The old VC PE model is obsolete.

What is the purpose of this article?
This article enables a discussion regarding VC and PE models.

The audience for this article includes: VC and PE fund LPs (Limited Partners) and VC and PE fund GPs (General Partners)

This article does not provide tax, legal or financial advice. Your next steps must be based on your own research and fact-based analysis using current and relevant information. AI did not write this article. 100% human written.

What are the critical learnings in this article?
1) The supply of portfolio companies seeking exit is greater than the demand from IPOs, M&A and corporate buyers.
2) The challenges for GPs and portfolio company leaders are to unlearn the past ad recognize that they are now leading startups.

What is the evidence that the model is obsolete?
1) Exits dropping.
2) Holding periods up
3) Over 32,000 unsold companies with book value of close to $4 trillion U.S.

What appears to be happening?
1) The supply of portfolio companies seeking exit is greater than the demand from IPOs, M&A and corporate buyers.

What was the old model?
1) Buy a company with debt, do rollups, increase multiple, exit

What is the new model?
1) More customers buy products and services from the portfolio company than from the competition.
2) More talented employees stay or come to the portfolio company than the competition.

What is the challenge for GPs and portfolio company leaders?
1) Unlearn old skills, experience, approaches.
2) Learn new skills, experience, and approaches.
3) Recognize the funds and portfolio companies are now actually startups.
4) Must learn and understand more about customer and employees than the competition.

Why is this challenge extremely difficult?
1) Old mental models need to be replaced.
2) Old neurological connections in the brain need to be replaced.

What are your next steps?
1) Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people
2) Both LPs and GPs are focused on exit. They both need plans to exit and cap tables.
3) LPs doing co-investments into portfolio companies must see portfolio company's exit plan and cap table.
4) LPs also need evaluation criteria and processes to assess the talent capabilities of GP. The future will be turbulent and unpredictable – what are the competitively differentiated talent that will succeed in the future?

What further reading should you do?
How profitable is Venture Capital? Koor & Associates
https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-is-venture-capital/

How profitable is Private Equity?
https://koorandassociates.org/selling-a-company-or-raising-capital/how-profitable-is-private-equity/