10.1: Negotiation Failure: The Case of the PointCast

In 1997, a company called PointCast Network Inc. was the hottest start-up in Silicon Valley. Its founder and CEO, Christopher Hassett, was “the most famous guy on the Internet,” said Hassett’s former attorney, Allen Morgan. Hassett was named CNET’s newsmaker of the year—an honor previously bestowed on giants such as Bill Gates of Microsoft and Larry Ellison of Oracle. The “push technology” that PointCast pioneered was making headlines as well as being featured on the cover of *Wired* as “The Radical Future of the Media beyond the Web.”

Figure 10.1.1: Patrick Nouhailer – Silicon Valley from above – CC BY-SA 2.0.

All the attention around PointCast motivated one of the world’s largest communications companies—Rupert Murdoch’s News Corporation—to make them an offer of $450 million. Negotiations were intense and lasted weeks. With media speculation that PointCast—a company with almost no revenue—deserved to be valued at $750 million, some people say Hassett started believing the hype and, with the support of his board, asked for more money. “People involved in the company thought they’d be the next Netscape. They hung out for more,” Murdoch said. News Corporation instead lowered its initial offer to $400 million but added incentive clauses that brought the offer close to the original $450 million if PointCast met its financial projections.

PointCast also rejected that offer, and News Corporation walked away from the bargaining table. The timing couldn’t have been worse for PointCast, as “push” technology became old news thanks to the maturing of alternatives such as Yahoo! By the time PointCast decided to go public in 1998, the company was valued at half of News Corporation’s last offer. Worse, the process of filing an initial public offering (IPO) requires the company to disclose all potential dangers to investors. PointCast’s disclosures—such as news that customers had left because of poor performance—scared off so many investors that PointCast ultimately withdrew its IPO. By that time Hassett had been forced out by the board, but the company never fully recovered. In the end, PointCast was acquired in 1999 by Idealab for $7 million. In this case, stalled negotiations cost the firm a steep price of $443 million.

Referring to the missed opportunity, an industry expert said, “It may go down as one of the biggest mistakes in Internet history.” According to Steve Lippin, writing in the *Wall Street Journal*, “Merger professionals point to these euphemistically called ‘social issues’—ego and corporate pride, that is—as among the most difficult aspects of negotiating multibillion-dollar mergers these days. Although financial issues can be vexing too, these social issues can be deal-breakers.”

In a similar and more recent situation in 2008, Yahoo! CEO Jerry Yang was ousted by the board of directors following failed deals with Microsoft and Google. Yang’s behavior during negotiations indicated that he wasn’t interested in bargaining as much as playing “hard to get.” He “kept saying we should get more money, we should get more money, and [he was] not realizing how precarious their position was,” says high-tech analyst Rob Enderle. In other words, even deals that look great financially can fall apart if participants fail to pay attention to organizational behavior issues such as perception, groupthink, and power and influence.

Based on information from Arnoldy. B. (2008, November 19). Why Yahoo’s Jerry Yang stepped down. *Christian Science Monitor*. Retrieved January 20, 2009, from http://www.csmonitor.com/2008/1119/p02s01-usec.html; Auletta, K. (1998, November 19). The last sure thing. *New Yorker*; Lipin, S. (1996, August 22). In many merger deals, ego and pride play big roles in which way talks go.

Wall Street Journal, Eastern edition, p. C1; PointCast fire sale. (1999, May 11). *Wired*. Retrieved November 14, 2008, from www.wired.com/techbiz/media/news/1999/05/19618.

Discussion Questions

1. Considering the amount of buzz surrounding Hassett's new technology and the impact previous, similar advancements have made, was Hassett necessarily foolish for not taking a quick offer?
2. Is the PointCast situation a case of pride clouding someone's judgment or more accurately a representation of the rapidly changing nature of computer-related business? In other words, if Hassett's advancement had been in an industry that is not known for such rapid changes, would he have been considered foolish if he *hadn't* held out for more money?
3. This case focuses on how foolish Hassett was for not accepting Rupert Murdoch's first or second offer. However, think of the buyout offer from the perspective of Rupert Murdoch. If the buyout had gone through, News Corporation would likely have lost hundreds of millions of dollars on the deal, and the company was effectively spared massive losses by the merger falling through. What could Murdoch have done differently to protect against such risky mergers in the future?