Beyond the Deal Newsletter

Mergers and Acquisitions that Achieve Breakthrough Gains

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Dear Jay,

Quote of the Month

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness... we were all going direct to Heaven, we were all going direct the other way....

Charles Dickens, *Tale of Two Cities*

In the May Newsletter:

Google: A Tale of Two Cities (Acquisition and Integration-wise, That Is)
Google has two acquisition/integration "cities" or approaches. The first acquisition "city" is the one which Google has successfully evolved for its smaller acquisitions, and there have been many of them, since 2001. The second "city" is the one involving Google's $12.6 billion mega acquisition and integration of Motorola Mobility. Regarding its smaller acquisitions, Google has a remarkable success story to tell. In the last five years, it has reshaped its approach from a an eclectic set of loosely thought through and opportunistic cluster of practices into a model for how to effectively search out promising target candidates and dynamically integrate entrepreneurial leaders and assets into the Google enterprise. This is the "city" we will be taking stock of in this month's Newsletter.

Our next newsletter will focus on how Google's second M&A "city", the one centering on integrating the mega Motorola acquisition, is doing.   One question we will explore there is whether Google is drawing from or disregarding the practices that made it successful with smaller enterprises as it takes on integrating the far more sizable, and faltering Motorola.

Glencore Update: The Glencore International Plc acquisition of Swiss based XStrata Plc corporation, which was examined in the March Newsletter, hit some pretty sizable bumps as shareholder concerns about overvaluation and overpayment has led to litigation. It may be some time for this proposed $90 billion fusion to go forward. An implication of this rocky start could indicate that Glencore is also underestimating what is involved with the integration that will follow. This high stakes story will not end quickly.

Google "Gets It Right" on Its Large Number of Smaller Acquisitions - How Does It Do That?

Google has evolved to become a major serial acquirer, adding 48 acquisitions in 2011 alone. **Wade Roush,** chief correspondent of Xconomy.com, recently had extensive conversations with senior Googlers involved in Google's corporate development and post-acquisition integration on how acquisitions and integrations are worked through there. Roush found that "Google has a remarkably good track record at getting what it paid for -- and sometimes a lot more." This is a noteworthy accomplishment, considering the trail of value destruction that has come in the wake of the majority of acquisition outcomes.

David Lawee, Google's vice president of corporate development, said that "two-thirds of Google's recent acquisitions have been successful, based on measures such as employee retention and revenues from acquired teams or products." But, it is not just the rate of acquisition success that counts for Google, it is also that Google leadership expects a significant amount risk taking in its acquisitions. This alone sets it apart from most acquisitive organizations. It sees that playing it safe is not safe, and not taking enough risks would undermine its ethos of being a vital enterprise that stays open to opportunity.

Learning Through Practice

Does Google have a magic bullet that enables it to achieve extraordinary success rates in M&A integrations? Not really. Roush found, "success at M&A ... did not come naturally. It was an acquired skill, so to speak - something that the company only learned through practice as it grew." Lawree comments, "Integration is a really well-honed process now..I certainly would not have said that four years ago. Four years ago we could get away with 'You are smart, figure it out,' because it (e.g., both Google and its acquisitions) was a smaller business."

Roush focused on four key questions with Google development leaders. These are core questions any corporate development group would do well to explore:

- How does Google figure out which companies it wants to buy, and whether their technologies will fit with Google products?
- How does Google smooth the transition for newly acquired teams?
- How do former start-up founders stay productive and entrepreneurial once they're inside a 32,000 employee company?

- When Google acquisitions go wrong - Why does that happen?

What to Buy - Is It a Fit?

In its earlier phases, Google did not look at growth by acquisition much differently than most other organizations. For one thing, it did not set a priority to work for a fit between its target companies and its own organization. In many cases acquisitions were simply seen as ways to enter new markets or give Google a stronger foothold in a market where its own efforts had not been successful. For example, Google acquired You Tube after it own Google Video failed to gain traction. A second reason that drove Google acquisitions was to gain "talent" which it did not have in a sufficient degree inside the organization.

All of this seemed to make sense at earlier stages in Google's development, but as Google continued to grow into the organization it is now, it found itself captive of a flawed acquisition and integration approach. It came to see that its short term, particularistic gain approach did not match the needs of a company that was changing from one whose goals at that time were set across vast functional areas to one focused on an organization that needed to be more coherent both internally and to its customers.

Leadership Does Matter!!

In 2006 Google founders Larry Page and Sergey Brin began to notice that the company had accumulated too many separate products, something its users had trouble keep straight. According to Lawree, "Sergey spread this mantra internally that he wanted more features, less products." When Larry Page took back his CEO role in 2011, Google reframed its focus to the next greater degree, "reorganizing its functions into six or seven core product areas, with each of these areas having its own hiring targets." This has shifted Google to do fewer "acquisition hires and only buys whole business when they fit into a distinct product area."

The lesson Google distilled here was only "to buy companies whose product vision already coincides with your own." Lawree says that, "If there is a perfect alignment, then it has a very high chance of success. If there is not, then we should not be doing it."

How Does Google Find Its Targets?

At this point in the journey, most Google acquisitions begin with someone from within Google spotting "a start up outside with a technology that would enhance an existing product." In this approach everyone in the company is part of the development team. The way Google sees it: why limit your acquisition team to a small group of executives or specialists when you can tap into the vast brightness that exists throughout the organization. At a cutting edge company, let people who are experiencing what is new and exciting play their part in identifying prospects that will enhance the company.

What is "The Google Way" for Smoothing the Transition for Newly Acquired Teams?

Marcella Butler, as senior director for corporate development and M&A integration, sees her integration team "as the quarterback and keeps the other teams moving." The core integration team has eight people but there are another eighty people across Google's core product areas. They handle setting up acquired teams in offices spaces with the kinds of equipment they need. They also oversee that patents, contracts and other intangible assets and obligations are "smoothly transferred, and work with managers so that they know how Google works and what they need to be aware of operate in the Google environment."

What are the benefits of this? Butler says, that "new Google staff finds their lives are vastly simplified ...and that their work-life balance ...(makes it) easier for them to do the things they love." Instead of counting their pennies, entrepreneurs are now "in an environment that is rich in resources - intellectual, technical, storage-wise and even culinary - that you free them up to do the things they are best and most passionate at. They don't have to worry about anything other than innovating."

Lawree sums all of this up when he says, "One major key to success is to set up the environment. While what goes on at Google is high tech, the basic elements of Google's approach are people skill related. Fundamental in Google's development approach is to make Google a friendly place for people to bring a start-up founder's passion and ambition."

How Do Former Start-up Founders Stay Productive and Entrepreneurial Once They're Inside a 32,000 Employee Company?

Entrepreneurs from start-ups are fascinated at the prospect that their products and services can make a leap to solve problems at a much vaster scale (Google scale), something that even beyond money or prestige has moved entrepreneurs to accept their Google purchase offer. The challenge for all companies, from a high tech juggernaut like Google to the more of the plain vanilla variety, is to make your firm the kind of enterprise that your target company leaders believe they can fly even higher, better and faster by being part of you than or their own or with a competitor.

Google takes that thought and anchors it in how it does its business. It has refined its infrastructure to make sure that "every acquired team finds a foothold within the company, a home where they can get to work on achieving their vision."

As one acquired company leader found out, "even though it is a big organization, it is driven by small, individual teams...We managed to preserve the team identity...(without being) dissolved into some sort of larger organization"
One breakthrough initiative that Google has undertaken is "piloting an email discussion group of acquired Googlers," so that former founders feel they have a smaller community they can share their concerns with.

Re-blowing Your Mind on a Regular Basis

Those involved with Google integrations are a very active in their efforts at moving newly acquired entrepreneurial teams to the "Google scale" of thinking and acting. Lawree states, "A start up founder has been working for years to build the best product in a specific niche...but now he or she is suddenly being challenged to think about what their product might look like if it had a billion users, and how it might change the whole company."

And the dynamic quality of that process starts with Google's top leadership. Larry Page and Sergey Brin personally meet with newly acquired teams to let them know that they need to "think a lot bigger". Conveying this message has led to some very big payoffs. An instance of this is that Page pushed the co-founder of Keyhole to adapt his desktop digital mapping software, one that had been geared to urban planning, to work on the web. The result was Google Maps, which is now the world's largest and leading source of location-related data.

Lawree agrees, "It's counterproductive, because the audacity of thinking so big is risky...but if you put Google scale resources behind a project, it's actually less risky since you can move it out to other people, faster."

When Google Acquisitions Go Wrong - Why?

Google's assessment is that two out of three of its acquisitions as successful and one out of three is not. But is it that simple? Not really. Google is not looking for a 100% success rate. To Google, that would mean it is not taking enough risks in how it is going forward.

This outlook is markedly different from the viewpoint that was dominant in integrations before Google's reorganizations of 2007. In the earlier period, if its acquisitions failed it was often seen as due to carelessness or lack of forethought. Nowadays Google has shifted its perspective to the view that, "failure stories are more complex...the company's priorities shift in response to a changing marketplace."

In this fast moving environment, a new acquisition is susceptible to being caught in market shifts, where what had been an alignment with organizational goals no longer is the case. But failure of a specific product does not necessarily mean that the acquisition was a failure. The team that produced the acquired product is now part of the larger Google team and brings its skills and entrepreneurial orientation to other areas of the organization.

Lawree says, "The return on our acquisition dollars has been extraordinary. Keyhole, Android, You Tube - all of these things are part of the franchise. We want to continue to take risks. And, we expect that sometimes they're not going to work out."

The Challenge Ahead

Google is capitalizing on a combination of path breaking leadership, strong values, a group of very good people building a core custodial integration capability and the give and take that comes from continuous learning. These are all intangibles and together they are the ingredients that are brought together in Google's recipe for extraordinary outcomes.

At the same time, these are numerous but relatively small acquisitions. They are often typecast as "bolt on" acquisitions, since the acquiring organization does not need to change its culture or organization to continue on its way.

Nonetheless, this smaller scale does not lessen Google's achievement in any way. This is because of Google's choice to mount its own continuing change management initiative as a major element of how it does its business.

The next Newsletter will look at how Google is tackling its challenge of integrating its mega Motorola Mobility acquisition, its second city. This far larger type of acquisition requires that Google as the acquirer and Motorola Mobility as the acquired company simultaneously and collaboratively rework themselves if they are to achieve unprecedented outcomes. This cannot be a one sided equation. The list of organizations that have taken this scale of integration is long and varied but also without many notable success stories.

A parting suggestion: Visit the Xconomy.com website and subscribe. Xconomy.com provides an exciting window on what is happening as far as funding and acquisitions with both start-up and leading tech organizations in the San Francisco Bay area.

Subscribe to the Beyond the Deal Blog

Link to the Beyond the Deal Blog, with continuing updates on the changing world of Integration 2.0, with additional articles and commentary. You can subscribe to it at: www.beyondthedeal.net/blog/.

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

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).