

FIVE M&A STRATEGIES: THE PROS AND CONS

This tool lays out the pros and cons of five different merger and acquisition strategies. It provides an example of each strategy, it details the objectives of each one, and it lists the major concerns. This is an invaluable tool for anyone considering a merger or acquisition.¹

Strategy	Example	Strategic Objectives	Major Concerns
The Overcapacity M&A	Chemical Bank buys Manufacturers Hanover and Chase; Daimler-Benz acquires Chrysler.	The acquiring company (part of an industry with excess capacity) will eliminate capacity, gain market share, and create a more efficient operation.	<p>You can't run a merged company until you've rationalized it, so decide what to eliminate quickly.</p> <p>If the acquired company is as large as the acquiring one and its processes and values differ greatly, expect trouble. Nothing will be easy.</p> <p>If it is a so-called merger of equals, expect both companies' management groups to fight for control.</p> <p>These tend to be onetime events, so they're especially hard to pull off.</p>
The Geographic Roll-up M&A	Banc One buys scores of local banks in the 1980s.	A successful company expands geographically; operating units remain local.	<p>Members of the acquired group may welcome your streamlined processes. If they don't, you can afford to ease them in slowly.</p> <p>If a strong culture is in place, introduce new values with extreme care. Use carrots, not sticks.</p> <p>These are win-win scenarios, and they often go smoothly.</p>

¹ Excerpted from "Not All M&As Are Alike – and That Matters," by Joseph L. Bower; from Harvard Business Review, March 2001

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The Product or Market Extension M&A	Quaker Oats buys Snapple.	Acquisitions extend a company's product line or its international coverage.	<p>Know what you're buying: the farther you get from home, the harder it is to be sure.</p> <p>Expect cultural and governmental differences to interfere with integration.</p> <p>The bigger you are relative to your target company, the better your chances for success.</p> <p>The more practice you have, the better your chances for success.</p>
The M&A as R&D	Cisco acquires 62 companies.	Acquisitions are used in lieu of in-house R&D to build a market position quickly.	<p>Build industrial-strength evaluation processes so that you buy first-class businesses.</p> <p>This category allows no time for slow assimilation, so cultural due diligence is a must.</p> <p>Put first-rate, well-connected executives in charge of integration. Make it a high-visibility assignment.</p> <p>Above all else, hold on to the talent if you can.</p>

Strategy	Example	Strategic Objectives	Major Concerns
The Industry Convergence M&A	Viacom buys Paramount and Blockbuster; AT&T buys NCR, McCaw, and TCI.	A company bets that a new industry is emerging and tries to establish a position by culling resources from existing industries whose boundaries are eroding.	<p>Give the acquired company a wide berth. Integration should be driven by specific opportunities to create value, not by a perceived need to create a symmetrical organization.</p> <p>As a top manager, be prepared to make the call about what to integrate and what to leave alone; also, be ready to change that decision.</p>