Type of Resource Interactions and Acquisition Success

Sayan Chatterjee
Batten Fellow
Darden School
and
The Weatherhead School of Management
Case Western Reserve University

And

L. J. Bourgeois, III
Darden School
University of Virginia

Under Submission with California Management Review
June 2011
Please do not cite or quote without permission

We would like to thank Dave Jemison, Mark Sirower, and Leonard Lynn as well as seminar participants at the Darden School, Wharton School, Case Western and Georgia State University. We gratefully acknowledge the support of the Darden School’s Batten Institute in funding this research.
Abstract
Strategy research on mergers and acquisitions has focused on classifying mergers into related, unrelated categories and recently according to strategic motives. By contrast, we focus on how the combined resources of the merging firms interact to create value. We identify five primary types of resource interactions and examine their inherent post-merger-integration challenges as well as their probabilities of successful value creation and capture. By using this lens, acquirers will be able to identify the primary sources of value in any acquisition that they are contemplating and anticipate post-merger obstacles in realizing this value. This framework will also enable managers to reconsider acquisition strategies that they have avoided because of the poor batting average of acquisitions in general.
There is clearly a need for identifying factors that systematically lead to acquisition success. Since the early 1980s, the conventional wisdom was that strategically similar partners should lead to a successful merger or acquisition because of ‘synergy’. Not surprisingly most academic research since the early 1980s tried to establish the superiority of similar or related merging firms (as measured by SIC codes). Yet after 20 years this research has remained inconclusive for two possible reasons: (a) SIC codes are an imperfect measure\(^1\) and (b) logical fallacies\(^2\). The logical problem was succinctly explained by a recent article that made the distinction between internal and external (SIC-based) relatedness\(^3\). What we determined from our research is that the relevant similarity for acquisition success is the ‘type’ of acquisitions that the acquiring company understands (very similar to internal relatedness) and this may have nothing to do with SIC-based relatedness. This ‘understanding’ is a much better measure of ‘experience’ that some authors have proposed (see endnote 1). We propose that this understanding comes from an insight about how the resources of the combined entity must interact to create and capture value. The core contribution of this paper is to group these resource interactions into five distinct categories that allow us to make normative predictions about which types are more likely to succeed and what are the impediments. One of our surprising predictions is that resource interactions in mergers based on market similarity (external related) are actually more difficult to execute\(^4\).

Some writers considered strategic motives behind acquisitions, such as industry consolidations and technology development\(^5\). To them our five categories will look familiar, but with a twist: Our focus is not on strategic motive (e.g., taking excess capacity out of an industry; or capturing value up and down the value chain; or moving into countercyclical (unrelated) businesses). Rather, we focus on how resources of the two firms must interact with each other \textit{after} the merger to create value (this is the basic omission from the relatedness research see endnote 2).
Acquirers applying the strategic motives and relatedness frameworks may identify the sources of potential value during financial analysis, but generally ignore the level of inherent obstacles or impediments to extracting that value. Our approach adds an insight that allows us to rank order the likelihood of success for the different types of acquisitions.

To develop this insight we examine (1) the characteristics of the target and acquirer assets and capabilities – what we term resources – and (2) the interaction of the combined resources needed to yield the value expectations that drove the transaction. Based on 10 years of research, case-writing and consulting (see Table 4), we have identified five primary types of post-merger resource interactions. In this paper, we analyze the benefits and obstacles to realizing the value-creation and value-capture benefits for each of the five types. The five types are asset consolidation/pooling, portfolio assembly, resource blending, capability transfer, and business restructuring.

Our analysis generates five important insights that may be contrary to conventional wisdom. First, it is easier to realize the benefits from certain resource combinations than others. Second, impediments to successful acquisition integration have no or minimal impact on certain types of resource interaction, while posing a serious impediment for others. Third, while speedy integration is good for many mergers, there are times when hasty integration can actually be fatal. Four, “fit,” or a merger between externally related (market based) businesses, is not necessarily a good predictor of acquisition success. And five, the danger of overpayment is higher for some resource interactions than others. In summary, our paper will lead senior managers to think in terms of exactly how the resources of the combined firms will interact in order to realize the value. In the process, we demonstrate that some of the road maps suggested by merger gurus can lead to failure and how to navigate one’s way around potential minefields.

In the following section, we map the sources and impediments to merger success from the five primary types of resource interactions. We will demonstrate that the different sources of,
and impediments to, realizing value have differential impact across the five types. This analysis allows us to make predictions about the kind of acquisitions that are most likely to succeed and what managers can do, both during due diligence and post-merger when the kind of acquisition being considered has a low probability of success.

The Critical Impediments to Merger Success

For a merger to be successful, the combination of resources has to (1) be more productive post-merger or (2) offer an improved customer value proposition that commands a price premium. The two obstacles in extracting this value are overpayment, or inability to realize the expected value due to difficulties in executing the resource interaction (integration problems). In this paper, we focus on the latter and we argue that some of the overpayment arise from underestimating the integration difficulties.

Overpayment

There are idiosyncratic reasons for overpayment such as hubris that we will not consider in this paper. We will, however, touch upon a common occurrence, an auction and the winners curse, and how to avoid it. What we do focus on is based on our conclusion that overpayment is a function of underestimating integration difficulties: understanding exactly how the combined firms resources will have to interact to improve productivity and/or customer value proposition.

Integration Problems

One of our key insights is that not all acquisitions require extensive integration. For example, if the benefits from an acquisition are expected to arise from a small set of targeted resource interactions, then the integration issues are usually confined to these interactions, do not spread to the entire merger, and are usually quite manageable. Thus, relatively simple interactions like combining sales forces to sell a wider line of products, or combining plants to generate more economies of scale are less vulnerable to full-scale integration problems.
However, in many acquisitions (and most mergers), integration can be a problem, which left unattended, leads to failure. Typically, integration problems arise from four interrelated factors: (a) the scale of the merger, (b) the breadth or pervasiveness of the combination efforts, (c) the speed of integration, and (d) people-related problems. The first two factors address the issue of complexity of an integration process. Complexity gets exacerbated if the integration is comprehensive, and multiple activities of the value chains of both firms have to be melded. The integration may also be complex by virtue of the sheer scale of the interactions, even if it involves a narrowly targeted set of resources.

The speed of integration is often an overlooked part of the integration process. From clinical studies of firms that have successfully integrated many of their acquisitions, one common theme emerges: longer is the integration process, larger is the number of unanticipated problems. Basically, right after an acquisition, both firms are committed to the original premise of the merger or acquisition, and that is the ideal time to gain consensus and carry out the integration. In general we agree to this prescription with some specific exceptions that we address later.

Finally, when key resources are people, integration issues come in two guises. The issue here is not so much of integration but of retention. The second type of people problem arises out of culture clashes. This is especially important when the combined firms’, erstwhile independent, departments have to work closely together.

With these common resource interactions in mind, we now examine the differential impact of overpayment and integration obstacles across different types of resource interactions.

**A Typology of Resource Interactions**
There are five primary types of resource interactions in acquisitions: asset consolidation or pooling, portfolio assembly, resource blending, capability transfer, and business restructuring. Next we analyze the sources of and impediments to value for each type?

**Asset consolidation (One to One)**

With one-to-one asset consolidation, the physical resources of both partners are pooled together so that only what is necessary is retained and the rest is disposed of. In these acquisitions, not only are the resources of the merging firms very similar, there is also very little change in the value chains of the merging firms even though only one business emerges after the acquisition. Very often such consolidations take place across an entire industry in response to excess capacity, such as in the oil industry in 1998-99, the office products business in the early 1990s, or the paper machine clothing and cellular industries in the 2000s.

**Sources of Value.** Asset consolidation takes advantage of a transitory industry condition, such as overcapacity, and creates value through better aligning capacity with demand and also economies of scale or scope. The pharmaceutical industry is a case in point.

“Despite a wave of consolidations in the 1980s, the pharmaceutical industry is suffering from overcapacity...The quickest fix for drug manufacturers seeking to create value in the short term is horizontal integration.”

Consolidation waves have also occurred in banking, insurance, retailing and commercial real estate that followed earlier consolidations in the supermarket, trash hauling and the paper industry.

**Impediments to Gains.** Under antitrust laws, an acquisition motivated by asset consolidation will be approved only when there is excess capacity in the industry. Since such acquisitions are usually one-time events, the merging firms do not typically pursue a continuous acquisition program per se. However, despite the lack of prior M&A experience, the value extraction is relatively simple because merging partners from the same industry tend to have a clear understanding of the underlying business model. Typically, production is consolidated into
fewer factories or sales consolidated at fewer stores. Since this type of resource interactions can be achieved without physically combining all the activities of the two organizations, asset consolidations are likely to move quickly and have fewer integration problems compared to other types.

Quite often asset consolidation acquisitions are negotiated between the parties (e.g. BP/Amoco or Mobil/Exxon), thus avoiding the risk of overpayment arising out of an auction situation. It is reasonable to assume that when two firms from the same industry are consolidating their resources, the merging firms have a better appreciation of the potential cost savings. There is strong evidence that cost savings are easier to value than revenue increases. Further, an industry with excess capacity would usually be under-performing the market, thus increasing the likelihood of higher margins after the acquisition. Unlike most mergers that take place at the peak of the stock market cycle, asset consolidation mergers seem to take place when the industry is trading at a discount, which allows for more upside potential. For all of these reasons, asset consolidation mergers and acquisitions are among the rare combinations that are positively valued by the capital markets. In sum, mergers and acquisitions involving one-to-one asset consolidations are only mildly susceptible to the major impediments and create value through cost efficiencies and economies of scale.

**Asset pooling (many to one, or “rollups”)**

A slightly different type of consolidation involves pooling together geographically fragmented firms in the same business into a national or super-regional firm. Nextel became a national provider of wireless communication by acquiring firms that owned the mobile radio frequencies in different geographic locations. Similar consolidation has been carried out in the trash hauling (Waste Management), the funeral parlor businesses (Service Corp --SCI), bond ratings (S&P), targeted classified advertising (Auto Trader), aggregates (Martin Marietta Materials), car dealerships (AutoNation) and community banks (Banc One, later Chase).
Sources of Gains. Many of the individual businesses that were consolidated into a national entity were typically local monopolies, either natural (radio frequencies) or legal (trash hauler). So acquiring firms like Nextel, Trader or SCI neither had nor needed the option of a greenfield entry. Further, once the first mover has consolidated the industry, the absence of additional target firms makes it impossible for others to imitate the pioneer. Consequently, successful rollups can generate a monopoly premium.

Impediments to Gains. In many-to-one asset pooling, there are few obstacles to capturing post-merger value. Target firms in fragmented industries tend to command smaller premiums by avoiding scrutiny of the capital market because each individual firm, such as trash haulers, funeral parlors, or national bond-rating agencies, is small and often private. Further, the individual businesses do not have to be consolidated physically, which reduces integration problems. Finally, the acquirers typically develop systematic buying and integrating experience in the process of acquisition of many similar firms, which can also reduce both the probability of overpayment and integration problems. In summary, many-to-one asset pooling acquisitions benefit from staying under the radar screen, a repeatable acquisition process and lack of serious integration problems.

Even though asset pooling can benefit from systematic experience, there are some caveats. Most asset pooling must derive efficiencies from some level of back office integration. Banc One’s acquired banks could draw upon headquarters’ expertise that could boost their local profits. Waste Management could draw upon the purchasing power of headquarters as well as access to garbage dumps, and Blockbuster could have a much larger inventory of videos than was possible for individual mom-and-pop video stores. This type of integration is usually not very difficult because neither the acquired company nor the holding entity is making any significant changes to the normal business practices. Further, the changes are often hidden from the customer. The only caveat to this is that, if the asset pooler adopts business practices that are
logically incompatible with the target’s business model. AutoNation tried to save money by centralizing the process of getting a used-car prepared for resale. The problem was that the used-car business loses money the longer the dealer waits for the car to be turned around from purchase to sale. Transporting the car to a centralized location increases the turnaround time that offsets any efficiency gains. In rare cases the rolled up entity’s business practice may affect the sensibilities of the community. For example, SCI ran into problems when the state of Florida found out that they were carrying out embalming at a centralized location while the customers were under the impression that it was being carried out on site at the previously-independent funeral home.

Sometimes, the integration may take place at the customer-facing end. One saw only Blockbuster-named stores (now bankrupt), and all Waste Management garbage trucks carry the company logo, even though the original drivers and other employees were kept on. On the other hand, the names of the funeral homes acquired by Service Corp were not changed -- as people in the neighborhood valued the association with a family-run business. Thus, before attempting to impose a uniform front-end the acquiring firm has to be very clear about the impact such integration may have in its business model. Consider once again the used-car rollup that Wayne Huizenga attempted with AutoNation after his spectacular success with Blockbuster. After the rollup, Huizenga brought in his own people and tried to impose a uniform look and feel across all the dealerships much like Blockbuster. What is the difference? The used-car, like the funeral home business, is extremely sensitive to local tastes and knowledge. In the video industry, the movie that is popular in California is most likely to be popular in Maine. Thus, there is room for back office and front-office integration. In this case Huizenga’s success in the Blockbuster rollup led him astray in the used-car rollup\textsuperscript{12}. AutoNation’s used-car business was closed down in 1999. The various integration possibilities that an asset-pooling or rollup acquirer has to keep in mind are summarized in Table 1.
Portfolio Assembly

Portfolio assembly occurs where the target brings a resource that fills a gap in the acquirer’s product. Once acquired, the new resource is typically deployed continuously in day-to-day operations. Basically, portfolio assembly is the means to build a one-stop shop. However, unlike asset consolidators, portfolio assemblers are often adding different and new resources with each acquisition. Also, unlike asset poolers who are buying local monopolies, portfolio assemblers have the option of developing the resource internally, but choose to acquire in order to be quick to market. For example, during the 1990s Carrier Corporation (a division of United Technologies) grew globally by assembling various parts of the “cold chain” that took meat, milk and produce from farm to retail. That is, they acquired firms that manufactured refrigeration equipment for the storage, transportation, processing, and retail display of these products.

Sources of Gains. In the early 1990s Cisco Systems aimed at being the market leader in the router market used for data networks. However in 1993, Cisco faced the prospect of losing business from Boeing and Ford because Cisco did not sell switches (used in voice networks). Cisco aggressively filled this gap with its very first acquisition - that of switch maker Crescendo. In the future, Cisco would routinely acquire small firms to fill any technology gap needed to serve Cisco’s customers.

Guidant Corporation’s acquisition strategy in the medical device market is another illustration of the benefits from portfolio assembly acquisitions in high-growth markets. In 1997, there were two major products that physicians would use to treat irregular heartbeats. These were implantable cardioverter defibrillators (ICDs) and pacemakers. There was a one-stop-shop opportunity by assembling ICDs and pacemakers into a single unit. Guidant was a market leader in the ICD market but well behind Medtronic in the growing $2.5 billion pacemaker market.
Guidant acquired In Control (devices to treat atrial arrhythmias) and Sulzer’s Intermedics unit (3rd largest market share in the pacemaker business) in 1998 to become the second largest player in the pacemaker market behind Medtronic.

Portfolio-assembly acquisitions do not have to always be in high-growth markets. Cleveland-based Steris Corporation was a market leader in disinfectant processes used by hospitals. To stave off threats from other disinfectant companies, Steris acquired a multitude of companies from the early 1980s to the present that allowed it to offer a much broader product line to hospitals. Likewise, FedEx was being threatened on the ground by UPS. There was also an opportunity to capitalize on the Internet boom to be able to deliver directly to households. Instead of expanding its existing but expensive ground network, FedEx acquired Akron-based RPS as part of its acquisition of Caliber Systems in 1997.

Portfolio-assembly acquisitions are integral to growth strategies that rely on continuous and timely enhancement of the acquiring firm’s product/service portfolio. Further, acquirers that can successfully communicate the growth logic behind their portfolio-assembly strategy to the capital market usually command higher stock valuations. Finally, portfolio assemblers such as Cisco (1990s) and Carrier have well-developed acquisition programs that constantly search for potential targets to fill gaps in their product or technology portfolios. In contrast, Microsoft and Lucent can also be categorized as portfolio-assembly acquirers. However, the lack of a well-articulated program have led to a poor acquisition record for Microsoft and fatal for Lucent.

Impediments to Gains. Portfolio-assembly acquisitions do not usually attract antitrust investigation, and the targets are typically much smaller than the acquiring firms and not very visible to the capital market, which reduces the likelihood of auctions and a high premium.

However, integration issues can be an obstacle for a portfolio assembly strategy, because the acquired resources have to be grafted onto the developing business model of the acquiring firm. Further, this has to be done without stalling the growth and/or profitability of the acquired
entity. As an illustration, consider Cisco System’s acquisition program and how their success can directly attributed to the clarity about post-acquisition resource interactions.

Cisco was reluctant to buy mature, well-established companies that come with their own customers. This is because Cisco was not interested in the target’s customers and the interaction between Cisco’s and the target sales resources was something they completely avoided. Mike Volpi, the head of Cisco’s acquisition program, sought out high-tech firms that had a proven prototype but were still private and “flexible” in their ways. Cisco only integrated the parts that could be easily integrated, such as manufacturing and customer service, while letting the R&D and product development remain intact.

Mimi Gigoux, Cisco’s acquisition-integration division head during the 1990s, not only participated in the due diligence process but was also physically present at the target through closing. The integration processes were customized for each acquisition yet moved at lightning speed. According to Gigoux,16

The Cisco integration team collaborates with the acquired’s management in “mapping” employees—figuring out where in Cisco they belong, basing decisions on experience. In general, product-engineering and marketing groups remain as independent business units, while sales and manufacturing groups are folded into existing Cisco departments. Meanwhile, back at Cisco, teams get the new employees onto Cisco’s computer system, and change payroll and stock-administration programs.

In total, the process took 30 days.

Some of the integration imperatives for asset pooling (see Table 1) are also critical for portfolio assembly. Cisco was carrying out front-office integration only at the sales stage which required much less product-specific knowledge than marketing (which remained the responsibility of the acquired entity). Cisco avoided stalling out the technology development by allowing the acquired company total freedom in its R&D without any pressure to cross-fertilize its R&D with other business units until they were ready – zero resource interactions in R&D. On
the other hand, Cisco would integrate manufacturing and sales immediately, allowing the small acquired entity to scale up much faster than it could have done on its own. Absent this scalability Cisco would pass on an acquisition (see endnote 13). This is an illustration as to where integration should be accelerated and when it should be delayed.

While Cisco’s integration process (in the 1990s) may set the standard, most successful portfolio assemblers have developed an integration program from which they can continually learn. Typically, these firms rarely make a “bet-the-company” acquisition early on. The early small acquisitions allow these firms to fine-tune their integration programs over time. (However, a danger of success in earlier acquisitions is that it may lead some acquirers to relax their basic discipline. For example, the acquisition of Ascend Communication by Lucent Technologies came after a series of much smaller portfolio-assembly acquisitions, and the ensuing indigestion partially contributed to the decline of Lucent Technologies.17)

Sometimes, if an acquiring firm has not developed the expertise in integration, it is much better to not force the issue even if Wall Street is clamoring for integration in order to cut costs. Consider the case of FedEx’s acquisition of Caliber Systems. FedEx did not integrate RPS (the ground delivery unit of Caliber) with its own ground network FedEx Ground for nearly three years after the acquisition. This was a very smart move despite the fact that Wall Street felt that FedEx was not exploiting efficiencies from consolidating the two units. FedEx did integrate the two in 2000 but only to the extent that all FedEx Ground trucks carried the same logo à la Waste Management. The internal operations of RPS (using owner-operator drivers as opposed to FedEx salaried drivers) have remained the same. Potential portfolio assemblers should consider FedEx’s rationale: FedEx was not acquiring RPS to cut costs but to be able to offer customers the ability to deal with one shipper whether they wanted ground, air, express or 3-day delivery.
Extracting efficiency gains through speedy integration is fine so long as it doesn’t jeopardize the core reason for the merger or acquisition, a critical point not identified in prior merger literature.

Contrast FedEx’s action to that of Prudential who acquired the Silicon Valley Investment Bank Volpe Brown in 1999 to underwrite the booming Internet IPOs where Prudential had no exposure -- a classic portfolio-assembly acquisition. During its negotiations with Volpe Brown, Prudential’s dealmakers drew up a list of 12 bankers and analysts considered critical in getting the underwriting business. Yet many of these critical personnel left when Prudential closed Volpe’s trading desk and integrated the trading operations with Prudential’s own. Yes Prudential paid a premium to buy the underwriting business. Trying to speedily recover the premium, as suggested by many merger experts, by consolidating the trading desk (to increase efficiency) was the wrong integration strategy. The lesson here is to never lose sight of which resources have to interact and which resources should be left alone. An undisciplined approach to these resource interactions can have unintended and sometimes fatal consequences. Merger gurus recommend speedy integration. Our message to managers is that integration should be attempted very deliberately if they are not central to the basic purpose of the merger or acquisition. (Note that this insight is very difficult to arrive at by thinking of mergers in terms of strategic categories or motives. On the other hand, this insight should be evident if one looks at a potential merger through the resource interaction lens).

Now consider the resource assembly acquisitions made by Invacare between 1995 and 1999. Prior to its first acquisition in 1995, Invacare was extremely successful as a manufacturer of high-quality wheelchairs as indicated by its stock price appreciation between 1990 and 1996. Now contrast its early stock price appreciation to the period between 1996 and 2000 as depicted in Figure 1 -- a year after its first acquisition to a year after its last. From our conversations with company executives, the stock price stalled out to a large extent because of the indigestion from
the multiple acquisitions made between 1995 and 1999. Invacare made no further acquisitions and renewed its growth after 2000 when the rest of the economy was in recession. In sum, portfolio-assembly is a powerful strategy for acquisitive growth provided resource interaction issues are addressed early on and systematically applied to all acquisitions.

The reader should correctly surmise that portfolio assembly is a type of resource interaction that has a reasonable chance of success with some caveats. Firms engaging in portfolio assembly must have better information on potential targets than competitors if they wish to succeed. To be able to spot the right opportunities, the assembler needs to have two capabilities. First, it should be able to meaningfully segment the market in order to spot the opportunity at the right time (see Cisco’s struggles in the 2000’s later). Carrier’s identification of the cold chain allowed it to target specific opportunities up and down the chain, in different countries, as it assembled its global resources. Likewise, Cisco’s ability to identify the soup-to-nuts networking needs of major enterprises gave them a leg up to look for the right technology startup before others. Second, the portfolio assembler must be able to identify the resources critical for success in the different segments -- before competitors. In almost all the areas in which Cisco has undertaken acquisitions, it had substantial internal development activities. Typically, if Cisco could not develop a technology internally within six months, they acquired it. However, the acquisitions go beyond the technology or R&D (see endnote 13). By continually understanding the need of its customers, Cisco had a clear idea which technology offered at scale will have a ready market. This is very different than a Drug company buying a biotech company for R&D expertise. Further, Cisco had the negotiating advantage because of its ability to quickly scale up, using Cisco’ sales and manufacturing, to bring in the kind of revenues that the standalone target company could never possibly achieve. Unfortunately, for Cisco the 2000s were not the right time for portfolio assembly of new technology as customers refused to view
technology as a panacea for their business problems. The mighty Cisco has been struggling during the last decade.

**Resource Blending**

Resource blending occurs when the resources of the merging partners are combined to develop a unique business model, which is expected to provide more value to customers and/or increase efficiencies. Often, this is the case when the two firms complement each other on the value chain. For example, the merger between America Online and Time Warner was intended as resource-blending merger. Their plan was to combine AOL’s Internet distribution, web sites and e-Commerce with Time Warner’s movie studios, book publishers and broadband/cable distribution. Most resource-blending mergers rely on a fair amount of cross-selling, cross-fertilization of technology or other resources. For example, the Daimler-Chrysler merger was intended to combine Mercedes’ superb engineering capabilities with Chrysler’s speed from design to market. One success was the critically acclaimed Chrysler Crossfire in 2003. (By contrast, there was not much cross fertilization of technology amongst Cisco’s different business units.)

*Sources of Gains.* Academics and practitioners have long hailed resource-blending mergers as most likely to be successful. In fairness, resource blending mergers have led to some spectacular successes when a number of factors coincide. In these acquisitions (frequently mergers of equals) the firms come from related businesses that present a ‘fit.’ Ideally, the product lines of the two companies should perfectly complement each other. For example, Kraft proved to be a perfect fit for the General Foods division of Phillip Morris. General Foods had Kool Aid, Maxwell House Coffee, Yuban Coffee, Jello and two baking companies. Kraft had Kraft Cheese, Velveeta, Miracle Whip, Philadelphia Cream Cheese, Parkay Margarine and Seven Seas Salad Dressing.
Further, this acquisition allowed General Foods to increase its visibility in the fastest growing segment in the grocery stores - refrigerated and frozen foods. Thus when General Foods merged with Kraft, the different activities in the value chains of Kraft and General Foods were extensively rationalized and combined into a new value chain.

Similarly, when UBS acquired PaineWebber, it picked up an impressive American private-client franchise for $10.8 billion. At the same time, PaineWebber gained access to UBS’ European research and global reach.\(^{18}\)

**Impediments to Gains.** The uniqueness of the combination may also have a temporal component -- witness the 2000s acquisitions amongst the food companies (Kellogg’s acquisitions of Worthington and Keebler) and between pharmaceutical and biotech firms. Similarly, these mergers were taking place in the financial services industries.

To capture the maximum benefits of resource blending, the acquiring firm needs to search for suitable candidates at the right point in time, knowing that there may be other firms vying for the same target. This adds one more layer of difficulty and the possibility of competitive bidding and overpayment that resource blending mergers will have to overcome.

As regards integration, speed is critical in resource-blending acquisitions.\(^{19}\) Here we agree with the conventional wisdom that full and speedy integration is an absolute necessity because the existing value chains of the individual companies have to be deconstructed and then reconstructed into the new business model. Unfortunately, this is one obstacle that many resource blending mergers fail to overcome because they rarely plan for it.

Unlike resource consolidation where some manufacturing facilities or retail outlets are simply closed, in resource blending most of the activities of both partners are retained, but quite often have to adapt to new business practices. For example, when Rubbermaid acquired preschool toy maker Little Tikes, Little Tikes had to not only source resins through Rubbermaid,
but coordinate with Rubbermaid’s sales personnel in order to supply mass retailers such as K-Mart, which Little Tikes had avoided prior to the acquisition. Further, Rubbermaid wanted Little Tikes to shift to injection molding rather than the rotational molding that was the cornerstone of Little Tikes’ flexible manufacturing. The mismatch of business practices led to the departure of Little Tikes’ founder, who was instrumental in its initial success.

Resource-blending mergers require many different resources to interact to come up with new business practices. By contrast, the portfolio-assembly acquisitions described above revolve around the addition of one resource at a time and are, comparatively, fairly simple. Because of the extensive integration needs, resource-blending mergers have been also shown to be vulnerable to cultural differences20, even those that are ultimately successful.

“The Deutsche Bank-Bankers Trust merger has started to pay off, with Deutsche Bank posting first-quarter earnings of $860 million, up 50% over the previous year. But that’s only after a year of culture clashes that resulted in Bankers’ CEO leaving, with many staffers.21.”

In other words, while complementarity or ‘fit’ is the primary driver for many a resource-blending merger, the complex resource interactions to achieve the ‘fit’ also proves to be a major impediment to integration.

Even when acquiring firms consider the integration issues ahead of time, the multifaceted interactions in resource blending mergers are extremely difficult to plan for. For example, AOL had completely misjudged the degree to which editorial independence would be an impediment to cross-selling its content through Time Warner. In fact, much to the chagrin of senior Time Warner magazine staff, ‘editorial independence’ was initially not even considered a core value by the leadership team dominated by AOL. There were other unintended consequences of the integration. AOL found out that other cable systems, like Comcast, considered AOL to be a cable competitor (because of Time Warner’s cable properties) and shut out AOL from Comcast’s
customers. This should not have been a surprise. Our advice to managers contemplating a merger dependent on resource blending is to systematically identify the sources of revenue enhancement and drill down the details of everything that must go right. And despite this be conservative in your estimates.

Most resource-blending mergers fail to heed this advice. The strategic fit required to justify a resource-blending merger reduces the availability of other targets, especially if the strategic fit arises from a transitory market opportunity. Thus, unlike in portfolio-assembly acquisitions, firms pursuing resource-blending acquisitions may be reluctant to pass up a potential target even if a poor cultural fit is identified (such as AOL/Time Warner). Haste, in this case often makes waste.

Resource-blending acquisitions are also extremely complex to value that can be exacerbated by the speed at which some of these deals are undertaken. This is because the revenue model is dependent on a number of interactions across many of the different resources of the merging firms. As we have already seen, larger the number of resource interactions needed to extract value, higher the probabilities of unintended consequences. There is research evidence that skepticism about integration problems in resource-blending acquisitions leads to an “integration discount” by the capital market, especially for larger targets such as Travelers (insurance) and Citicorp (mainly banking) or AT&T and TCI (Cable). The unique business models that characterize many resource-blending acquisitions also imply that the selection of unique acquisition targets is likely to be ad hoc in nature, and typically, such acquirers will not benefit from any prior acquisition integration experience.

Overall, acquisitions motivated by resource blending have to contend with the twin value-sappers of integration problems and overpayment due to a complex revenue model, which
can be exacerbated by lack of experience. This suggests that acquisitions dependent on resource blending will be the least successful of the five types we have identified. 23

**Capability transfer**

In some acquisitions, processes and competencies are transferred to the target’s primary (“line”) or support (“staff”) activities to increase efficiencies or enhance customer value. We define this type of resource interaction as *capability transfer*. Typically the transferred capability can be used many times with many different targets. In contrast to asset consolidation, portfolio assembly or resource blending, in capability transfers both firms retain their separate value chains and only the target is the recipient of the benefits. Firms like Cooper Industries and GE Capital have repeatedly used their back office and strategic planning expertise to add value to many of their acquired firms, which become part of an ongoing process at the acquired firm.

The sources and obstacles to value in mergers that depend on capability transfer differ depending on whether capabilities are transferred to primary (line) versus staff (support) activities. *Sources of Gains in Line Activities.* Unique competitive conditions may provide an opportunity for an acquirer to transfer resources to the primary activities of the right target and create a competitive advantage. Thus the availability of Duracell allowed Gillette to successfully transfer its marketing and financial capabilities to transform Duracell into a major competitor. Coke had similar success in the wine business when they transferred their marketing expertise to three winery acquisitions in the early 1980s. Often, acquisitions characterized by capability transfers to primary activities depend on transitory opportunities, and are, therefore, likely to be *ad hoc* in nature. However, unlike resource-blending acquisitions, in most capability-transfer acquisitions there is no need to comprehensively integrate the target with the acquiring firm, because the
capabilities are transferred to a narrow group of activities of the target firm. Typically, the acquired entities, like Duracell or Coke’s wine acquisitions, remain independent.

*Sources of Gains in Support Activities.* Many acquisition programs depend on the systematic transfer of a few core competencies to the support activities of the acquired firms. For example, Cooper used “Cooperization” (managerial and control systems) as a way of improving the performance of the target firms in its acquisition program24.

How do the acquiring firms create value in a typical capability-transfer acquisition? Very simply, firms like Cooper Industries free up the management of the acquired firm to concentrate solely on running the business. Thus the acquiring firm’s management does not have to deal with OSHA or tax issues, as the headquarters staff handles these. Another common feature for successful capability-transfer acquisition strategy is the imposition of a planning discipline, which many of the small entrepreneurial acquired firms frequently lack.

*Impediments to Gains.* Successful capability-transfer acquisitions typically target profitable firms where target management can benefit from the capability. While these targets may command somewhat higher prices than restructuring targets (see next), these acquisitions are usually small, and sometimes private. Often firms like RPM, Cooper or Trader Publications (*Auto Trader*)25 will court the target for years to convince it of the “win-win” nature of the deal and reduce the premium. Clearly, this deliberate soliciting of specific targets provides an information advantage that is difficult to match by the casual acquirer. This deliberate acquisition process also avoids excess premiums caused by high-pressure negotiations. Finally, the same blueprint for value-creation yields potential learning that is applicable to subsequent acquisitions.

Integration problems are not a major issue with capability-transfer acquisitions because the acquired firm typically retains its own identity and separate organizational presence. Managerial and other competency transfers are also the least vulnerable to integration problems.
because they are the least disruptive. For example, better planning and control systems can help the acquired firm’s managers stay on track without interfering with day-to-day operations. This absence of integration problems allows even culturally incompatible mergers, such as Gillette-Duracell or Merck-Medco, to be successful.

However, the acquiring firm has to be confident that the capability that it intends to transfer can be done easily. If the transferred capability is culture- or context-sensitive, it may not be a good candidate for transfer. A good example of this is the supply chain management of Marks and Spencer versus that of Wal-Mart. Marks and Spencer’s success in the U.K. was heavily dependent on long and deep personal relationships with suppliers, which other U.K. competitors could not imitate. However, Marks and Spencer could not transfer these supplier relationships to their acquisition of Brooks Brothers in North America. By contrast, Wal-Mart transferred many of the vendor-managed replenishment (VMR) techniques to Cifra, its Mexican partner. VMR is completely computerized and not as context sensitive as the interpersonal-supplier relationship carried out by Marks and Spencer. For these reasons, Haspeslagh and Jemison suggest the need for a common understanding of how the capability is to be transferred because the receiving firm may not clearly understand its value. This is where a systematic acquisition program provides invaluable experience (see endnote 25) by a before-the-fact elimination of targets where the transfer of context-sensitive capabilities can be difficult.

There is also a potential problem when capability transfers take place in primary activities. If the acquiring firm imposes strategic control on the target then a capability transfer may become like resource blending, with its attendant integration problems. Thus, AT&T’s acquisition of NCR began partly as a capability transfer and partly as portfolio assembly but eventually failed because AT&T tried to blend NCR’s operations with its own. Rubbermaid’s acquisition of once-successful Little Tikes failed when Rubbermaid got involved in its day-to-
day strategy. Conversely, Merck’s acquisition of Medco has been hailed as a success because the two companies transferred information between each other but otherwise operated as autonomous entities. In general, the more ‘fit’ there is between the multiple activities of the merging firms, the higher the temptation that capability transfer may gravitate toward a resource-blending merger and its attendant integration problems.

In summary, the relative absence of integration issues and the ability to utilize a repeatable acquisition process make capability transfer a compelling acquisition strategy. (There is some evidence that, because of the absence of integration issues, the conglomerates of the 1960s were quite successful. The explanation for their success was that managerial expertise was in short supply in the 1960s and that the conglomerates used this expertise to improve the productivity of the acquired firms. In the concluding section we discuss more about conglomerates in today’s economy.)

**Business Restructuring (“Turnarounds”)**

The final type of resource interaction is a variation of capability transfer where the expertise of the acquirer is used to turn around the acquired firm. While this may appear similar to transfer of strategic planning expertise in capability transfers, there are two important but subtle differences. In *business restructuring*, the turnaround expertise is typically used only *once* by the acquiring firm; whereas under *capability transfer*, the transferred process or competency, such as annual strategic planning, is *perpetuated* as a part of normal business practice. Second, many capability-transferring firms, such as Cooper Industries or Danaher, typically acquire profitable firms and then institute streamlined manufacturing processes to make such firms more efficient and effective. Such continual capability-transfer is quite different from acquisitions where the primary focus is a one-time restructuring of a poorly performing target.
Sources of Gains. In a business-restructuring acquisition, the acquiring firm wants to increase the efficiency of the target firm’s use of its resources. While this also involves some degree of managerial (turnaround) skill transfer, the target firms are relatively less profitable which, in turn, reduces the acquisition price. Porter suggests that business restructuring has a higher probability of success as an acquisition strategy, as illustrated by LBO firms like Hanson PLC, Henley Group and Kohlberg, Kravis and Roberts (KKR). The evidence from the 1980s also supports this. Restructuring acquirers, such as Henley or KKR, have well-formulated acquisition processes which may give them an advantage in their ability to identify turnaround candidates. However, these acquisitions are frequently hostile. In a hostile deal, the acquirer does not typically have the kind of access to internal information that is enjoyed by firms like Cisco or Trader, who cultivate target firms over a long period. In contrast, the information required to analyze the viability of the restructuring strategy may be a lot simpler (such as calculating the breakup value) than resource-blending, capability-transfer or portfolio-assembly acquisitions. Restructurers learn to interpret publicly-available information based on their turnaround expertise.

Impediments to Gains. The successful restructuring acquirer does not get involved in the operations of the target. It instead reduces investment in unproductive businesses and then hires a good operating manager to run the business. Consequently, restructuring acquisitions are not vulnerable to integration issues.

However, restructuring acquisitions can sometimes fail because of too high an acquisition premium. It is in the best interests of the restructuring acquirer to be able to quickly and quietly acquire the target and not get involved in a bidding war. Unfortunately, stealth and speed sometimes translate to poor due diligence, hubris, and high premiums. KKR’s most famous failure is the high-profile RJR acquisition, where publicity caused the price to escalate more than
50 percent from the initial bid. The RJR acquisition also illustrates a potential problem for restructuring acquisitions: If restructuring itself does not create value and strategic intervention is necessary, the acquiring firm (or an investor team like KKR) may not have the required expertise. Basically, strategic intervention is usually not a part of the restructuring acquirer’s acquisition-process resource set. Finally, restructuring acquisitions have a limited life span because restructuring targets become scarce as the market becomes more efficient. Lack of restructuring targets may render this acquisition strategy obsolete. For example, Hanson had to abandon its acquisition strategies in the 1990s once restructuring opportunities diminished.

In sum, business restructuring has a fair chance of success because it avoids integration problems. Restructuring acquisitions can also benefit from a routine and repeatable acquisition process.

CONCLUDING THOUGHTS

Characteristics of Resource Interactions

As we pointed out at the beginning, our focus is on how companies must manage their acquisitions’ resources post-merger, rather than how closely related the two businesses or what the strategic motives might appear to be. It is important to note that these are primary categories, and most mergers are really combinations of these. However, if a manager can identify the primary category, then he or she will also be in a position to assess the likelihood of success based and the extent of post-merger effort required. The different characteristics of the five primary types of resource interactions are summarized in Table 2.

--- Insert Table 2 Here ---

There are instructive differences across the various resource interaction categories for the bottom five rows. For example, larger the points of interactions in the value chain, larger is the potential
payoff but higher the potential problems in value extraction. On the other hand, we have demonstrated that just because there is no similarity between the acquired resource and the parent company, as is often the case with portfolio assembly, it does not imply major problems with post-merger resource interactions.

**Success Determinants: Ad hoc versus Acquisition Programs**

If we had to pick one single predictor of acquisition success, it is an acquisition process built around the same type or resource interaction and an associated acquisition program. A repeatable acquisition process allows a firm to really understand one type of resource interaction in-depth. This knowledge becomes their competitive advantage. (Acquisition programs – repeatable events – are most likely in rollups, portfolio-assembly, and restructuring acquisitions.) On the other hand, there are numerous examples of successful, but *ad hoc*, acquisitions that mislead management in subsequent acquisitions. Quaker Oat’s success with Gatorade did not translate to success with Snapple. Phillip Morris’ success with Miller did not lead to success with 7-UP. In fact, many acquiring firms like Phillip Morris or Gatorade overestimate their chances of success in subsequent acquisitions because of their success with a previous acquisition. Even success in a rollup may not imply that experience is transferable to a rollup with a different business model, as we witnessed in the case of Wayne Huizenga and AutoNation. Research evidence suggests that experience is a major predictor of merger success. We have shown that experience measured purely by number of acquisitions (Microsoft or Lucent) is not necessarily a good predictor but experience with repeatable resource interactions is.

**Implications for Practice**

The basic insight from the resource-interaction framework is that the likelihood of acquisition success depends on the ability to manage the different types of post-acquisition
resource interactions. This insight is different from the widely-held notion that acquisitions or mergers between firms in related industries are the most likely to succeed. In terms of our post-merger resource-interactions framework, resource blending and capability-transfers-to-line-activities will normally be considered to be “related” acquisitions. However, these are the most problematic (see Table 3).

We can draw certain conclusions. First, acquisitions that depend on rollups, portfolio assembly, and capability transfers to support activities, all have an intrinsic advantage vis-à-vis other acquirers: Compared to one-to-one asset consolidations or resource-blending mergers, these types of acquisitions are likely to be undertaken more frequently by an acquirer. Consequently, they lend themselves to (1) a learning effect, which yields acquisition competence; and (2) a reputation effect, which yields a healthy deal – and, therefore, information flow. Further, these types of resource interactions are less vulnerable to integration problems because the merging firms do not have to be physically combined. Because of this, these three primary types of resource interactions have the highest probability of success in acquisitions.

Our analysis also suggests that resource blending relies on the creation of a new business model as the primary source of post-acquisition competitive advantage. Thus, resource blending is dependent on hitting a home run, which is extremely vulnerable to integration problems (as well as the possibility of overpayment, as the true value from a complex business model is extremely difficult to evaluate). On the other hand, portfolio-assembly or capability-transfer acquisitions rely on a consistent string of singles. Ad hoc resource-blending acquisitions that rely on a unique business model are the most vulnerable to integration problems and overpayment.

A related problem with resource blending is that the two acquisition partners typically have to bring similar magnitudes of resources to bear for the blending to be meaningful. Thus,
resource blending implies that there is a higher probability of the merger being a merger of equals. This is a situation where the cultural fit may be as much of an issue as a business fit. In the words of John Chambers, for an acquisition to succeed “you’ve got to have one culture that really survives.” In a merger of equals, cultural problems have been a significant hurdle, especially when realizing that the expected value is based on a successful integration.

Thus, firms that engage in ad hoc acquisitions should approach each merger or acquisition with a fresh perspective and armed with the full knowledge of conditions that can impede the success of the planned acquisition. We are not suggesting that attempted ad hoc mergers or acquisitions will always fail. We are suggesting that ad hoc mergers be approached with a great degree of circumspection, and if the acquiring firm has had success with previous ad hoc acquisitions, then to carefully consider the extent to which the lessons from the previous resource interaction is really transferable to the next acquisition. A corollary to this analysis is that not all acquisition programs are equally efficacious. Conglomerate acquisitions may constitute a program but for all practical purposes each acquisition in such a program is ad hoc. By contrast, a firm with an acquisition program using a systematic resource interaction strategy has a potential repository of knowledge in managing the acquisition process that can be applied to all its subsequent acquisitions. Such a firm should feel confident in taking the risks inherent in acquisitions.

These implications are summarized Table 3.

---Insert Table 3 Here---

After three years of relative quiet, mergers and acquisition activities are beginning to pick up in 2011 along with a resurgent stock market. As usual, merger gurus are suggesting that this time it is different but if history is any guide well over half of all these mergers are bound to fail. What we are suggesting is that some of these deals are simply more difficult to execute than
others. In our view, it is a folly to simply look at superficial similarities between the merging businesses. The success or failure can be properly evaluated only by analyzing the nature of the resource interactions that deliver value. Using this lens, dealmakers should be able to see that many so-called related mergers can be quite difficult to execute contrary to what management gurus have been suggesting since the early 1980s. Using this lens dealmakers will know when to *slow down* the integration and when to be conservative in the valuation. If dealmakers keep our advice in mind they should truly be able to improve the batting average above the historical norms.
Table 1
Integration Imperatives in Asset-Consolidating Roll Ups

<table>
<thead>
<tr>
<th></th>
<th>Front-end integration</th>
<th>Back office integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product or service susceptible to local taste</td>
<td>Be very careful when imposing a uniform front-end</td>
<td>Implement only if customer values are not affected</td>
</tr>
<tr>
<td>Product or service not susceptible to local taste</td>
<td>Use front-end integration whether virtual or real</td>
<td>Implement speedily</td>
</tr>
</tbody>
</table>
Figure 1
Invacare's stock price

Acquisitions
### Table 2

**Characteristics of Five Primary Types of Resource Interactions**

<table>
<thead>
<tr>
<th></th>
<th>Asset Consolidation</th>
<th>Portfolio Assembly</th>
<th>Resource Blending</th>
<th>Capability Transfer</th>
<th>Business Restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source of value</strong></td>
<td>One: One Rollups</td>
<td>One: One Rollups</td>
<td>One: One Rollups</td>
<td>Primary (Line)</td>
<td>Business Restructuring</td>
</tr>
<tr>
<td><strong>Points of interaction in value chain</strong></td>
<td>Few &amp; Targeted</td>
<td>Few &amp; Targeted</td>
<td>Comprehensive</td>
<td>Few &amp; Targeted</td>
<td>Few &amp; Targeted</td>
</tr>
<tr>
<td><strong>Similarity of resources deployed between target and acquirer</strong></td>
<td>Same</td>
<td>Different</td>
<td>Complementary resources from related businesses</td>
<td>Complementary resources from related businesses</td>
<td>Qualitatively different and usually supplementary</td>
</tr>
<tr>
<td><strong>Originator of resources deployed</strong></td>
<td>Both</td>
<td>Target</td>
<td>Both</td>
<td>Acquirer</td>
<td>Acquirer</td>
</tr>
<tr>
<td><strong>Difference between pre and post merger business model</strong></td>
<td>Minimal</td>
<td>Few additional activities</td>
<td>Substantial</td>
<td>Minimal</td>
<td>Minimal</td>
</tr>
<tr>
<td><strong>Frequency of post-merger resource interactions</strong></td>
<td>Continuous</td>
<td>Continuous</td>
<td>Continuous</td>
<td>Initially Continuous</td>
<td>Continuous</td>
</tr>
</tbody>
</table>

**Notes**:
- Economies of scale or scope; Increased mkt. power
- Fill gaps in product portfolio; Legal monopolies; Repeatable process
- Complementary resources—new value chain; “Fit” as source of synergy
- Selective transfer of knowledge, processes and/or core competencies; Tendency toward private transactions and long courtships
- Turnaround; Repeatable process
<table>
<thead>
<tr>
<th>Degree of intervention</th>
<th>Asset Consolidation</th>
<th>Portfolio Assembly</th>
<th>Resource Blending</th>
<th>Capability Transfer</th>
<th>Business Restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>One to One</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>High, but once.</td>
</tr>
<tr>
<td>Rollups</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Impediments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Few: Anti-trust;</td>
<td>Few: Few:</td>
<td>Culture conflicts;</td>
<td>Few: Integration</td>
<td>Large premiums;</td>
</tr>
<tr>
<td></td>
<td>Large premiums</td>
<td>Possible integration issues</td>
<td>Slow integration reduces NPV; Overpayment</td>
<td>issues if resources are culture- or content-sensitive</td>
<td>Tend to be hostile</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Integration Problems</strong></td>
<td>Possible but Minor</td>
<td>Unlikely</td>
<td>Some. Needs to be planned for</td>
<td>Highly likely and serious</td>
<td>Unlikely</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Overpayment</strong></td>
<td>Possible but Minor</td>
<td>Possible but Minor</td>
<td>Possible but Minor</td>
<td>Highly likely</td>
<td>Unlikely</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation for managers</strong></td>
<td>Have anti-trust plans</td>
<td>Try to be first mover; Use lessons from previous acquisitions</td>
<td>Start with small acquisitions and scale up if needed</td>
<td>Due diligence on cultural differences, integration problems</td>
<td>Consider cultural differences during the acquisition selection process.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Use lessons from previous acquisitions to reduce mistakes in the selection process.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Avoid getting into a pressured negotiation in the selection process.</td>
</tr>
<tr>
<td><strong>Overall Chance of Success</strong></td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low to Medium</td>
</tr>
</tbody>
</table>
Table 4
Acquisitions researched or consulted to by the authors

<table>
<thead>
<tr>
<th>Asset Consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One-to-one</strong></td>
</tr>
<tr>
<td>Comcast-AT&amp;T (UVA-BP-0480)</td>
</tr>
<tr>
<td>Tata Tea, Ltd – Tetley, Plc (UVA-BP-0478)</td>
</tr>
<tr>
<td>Whole Foods – Wild Oats (UVA-BP-0533)</td>
</tr>
<tr>
<td>News Corp – Dow Jones (UVA-BP-0534)</td>
</tr>
<tr>
<td>Albany International-Geschmay Group (UVA-BP-0428)</td>
</tr>
<tr>
<td>American Airlines-TWA (UVA-BP-draft)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Many-to-One Rollup</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peninsular Insurance (Malaysia) (UVA-OB-04l6)</td>
</tr>
<tr>
<td>PSI Net (UVA-BP-0433)</td>
</tr>
<tr>
<td>Standard &amp; Poors Ratings Services</td>
</tr>
<tr>
<td>Dollar General-Eagle Stores UVA-BP-0388</td>
</tr>
<tr>
<td>Arcelor Mittal</td>
</tr>
<tr>
<td>Nestlé</td>
</tr>
<tr>
<td>Trader Corporation (UVA-BP-0438)</td>
</tr>
<tr>
<td>Autonation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portfolio Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amer Group – MacGregor Golf (UVA-BP-0290 and 0291)</td>
</tr>
<tr>
<td>Yamaha Musical Instruments (UVA-BP-0348)</td>
</tr>
<tr>
<td>S&amp;P Financial Information Services (UVA-BP-0389)</td>
</tr>
<tr>
<td>OSIM Group (UVA-BP-0399)</td>
</tr>
<tr>
<td>Plow &amp; Hearth (UVA-BP-0463)</td>
</tr>
<tr>
<td>Cisco Systems (UVA-BP-0446)</td>
</tr>
<tr>
<td>Bacardi–Tequila Cazadores (UVA-BP-0470)</td>
</tr>
<tr>
<td>Unilever – Ben &amp; Jerry’s (UVA-BP-0471)</td>
</tr>
<tr>
<td>CS Robinson – Ford Financial (UVA-BP-0481)</td>
</tr>
<tr>
<td>Bosco Zeta Pharma (UVA-BP-0525)</td>
</tr>
<tr>
<td>Wachovia-Golden West (UVA-BP-0532)</td>
</tr>
<tr>
<td>Healthways-Axia (UVA-BP-0537)</td>
</tr>
<tr>
<td>Cisco-Linksys (UVA-BP-draft)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Resource Blending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamilton-Sundstrand (UVA-BP-0435)</td>
</tr>
<tr>
<td>Northrop Grumman (UVA-BP-0472)</td>
</tr>
<tr>
<td>AOL-Time Warner</td>
</tr>
<tr>
<td>Travelers and Citicorp</td>
</tr>
<tr>
<td>AT&amp;T and TCI</td>
</tr>
<tr>
<td>Rubbermaid and Little Tikes</td>
</tr>
<tr>
<td>UBS and Paine Weber</td>
</tr>
<tr>
<td>Kraft and General Foods</td>
</tr>
</tbody>
</table>
**Capability Transfer**
Kellogg-Worthington (UVA-BP-0426)
Hibernia-Texarkana Banks (UVA-BP-0437)
Trader Publications-UAP (UVA-BP-0438)
Cisco Systems (UVA-BP-0446)
Titan Products-Franz Schuler (UVA-BP-0546)
Danaher Corporation (UVA-BP-0549)
Roman Empire (UVA-BP-0551)
Invacare
Lubrizol
Masco
Danaher
United Technology

**Business Restructuring**
Newell
Illinois Tool Works
Hanson PLC
Endnotes:

1 Consider four examples of ‘similar’ acquisitions using SIC codes. Quaker Oats acquiring Gatorade and later Snapple. Phillip Morris acquiring Miller Brewer and later 7-UP. Consider the 6 digit SIC codes: 312111—Soft Drink Mfg. (Pepsi, Gator Aid, Snapple) (Primary) 312120 (Miller Brewing)—Breweries (Primary)—Note that the four digits that are typically used to measure relatedness are the same. Two academic studies argue, and we agree, that these acquisitions are not similar and the experiences are not transferable. (J. Haleblian, S. Finkelstein (1999), “The Influence of Organizational Acquisition Experience,” Administrative Science Quarterly, 44, pp. 29-56. and M.L.A. Hayward (2002), “When Do Firms Learn from Their Acquisition Experience: Evidence from 1990-1995,” Strategic Management Journal, 23, p. 21.)

2 Sirower (M. Sirower (1997), The synergy trap, Free Press) reviewed the literature on related merger and concluded that in order to extract synergy one has to understand how the resources of the merging firms interact to create the synergy. Just because the merging companies are in similar industries does not mean this interaction can be successful. Haleblian and Finkelstein (1999) op. cit. and Hayward (2002) op. cit. in our view were correct to question the use of SIC codes. However, their explanations are ad hoc and what we are trying to establish in this paper is the lack of transferability can be predicted much better using a resource interaction lens than something called experience.


4 Practitioners are now waking up to the dangers of synergy and why related synergistic mergers end up failing more often. (S. Chatterjee (2007), “Why Is Synergy So Difficult in Mergers of Related Businesses?” Strategy and Leadership, 35(2).


6 We will alert managers when even these simple integrations may be problematic.


9 See Chatterjee (2007) op. cit.


Here is a point of departure between us and the strategic motivation categories of acquisitions. For example, Bower considers Cisco’s acquisitions to be acquisition as R&D. Typically, R&D is a very open-ended process and this description would be much more apropos of pharmaceutical companies buying biotech companies. Cisco is extremely aware of a market need and the technology is only a means to that end. However, the end will not be realized without the focused integration strategy that we discuss in the text that all resource assemblers must employ.


Even the mighty Cisco overreached in buying Cerent, which violated many of Cisco’s own assembly principles. Cerent was a mature firm that was publicly traded. Even though the financial community applauded Cisco’s acquisition of Cerent at the time of announcement, the optical acquisitions are currently considered to be far below Cisco’s standards.


The empirical evidence on related or strategic acquisitions is mixed because many studies have combined resource consolidation acquisitions (which we expect to be successful) with related or fit-motivated acquisitions. The latter categories correlate closely to what we define as resource blending. The studies that have focused solely on fit-motivated acquisitions have found that these acquisitions have not been very successful both in the long term and in the short term.

Harvard Business School Case #9-391-095.

Trader is primarily an asset pooler (roll-up). However, most asset pooler also engages in some degree of capability transfers. Our basic point is that the accumulated expertise in transferring the same capabilities across all prior acquisitions is the foundation on which the ‘experience’ becomes valuable. This point is missing from the empirical research on acquisition experience.


It may be useful to investigate when this transformation takes place. There are many competency-transfer mergers where the only contact between the two organizations is the resource being transferred. It is possible to hypothesize that if the acquisition does not start to produce results then the acquirer may
become strategically more involved with the target. Also see Haspeslagh and Jemison, 1991: 140-141.


36 Chatterjee et. al., 1992