



Making the most of
technology mergers

The integration challenge

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As consolidation pressures rise in technology and telecommunications, companies in these sectors are returning to the M&A market. But several studies have shown that the majority of mergers fail to create significant shareholder value. Investors demand evidence—often within 12 months—that 1 + 1 equals at least 2.3, assuming a 30 percent control premium applied to a public deal. Bain & Company's survey of 250 global executives involved in mergers and acquisitions indicates that two of the top four reasons for failed corporate marriages relate to poor integration. Through our work in helping companies maximize deal value through integration, we have identified some imperatives for integration success.

Define the right integration approach

How should tech and telecom companies think about this critical process? Start with two factors that determine the integration strategy: deal size and business overlap.

Size does matter

"Tuck in" deals—a large acquirer buys a smaller company—should use the acquirer's business model. But acquirers must take care not to destroy the assets hidden in the smaller company as it gets rapidly folded into the acquiring company. Mergers of equals require a balanced approach and a detailed blueprint and action plan to preserve the winning characteristics of both companies.

Business overlap matters even more

Businesses with strong similarities—in customers, products, technologies or channels—should expect dramatically higher integration levels. Efforts to preserve "uniqueness" in these situations can often backfire and destroy value. Where overlap is limited, merger integration should focus on preserving key strategic differences.

Drive the integration for maximum value

Follow the money

Don't get lost in the blizzard of details. Where is value created? If revenue enhancement is the main source of new value, then adding channel reach or improving account cross selling may be the primary focus. If cost savings hold the key, focus may be on consolidating G&A, eliminating redundant development teams or consolidating sites. Pay the most attention and invest the most effort where the most value gets created.

Companies often miss the key drivers of value. One electronic components company absorbed an acquired firm with overlapping product lines in 12 months by focusing largely on G&A savings instead of R&D, which was a significantly larger component of cost. Profits fell when the company's R&D costs grew dramatically higher than key competitors', despite a large revenue scale advantage. Two and a half years later, following a 60 percent decline in the stock price, the company finally integrated product architectures, got its development costs in line, and reemerged as the leader in its segment.

Preserve the key assets

The day a deal is announced your employees, partners and customers are in play. At minimum, they are uncertain of what the future holds for them; more likely, they are being approached and wooed by your competitors. Successful integration requires vigilant attention and active management of these core business assets.

Surprisingly, some technology acquirers still pay lip service to the importance of recognizing and retaining key employees. When one computer systems firm acquired a small adjacent company, the acquisition hinged on making the most of the acquired

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firm’s unique intellectual property (IP). But the buyer paid little attention to the engineering team in the acquired business. Within 12 months, most of the key architects were gone and with them much of the critical IP, causing the business to be shut down.

Move rapidly

Integration offers a unique opportunity to change a combined organization’s destiny, but the failure rate goes up as time drags on. Customers, employees and investors typically grant a grace period of four to twelve months before demanding progress. After that, it becomes increasingly difficult to effect change and retain important assets. The key is to focus on change that really drives the most value and to make it happen fast.

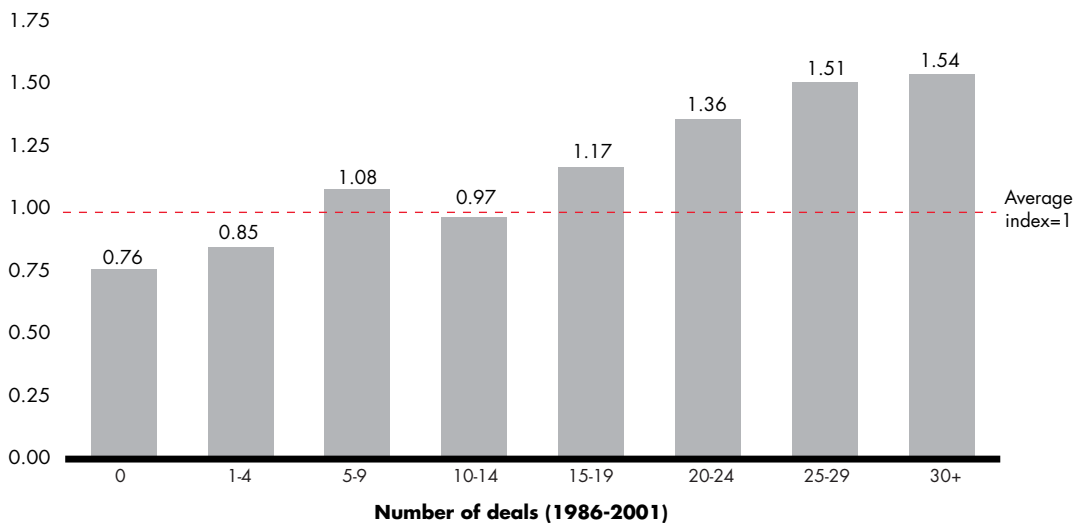
One enterprise software company merged with a major competitor on the opposite coast. For two years, the companies remained largely separate in development and even in sales and marketing. Revenue growth stalled as the combined organization lost focus and failed

to produce an integrated offering. After several years of flat revenue, large share loss and a decline of more than 50 percent in the stock price, the organization moved to integrate and saw expanded growth and share price appreciation.

These simple imperatives for effective integration do not come naturally to most organizations. Rather, they are learned and developed. Bain research shows that frequent acquirers master these imperatives and generate returns that are up to 50 percent higher than average. (See figure 1) Some companies, such as Cisco, have developed M&A into a core skill. They recognize that integration is at least as important as the deal itself and, as a result, they build repeatable, internal capabilities and practices for successful integration. Infrequent acquirers should pay heed to the success of Cisco and other frequent acquirers that integrate consistently and practice the imperatives of following the money, preserving assets, and moving rapidly.

Figure 1: The integration learning curve

Average annual excess returns, indexed to average (1986-2001)



Excess return is total shareholder return minus cost of equity (expected return). Source: Bain & Company research



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We help companies find where to make their money, make more of it faster and sustain its growth longer. We help management make the big decisions: on strategy, operations, technology, mergers and acquisitions, and organization. Where appropriate, we work with them to make it happen.

How we do it

We realize that helping an organization change requires more than just a recommendation. So we try to put ourselves in our clients' shoes and focus on practical actions.

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