

# Beyond the Deal Newsletter

*Mergers and Acquisitions that  
Achieve Breakthrough Gains*

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**October 2010**

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**Dear Jay,**

## **Quote of the Month:**

"It's amazing what has happened. We were sitting here just two years ago and we weren't sure whether we were going to be able to maintain the banking system. Now we're seeing this weird recovery that I've never experienced before, where confidence in the financial system has returned in spades, fears have all but vanished and there is an unimaginable volume of nearly free money that is on a yield-hunting mission."

**Jeffrey Werbalowsky, Co-CEO of Los Angeles-based investment bank Houlihan Lokey**

## **In the October Newsletter:**

In these unpredictable times we need to be grounded in sound principles and practices, but in a contemporary context. This month's Newsletter continues to map that out in our look at Intel's recent series of acquisitions and then with the conclusion of the conversation with Francois

Gossieaux and Ed Moran on their new book, *The Hyper-Social Organization*. To be a successful acquirer and integrator, it is essential to get both ends of the equation right.

- [\*\*M&A is Not a Strategy - Taking a Look at Intel\*\*](#)
  - [\*\*Conversation on The Hyper-Social Organization, Part 2\*\*](#)
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## **M&A is Not a Strategy - Taking a Look at Intel**

We thank Blogger Steve Cheney ([Steve's Blog: Thoughts on technology, business and strategy](#)) for his insightful article on Intel's recent major acquisitions of McAfee for \$7.7 billion, Infineon's wireless businesses for \$1.4 billion and Texas Instruments' cable modem product line. Cheney makes the comment that M&A activity does not substitute for having a good strategy - saying that, "M&A should be used to augment a corporate strategy, not as a strategy to grow in and of itself." Despite, or perhaps because of Intel's great success as the world's largest semiconductor chip maker, Intel has an unenviable record with acquisitions aimed at diversification. Intel's past pattern of making sizable acquisitions for this purpose has not fulfilled its advertised promises and this pattern could repeat again with its new acquisitions.

The question here is whether Intel is willing to go beyond being the "acquirer" and move onto the path where it "remakes itself" as a different kind of organization. This does not happen often, but it does happen, as seen in the case of IBM under CEO's Lewis Gerstner and currently Sam Palmisano. This remaking is not as essential where a company makes a series of smaller, bolt-on acquisitions which can be readily absorbed by the acquirer or even kept as autonomous or semi-autonomous business units, but this is not the case with Intel's recent transactions.

Cheney's observation is well worth considering, especially now that M&A's have quickly "roared" back on the radar screen. The glut of cash in corporate accounts, coupled with cheap credit and meager returns from organic growth options has made pulling the M&A trigger very attractive for many companies. But, does having the money and even getting a good "deal" make that deal a success?

If a company like Intel turns out to have a "not invented here" attitude, there is little gain even from a good acquisition. If that is the case, in its post merger integration it cannot freely seek out and experiment with its new assets, creating breakthrough synergies as it goes about emerging as a newly combined entity.

Even though Intel may want to go beyond its lucrative chip making base, its strategic thinking may be captive of that very success. It may find it difficult to make the stretch moves to question its premises and open up fruitful avenues to leverage the new assets that come to it through these major transactions.

The issue here is not the usual question of fit, but one of the willingness and capability to change. Even the best "deal" or having all of the right techniques and integration tools may not make the difference if companies cannot see their significant acquisitions as a "windows of opportunity" and a signal call to renew themselves.

The "aha" insight here is that the real basis for success (or failure) for companies taking on major acquisitions is whether they take on the challenge of making the necessary leap in imagination and embody both a will to change and the capability to change. In the end, it may be a combined lack of willingness as well insufficient capabilities of acquiring companies to recast themselves that is the real cause for the high failure rate for acquisitions - that is, a failure to meet expectations and performance levels. This can quickly change when companies becomes honest with themselves about how much they are willing and able to transform themselves as they move forward to take on these major acquisitions. Willingness to change and having the capabilities to change have to be at least equal to the scale of venture they are in the process of carrying out.

## **[A Conversation on The Hyper-Social Organization: Eclipse Your Competition by Leveraging Social Media with Francois Gossieaux and Ed Moran, Part 2](#)**

*To shift into a perspective where you can leverage the new possibilities involved in using social media in integrations requires thinking in new (and at the same time really "old") terms. By seeing your stakeholders as tribal, relating members - rather than atomized individuals - you can now engage tribal "leaders" and the tribes themselves. The tribes are based on what people feel is important to them. If you are connecting to that and to their role in their structure your relationships will bloom. If not, a lot of effort may be spent of efforts that yield meager results. Take advantage of the new perspective! Do the background work, experiment with the "SEAMS" principles and report back on the gains that you are making.*

**JC:** *What is the significance of tribes in this day and age, and how does a company identify/mobilize the social tribes that are relevant to it?*

**EM:** One of the key advantages of this explosion of social media and the tools that are out there is that you can do things that were impossible 15-20 years ago as far to look for these communities. You can make a simple Google search and find where the scrapbookers are hanging out, where are the big scrapbooking communities. If you are a company, you can go there, identify yourself and start to listen to them. You can find out what they are doing, who they are, what they consider to be important within their communities. That gives you as a company, insights into how do we get mapping what they are doing.

The tribe concept is really about the affinity for one another. It is a key shift. It is about doing something together, like scrapbooking or motorcycling. It seems simple and obvious but it is not because companies still stick to a view that "our customers are between these ages, have a certain kind of income, etc. That will get you part of the way but using these tools, which we call listening platforms, we can find out what these people are doing. They are probably not just hanging out about your product. They are hanging out around high school sports coaching, which is what they do for part of their day.

Fiskars mobilized its business to meet the needs of its scrapbooker community. The tools that are available ingest all of the blogs, and Facebook. They scrape Twitter as well, putting all of this information together to identify in real time what people are saying about your brand, your executives, a competitor's product, are they talking about your product in the same conversation as they are talking about your competitor's product.

You may be surprised at the tribes that these tools uncover. You may find that weightlifters have found your product meet their fitness needs and may be a very rich tribe.

**FG:** Using the data from the systems you can apply methodologies like netnography, for example, which has been adapted from ethnography to analyze the behavior of people and what people are saying online and from that you can identify the tribes you might want to engage with. In the 19th century, anthropologists shifted from having aboriginals come on ships for interviews to understand what they were doing, to going as close as possible to those people and living with them for a year, an agricultural cycle basically, to blend in as much as possible. I realized that consumer research is still what anthropologists were doing in the 19th century. We ask people to come over for a focus group, we pay them \$100 and they tell us what they think we want to hear.

When I see anthropologically oriented things brought over into market research I think it is long overdue. It is not just important to find the tribes. Once you find the tribes, if you don't know who their leaders are, it is going to be hard for you to engage with the tribe. Within that leadership, some tribes are egalitarian, so sometimes the leadership is quite hard to figure out. Sometimes it is more ranked. You have people at the top of it and it is easy to

identify them. But in most cases it is not that easy.

**JC:** *How would a company use the notion of "engagement" to shape its strategy and behaviors, especially when it is taking on a major acquisition?*

**FG:** The most important part of engagement is the engagement that the tribe members have with one another. It is not the engagement that the company has with the tribe. You can have very little engagement with the tribe that is very engaged with one another and derive an unbelievable amount of insights for your new product innovation process and be very successful.

I don't think you need to measure the engagement. You should monitor the engagement between your members. But, at the end of the day, the companies that are most successful are those that measure the impact of what they are doing with tribes and social media, etc., on a particular business process the exact same way they would measure the impact of another process. For example, if you are starting to leverage communities through customer support, you are going to let people help one another and by doing so having fewer calls into your call center and perhaps even better support than what you could deliver to your customer, etc. Don't measure the impact of that community by looking at engagement. Measure it the exact way you would measure call center support. How do you measure: Is it customer loyalty, customer equity, etc? Measure the impact the same way as you would measure any other program.

**JC:** *What is the SEAMS framework and how does embracing it make the difference in dealing with "hyper-social messiness"?*

**EM:** One of the four pillars is social messiness. Sometimes people try to deal with social messiness by trying to shoehorn it into legacy process and hierarchies of their company. The larger the organization and the longer the organization has been around, dealing with that kind of messiness can almost be paralyzing. We have seen it with large companies that have policies that make it difficult for them to engage. In social media people could say messy things about the company or ask difficult questions. The response is in many cases, "I am just going to ignore it. That is going to be my policy in engaging with this messiness. A number of these companies have very bad outcomes because they are now forced to contend with messy and wish they had dealt with it earlier before an incident became a tsunami.

We developed our framework which we call SEAMS, which is an acronym for:

- Sensing
- Engaging
- Activating
- Measurement, and

- Storytelling

We discussed the sensing earlier. It is a bit wrenching for a company to start dealing with the blogosphere, social media and tribes that are opinionated, vocal and visible. There are tribes both outside and inside your company who are communicating and very important to the success of your business and your products. Find out who the leaders are. People like status - it is one of the Human 1.0 characteristics. That is why they like to get their reviews ranked on commerce sites. They like to be known as the best reviewer of certain products. Find out how to interact with them. Then start mapping these tribes to your business. That development is important to your business. Is there a community or tribe out there that could be more engaged in helping with product development? Identify those people and engage with them. Don't talk at them, talk with them. You may do very little formal talking with them, giving them information, but you can identify what part of your message is actually being picked up by the tribe and circulated. What is the 20 percent of your marketing that tribes actually pay attention to.

Take what you are learning and map it to important processes like customer care, product development, lead generation or acquisition integration. That means acting on what you learn.

The next step is measure. You need to report back in terms that the organization understands what you are getting out of this effort. "We are spending money. We are opening ourselves up to new risks. This is a very open and transparent communication. What are we getting from it? How are our processes changing and improving. Show me metrics I understand that prove we are getting better and indicate what we can do going into the future to have even better improvements."

As far as storytelling, we have seen that companies that are successful with this strength. Having stories, such as about the Fiskateers, that can be retold both internally and externally that can identifying the four pillars resonates with everyone involved.

The story tells how tribes can get involved with the design and use of the product and that generated a number of very positive outcomes, both in the design of that product, the rise of the status of that company with its user tribes, and by the way sales, etc. rose quite remarkably as well. It sets the tone for the culture.

Using the SEAMS approach is an effective way for companies take this disorder and start approaching it. You can look at it and see, "Here are the steps."

[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.

**As you try the SEAMS approach out send us a note about how this approach is making a difference for you.**

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

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

The Beyond the Deal Blog is now being published 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/](http://www.beyondthedeal.net/blog/).

## **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.

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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

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**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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