Stanford eCorner

Reasons Not to Sell

Geoff Donaker, *Yelp*

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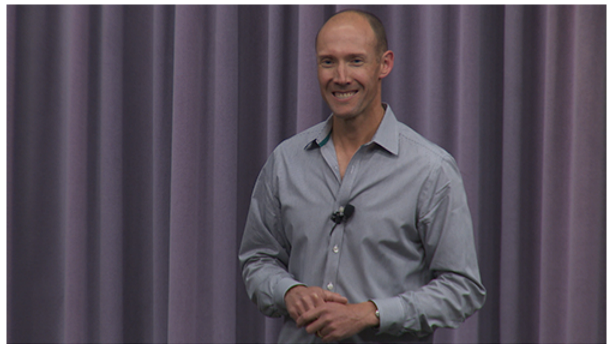
Video URL: http://ecorner.stanford.edu/videos/3340/Reasons-Not-to-Sell

Yelp Chief Operating Officer Geoff Donaker talks about the company's decision to turn down lucrative acquisition offers pre-IPO. While selling would've benefited Yelp's founders and early investors, Donaker says it was unclear what the effect would be for the rest of Yelp's employees and growing user community.



Transcript

We are really lucky at Yelp, from a relatively early time in the first year or so there started to be signs of life. We started to have hundreds of thousands of people and then millions of people come into the site, it looked really interesting, we got started in a second city, and then a third city and a fourth city and then started to spread. And we thought, hey, we might have something going here. And so, not only we were able to attract venture investment, right, which allowed us to raise more money to pay the bills and keep going and expand in new cities and whatnot. But we also attracted acquisition interest. So we did have interest and we would often maintain these dialogues with larger companies who had larger war chests and we got close to selling a couple times. Once when we were about two years in, we got close to selling for about a $100 million. Another time when we were about five years in, we got close to selling for about $600 million, and we didn't sell either time. The short version of why we didn't is that the founding team and the investors and Board of Directors actually thought the company was best served by staying independent and seeing it through. There's pros and cons.

There's oftentimes you're making an expected value calculation at that point in time from a purely financial perspective. The short version at both of those exit points was if we had taken the money and sold out, that would have been best at that time anyway, it would have been a good outcome for the founders and the early investors, they would have done really well, right. The rest of the employee base and the entire Yelp community and the site we've built it wasn't really clear that, that was going to be better for Yelp, the product, and the company and the community. And so opportune is a little bit of bind if you're on the Board or in a position to help make that decision, is this is actually in everybody's best interest? In many situations what happens to companies when they're so lucky to have that inbound acquisition opportunity is they end up selling. And there's really two ingredients that it would take to enable you to not sell in that situation and to keep going. And those two ingredients are one; your Investors and Board have to have deep enough pockets that they don't actually need the money right now. And two they have to see enough in the story to believe it's actually going to be worth more one, two, five years from now than that payout is worth today, right. Both of those ingredients are really critical to kind of get through that acquisition point and kind of keep moving on. At the end of the day, I guess what I would tell you is what really motivated us and what kept us going is that in some ways - a lot of ways an acquisition is kind of the end of the company. Whereas the IPO is really just the end of the beginning of a company.

And good, bad or otherwise those of us involved, have pretty big eyes and think that what we're working on has the potential to change the world for the better and be a lot bigger five and 10 and 20 years from now than it is today. And that keeps us motivated and coming to work every day.