

Lessons from the Mega-Mergers

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Most mergers-and-acquisitions activity involves relatively small companies that don't show up on the mainstream business radar. Mega-mergers, by contrast, are widely reported — so they provide excellent object lessons for smaller deals. These five mergers provide a comprehensive set of instructions for any company contemplating an M&A strategy.

Hewlett-Packard and Compaq

Date:

September 2001

Industry:

Computer Hardware

Deal Size:

\$25 billion

The Public Spin: “In addition to the clear strategic benefits of combining two highly complementary organizations and product families, we can create substantial shareowner value through significant cost structure improvements and access to new growth opportunities.” — *Carly Fiorina, HP chairman and CEO, 2001*

What Happened: The deal soured quickly. HP laid off thousands of former Compaq employees, and during the resulting internal turmoil, HP stock dropped and profits remained flat. While HP tried to market and differentiate two brands of PCs, archrival Dell picked up market share. It wasn't until four years later, after Fiorina left the company, that the two organizations began working well together. Fortunately, by that time Dell began to show some weakness of its own, allowing HP to finally become the world's largest PC vendor.

Lesson Learned: *Don't try to swallow something larger than your own head.* If the company you're acquiring is almost as large as your own, it's going to take major amounts of time and effort to work the people issues and organizational details of the new company. If the merger is too complicated, you may not survive the process.

America Online and Time Warner

Date:

January 2000

Industry:

Media and Entertainment

Deal Size:

\$350 billion

The Public Spin: “By mobilizing the combined creative energies and extraordinary management talent of both companies, we will bring customers around the world an unmatched array of interactive services, with enriched multimedia content and e-commerce opportunities.” — *Steve Case, America Online chairman and CEO, 2000*

What Happened: The merger became the poster child for dot-com grandiosity. AOL stock plummeted to less than a tenth of its premerger price, while the much-vaunted synergies never seemed to develop. When users abandoned AOL in droves, the division was forced to change its business model from a paid alternative to the regular Internet to nothing more than a tier-two Web portal.

Lesson Learned: *The bigger the hype, the harder the fall.* You never want your investors and customers to think that the long-term success of your company hinges entirely on the success of a single M&A. Too much can go wrong and, if it does, you look very, very foolish. Just ask Gerald Levin, the former Time Warner CEO who brokered the deal.

Daimler-Benz and Chrysler

Date:

November 1998

Industry:

Automotive

Deal Size:

\$75 billion

The Public Spin: “Both companies have product ranges with world-class brands that complement each other perfectly. Our companies share a common culture and mission. By realizing synergies and with our combined financial and strategic strengths, we will be ideally positioned in tomorrow’s marketplace.” — *Robert J. Eaton, Chrysler chairman, 1998*

What Happened: Despite Eaton’s comments about a “common culture,” the two firms never gelled, probably because Chrysler was a mass marketer and Daimler was a niche marketer. Additional

friction stemmed from differences between the German and American ways of doing business. Synergies proved elusive, and the anticipated economies of scale never materialized. Daimler recently dumped Chrysler at a fire-sale price to a group of private investors.

Lesson Learned: *Merge in haste, repent at leisure.* You've got to spend the time to determine whether or not the two firms are compatible. If there's too big a difference between the two cultures, executives from the two firms will keep fighting until one side is completely exhausted. But by then there may not be much left to sell off.

MCI and WorldCom

Date:

September 1998

Industry:

Telecommunications

Deal Size:

\$37 billion

The Public Spin: "The benefits of this merger are compelling for the stockholders of both MCI and WorldCom: Powerful synergies and ownership in the best performing communications stock over the past decade. This merger is about growth — value for stockholders, enhanced products and services for customers, and new opportunities for employees." — *Bernard J. Ebbers, WorldCom president and CEO, 1998*

What Happened: The MCI acquisition was the climax of a late 1990s M&A orgy, as telecommunications companies scrambled to buy market share. This was particularly problematic for WorldCom, because when the telecom industry took a nosedive, WorldCom's investments turned from gold to lead. Rather than admit they'd been foolish, execs covered up the problems by underreporting line costs and inflating revenues with bogus accounting entries. This resulted in, among other things, a fraud conviction and a 25-year sentence for erstwhile CEO Ebbers.

Lesson Learned: *The more you buy, the greater your risk.* You can grow a business by gobbling up smaller firms, but without a strategy that puts those acquisitions into context, you'll be vulnerable to any market shift that puts the acquired companies under stress.

CitiCorp and Travelers Group

Date:

October 1998

Industry:

Financial Services

Deal Size:

\$140 billion

The Public Spin: “CitiCorp and Travelers Group [are] creating a resource for customers like no other — a diversified global consumer financial services company, a premier global bank, a leading global asset-management company, a preeminent global investment banking and trading firm, and a broad-based insurance capability.” — *John S. Reed and Sanford I. Weill, Citigroup co-chairmen and co-CEOs, 1998*

What Happened: The original concept was for the two CEOs to be co-equals. A struggle immediately ensued between the two men, whose management styles and business background could not have been more different. Weill forced Reed out and eventually forged the two companies into a reasonably coherent enterprise.

Lesson Learned: *Too many chefs spoil the broth.* While it’s natural to want to keep talented management onboard after a merger, you’ve got to be certain they know that they’re no longer running the show. Otherwise, you’re just setting yourself up for turf wars and endless management conflict.
