Learning from the lessons of Bebo to build a sellable business

With pioneering social network Bebo now back in the hands of its founders, Guy Wilmot, partner at Russell-Cooke, looks at what went into building a business which secured a very profitable exit

Bebo was one of the early social media firms and was sold soon after MySpace

Guy Wilmot

Article: Feature

The original founders of the Bebo social networking site, Michael and Xochi Birch, set up the business in 2005 and sold it to AOL in 2008 for $850 million (£417 million). They have recently bought back Bebo for just $1 million.

In order to achieve such a staggering success you certainly need luck. However, there are a number of steps any business can take when starting out in order to maximise the chances of success – and the example of Bebo is instructive.

So what steps can businesses take when starting out to try and replicate success on the Bebo scale?

Get the business model right
New businesses should ensure that they have a strong business model. The model will need to be scalable if founders wish to achieve a stratospheric selling price. What this means in practice is identifying your proposition, who your customers are, where the revenue comes from, how that revenue will be collected and what the cost base is going to be.

A scalable business model is a model which can grow quickly, preferably allowing revenues to grow at a faster pace than costs. Social networks are an almost perfect example of just such a model as each additional user that joins the network makes the service more valuable for new users but will not generally add to the costs of running the business. However it should be pointed out that this was also Bebo's downfall. Facebook was able to benefit from the same advantages and if you operate in a market where network effects are strong then there may only be a place for one or two competitors. Most businesses though are not like social networks.

Be flexible
Although it is important to get the business model right it is equally important to be prepared to change the model if circumstances require it. Being able to 'pivot' is what separates some of the most successful start-ups. Twitter, for instance, started out as a podcasting platform.

Obtain enough finance, but not too much

When the Birches sold Bebo in 2008 they still owned 70 per cent of the company between them. They had been able to fund its growth while only giving up 30 per cent of the equity they held.

Social networks do not generate revenue quickly but many other businesses will be able to generate an income stream virtually from day one. If you are able to do this then this may put you in a better and more secure position as you will not be constantly looking for external finance which takes up valuable management time as well as diluting equity or impacting cash flow (where loans are taken out).

Get good investors

It is important to have shareholders and investors who apply a certain amount of discipline but also give management some freedom to run the business. Founders should avoid just accepting any finance because it is made available and should always do due diligence on their investors (getting references from other businesses who your investors have invested in is always a good idea).

Protect your brand and intellectual property

It is very important to ensure that your brand and other intellectual property is protected. This can offer a competitive advantage and also allows you to prevent others from abusing your name and reputation as well as stop copycat services or competitors from taking customers.

However, there is a limit to what can be achieved. Often budgets are not there for comprehensive protection. It can take a long time to obtain patents and many businesses will not develop patentable ideas. General business concepts (for instance the basic idea of a social network) are not protectable by any form of intellectual property. Developing a strong brand presence and brand recognition is vital though; Bebo had a strong brand when bought by AOL (although this did not ultimately save the business).

Get the timing right

This is an almost impossible thing to judge and a lot of luck will be involved but timing the launch of the business and exit are key. If the Birches had waited another two years the rise of Facebook would have been clear and Bebo would have certainly been worth a lot less.

Think about and discuss plans, the exit and decision making

As husband and wife it is likely that the Birches worked very well with each other and did not have to worry about personality clashes or disputes amongst founders.

Most other businesses need to ensure that the founders understand how decisions are likely to be made (for instance, what sort of majority is required to take key decisions). Founders should also discuss and agree proposals for growing and exiting the business, raising finance and general strategy. Too many businesses suffer due to disagreements which could have been avoided had the founders only discussed their expectations, hopes and plans in advance. This may mean entering into a shareholders' agreement.

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