The 2013 Acquisition Of Tumblr By Yahoo

Lewis Carroll once said, “If you don’t know where you’re going, any road will get you there.” In a single sentence, the man who gave us Alice in Wonderland fully summed up the issues in the 2013 acquisition of Tumblr by Yahoo. At the time, Yahoo! was not growing and was losing market share to Facebook, Google, and others with no clear path towards re-establishing its position. Tumblr, which was founded in 2007 by a 19 year-old, David Karp, had some similar problems. It had a loyal following, but wasn’t growing, in part, due to a reluctance to rely heavily on ad revenues. Looking back, the issues seem clear: why did Yahoo! believe that purchasing a business that wasn’t growing could result in sustained growth for the combined entity? Clearly they felt that they could generate growth from shifting to a heavier reliance on ad revenue, but they failed to see that this ran counter to the entire business model of Tumblr. Why did Tumblr court Yahoo and other potential acquirers (like Facebook)? The answer for both parties seems to have been desperation. In 2018, Verizon, which had bought Yahoo! in 2017, sold off Tumblr for an undisclosed price that was probably under $3MM – a tiny percent of the original $1.1B acquisition price.

Parties

Yahoo! was founded in 1994 by 2 Stanford Electrical Engineering students (Jerry Yang and David Filo). Yahoo! is an acronym for Yet Another Hierarchically Organized Oracle or Yet Another Hierarchically Officious Oracle. It was initially one of the premier web portals and internet service providers, but was eclipsed by others as it was slow to adapt to a world of mobile devices. As an also-ran in its core businesses, Yahoo! sought and carried out a series of acquisitions to build its profits and market share, including GeoCities and Flickr. Marissa Mayer, who came in as the CEO in 2012 after a series of other unsuccessful CEOs, made the acquisition of Tumblr a big priority (Lichtendahl & Kritzer, nd). When she took over the office in 2012, her primary mission was to make the web pioneer relevant again and ready to counter the stiff technological competition in the industry. Yahoo! profit had due at least in part to an over-emphasis on personal computers and an under-emphasis on mobile devices. In 2016, Yahoo wrote down the value of Tumblr, first by $230MM and then by $482MM, wiping out about two-thirds of the acquisition value. In 2017, Verizon acquired Yahoo. In 2018, Verizon announced a policy change that banned any NSFW (not safe for work) or pornographic content in Tumblr. This took away a substantial portion of content.

Tumblr was founded in 2007, as a micro blogging and social media site. For a number of years, the CEO and founder, David Karp, maintained his stand not to place many ads on the service which depressed earnings growth – but earned a loyal following. During the last quarter of the year 2011, the company was valued at approximately $800MM, but it was struggling to grow profits. The reports indicate it only managed about a $13MM bottom line. In 2018, Verizon sold Tumblr to Automattic for an undisclosed amount that was probably less than $3MM.

Tactics

In its early years, Yahoo was the industry leader, but it lost its way. Yahoo’s tactics with respect to Tumblr were consistent with a long-term lack of a clear business strategy. The facilitation of

an outcome was minimal here in addition to a principal negotiation whereas, this was not a wise agreement and ultimately damaged the relationship between Tumblr and Yahoo. In terms of stock price, Yahoo!'s value peaked in the 2000-2001 period of the dot-com bubble. After that it did not fare well and was often seen as an acquisition target – especially by Microsoft. There were numerous, significant layoffs. Between 2009 and 2012, the company had four different CEOs. There were board intrigues and embarrassing data security breaches. For many years, the only strategy seemed to be to buy promising tech start-ups in the hope that one would flourish to save the day. However, none of Yahoo!'s acquisitions turned out as expected. The rationale for the Tumblr deal was that shifting towards an ad revenue based model would drive growth. However, the fact that shifting to an ad revenue base model would alienate many Tumblr users was never considered.

Bankers played an important role in major take-overs and mergers. Their main role is to offer adequate financial advice to the parties. The sellers may use the information provided by the bankers in positioning the said product in the marketplace. They also provide proper negotiation terms to prevent the take-over deal from going sour (SHONK, 2013). The less involvement of the bankers in the deal led to poor negotiations between the two companies.

For its part, Tumblr became an acquisition target because it refused to change in spite of a changing environment. Over time, it would seem that both Yahoo! and Tumblr could be accused of substituting a reliance upon acquisitions and mergers for basic investments in engineering and developing their platforms. The turnover of Yahoo! CEOs and board politics also made the development of a coherent business strategy unlikely.

What could have been done better

The simple truth appears to be that Yahoo!'s acquisition of Tumblr was a desperation measure for both parties and desperate times often result in less than thoughtful actions. In no way did it appear that successful negotiating was going to satisfy all parties. Some of the vision required only maximizing your own stance here, which was clearly not going to be a strong approach to negotiating (Donohue, P.2). Ultimately, Yahoo did not properly form a win-win objective with acquiring Tumblr. Neither party was well positioned for growth before the deal and the deal did little to enhance the prospects for the combined entity. Yahoo! had been eclipsed by Facebook and Google and Tumblr had devolved into a niche player. Both waited too long to act. Had Yahoo! allowed itself to be acquired by Microsoft on a number of occasions, it might have gotten the capital and technological horsepower to have righted the ship – well before the Tumblr deal. For it's part Tumblr, painted itself into a corner by resisting the market shift towards ad revenues (which Yahoo! also resisted to it's great disadvantage). Neither was a healthy business at the time of the deal and combining two unhealthy businesses in the belief that it would result in a strong combined entity seems like a stretch.

Conclusion

Both companies have evaluated their error and seen through what was done wrong and what could be done right. Through such both Yahoo and Tumblr could make a bold step and focus on rebuilding itself to counter competition and be relevant once again in the tech industry. The audience would love to see significant positive changes in the industry, mainly being driven and powered by Yahoo and Tumblr.