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Chapter 9 The Art of Acquisition

[Mergers] are, like second marriages, a triumph of hope over experience. Corporate mergers have even higher failure rates than the liaisons of Hollywood Stars.
—"How Mergers Go Wrong," *The Economist,* July 22, 2002

Acquisitions are no less the fateful temptation to the voyager in Strategic Space than the Sirens and their melodious songs were to Odysseus and his crew in their ten-year travails following the Trojan War. However, few captains of industry have the good sense to stuff the ears of their fellow adventurers with wax and lash themselves to the mast, as did Odysseus. The corporate skeletons that result are no less striking and foreboding than the mythological remains that surrounded those Sirens and their enchanting melodies.

Having experienced my full share of such tortuous adventures and the special allure of becoming a serial acquirer, I have selected a few examples to illustrate some basic understandings of the art of successful acquisition and what they can mean to a company's growth. The basic question of course is, "Why acquire?" And if there is a strategically meaningful purpose—unfettered by mere *desire for growth*—the more

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difficult question is, "What makes for success?" The key to success is the same as that in building an environment of innovation, and is very straightforward: *it is people,* and Control Data's very first acquisition, Cedar Engineering, is a good example of this.

The acquisition of Cedar Engineering occurred a mere two months after Control Data began operations. Cedar Engineering was a company engaged in building servomotors and gyroscopes. It was small and close at hand in a suburb of Minneapolis, and its people were known to the founders of Control Data. This was a modest transaction, but it was felt that it could bring greater credibility for the company's military and government prospects. Cedar was quickly absorbed into the company as a division on January 31, 1958. The vice president of engineering at Cedar, Tom Kamp, was later chosen to head the newly formed peripheral products division in Control Data. He provided the single-minded drive necessary to build an independent OEM peripherals business in the midst of an engulfing sea of computer designers. The peripherals business had to serve the internal demands of the likes of Seymour Cray and Jim Thornton and at the same time pursue a course of serving the very companies with whom they were in competition! No small task.

The Cedar division and, later, the Peripheral Products division were to be the source of executives who would play key roles in the company's international expansion: Gene Baker in administration and Jack Karnowski in finance. Marv Rogers, who joined Cedar about a year after the acquisition, would later serve as Control Data's senior financial executive for fourteen years, until 1986. Over the years acquisitions would continue to contribute to the development of the OEM peripherals business.[1]

Acquisitions were important to Control Data in many ways other than its OEM business, but before turning to them it will be useful to look at the basics regarding acquisitions.

BASIC PRINCIPLES IN THE ART OF ACQUISITION

Before the cart of success can be considered with any plausibility it is important first to consider the horse of rationale. The first question to which there needs be a clear and unambiguous answer concerns why a company should embark on this route at all. If the answer to this question is, "To grow," then not only does it indicate that the acquirer lacks strategy, but that the ensuing acquisition is almost certain to be a failure. *There is no such thing as an "acquisition strategy."*

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Growth

Growth and rate of growth targets are certainly legitimate objectives for a business. However, the important objective is not growth in and of itself, but having competitive products and services that will *result* in growth. Strategy and strategic thinking are about meeting that objective. The term "growth strategy" or "strategy for growth" is prima facie evidence of a company's failure to understand strategy, and more than likely its failure to fully appreciate what the sources of growth truly are.

Companies in newly emerging industries, such as was the case with Control Data in the '60s, don't have to work very hard to see the potential for new products and services. Strategy has to do with fashioning the means of taking advantage of opportunities, and frequently the means of doing so was through acquisitions.

Products and services in mature markets, on the other hand, have a basic growth rate determined by the growth of the market. Faster growth for a company means very simply either taking market share from one's competitors, or finding new markets and/or new products and services. The hard way to gain market share is to devise a competitive advantage. In mature markets that competitive advantage likely will be achieved by means of a superior *process* such as marketing, channels of distribution, financing, production, or information systems.

The easy way, the temptress tells us, is to acquire. The chorus of the temptation is: "Everyone else is doing it, so why don't we?" At this point growth has turned from being an outcome resulting from meeting needs through innovation to being the driving force of corporate action, and it evokes willy-nilly results. In essence, acquisitions become activities in search of a reason.

Strategic thinking is a search for an innovative, a competitively superior, way to meet some need. Each step toward that objective involves a move in the three dimensions of Strategic Space: products, processes, and markets. To make these moves we need technologies, market access, and complementary assets.[2]

If all these requirements can be met internally, fine. It may be, however, that they have to be acquired externally. Technologies can be obtained by means of licensing. Complementary assets can be realized by means of a contractual relationship or a collaborative alliance. Market access can be gained in various contractual forms or by means of joint ventures and other alliances. Technology, market access, and complementary assets also can be obtained by the acquisition of a company or a particular business unit of a company. Even if the financial and people resources can be marshaled internally to meet strategic aims,