Beyond the Deal Newsletter

Mergers and Acquisitions that
Achieve Breakthrough Gains

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Dear Jay,

Special Edition: Google's Acquisition Bid for Groupon Takes Us to the New Reality

A remarkable acquisition bid is in the making, as Google reportedly offers $6 billion for Groupon, the five year old discount Internet coupon company. This is a truly extraordinary phenomenon that is well worth our attention.

Because of its breakthrough quality and the probability that things will change with it so rapidly, we are sending out a Special Edition to bring it to your attention and let you begin following the activity as it unfolds. This Special Edition of the Newsletter examines this potentially game changing acquisition bid.

This bid is exceptional for a number of reasons which we will explore below, as well as giving us a great learning opportunity. At this point, Google's acquisition move is not a done deal. In the end, Google may not even be the successful suitor, but that makes this all even that more interesting and perhaps one of the most fascinating acquisition plays in memory.

Google's Acquisition Bid for Groupon Takes Us to the New Reality

On rare occasions a clearly spectacular and indicative acquisition bid gets underway. Google's offer to Groupon for $6 billion is definitely in that very special number. A Groupon acquisition has the makings of being as a true game changer that goes far beyond the usual case for growing increased scale or expanding market possibilities. It is those two, but much more.

Aside from the eye catching amount of money involved, there are important lessons for any company considering an acquisition or that might become a target. The obvious thing is that Groupon is such a pure capabilities and intangible assets play. The noteworthy thing here is that highly valuable intangible and capabilities can often be found, if in lesser degrees, in the embedded special knowledge and capabilities in any acquisition. That is, if companies looked at the overall possibilities of an acquisition instead of focusing on the "more of the same" model. It is just that in the Groupon case these aspects are in such high relief that it is impossible to miss them.

Because of this, the extraordinary acquisition offer for Groupon, the startup online discount coupon company, is well worth our attention. This is not only because that this is a larger than life story, but also because we can learn such a tremendous amount from it.

What are Groupon's special characteristics?

For one, the Groupon did not exist five years ago. This is a company that started out in a rented church space and has grown to revenues of $500 million. Another measure of how dynamic it is, is that it has gone from 200 to 3100 staff in the last eleven months. Secondly, it is a pure intangible asset/capabilities play - there are no physical resources in the company to speak of. Thirdly, there are no barriers to entry for competition. But ultimately the answer to the question is that Groupon is potentially a game changer of the greatest magnitude.

First, why acquire such an expensive property such as Groupon?

- On the positive side, by acquiring Groupon the acquirer gains 1) know-how, 2) an artfully developed networked links to a world of "social" consumers across the US and perhaps most importantly, 3) the services and special perceptions of the people who can make this happen. While people often comment that anyone could create a company like Groupon, and it has its clones, no one has achieved what Groupon itself has done. The leadership at Groupon have has achieved prominent success in just their first stage of what is emerging to be a multi-stage development journey. Like its Facebook colleagues, going into the future, Groupon looks to be savvy enough to get increasingly more pervasive and forge even richer links to "social" customers and, no less importantly, to their extended networks.
- From a defensive perspective, if a company like Google does not make this kind of acquisition, one of its competitors may well do so. That may well put Google at a distinct competitive disadvantage. Danny Sullivan, editor of Search Engine Land, an industry blog, raises the question, "What's the price of not buying it?"

One key reason for Google seeking out for Groupon at such a premium is Groupon's success in its connections to local providers and services and their customers. While Google has put extensive resources into its listings of businesses alongside its mapping service, it has had only limited gains with the program after years of trying. Sullivan continues, "Google fears the damage rivals could inflict if they acquired Groupon instead. Facebook, which has become a larger threat in recent years, could use Groupon to enhance its formidable position in social networking. Meanwhile, Microsoft could use Groupon to erode Google's dominance in search."

Ben Parr, co-editor of *Mashable*, echoes this sentiment in these statements:

> "The group-buying website's value isn't in its technology - the flood of Groupon clones proves that - but in its unparalleled distribution. Few other companies have the attention of local businesses that Groupon commands. And few have the expertise to turn that attention into a steady and consistent fire hose of cash.
>
> It's that attention and expertise Google wants. This is about taking Google's ad platform to the next level. It also doesn't hurt that Groupon is set to exceed $500 million in revenue this year. It's a multi-billion dollar business in the making.
>
> If Google goes through with the biggest purchase in the company's history, it will have the upper hand in local business advertising. That advantage could be so great that the courts stop this acquisition from ever happening. That's why Google wants Groupon so badly that it's willing to overpay by billions; if all goes according to plan, the search giant will be flooded with so much local advertising revenue that it will be able to buy a dozen Groupons."

A fascinating dimension here is not only the unique rise and attractiveness of Groupon, which is certainly a phenomenon all by itself. It, with Facebook, is one of the stellar performers in the emerging social media world. Despite questions as to how long it will hold its remarkable position (some say it peaked during this last summer), what it compelling is that it stands for a new, huge market and an innovative way to engage in that market.

A fascinating measure of how unique this bid is to people is that it has spawned something probably has never happened in the world of M&A's: An online Reader Contest to predict the terms of Groupon's acquisition. Here are the contest questions:

- Who will acquire Groupon?
- How much will Groupon sell for?
- On what date will the sale of Groupon be announced?

(If you want to enter the contest go to: http://www.businessinsider.com/reader-contest-predict-the-terms-of-groupons-acquisition-2010-11#ixzz16soDlKci)

Who are the likely competing candidates besides Google?

eBay, Facebook, Amazon, and Microsoft have reportedly put themselves in the running for Groupon. Yahoo has already made its move and dropped out as the price escalated. Each candidate has a different configuration, with its own set of gains and costs that could come out of such an acquisition. The strategic gains for eBay, for example are, according to Nicholas Carlson in Business Insider, that

- eBay's growth is starting to slow.

- Its core business is essentially advertising for small, local businesses and Groupon presents a real threat.
- Instead of spending thousands of dollars on Google ads to drive potential customers to eBay auctions, local ad buyers could, through Groupon, just plow that money into discounts for new customers.

For eBay, Microsoft, and the others these issues are very consequential.

Most importantly, what does this acquisition possibility reveal?

The most important point is that every company, whether acquirer or the target should assess its own the intangible values and capabilities as well as that of its acquisition target to see the how that company could be an engine for value creation in as many ways as possible.

The fact is that Groupon is selling nothing but intangible assets and its core capabilities. It has a strategic concept - a great idea - that is supported by an effective business platform and equally effective execution that has come to work together enormously well. Based on all of that it goes into its future with an enormous field of possibility and the chance of becoming an ever more dominating reality.

The question is whether we can see this or if we are so captive of the dominant M&A EBITA (i.e., earnings before interest, taxes and amortization) and deal model that we cannot easily consider this reality to capitalize and move on it.

Google and its competitors for Groupon have thought beyond that or they would not put themselves in such hot pursuit of this important prize. This is not to endorse the wishful thinking that ran through the Dot Com bubble of 1995-2000, but recognition that intangibles and emerging phenomena such as social media are changing the equations of the market place, something the candidates to acquire Groupon are grappling with.

Some intriguing questions to consider: Try this exercise

The Groupon play gives us a chance to see how the outlook and capabilities of a suitor can make a huge difference in terms of the value that can be created through an acquisition.

Try this exercise: Think about the various candidates: Google, Microsoft, eBay or Amazon.

First, how would their various configurations of capabilities and strategies match up and be able to take advantage of such a major acquisition?

Second, if you were a leading decision maker, how open would you be to rethink what your company is are about and reshape yourselves into an unprecedented new organization as a *result of acquiring and integrating Groupon. Specifically, how would you reconsider your business strategy, customer strategy, organizational strategy and knowledge strategy in light of challenges and opportunities you discover?*

Each of these companies has to have the desire to be open to Groupon's leadership and the staff, as well as its network to bring them into the new company as seamlessly, intelligently and as enthusiastically as is possible. Anything less will corrode the value of the acquisition and lead to a diminishing of the chance, and in fact the need, to make this acquisition a springboard for a quantum leap in performance and value creation.

At the same time, each of these companies has to come to understand what its capabilities are and what ones need to be developed. The acquisition could be a catalyst for that as well as one for achieving remarkable strategic ends.

After you are done with this exercise, think about any similar moves your company has made or is considering. Think about your strategic position and how your actions and investigations lead to setting the stage for your own quantum leap. Or, what you need to cultivate for that very thing to happen.

We will be following the Groupon bid with enormous interest, in terms of how it plays out as far as a deal (or not), but then how the winning acquirer works the acquisition. We hope that this Newsletter puts you in a position to do the same. Should be fascinating!

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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).

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