**Why tech M&A fails so often: The three most common mistakes**

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It was a failure. That’s what we learned in September about semiconductor giant **Intel**’s acquisition of antivirus software maker **McAfee** five years ago. Intel agreed to sell a majority stake in its $7.7 billion acquisition to a private equity firm at a price that showed that McAfee’s assets had increased only marginally, if at all.

There is an important message here.

Far too many technology companies are doing a poor job pursuing acquisitions. Strategic planning is insufficient and integration is largely bungled, and companies usually value acquisitions based on project potential and end up overpaying when that “potential” fails to materialize.

*Robert R. Ackerman Jr., founder and managing director, Allegis Capital. Photo courtesy of the firm*

A technology company should acquire another only if the acquisition is highly likely to enable or enhance growth prospects indefinitely. Acquirers sometimes say this will be accomplished, but it usually turns out to be a pipe dream.

Most experts say the failure rate of acquisitions is at least 50 percent. *Harvard Business Review* has estimated it to be 70 percent to 90 percent.

It’s not as though companies decide to pursue an acquisition out of thin air. Their motivation is usually reasonable.

Companies may turn to M&A to embrace a new or emerging market opportunity or, concerned about their deteriorating competitive position, as a means to reinvigorate themselves. In other cases, a company may decide that it is better to buy new technology than to make it, or that it needs an outside company under its wings to enhance its domain expertise. Some acquisitions are sparked by several of these factors.

Too often, however, the strategy is flawed and key tactical steps miss the mark. Companies put on blinders and conclude that their particular deal will somehow buck the negative historical trend.

More often, the result is that the wrong companies are purchased for ultimately an unrealistic reason, and deals are improperly priced. If the marriage doesn’t fail outright, the financial performance of the acquirer declines.

**Why deals fail**

Even if the right acquisition is made, lots of things tend to go wrong. Corporate cultures clash. Or too much attention is focused on tactics and too little on strategy. Or, in the case of startups, new employees who are unwilling to swap the dream of being a key player in the growth of a successful startup to merely become a cog in a corporate wheel don’t buy into the deal and depart.

Consider another, recent technology acquisition that has looked shaky from the get-go. **Microsoft**’s purchase in the summer of **LinkedIn** for more than $26 billion, almost 50 percent more than the value of LinkedIn’s stock. Synergy is lacking. Small wonder given that Microsoft’s M&A track record is weak. It has written down multibillion-dollar purchases of the **Nokia** handset business and the **aQuantive**advertising business. And its $8.5 billion purchase of **Skype** is widely viewed as disappointing.

In many cases, mergers and acquisitions don’t flat out fail. They just underperform. According to an analysis last month of acquisitions by the S&P Global Market Intelligence team, post-deal returns among Russell 3000 companies making significant acquisitions generally did worse than their peers. Profit margins, earnings growth and return on capital all declined, relatively speaking, while interest expense rose as debt soared.

**The three most common M&A mistakes**

So what happens most often to undermine M&A deals?

1. Integration is weak. The strategic partnering and business development executives who find companies and negotiate the deals are *not* the executives who actually manage the acquisition or integrate the target company. Most of the time, it is the acquirer’s chief technology officer or the operating executive who wanted the acquisition who determine the fate of the startup. The success of an acquisition often depends on whether the acquiring company wants to keep the new company as a standalone division or integrate it into the corporation. Standalone divisions tend to have a better shot at success. The reality, however, is that if a company is being acquired for its intellectual property, typically the case, the usual strategy is to integrate the company and quickly assimilate it.
2. Executives fail to distinguish between deals that might improve current operations from those that could dramatically improve the company’s growth prospects. Companies then pay the wrong price and integrate the acquisition poorly. A deal designed to boost a company’s performance is generally insufficient to significantly change a company’s growth trajectory. It usually requires something seldom done, working to successfully integrate the acquisition in terms of its business model.

Business models are multifaceted, but their most important component is the resources, such as employees, customers and products, used to deliver customer value. In an ideal case, these resources can be extracted from an acquired company and plugged into the parent’s business model. The problem is that additional business model components, such as the profit formula and business processes such as manufacturing, R&D and sales, are imbedded and generally not transferrable.

1. Acquisitions don’t have a specific mission and targeted goals. Much more typical is the Microsoft-LinkedIn acquisition, in which the corporate combination simply hopes to improve corporate prospects by scooping up a new business.

**M&As that have worked**

It’s not impossible for corporate combinations to work. Some have.

One example is **Apple**’s purchase of chip designer **P.A. Semi** in 2008. Before then, Apple procured its microprocessors from independent suppliers. But as competition with other smartphone companies increased the importance of battery life, it became imperative for Apple to optimize power consumption by designing processors specifically for its products. Apple had to purchase the technology and talent to develop an in-house chip design capability. Predictably, the combination fared well.

Another successful example was **EMC**’s acquisition of **VMware** in 2003. EMC is a manufacturer of hardware storage. Its marriage with VMware substantially strengthened the company’s reach into its customers’ data centers. This merger turned out to be a stunning success.

The bottom line is that executives need to become far more discerning in eyeing potential acquisitions. This is precisely why **Salesforce.com**, **Walt Disney Co** and **Google** parent **Alphabet Inc** recently took a hard look at acquiring **Twitter** and, in each case, walked away.

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*Photo of logos taken in June 2016 when Microsoft announced its $26.2 billion purchase of LinkedIn. Reuters/Dado Ruvic*

