

# Beyond the Deal Newsletter

*Mergers and Acquisitions that  
Achieve Breakthrough Gains*

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## Quote of the Month:

*The corporate development or an integration group that cracks this nut as they bring their target into the fold will definitely be at an advantage. They would say, "Let's start identifying the tribes that matter, asking the leaders are, how they communicate, who we need to communicate with, etc." When this approach is carried out, the quality of the integration has to increase. The hidden value that comes from the target has to be improved.*

*Ed Moran, Co-author of The Hyper-Social Organization*

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## M&A Integration 2.0 Continues to Evolve

In the last edition of the Beyond the Deal Newsletter, we said we were now in the era of Integration 2.0. We live in a changed world of connectivity that allows, and even demands that we reshape our organizations and our key processes so that they leverage the array of next generation outlooks, practices and tools. That is what M&A

Integration 2.0 is about.

This is a must know understanding for those participating in the newly resurgent M&A market. This level and type of activity is currently in a phase that would not have been predicted just one year ago. It has taken several years for the M&A domain to regroup and re-seize its ground. This is a remarkable re-emergence and it has special drivers that characterize it. This September edition the Beyond the Deal Newsletter examines this re-emergence, including its special opportunities and challenges. We also include the first of two installments of a conversation with Francois Gossieaux and Ed Moran, co-authors of the recently published book, *The Hyper-Social Organization: Eclipse Your Competition by Leveraging Social Media*. Dealing with this new phase of major acquisitions without incorporating the type of outlook discussed in *The Hyper-Social organization* may well be a significant mistake and the constrain ability of acquiring companies to generate the potentials of these major strategic acquisition ventures. Our work at Progressive Practices is to bring these perspectives and practices to your attention and weave them together in ways that you can make significant strategic gains. This is not yet mainstream thinking but it is already part of successful practices by cutting edge firms. Think about what is being presented and get back to us with your questions and ideas.

## **Subscribe to The Beyond the Deal Blog**

The Beyond the Deal Blog is now being regularly published. The Blog is a more frequent update on the changing world of Integration 2.0 with additional articles and commentary. You can subscribe to it at: [www.beyondthedeal.net/blog/](http://www.beyondthedeal.net/blog/).

## **The M&A Drumbeat Grows Louder and For Good Reason**

August saw the busiest month for M&A's since 2007. Highlights of the months acquisition activity are: HP and Dell fought over 3Par with HP eventually coming out as the bidding winner for \$2.7 billion, Intel's \$1.4 billion acquisition of Infineon Technologies AG, Burger King sale to 3 G Capital \$4 billion, and the largest deal, not yet realized was BHP Billiton's bid for Potash Corp for \$39 billion. And it is possible that BHP Billiton could be outbid by Chinese companies.

A combination of factors has driven this burst of M&A activity. One is that companies have built us massive reserves of cash, reputedly in the neighborhood of \$2.3 trillion worldwide, as a result of extensive cost cutting campaigns and a rigid curtailing of development. Companies have eventually realized that cash by itself does not generate revenues. Cash can be used to buy back stock, pay larger dividends or seek ways to generate new markets. Huge stockpiles of cash burning a hole in corporate pockets coupled with very low interest rates and the limited growth prospects for existing offerings became the recipe for the substantial jump in acquisitions.

A key and related factor is that the cutbacks in internal expenditures and layoffs have hollowed out many companies capabilities for innovation. R&D efforts were pruned and idea development streams for breakthrough offerings were systematically starved or eliminated. The result is that there has developed a condition with two faces: One is lots of financial resources and the second is little capability for internal organic growth.

How do companies such as HP or Dell seek to resolve this dilemma? They seek out companies that have unique capabilities or resources they don't have. How else are they going to compete over time in a world where leaps in cutting edge technologies or having access to key resources make the difference?

The contradiction is that companies that have healthier innovation practices, such as IBM, and possibly Dow and Wells Fargo, are in the process of renewing themselves on an ongoing fashion will also tend to be more effective at acquisitions and integrations. They will be more attuned to the range of assets, both tangible and intangible, and

how those assets can be accessed and leveraged for significant gains. These companies also tend to be active across the whole array of development. They are engaged in organic growth, acquisitions where it organic growth cannot accomplish specific goals, as well as in strategic alliances, licensing and any other arrangement that will enable achieving strategic goals.

It took two to three years for companies to overcome the trauma of the recession and return to actively pursuing acquisitions. There are many more acquisitions in the pipeline since many more firms have similar cash build-up and limited organic growth prospects. At the same time this recovery is still fragile, with the possibility of new downturns. The best policy is to continue to develop the core capabilities of:

- Strategic agility
- Market agility
- Organization building
- People management and
- Knowledge management and learning

Along with cultivating a custodial capability to marshal these acquisition capabilities they are core to the everyday health of the firm and simultaneously provide for the necessary level of readiness when opportunities and conditions for acquisitions present themselves.

## **A Conversation on The Hyper-Social Organization: Eclipse Your Competition by Leveraging Social Media with Francois Gossieaux and Ed Moran**

We live in interesting times. Just as we are experiencing unprecedented upheaval and the birth of the "new normal" we are also developing new frameworks and models for thriving in these new conditions. I had the pleasure of speaking with Francois Gossieaux and Ed Moran, co-authors of their newly published book, *The Hyper-Social Organization*. This work has yielded a set of breakthrough understandings on the principles and practices that are necessary to leverage social media in core ways to move beyond your competition. There are specific lessons here for what the emergence of social media means for achieving successful integration of major acquisitions, particularly that we need to shift our thinking of our integration processes from "business processes" to thinking of them as "social processes." That changes the whole nature of how we go about carrying out an integration.

**JC:** *What do you mean when you say that, "The Hyper-Social shift should be based on the realization that your customers can now interact with you and others in the way they always wanted to but couldn't"?*

**FG:** There is an asymmetry between the information that was available from companies and the information that people could find out about the products those companies offered. We are not hardwired to deal with corporate entities and getting corporate speak sent to us but yet from a scalability point of view, for the longest time, this was only way we could get information about products and services that we were buying. Deep down, we trust friends and colleagues and people from our tribes who are giving us information about where to go and not to go. All of a sudden, when social media came out about, what happened is, we now have massive platform for participation that allows the social, for which we humans are hardwired, to scale to the point where it makes a difference again in business, and all of a sudden we had enough critical mass of other people that we could talk to and get recommendations from, which is something that we much prefer, versus getting information from companies. The other thing to realize is that one of the core human features that we are seeing at work here is that of reciprocity: I will scratch your back, because I know that at some point, someone in the community will scratch my back when I need it. One of the things that we do that is human is being reciprocal. When you have a conversation with another person, it typically is steeped in reciprocity. When you talk to someone at a party, it triggers something in the other

person's head. She will build up on it. That will trigger something - And that is how a conversation builds. If somebody is just spewing information about themselves, you are going to quickly move on to somebody else at that party. The same is true in business environments. We much rather get information in a reciprocal fashion than in a non-reciprocal fashion. That is what companies tend to do with us. We don't treat our customers in the context of reciprocity. We just up stuff at them. That is why we gravitated back to something we felt more comfortable with, and some we are just more hard-wired to deal with rather than to deal with faceless organizations.

**EM:** People read review sites. People want information that comes from their tribes. The conventional wisdom a few years back was that people don't trust other nameless and faceless people on the web. People get past that. If you are looking for a product, you will look at the star ratings and reader views and come to a conclusion that this is something I want to buy or not.

People, when they engage with companies, want to hear what other people are interested in that product or lifestyle are doing and their decision making. When you think about conventional legacy business, that is usually not part of the equation. You have channels. You send information down that channel to your customer or target. That is not the way people in the digital economy think.

We try to communicate to companies that this hyper-social shift is not discretionary. Companies need to make room for the way human beings do commerce - socially.

**JC:** *How does a company migrate from being a collection of "business" processes to becoming network of "social" processes?*

**EM:** I am going to guess that "socializing" the integration processes is not on the "deal checklist." I argue that understanding the tribes within the target company should be on at least the post merger "to do" list.

When you think about social media and you think about your target that you just acquired has a bunch of tribes, both within it - engaging in the day to day operations of that company, and also tribes of customers that company dealt with on a day to day basis, you start to realize how important it is to understand who these tribes are, who is important within them and how they could help the company in core business processes. When I acquire a technology company, I acquire it because they have people, products and patents that are interesting to me. If you engage in social media, you start to understand the company's tribes. Essentially, you will do that in due diligence. You will understand the chances for combining products, what the value proposition is, what might be issues with the products that you might not be aware of on the surface. When you get to the post merger integration phase you can think about how you will really be able to connect much more effectively with these new employees who are going through a wrenching experience now having their company being absorbed, the uncertainty of what that means for their future and their careers.

Engaging with these people allows you to understand the dynamics of the relationships with those tribes. Who are the people that are important? How is product development done? Does customer care process have any processes that could easily be rolled into your customer care? Is there something that you can learn from the organization?

We believe that the culture will be extensively impacted by social media. It will be the way our culture is defined and transferred between people in the company. If you understand these factors, you understand how critical social media is as far as how people are interacting with one another. How are they using this in their business processes?

Let me flesh out what we mean by social processes. When we socialize a process, it is not something that it is not something that needs to be done from the top down. People are socializing processes. In most companies right now, people are doing things that are probably not their "official" jobs within their job description, because they like it, they are good at it and they have a passion for it. We found through our research and our studies that

organizations that allow people to do that, to cross over boundaries and do things outside their job descriptions actually increase the quality of their outputs.

Some companies expand the process outside the organization, which is a marked shift from the past. You look at what are the present processes that are important and ask how they can be socialized. Some of these could go outside of the company. For example, marketing could be successfully handed off to the tribe, with the result that the internal marketing effort is shut down, realizing that the people that are already using the product are doing a great of generating demand and awareness

**JC:** *What are the Four Pillars of Hyper-Sociality and how can an organization transition to embody them?*

**FG:** The four pillars of Hyper-Sociality are how companies are thinking differently about their business when they are successful in being hyper-social and leveraging social media as part of their business.

The first is to stop thinking in terms of market segments, which are based on my personal characteristics. That is, I am married, I am that age, I live there, I have so many cars, etc. Instead what they focus on is on tribes.

Walmart is successful on focusing on market segments. They have not been as successful on social media. The reason for that, I think is that they continue to focus on the market segments. What they are missing is that their market segments are actually a collection of tribes. You have frugal moms that buy frugally because they have no other choice. You have frugal moms that buy frugally because they like the art of the deal. When they find one, they can't stop talking about it. These moms like to hang together too, but not with the first group. That is where the difference comes up.

Another example is the many communities that focus on small businesses. Again a small business is a market segment. Within small business there are multiple tribes. There are small businesses that are in the pharmaceutical space that did a \$100 million last week, there are woman owned small businesses, and then there are small businesses that are mom and pop shops. Those do not want to hang together. They want to hang together among themselves. That is why companies that are successful at finding their tribes are tending to back away from a market segmentation approach to things. Another way they think differently is they realize that a majority of buying decisions happen without anybody of the company or any content being used as part of that buying decision. Research from McKinsey says that across all industries, 63 percent of all buying decisions happen without anybody from the company being there.

If people are no longer listening to you, you should stop thinking about information channels to reach your customers because 60 to 8 percent of your customers are not listening to you. They are listening to peers. Instead, you have to start thinking about is start focusing on those knowledge networks where those decisions are happening. You need to find ways to get a seat at the table. A good way of doing that is getting everybody with a passion for something, like music, to be involved. Those people are being trusted by their friends, not as salespeople from a company like Best Buy, but as musicians themselves. You need to think about information channels and how to get more seats at those tables where those things are being talked about.

The third pillar is a willingness to give up on company-centricity or product-centricity and become customer-centric, employee-centric, and human centric to a fault. A good example of that is the Fiskateers. Fiskars is a \$ 630 million consumer goods manufacturer based in Finland. At some point Fiskars decided to build communities to help with the sales of our scissors. They did not build a community around scissors. They recruited passionate scrapbookers. They asked those scrapbookers if they would like Fiskars to help set up a community. The scrapbookers said, "Sure, we will call ourselves Fiskateers. It's going to be a close community. You need to talk to us before you can be accepted into the community. We will give parties, raves and demos...."

Fiskars had a goal of 250 Fiskateers in the first six months. They beat that in 48 hours. They had about 5000

Fiskateers in the first six months. Those people are talking about the experience as one that is changing their lives. One Fiskateer donated a kidney to another one. Talk about reciprocity within that community! When they participate in demos in big box like stores, those stores typically see their sales of Fiskars products go up by 300 percent. The host stores are now the ones that are financing the whole project. Fiskars related sales went up by 600 percent. They did not a community around scissors, which is what most companies would do. They built it around the people and the shared interests of those people. That is what successful companies do when being a hyper-social organization works.

The last pillar is social messiness versus process and hierarchies. Hyper-social organizations are willing to let go of some of the rigidness that is traditionally associated with hierarchies and processes. They are sort of willing to embrace the messiness that comes with the social. They realize that sometimes people will mess up. They also realize the benefits of leveraging the social is much bigger than the downsides that you could get from it.

(Part 2 of this conversation will be available in the October Beyond the Deal Newsletter.)

[Francois Gossieaux](#) is cofounder and partner at Human 1.0, a marketing innovation strategy firm and a senior fellow and board member at the Society for New Communications Research (SNCR).

[Ed Moran](#) is director of Product Innovation for the Global Technology, Media and Telecommunications group at Deloitte.

*This conversation can also be found in the [www.beyondthedeal.net](http://www.beyondthedeal.net) library at: [Hyper-SocialOrganization](#).*

## **Turn your integration "business" processes into powerful "social" processes: Learn how to set up and implement a social media strategy for your integrations**

Progressive Practices, partnering with Euan Semple, a leading practitioner in social media, offer a strategic approach of social media across the range of action areas involved in integrations. Click on this link to [Social Media Strategy to Transform Integrations](#) PowerPoint presentation to get a strong picture of a strategic approach and 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.