

Beyond the Deal Newsletter

*Mergers and Acquisitions that
Achieve Breakthrough Gains*

www.beyondthedeal.net

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Dear Jay,

Quote of the Month:

"Only those who will risk going too far can possibly find out how far one can go."

T. S. Eliot

Towards a Dynamic Fusion!

Capabilities are often discussed in admiring terms, but rarely grappled with in a way that will make real differences in organizations. [Paul Leinwand and Cesare Mainardi](#) of Booz & Company, have done exactly that in their new book, [The Essential Advantage: How to Win With A Capabilities Driven Strategy](#) (Boston, Harvard Business Review Press, 2011). Their framework is the outcome of years of working with a variety of companies in different fields, markets and geographies. They focus on what it takes to makes companies successful overall, but recognize that a capabilities perspective is something that is both underrepresented and uniquely important in an acquisition and integration setting.

Here is a working review of their new book, juxtaposed it with the [Beyond the Deal](#) approach. As with any good piece of work, and this is one of them, there is only so much that the authors can fit between the covers. We are delighted with the contributions that the authors have made but see that the Beyond the Deal approach is an essential complement to what Leinwand and Mainardi offer.

The Essential Advantage is a provocative piece of the pie. It raises important questions and provides a viable road map for any company seeking to achieve exceptional outcomes, whatever the market. At the same time the combination of the specific set of capabilities advocated by the authors with the core integration capabilities mapped out in Beyond the Deal provide an even more compelling opportunity for those organizations that have the leadership, desire,

determination, and vision to carry this out over the long term.

In the February Newsletter:

- [Another Piece of the Acquisition Integration Puzzle Comes Into Place](#)

Another Important Piece of the Acquisition Integration Puzzle Comes Into Place

A Valuable Contribution

In *The Essential Advantage*, Paul Leinwand and Cesare Mainardi of Booz and Company give us a handbook for how to forge a capabilities-driven strategy that can be used to sharpen the choice of acquisition targets and then guide the creation of value in newly integrating firms. Booz's research shows that a firm's success in any market is an outcome of achieving a *coherence premium*, which the authors define as a tight match between strategic direction and the capabilities that enables them to outperform their competitors. Coherence becomes a firm's essential advantage, and what strikingly separates the successful firms from their competitors.

While coherence is something that is easy to talk about, it is quite challenging to work through and put into practice in a complex organization. Think about it: As firms evolve they develop a variety of product lines, customers with unique needs and characteristics, and most frequently widespread geographies and diverse cultures. A great amount of dedication, insight, determination and ongoing practice is necessary to navigate the process that yield such an essential advantage. And, this is precisely the path the authors chart. They have consistently found three major elements make up coherence:

- **A way to play** - which is how everyone in the company understands the way the company creates value for customers
- **A capabilities system** - the engine for creating value - this consists of the three to six capabilities that, in concert, allow companies to most powerfully deliver their value proposition by providing the basis for coherence, and
- **A products and services fit** - where all products and services leverage the same capabilities system.

What is a Capability?

The authors are very clear in how they define these core capabilities: i.e., a capability encompasses the ability to reliably and consistently deliver a specific outcome. In their view, capabilities are distinctive strengths, with each representing an extraordinary competence that few others can master. These capabilities can take years to develop, and the more distinctive that capability and the more related it is to the way a company "plays", the more valuable it is. Good examples are Amazon's merchandising capability or UPS's logistics capability.

Successful capabilities-driven companies may combine seemingly unrelated capabilities to achieve their desired outcome. One such company is Zara, a Spanish retailer, which brings together customer insight, rapid response manufacturing innovation, logistics and nimble fashion design in a very specific way. The result is that Zara underprices its competition by fifteen percent, changes its inventory ongoingly, and sells a higher proportion of its clothing than other retailers. These capabilities are carefully selected and nurtured, shaped and reshaped as understandings and conditions change. Zara's facility with the capabilities it has cultivated enables it to position itself in a way that is very difficult to copy or challenge.

The "Right To Win"

A specific aspect of a capabilities-driven strategy is that having the necessary set of key capabilities is the deciding factor in whether a company can see itself as having the "right to win" in markets in which it seeks to operate or as relates to winning an acquisition bid. Finances may matter, but capabilities determine if the company can succeed in carrying off what is necessary to make an acquisition a success. Then again, there is the question of whether the target company has the capabilities that complement and extend the capabilities of the acquirer.

Answering these questions requires a lot more than wishful thinking and acquiring bargain or trophy properties. A "good buy" or a good surface match may be difficult to impossible to integrate into the new organization. The acquirer needs to thoroughly evaluate the types and qualities of the target's capabilities, something that changes the nature of target search criteria, due diligence, negotiations, integration planning and the actual integration itself. In short, taking on a capabilities-driven strategy is a game changing act over both the short and long haul - but it is just a much a necessary one.

Without this kind of discipline capabilities are too vaguely defined. Any looseness undermines building the judgments necessary to cultivate the specific skills and technologies required for success.

But Wait, There's More

As much as we applaud what Leinwand and Mainardi outline in *The Essential Advantage*, we feel that the authors have not sufficiently acknowledged the other types of capabilities that we at *Beyond the Deal* see provide the pillars of a winning acquisition process. The authors call the other necessary capabilities "table stakes", meaning that they are essential but that any and all

players need to have them to be "in the game", but at the same time they do not necessarily provide distinctive advantages.

In our experience, while some companies have achieved significant levels of core integration capabilities, we have yet to find any that has fully, thoroughly and comprehensively cultivated them to the degree that enables achieving quantum leap integration outcomes. The six core capabilities we find central to integration success are:

- **Strategic Agility:** Ability to create strategies and shape action plans that take advantage of market opportunities and organizational strengths
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- **Market Agility:** Ability to respond to changing dynamics of the marketplace and uncover new possibilities to serve customers
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- **Organization Building:** Ability to build the right culture, implement the right leadership principles, build trust forge robust processes, and incentivize engagement of those involved
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- **People Management:** Ability to recognize talent, build on strengths, select people quickly and make sure the right people are at the right levels of challenge
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- **Project and Process Management:** Ability to put the right integration plan in place and to implement that plan effectively, and
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- **Knowledge Management, Learning and Innovating:** Ability to share knowledge throughout the company to insure rapid learning and deep, experience-based knowledge that continually sharpens acquisition and integration practices.

An organization needs to determine the "recipe" or "mix" it requires from both the strategic selection of capabilities advocated by Leinward and Mainardi and the core integration capabilities discussed in *Beyond the Deal*. One without the other may leave the acquirer and the newly emerging company lacking in what is necessary to build the "new organization" from the legacy resources of the original firms.

The recent acquisition bid for Groupon by Google, examined in previous newsletters, is a good case in point of a clash of cultures, coupled with a sufficient development of core integration capabilities. Google did not demonstrate to Groupon that it had the right to win its bid and Groupon rejected that bid. Groupon saw that Google did not sufficiently appreciate the specific capabilities it had cultivated and viewed that it had brighter prospects by pursuing them on its own. The technology-based Google was rebuffed not only by Groupon, but also by a number of other social media companies it sought to acquire. In addition to the specific capabilities at issue, we see that Google's did not show marketing-based Groupon that by acquiring it, Google had the core integration capabilities to fast track the newly combined entity to even greater gains than if Groupon stayed on its own.

Can We Learn From History?

One more intriguing example to consider is the recent acquisition by AOL of the five year old Huffington Post (for \$315 million). The question is whether AOL's integration capabilities have grown sufficiently beyond those it had at the time of its TimeWarner acquisition/integration debacle. AOL wants Huffington Post's ability to generate content, but does it have both the specific and core capabilities to navigate an integration that creates a higher level of synergy or will a poorly supported acquisition effort drag both companies down to lower levels of mediocrity? Hope springs eternal, but the reality is that there is no quick, magical fix - and both types of capabilities take extensive time and levels of effort to build.

Towards A Dynamic Fusion

We are indebted to Leinwand and Mainardi for skillfully demonstrating how choices of specific capabilities support the a company's ability to create its brand of distinctive value. Our caveat is that, while specific capabilities are the foundation for path and actions for a company, it remains the case that it is the core integration capabilities that enable an integration that can achieve unprecedented results. Armed with the realization, we can better articulate how a core set specific capabilities can join with full power of core integration capabilities to yield the full complement of what a company needs for its quantum leap change.

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Using Social Media to Speed Up and Improve Performance and Outcomes of Your Integration Processes

Is social media a fad or is it a viable set of tools for advantage in an integration? Social media is now mature enough to be a major accelerator of speed and quality in integration outcomes. Click on this link to the [Social Media Strategy to Transform Integrations](#) PowerPoint presentation to see how you can start developing this capability in your organization now. See how you can develop and implement an effective social media strategy in your firm. Contact [Jay Chatzkel](#) or [Euan Semple](#) to make arrangements and for further information.

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Please send in your comments, contributions and suggestions to [Jay Chatzkel](#), editor. They are important to making the newsletter as relevant to you as possible.

You are welcome to forward this newsletter on to a colleague or friend.

All the best,

Jay Chatzkel
Progressive Practices

Jay L. Chatzkel is coauthor of the [Beyond the Deal](#), and editor of the Newsletter. He is Principal of [Progressive Practices](#) where he assists organizations in transforming themselves into knowledge-based, intelligent enterprises. This includes working with organizations to develop skills and practices in the areas of merger and acquisition integration, intellectual capital, knowledge management, leadership and collaboration, business process management and performance measurement.

He is also author of *Knowledge Capital: How Knowledge-Based Enterprises Really Get Built* (Oxford University Press, 2003) and *Intellectual Capital* (John Wiley & Sons, 2002).