It seems inconceivable that Mark Zuckerberg would ever sell his company. Keep in mind that he set in place powerful mechanisms to keep control. He has also rebuffed several mega-buyout offers.

Yet there was a point when Zuckerberg agreed to sell his company. It was in 2006, and he had a deal with Yahoo! for $1 billion. But then Yahoo! reported a weak quarter, and the stock price fell. The deal was off.

There is nothing wrong with selling your company. It’s a much more likely outcome than going public. It can also be a stepping-stone to creating another company, which may turn out to be the real breakout opportunity. The first venture will certainly have been a great learning experience.

This chapter looks at the decision to sell out, describing the process and how you can make the right moves to maximize the outcome.
Deciding to Sell

There are many reasons to take a buyout offer. Some of the most pressing involve your company facing a rapidly competitive environment or a disruptive new technology. These forces can wipe out a company.

Just look at the case of Flip, which sold out to Cisco for $590 million in 2009. A few years before, the company launched a handheld camcorder that quickly dominated the market, with sales over 2 million units.

Cisco saw the deal as a way to break into the red-hot consumer market. But it turned out to be a disaster. The launch of Apple’s iPhone disrupted the camcorder market, and Flip quickly flamed out. By April 2011, Cisco shut down the operation.

In the tech world, the time from success to failure can be painfully quick. So when you have a hot company, you need to do a gut check: is your product built to last? Do you have real, sustainable advantages? If not, then you should seriously look at selling out.

Other times, a company may sell out because the valuations have reached insane levels. A classic example is Mark Cuban. He was a natural born entrepreneur who started his first business when he was 12, selling garbage bags. He paid for his college tuition by collecting stamps and operating a pub he acquired.

In the early 1980s, Cuban saw the huge potential of the emerging PC market and launched MicroSolutions, a software reseller. He sold the company to CompuServe for $6 million.

But this was only a warm-up. In 1995, he co-founded Audionet with his partner, Todd Wagner, to broadcast Indiana University college basketball games. They soon realized that the opportunity was much larger, and they expanded their platform into many other categories. The company changed its name to Broadcast.com and went public. In 1999, Yahoo! bought the company for a whopping $5.9 billion. Broadcast.com had less than $20 million in revenue at the time.

Cuban was now a billionaire, but his wealth was in Yahoo! stock. Realizing that the dot-com boom could easily fizzle, he put a collar on his holdings. This was a sophisticated financial structure to give him downside protection if the stock plunged. It turned out to be a savvy move and meant that Cuban remained a billionaire. He went on to buy the Dallas Mavericks and fund other hot companies. His net worth is now about $2.3 billion.