One Founder, Both Sides of the M&A Table — What All Startups Can Learn from His Experience

23-29 minutes

January, senior year, Stanford. **Jeff Seibert** and a couple of his friends start casually building collaboration software. Nothing fancy. Nothing serious. At least not until casual conversations turned into a seed round from DFJ and an official launch complete with TechCrunch coverage mere days before graduation. **That's one way to rocket launch a career.**

At the time, he had no idea his path would be so defined by companies wanting to buy what he built. That first startup went on to join **Box** in 2009 — followed by a second outing, **Crashlytics**, eventually snapped up by **Twitter**. Now, as its Senior Director of Product, he's seen the company evaluate the acquisition of over 50 startups, and been involved in a number of deals — notably the purchase of **Periscope**.

Each of these experiences have yielded concrete lessons about not only weathering the M&A process, but also about building strong companies, period. While an exit should never be your starting goal, so much of being a good leader — maintaining team trust, clear communication, focus on culture — will be what gets you a good deal if you want one down the road. All of this starts from day one.

In a recent talk at Stanford, Seibert shared the blunt, unflinching details of acquiring and getting acquired, what he wishes he would have done differently, and what startup leaders should keep top of mind every day as they build toward an uncertain future.

Initially dubbed Feedbackr (riding the trend kicked off by Flickr), the collaboration tool Seibert and his college friends built became **Increo**, and was intended to help freelancers and employees instantly receive feedback on ideas. This took the form of converting image and document files of all types to appear right in the browser so people could quickly review and write comments.

After their very public launch on TechCrunch, they saw a spike in traffic, but it disappeared in just two weeks. "When you first see that rush of interest, you think, 'Oh my god, people are using what we built!' Turns out that's only the start of a very long journey," Seibert says. "But we didn't give up, we built the team over that summer after graduation and kept chugging on product and marketing. We literally begged bloggers across the internet to write about it, which was the right thing to do, because we did get some articles, and that led to us getting some traction."

The technology ended up being pretty cool. Increo could display hundreds of document files at once, whether they were PowerPoint, Adobe Illustrator, PDFs, etc. This was pretty special, all things considered, but the problem was on the growth side. Freelancers loved the product, with thousands immediately signing up to communicate with their clients. But that's where Increo's market began and ended, topping out at 20,000 customers.

This doomed the team to revisiting Sand Hill Road for a cash infusion in 2009 — just months after Sequoia Capital published its infamous "RIP Good Times" slide deck, marking one of the toughest fundraising environments in years. And here they were, six people with a niche product and a handful of users. All 36 firms they pitched turned them down.

“So the question was, where do we possibly go from here?” says Seibert. “We had six months of runway left. We were feeling the urgency to do something. Luckily, from constraint comes creativity.”

Increo decided to ditch the collaboration bent and focus on their most differentiated and desirable asset: the underlying file-conversion technology. That spring, they approached a bunch of prospective “partners,” proposing that they pay a penny per document converted. Immediately, four companies were interested, but they all sang the same tune: They wanted exclusive access to the tech and to host it themselves to avoid legal and privacy snafus. This didn’t sound like a partnership — it sounded like a takeover. When Seibert said as much, they didn’t balk, they simply asked what he proposed. Three ended up making offers, including Box.

DECISION-MAKING FOR ROOKIES

“We didn’t expect this at all — we were just trying to find a route forward for the company,” he says. “So we did what anyone would do and made a list of pros and cons.” Code-naming the companies ‘**Red**,’ ‘**Blue**,’ and ‘**Purple**,’ they got to work, thinking through what really mattered to them.

RED

- **Pros**: Absolutely massive scale. The Increo team had always wanted to reach a large number of people while staying true to their vision. Not to mention, they were willing to shell out. They understood how powerful Increo would be for their own product.

- **Cons**: Bad culture fit. It was an older company with a very corporate culture, located in downtown San Jose (not an appealing idea for fresh grads). They also wanted the team to rewrite its Ruby stack in Java — an 18-month chore.

PURPLE

- **Pros:** Chill, middle of the road, mid-size company that was a decent culture fit.

- **Cons**: Focused on the wiki space, which Seibert and the team weren’t passionate about. They didn’t see how Increo would fit into their model in a significant way. And what they craved was impact.

BLUE (i.e. Box)

- **Pros:** Great culture fit and really clear product need. Amazing team that the Increo crew had gotten to know over the course of a year working with them on a potential partnership.

- **Cons:** Younger, smaller than Red, and — as a result — not willing to pay so much.

They quickly ruled out Purple. Sure, it was uncontroversial, but that also made it unexciting. An acquisition isn’t just a day in the life of a startup, it’s three to four years in the lives of its founders and employees. If you’re passionate about technology, you can’t stomach going somewhere for that length of time that doesn’t light you up inside.

In the end, of course, Increo went with Box, despite the lower offer. Plainly, the team valued culture and opportunity over money, a fact they never tried to hide. In the end, they got what they wanted, because nine months later, their technology was already powering the document preview tool used site-wide.

LESSONS LEARNED

Incidentally, Increo was also the first company Box bought, so both sides were new to the game. Even so, Seibert says, they managed to get a few important things right:

- **Focus on the Future:** “This is deeply, deeply important,” he says. “There are so many founders I talk to today who are looking to sell, and they talk about it like the day the deal closes they get to declare mission accomplished and enjoy the money and look brilliant and all that. But none of that has anything to do with long-term success, since you’re going to be living your life at the company for many more years.” You can’t let what you would value on that one day influence your thinking when the company acquiring you will fundamentally shape what you learn, what you do next, and who you become. Realizing this early, he and team placed much higher value on working at a company that would help them realize their greater vision for Increo.

- **Culture is Nearly Everything:** “The more I’ve seen and learned, the more critical culture fit becomes. There are many great companies in Silicon Valley, but the one that’s right for you is the one where you deeply identify on a cultural level, where you love the people, you love talking to them about what you love working on, and you know you’ll have a blast working together on it.” Seibert and the team had gotten to know their future colleagues at Box well in the months preceding the sale, and really admired their style and approach.

Sounds great, but this doesn’t mean the deal was big mistake free. There’s plenty he wishes they would have done differently:

- **They Waited Too Long:** The busted financing round delayed Increo’s hunt for partnerships, setting them back by the time they had acquisition offers coming in. “Because we had such a short runway, we couldn’t evaluate every possible option,” says Seibert. “If we had more time, we would have gone much deeper and pitched a more strategic deal, not just a deal that was about our tech. We could have made the strategy a stronger negotiating point.”

- **They Were Too Transparent:** “It’s interesting, because I really support transparency within companies, but I think there’s a limit when it comes to deals like this,” he says. “As a founder, it’s your responsibility to gauge how transparent or not to be in this situation to reduce stress for your team.” In most cases, being a transparent leader reduces stress. But acquisitions pose a special case. You can’t have your team weathering the same anxiety you are during the process. Nothing would get built. People would crack. The Increo team went along for the ride during the three months prior to the buy, and were visibly stressed. They didn’t know whether to continue the company roadmap or build product to fit Box or the other prospects.

  In retrospect, we shouldn't have told the team about the process until we were more certain of the direction. We should have kept executing toward our original goal.

- **They Didn't Demand Commitment:** Inexperienced at negotiating, Seibert didn’t get any guarantee from Box that they would continue investing in the Increo product after the fact. They seemed excited about the technology, and moved quickly post-acquisition to integrate it. But then they hit a wall. There were no more resources to keep iterating, so the team transitioned into other roles. Ultimately, Box bought Crocodoc to take its file conversion tech to the next level.

If the team had navigated these areas differently, they might have had more leverage, increased productivity, and ensured a more expansive future for their work. But time marches on, and all of these shortfalls became important lessons in the next chapter of Seibert's career.

The next company Seibert sold was actually born at Box — a testament to how well the culture embraced and supported his personal goals. After rolling off the document preview tool, he started working on Box's sync project. Generally speaking, sync tools are complex and buggy and crash all the time. After suffering through his fair share of this, he decided there had to be a better way. So, with his manager's blessing, he launched a side project to prevent mobile apps from crashing. Soon, he had a product and a great co-founder in Wayne Chang. His experience was night and day from Increo.

No struggling to find customers. No massive marketing effort. Seibert and the friends he recruited to the cause shared with their communities, and found a host of people desperate for exactly this type of solution. These beta testers told even more people until, just months into development, thousands of apps were running Crashlytics. They even had a wait list.

> It struck me what a difference it made to be serving a visceral need people have in order to do their business. That's what drove all our growth.

Twitter was among their biggest fans. The company put Crashlytics in both their iOS and Android apps, happy as can be, until — seemingly out of the blue in 2012 — they called Seibert up to ask: "Hey, have you guys ever thought about working for us?"

"We were like, 'No! Why would we do that? We have a great business. The product is going gangbusters. We're really happy. We have a great team. That doesn,'t make sense,'" he says. "They said, 'Okay, Great chatting,' and hung up." That was in October. In December, they called back, urging Seibert and his co-founder to fly from Boston to San Francisco to meet the executive team.

They reluctantly agreed, but reflecting on Increo's sale, they knew they needed to be very careful about messaging their trip. In fact, they chose not to message it at all. "We had no interest in selling Crashlytics. We needed the team to stay focused. We were in the middle of raising our B round, we needed to keep building," he says. "Basically, we couldn't afford for this to be a distraction. So we threw a big holiday party on the 18th, gave everyone the entire next week off, and we flew west without anyone knowing."

The first thing that struck them was Twitter's nuanced understanding of mobile. They had a very clear vision of how they would grow their mobile presence over the next five years and the products they'd need in their arsenal to make that happen. They were also committed to aggressively reinventing their developer platform, which appealed to Seibert and Chang.

"They really helped us understand that they didn't just want to have their own crash reporting tool, they saw the purchase of Crashlytics as a beacon for a new wave of developer tools," says Seibert. "This was very intriguing to us, since our goal was the empower developers too."

Twitter asked to see their roadmap in exchange for a peek at theirs. It turned out both companies had nearly identical visions for how to develop the technology. "We had such complete strategic alignment that the opportunity suddenly became very compelling," he says. "We could leverage Twitter's brand and notoriety and their ability to build all this stuff much faster than us to very quickly scale up our platform."

There were a number of other pros to the deal: Besides the massive scale, the culture fit seemed perfect. Most of the people they spoke to shared Seibert's background. He knew a number of them personally, making it easy to backchannel and see how they actually liked working for the company. There was also a very clear product need. Twitter didn't have an SDK at the time. The Crashlytics team could and wanted to build one. The larger company even made a long-term commitment to invest in the company long-term, double the team, make the product free, and more.

> It was this completely rare chance to build our own big business and learn what that's like.

Twitter made a fair offer after some back and forth and countless phone calls. Negotiation lasted until 2 a.m. on Christmas Eve, and they signed the term sheet at 10 a.m. Christmas morning. "On one hand, it was like 'Wow, incredible!' and on the other it was, 'Wow, now we have way too much to do and we have to tell all these people who have no idea what just happened.'"

WHAT THEY GOT RIGHT

- **Strategic Alignment:** This was really the lynchpin. Crashlytics had funding alternatives and a year of runway left. It didn't need to get bought. If it's mission and ambitions didn't fit so precisely with what Twitter needed, the deal wouldn't have happened. Realizing this was the case, however, has allowed them to dump fuel on a fire that mattered a lot to them, and that would have taken much longer to burn on their own.

- **Tight Communication:** Seibert and his co-founder were rigorous about experiencing every conversation together or immediately relaying all the details. They kept the number of people in their circle of trust very small in order to control the story. They didn't want there to be any misconceptions or missed connections. This helped tremendously when it came time to tell more people.

Most Importantly, Fortifying Team Trust

As of that fateful Christmas morning, Crashlytics had 18 employees — 14 of whom were engineers. "They had basically taken this job, put their life in our hands, and believed completely in what we were doing. They wanted to join a startup and didn't necessarily want to go work for Twitter — it was on us to motivate that," says Seibert. "We had to convey why we were so bought in, and why we thought this would make us all much more successful."

Instead of scheduling an unexpected meeting to reveal the news — which would have raised eyebrows and freaked more than a few people out — they rolled it into a 2012 Year-End Review. He and his co-founder poured hours into their slide deck, a photo montage running through all the people and milestones they had reached together. The last slide made the announcement.

"We pitched it as, 'Oh you thought this was the end of the slideshow — nope, there's more!" says Seibert. "Then we told the story of flying to Twitter and showed a photo of me and Wayne celebrating with a humorously romantic dinner under a Christmas tree. It made everyone laugh right away and broke any tension."

Immediately, they talked through the delta between their opportunity as a solo company and their opportunity with Twitter, emphasizing how it would power up their roadmaps. "We made it clear we'd be building exactly the same thing, so no one got their dreams shattered. We'd just have a larger mandate and making the product free would make it accessible for more developers."

They also timed their lead investor to show up to reinforce this message, armed with champagne for everyone.

> The goal was to very slowly break the news and spend the rest of the day partying.

Because nearly the entire team had been with Crashlytics for less than a year, they were able to offer an unexpected little bump, too. The way standard option agreements work, there's a one-year cliff and four years of vesting. They made it so that everyone, even those who had been there a month, got their entire four years of equity. This went a long way toward solidifying trust and assuring everyone that their best interest was at heart.

OKAY, BUT WHAT WENT WRONG?

Seibert and Chang wish they would have looked a little more closely at where they would fit into the bigger org.

"As we negotiated the deal, we agreed that we'd report directly to the VP of Engineering, which seemed great at the time," says Seibert. "Soon after that, Twitter did a re-org and we ended up reporting way deep in engineering for months."

It wasn't the end of the world and eventually got corrected, but they also didn't get the support they needed right away for idea integration. When Increo got bought by Box, the latter company had 40 people, so reporting structure didn't matter. Twitter was much larger, and reporting structure makes a big difference to the level of support and visibility you get.

Very few startup leaders think of these things. They're literal afterthoughts, but they can make a huge impact on your experience and future at the company. It's also important to lean on other founders who have gone through acquisitions to inventory all the things to ask about. If you rely solely on your prior experience or the basics, you're sure to forget about something critical.

Fortunately for Crashlytics, Twitter made good on everything it said. With the additional resources, they were able to modernize the product and scale it immensely. It's now been used by over a million apps across half a billion mobile devices.

More importantly, at the time Seibert gave this talk, not a single person had left the team. They now have over 75 engineers working toward the same objective that Crashlytics set out to reach.

> The key takeaway is it's incredibly unlikely for a deal to happen. Ever.

Roughly 1 in 17 deals Seibert has observed has panned out. In his experience, there are endless things that can go wrong along the way. But first, it's important to understand the different types of acquisitions:

ACQUIHIRES

These are the simplest deals in terms of monetary value. The goal here is simply to get the talent. Even if a product doesn't work out, the engineers can be incredibly valuable. "Lots of companies fail, but lots of teams want to join a company but stay together," says Seibert. "It sounds nice, but you have to do a lot of work to guarantee culture fit and make sure people can stay tight-knit if they want to. Sometimes this is good if you want a lot of brainpower on a focused project. Sometimes it just can't work."

TECH DEALS

Increo joining Box fell firmly into this camp. The company had a clear technical need. They could either buy the technology they needed or build it themselves (which might have required staffing a team and two years of development). The cost-benefit analysis pointed to the first solution being better overall.

STRATEGIC DEALS

These are the rarest and largest deals. This is where you're augmenting your business in a deeply strategic way in order to go after a new market. The Crashlytics deal falls in this bucket because Twitter lacked a strong developer platform prior. They didn't just want the technology — they could have remained a paying customer for that. Instead, they needed a product, market and recognized brand within the developer community. Twitter's purchases of Periscope, TellApart and MoPub also fall into this category.

"For acquihires and tech deals, it's typically the startups approaching the larger company — it's ultimately their decision to go look for suitors to see if there's a match," Seibert explains. "On the strategic side, it's almost entirely the opposite. So it's on us in product of a large company to think about where we need to go and where we should invest. That's when we canvass a space to look for potential players that might be a fit."

This is also the type of deal where autonomy becomes a meaningful bargaining chip. Good acquirers learn the skill of making autonomy part of the negotiation. For instance, with Periscope, the company got to keep their office, their roadmap, and their business plan. The success of strategic deals is often dependent on the ultimate success of the team that joins, and sometimes autonomy is a necessary ingredient.

WHAT DOES BUYING A COMPANY ACTUALLY LOOK LIKE?

Initial calls and meetings are devoted to understanding the founders' mission and strategy of their company. Where are they coming from? What kind of technology do they want to build? What kind of team do they want to build? If that goes well, Twitter moves them on to a tech talk where a group of their lead engineers dig in to really understand why the startup built their product the way they did.

"It's fascinating all the different architectures companies are using today. Some match what Twitter is doing better than others, but the real key is understanding why the startup has made the trade-offs they've made," says Seibert.

If they pass on this level, interviews are next. In almost every case, an acquiring company will want to interview the entire startup team. It's mostly about cultural alignment. This isn't only a concern on the startup's side. Big companies like Twitter need to care deeply about how this group of people will fit into their current operation. If the fit is bad, it can slow things down and break something that didn't need to be fixed in the first place. "The team here spends most of their time ensuring that they're bringing on people they think can be successful at Twitter and are uniquely likely to thrive here." The technology is important but secondary to this assessment.

> There are tons of different ways to solve problems. What we really look for is a great team.

This is where most deals fall through, actually — they'll interview everyone and discover that there are more weak employees than strong ones. Or a certain faction just won't mesh. At a certain point, you can't justify bringing on everyone just to hire a few rock stars.

WHAT STARTUPS CAN DO TO MAXIMIZE VALUE

The best thing you can do when embarking on a deal is expect it to fail. You have to stay as disciplined, as productive, and as passionate about your own company as you would if you didn't think you had a shot.

"Let's say you've been working on a company for a few years, you're a bit tired and feeling burned out — an acquisition is not your path to a vacation," says Seibert. "It's the opposite."

Truly, you need to be far more energized than you ever have been. If you feel like you can't give this new chapter of your company that level of energy, an acquisition isn't going to end well. This goes for acquihires too. Any large company you join will have strategic initiatives. Where do you fit into their strategic priorities and market needs? Do you see their need for you continuing long-term? Double check these things before getting serious about an option.

As pat as it sounds, Seibert also urges entrepreneurs to stay true to their stated goal — seriously, for practical reasons. “You absolutely, 100% cant build something in order to get acquired or get to an exit. When you go out and raise funding, inevitably you’ll be asked, ‘Why are you building this company? To get acquired? To get to IPO?’” No matter what you say, they’ll know they truth. They’ve seen hundreds if not thousands of people like you before.

“**Always start a company to solve a problem.** I started Crashlytics to stop mobile apps from crashing because it was costing people time and money,” he says. “Crashlytics was not successful the day Twitter bought us. It wasn’t successful the day Twitter IPO’d. It’s not even successful today because mobile apps are still crashing millions of times a day. That’s the drive Twitter wanted. So when you’re thinking about opportunities for your team on your company, focus on the ones that will help you achieve your mission.”

This story is based on a Stanford Entrepreneurship Corner talk Jeff Seibert delivered last year.