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New-Age Challenges To Acquirers In High Technology

Mark W. Bailey

Smartly run high-tech firms are dropping the "not invented here" syndrome and turning to acquisitions to get the products, people, and technology they need. Symantec Corp., a California-based software company and an early exponent of high-tech acquisitions, says good deals minimize risk and hasten product introductions. However, the best deals can turn on bread-and-butter issues like economics, people, and integration.

— M&A

New-Age Challenges To Acquirers In High Technology

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Software developer
Symantec blends vision
with nuts-and-bolts
business concerns in
pressing an active
acquisition drive.

In high technology, with its short product life cycles and intensive competition through innovation, change is the order of the day. Mergers and acquisitions can be useful in both adapting to and taking advantage of the rapid changes in a high-technology market while accelerating the growth of a well-managed company.

As in other industries, high-technology m&a deals are often driven by two very different forces:

- The urge to survive, which involves consolidation of companies to compete more efficiently in a flat or shrinking market, and
- The urge to grow, which drives an acquirer to enter a new high-growth market in a highly visible and rapid manner.

High-technology companies live and die on having the right product at the right time. Extreme examples can be found among companies supplying electronic chips to computer makers. If a vendor misses a window of opportunity for a specific product by six to nine months, its revenue stream can dry up quickly as the fast-moving market passes it by.

Innovation is the lifeblood of new product cycles, and creativity and new ideas the engines of revenue growth. Companies can't force or even plan creativity; they have to discover it. Sometimes discovery emerges from a well-defined R&D program, but most often new product cycles originate from a serendipitous discovery that is hard to plan and nearly impossible to predict. If a

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REACHING OUT FOR GROWTH

High-tech companies are fairly recent additions to the ranks of active acquirers. In the past, internal development bore the brunt of growth prospects, but de novo innovations are becoming riskier, more expensive, and more time-consuming in markets where survival depends on speed. Hence, high-tech firms, as exemplified by software developer Symantec Corp., are going outside to get companies with talented people and proven products that can meet market demands and generate technological throw-offs for the future.

Symantec, with 18 acquisitions in its 12-year history, is a careful buyer with its eyes focused as much on deal fundamentals as on future prospects. It has installed extensive machinery to identify the most promising targets, evaluate the technology and people, and calculate the economics before moving ahead. And it pays a lot of attention to integrating the target into Symantec so that the deal can pay off.

company can also look outside of its own work force for innovative solutions to its customers' problems, it will have a greater chance of successfully meeting more of its customers' needs.

Good acquisitions complement ongoing internal product development. They allow for rapid entry into high-growth markets and for a company to instantaneously acquire people, market presence, expertise, products, brands, etc. By choosing the right areas of emphasis, the acquirer can minimize disruption to its in-house process of developing new products and accelerating its overall revenue growth.

Acquisitions generate instant revenues against which to fund expenses. The economics are incredibly compelling. Instead of investing for 12 to 18 months in the internal development of a product, during which time the market window may have closed without providing revenues to offset the development expenses, a merger offers the opportunity for a neutral to positive impact on earnings within a brief period, if not immediately.

Furthermore, the acquirer can benefit from observing trends in an existing revenue stream before investing. This ability to "preview" the prospective partner's product/market combination reduces many risks inherent in starting an internal high-technology business venture from ground zero. Positive trends in the growth and

profitability of the target business suggest that many complex product, technology, and market decisions already have been made correctly. A successful merger helps the acquirer avoid false starts and delays in coming to market and builds on the target's early success.

Another way of looking at m&a is that it is a powerful way to redeploy assets by combining them. This can be very effective when sales and marketing strengths are combined with technology and product strengths, both of which can take years to build internally. The result is that the combined assets produce a much higher rate of revenue growth.

Despite all of the promise offered by acquisitions, discipline is critical. It is important that the m&a process be both team-oriented and tightly controlled to carefully limit the amount of time the organization invests in it.

Symantec is a 12-year-old provider of productivity, utilities, and development software which has done 18 acquisitions (see Table 2). We take a virtual organization approach to allocating resources to the m&a process. We start by forming an ad hoc team drawn from a number of functional areas across the company. The team is kept small in the early phases to conserve resources and preserve confidentiality. We then systematically scale up the size and breadth of the team if the deal moves forward (see Table 1).

We have found it useful to categorize deals by three distinct stages:

- Prospecting, or sizing up the opportunity;
- Scrubbing, which includes due diligence and preparation; and
- Announcement and integration, a two-step approach to building working relationships.

This timetable helps us scale up our effort in a systematic way. It also sets everyone's expectations about the likelihood that a given deal will move forward when people from different parts of the company are asked to participate.


Prospecting Stage

In the earliest stages of a deal, the prospecting phase, we work with a small ad hoc team that typically consists of 10 to 20 people. Anyone on our executive team can be the advocate for a particular deal. With smaller deals, such as technology licensing or product-line extensions, the product group may take the lead. Symantec's business development group is responsible for managing the m&a process.

In the prospecting phase, the relevant product group and a few members of our finance, human resources, and legal departments usually are involved. Each team member is asked to sign a non-disclosure form that

obligates the employee to maintaining complete confidentiality regarding the existence and content of discussions with a prospective partner.

A challenge in the prospecting phase is to balance planning with opportunism. We use our corporate strategy and the visions for our specific business areas as filters to screen out deal opportunities that are too far afield from our business focus. At the same time, we try to learn something from each new deal opportunity, using each to re-examine the assumptions utilized in planning to date. Our business planning process has a symbiotic



Positive trends at the target suggest that complex product, technology, and market decisions already have been made.

relationship with our review of new deal opportunities; each helps us do a better job in the other area.

An example of balancing planning versus opportunism was Symantec's 1993 acquisition of ACT!, the leading contact manager for executives and salespeople. In examining strategic opportunities in productivity applications, we determined that solution-oriented software aimed at more vertical parts of the market would appeal to the new wave of personal computer users who want immediate solutions without tinkering with data bases or spreadsheets. We also believed that the rapidly increasing sales of portable computers reflected the ongoing distribution of processing power and data storage/access, a trend that has been at work throughout most of the PC revolution.

Our ideas were translated into action when we were referred through our network of investment bankers and business brokers to Contact Software International Inc., the maker of ACT! We found ACT! to be an interesting opportunity to try to benefit from the trends. The target customers for ACT! are executives and salespeople who want instant solutions and make their living by managing business relationships. As mobile professionals, they are among the biggest purchasers of portable computers. Contact had done a great job of establishing the category of contact management and building a strong brand name. Since the merger, the product team has continued to deliver strong products, and sales through our sales and marketing organization are brisk.

Scrubbing Stage

If our initial analysis is favorable and we are successful at reaching an understanding with our prospective partner on rough deal terms, we move into the scrubbing phase. The principal tasks in this stage are to perform additional, detailed due diligence and to prepare for the announcement of the deal. We bring in additional finance, legal, and product-line people to handle further investigation, as well as a small number of people from each of our major functional areas, i.e., manufacturing, customer support, sales, marketing, and management information systems. Our scrubbing team usually has 50 to 75 members.

Preparing for the announcement has two components:

- The external announcement to the marketplace, which is handled by our marketing and public relations personnel, and
- Preparation for the internal announcement to our new employees, which is driven by our human resources group.

As both companies gain comfort that a deal looks more promising, they are willing to dedicate more resources to moving it forward, and the target is more likely to provide additional detailed information for due diligence. Thus, our three-phased timetable not only helps set the expectations of our own employees about the likelihood of a completed deal but also the expectations of our prospective partner.

The detailed due diligence process involves all of our functional areas. The legal group distributes documents and contracts to the functional areas, each of which has a detailed checklist that it uses to help answer the critical business questions in its sector. The finance team continues to refine the financial model that we started in the prospecting phase and slowly develops it into a detailed revenue and expense model that will become the operating budget of the new entity.

As the due diligence proceeds, so do detailed negotiations. Once the business issues have been clearly defined, we usually hand off the negotiations to the legal team, which develops a complete merger document. Periodically, new business issues will emerge that require the involvement of the business people and/or investment bankers from each side to resolve them. Throughout the negotiation process, we are careful to control the lines of communication on negotiable issues between the two companies. This minimizes confusion and helps facilitate orderly progress toward resolving outstanding deal issues.

With all of this organizational momentum, the deal begins to take on a life of its own. This is a useful force

that can help both organizations overcome sticking points, fears, and worries. However, it is also important to periodically step back, objectively review the merits of the deal, and be prepared to pull the plug if we don't like what we see. The cost of turning back at this juncture pales in comparison to the expense of a bad deal.

In preparing for the external announcement, we try to keep in mind that there is only one chance to make a good first impression. We work hard to develop a concise business case for the deal that can be articulated in one or two sentences. With our PR team leading the process, we build a list of opinion leaders, knowledgeable analysts in the market, industry publications, and a number of our customers. Each will receive a package by overnight mail that will arrive on the day of the announcement. Some also will receive phone calls as soon as the press release hits the wire.

Groundwork for People Issues

The m&a process in high technology must be extremely people-oriented. The key resources and assets in any high-technology company are the intellectual property and the continuing ability of the organization to innovate and develop competitive products. The acquiring company must have a process that preserves the organizational strengths of the target in these key areas. During the scrubbing phase, we begin to focus our team's efforts on laying the groundwork for managing the difficult organizational issues that arise in the

wake of a merger.

Symantec's human resources group coordinates the preparation of material for the internal announcement. The emphasis is on trying to reduce as much of the uncertainty as possible for the employees in the newly acquired organization. Going through a merger is always a traumatic experience for an organization, and especially hard for the individuals at the target. There is little that we actually can do to minimize the impact of change, but we have to understand that it is a difficult time and we must work with our new employees as they adjust to it.

What we *can* minimize is the uncertainty of what will happen going forward. The employees' primary concern is how the deal is going to affect them. Until we address that issue, they will not hear any of the other messages. Therefore, on the day of the announcement we strive to tell all employees how the merger will affect them.

Some employees receive a transition package that specifies the length of the transition period out of the company, the severance package they will receive, and the outplacement counseling that we will be providing, while answering questions on benefits and other issues. Others receive a welcome package with information on their new compensation levels, their new benefits package, who they will be reporting to, and background information on Symantec. Finally, for positions we will fill only after interviewing, we provide a commitment to

Table 1: Symantec's Virtual M&A Organization

	Prospecting	Scrubbing	Integration
Executive Team	████████████████████	████████████████████	████████████████████
Business Development	████████████████████	████████████████████	████████████████████
Product Group	████████████████████	████████████████████	████████████████████
Finance	████████████████████	████████████████████	████████████████████
Legal		████████████████████	████████████████████
Human Resources		████████████████████	████████████████████
Marketing		████████████████████	████████████████████
Sales	████████████████████	████████████████████	████████████████████
Manufacturing		████████████████████	████████████████████
Management Information Systems		████████████████████	████████████████████
Facilities		████████████████████	████████████████████
Order Administration		████████████████████	████████████████████
Customer Service		████████████████████	████████████████████
Technical Support		████████████████████	████████████████████

Source: Symantec Corp.

MERGERS & ACQUISITIONS

interview and to make the hiring decision within a short period of time — usually two weeks.

These efforts also have the positive effect of showing our appreciation for the people who have contributed to the success of the company we are acquiring and demonstrating the high level of professionalism we expect of ourselves and our new employees. We put our money where our mouth is by demonstrating through action that we value and care about the employees of the newly acquired company. This helps build a positive first impression of the company and starts off our integration efforts on the right foot.

Announcement and Integration

The integration phase begins with the signing of a definitive agreement and the public announcement of the deal. We recruit additional members for the integration team shortly before the announcement so that they can begin incorporating the integration tasks into their own planning. Additional groups included on our integration teams include order entry, facilities management, central marketing, and other operational units. The integration team often numbers 100 to 150 people.

Before going public with the announcement of a deal, we believe it is imperative to tie up all of the loose ends. We work directly toward a signed merger agreement. This is a binding legal agreement that gives both companies the assurance to move forward aggressively with the integration between announcement and closing, usually a period of 30 to 90 days. As soon as the agreement has been signed, we announce the deal.

We pay careful attention to make simultaneous announcements at all of the work sites that may be involved. We are careful to set realistic expectations about how the deal will impact employees. We have found that it is best to be candid and to explain up front that even though there will be significant business benefits to both companies, some people will be laid off as a result of the merger. This is one of the tougher parts of any merger which needs to be addressed directly.

Why do we pay such attention to the detail of the announcement? Everything that the acquiring company says and does at the announcement and shortly thereafter is highly symbolic. The human mind, like nature, abhors a vacuum. Human beings tend to read a lot into initial actions, and they form opinions partially on what

Table 2: Acquisitions by Symantec Corp.

Target	Product Line	Year	Price (\$ mil)
Breakthrough Software	Productivity applications	1987	NA
Central Point Software Inc.	Software utilities	1994	\$60.0
Certus International Corp.	Software utilities	1992	5.0
Contact Software International Inc.	Management software	1993	40.0
Distributor Pro and NetDistributor Pro units of Trik Inc.	Software utilities	1993	0.8
Dynamic Microprocessor Associates	Software utilities	1991	20.0
Fifth Generation Systems Inc.	Utilities software	1993	48.0
Intec	Productivity applications	1994	1.9
Leonard Development Group	Productivity applications	1991	3.0
Living Videotext	Productivity applications	1987	NA
MultiScope Inc.	Development tools	1992	6.6
Peter Norton Computing	Software utilities	1990	70.0
REI	Development tools	1993	7.5
SLR	Development tools	1994	2.3
Symantec-U.K.	Software utilities	1992	25.0
THINK Technologies	Development tools	1987	NA
Whitewater Group	Development tools	1992	3.0
Zortech Inc.	Development tools	1991	10.0

Source: Symantec Corp.

they know and on their immediate impressions and use their imaginations to fill in the rest. Once an opinion is formed — hopefully a favorable one based on what and how we have communicated initially — it often does not change.

The announcement is an introduction of the acquiring company to the employees of the target. It should form a solid footing for the integration phase, which is a

Everything that the acquirer says and does at the announcement and shortly thereafter is highly symbolic.

continual process of building working relationships and helping each new employee understand how to do his or her job and how to succeed in the newly combined company.

We begin the process of working together by holding weekly integration meetings of employees from both organizations. We review outstanding integration issues and facilitate communication between the different groups that are working through a massive set of logistics. The immediate activity is focused on the nuts and bolts of the integration: how the target's order processing system will be transferred to ours; when we will repackage the target's product into our packaging; when the sales training will take place; and whether our customers are getting answers to their questions.

Equally important is that the people in the newly acquired company are meeting a broad cross-section of people in their new company who can help them get things done. They also begin to get an idea of how business is conducted at Symantec.

In one of our integration programs, called Side Kicks, Symantec people are paired up with people in the newly acquired company. As a result, incoming people have direct contact with individuals who can show them the ropes or answer a wide variety of questions about the company and how to get things done. This helps overcome the differences between the two organizations and make the new people feel like they are part of Symantec.

Throughout the integration process, the business development group can act as an ombudsman for people in the combined organization. Because of their intensive involvement in the prospecting and scrubbing phases, business development people often have some

of the most established working relationships with the target's management and employees. Business development can act as an advocate for the new business unit or provide counsel on frustrating issues or difficult integration challenges.

As we work through the integration, Symantec management coaches our people to show respect for our partner's way of doing things. We try to respect what has worked for the target company and help its employees preserve those processes whenever possible. We have gotten many good ideas and procedures from companies joining us through acquisitions.

One small example is a red dot/green dot system that we use on office doors to signify whether the occupant is accessible. A red dot means "do not disturb," a green dot says "come in." The system was hatched by our Project Management group which joined the company through an acquisition many years ago.

Learning by Doing

Experientia docet — experience teaches. With each new deal there is an opportunity to measure the quality of the execution of the m&a process and to examine opportunities for improvement.

Symantec has made post-deal analysis and learning an important part of the m&a program. For instance, we survey employees of the acquired company well into the integration phase to ask for feedback on how we did. Did we answer their questions? Were the Symantec people professional and caring? Were they given enough information to have an understanding of how their roles fit into the overall integration process?

We also keep score on how our acquisitions have performed compared with the initial deal analysis and forecast. For starters, we track actual revenues versus forecasts. But we go further with performance appraisals on the qualitative aspects of the deal — by comparing results with expectations in the areas of market penetration, product development, and people development, as well as the extent to which the acquisition leveraged Symantec's existing strengths. The results are designed to help improve our organizational expertise in managing a very complex process.

Lessons we have learned along the way include:

- *A good price alone does not make a good deal.* Symantec's acquisitions emphasize fair prices that can be supported by incremental revenues and earnings from the deal. There are always "bargain disasters" available, companies that can be had at a cheap price but won't succeed in moving the acquirer toward its strategic objectives. Picking the right deal is far more important than picking the right price.

■ *Our biggest successes have resulted from accelerating a positive business trend.* The mergers that have worked out best for us have been with companies that enjoyed growing revenues but faced a variety of challenges in moving to the next level or whose shareholders were interested in selling for their own liquidity. Our infrastructure and assets resolved the business challenges and our publicly traded stock was an answer to their liquidity desires. In short, we have had good success at turning great products into great businesses.

A primary reason why these deals have worked out so well is that we were able, as a combined company, to overcome a series of business risks that are particularly precarious for high-technology companies. They include:

■ **Market risk** — Will the customers buy the product? With emerging markets and a swiftly changing competitive landscape, market acceptance often is difficult to predict.

■ **Product risk** — Will the product work properly? With the ever increasing complexity of technology and the ever shortening product life cycles, efficacy is one the greatest risks for a high-technology company.

■ **People risk** — Do the high-tech company's people truly understand the market and the technology? Can they react quickly enough to market changes to remain competitive? If a positive business trend is already underway

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at the target, an acquirer can take heart that the ultimate answers to these questions probably will be positive.

It is much more risky to initiate a high-technology venture from a standing start. This is especially true in the software business, where ideas are a dime a dozen and the real challenge is in creating and building high-quality, reliable products that will command user loyalty to product and brand.

One of our products, pcANYWHERE, often is used

for telecommuting and remote technical support. It came to Symantec through our merger with DMA and is an example of a product that had positive momentum before the deal. DMA had built a solid brand name in pcANYWHERE, a strong product team, and a growing revenue base. By combining the strong development efforts of the pcANYWHERE product team with the strength of our sales and marketing organization, we have more than quadrupled revenues of this product line and significantly increased market share since the merger.

It's Darkest Before the Dawn

One of the universal truths in integrating an acquisition is that things always seem to get worse before they get better. That is our experience and it is shared by acquirers across a broad range of deals in other industries.

The announcement triggers a host of significant changes which usually send the target organization into shock. When the shock passes — usually in a few weeks — there follows the painful process of getting used to doing things in the new company, which usually takes a few months. All of the change and all of the negative aspects of the merger are immediately apparent to both the target and the acquirer. Everyone takes on an enormous amount of extra work and very few of the synergies and business benefits are visible during the transition period. That will take another six to nine months. But if the post-deal integration is proceeding on the right track, the increasing success creates excitement and energy which accelerates successful results down the line.

Given the complexity of the m&a process and the team-oriented, organizational dimension of successfully executing a transaction, it is important to capture the learning that takes place with each successive deal. If a company can institutionalize this learning, its ability to close successful mergers can be significantly enhanced. This is important not only for achieving better results but for positioning the company as an attractive merger partner.

The most rewarding deals often require the greatest amount of selling to a desirable target. The effectiveness of a company's process for making m&a work is an important part of selling candidates on the benefits of a merger. ■