporate headhunting and simple way for big companies to "recruit" new talent and get them working in house.

Of course every start up hopes to be that **magical unicorn** that becomes big enough themselves to start buying other companies or investing in research and development but for most... it's definitely not pretend. It is just outsourced R+D. If you want to build a company and sell it maybe it is time to do what the VC's do and analyze where you can provide value as an outsourced R+D department and get hustling.

### About the Author

Dev Aujla runs [Catalog](#), an agency which provides strategic advisory and recruiting services to companies that make money and do good. He is also the founder of [DreamNow](#), a charitable organization which has helped over 50 thousand young people organize and start community projects.