Hewlett-Packard / Compaq. Another Waste of Shareholders Money??

By John W David

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Given that only about 45% of all mergers and acquisitions actually produce a positive result for the acquiring party, this one bares too many similarities to the 55% that didn't.

Today, when a business looks to grow through merger or acquisition, it should be about renewal, re-entry, and of opening new portals for an existing business into opportunities they haven't yet conceived.

These new mergers and acquisitions should be made to:

* Acquire futuristic skill sets.
* Prolong by Renewing the lifespan of the newly-created organization.
* Enter into completely new markets with completely new products and services.
* Enter into new business sectors in growth.
* Increase market share by re-inventing the market.
* Increase capacity with new, creative, innovative, highly imaginative solutions.
* Increase asset value by being future pro-active.

I don't see much of that in this HP-Compaq takeover.

Other considerations for this acquisition to be a growth value in a new HP.

* Buy only businesses that are in annual growth of at least ten to fifteen percent.

Caveat: Buy only businesses where this ten to fifteen percent real growth factor of gross sales and per-unit-sales value is supported by the directional upward flow of these numbers. Such does not appear to be the case in this acquisition.

At a time when the entire computer and computer peripherals market is in a downward plunge of both gross sales and per-unit-sales value, the cost to integrate and / or the cost of acquiring the asset at multiples of earnings if there are any will probably not be offset by the increase in sales nor the savings from future production improvements.

* Since both businesses have sufficient excess production capacity because of a downturn economy on the one hand and a lack of market gain on the other to make this merger a marriage made in heaven, you have to beg obvious questions about their business models that precipitated

this excess production.

If this resultant business follows their old business models, and there is no evidence to support the contrary, what is to say that they won't be right back to where they are now within a year or two after the merge. From what I can see, they will.

If the market picks up and they benefit by an economic turnaround, this would not be growth because it would have been achieved without the acquisition nor its cost.

* Buy only those businesses that show at least a 15-70-15 mix wherein not less than 15% of their production is new and renewal and stems from futuristic real output of R&D.

For the most part, businesses that have to sell out usually have nothing new to offer nor have anything new on the horizon.

The only seemingly new item from Compaq in recent memory really wasn't new at all: the Digital products wherein two sub-optimal producers merged for virtually the same reasons that Compaq and HP are getting together now.
The result will probably be the same.

* Buy Beyond Competitive Advantage.

If the reason for the acquisition is to be the biggest player in a game that has established giants like IBM, Dell, Gateway, size will not long be an advantage if any advantage at all.

The reasons for the continued market domination of these established giants has little to do with size and more that size is the result of something that HP doesn't have even with this acquisition.

* Where one plus one is less than one and where the aggregate advantage will be temporary.

If merger or acquisition is an imperative, no business should merge or submerge any other business whose customer-base retention rate is less than seventy-five percent.

At seventy-five percent the focus, then, would be to merge, retain the best of the best customers and employees, and move the entire enchilada up to eighty-five percent. That would be growth and a terrific mix.

There are exceptional circumstances where this consideration need not apply. This is not one of them.

A customer-base retention rate of less than seventy-five percent contains too many sins of poor business practices and resultant market reputation for it not to be passed onto the acquiring company.

Worse, where both companies would have less than sixty percent customer-base retention and have created poor reputations from bad customer service and too many unrequited product deficiencies, the resultant merger could seriously sap the new organization of any of the proposed benefits of what might otherwise be a logically supportable merger or acquisition.

Ideally. both companies will have a seventy-five percent customer-base retention rate going in. That would cause a number closer to one plus one being two. Again, this does not appear to be the case for either HP and Compaq.

Companies with very low customer-base retention rates most often see one plus one being one or less and with only a whole lot of extra costs to show for the effort.

* Integration Teams could seriously derail the benefits and forecast competitive advantages of this merge or acquisition.

The Quality and Mandate and the mandated Power of the Integration Teams in any merger or acquisition will go a long way to making it a success.

Considering the in-fighting at HP and how strongly divided all management levels were to this acquisition, it may be very hard to find 'pro' senior and upper middle management sufficiently committed to the process of energetically grabbing this opportunity to form a strong Integration Team.

Furthermore, even if they can form such a necessarily strong team where heart, soul, and head are focused on the benefits of merging the best of these two organizations as, indeed there will be talent and production swaps, the next phase is to get the remaining levels of management and touch labor on side. That will not be easy.

Too many stakeholders have had time to assess their positions and may have dug in.

Where both parties see a merger or acquisition as a unqualified benefit for both parties, this Integration Team and its responsibilities throughout the new organization is easy. This does not appear to be the case with the HP/Compaq deal.

Having been victim to this seemingly similar situation, HP 'pro' acquisitionists will have to identify themselves early and be highly pro-active at all levels. And, many stalwart HPers may have to go. Identify and move quickly.

The fact is, the deal is done. There is a lot of self-inflicted damage in the market place by these two companies. Otherwise they wouldn't have so much excess capacity to work with... downturn notwithstanding.

To pull this merger from the fifty-five that don't succeed into the forty-five percent that do succeed, they will have to move quickly to define, measure, and timeline a number of strategic initiatives just a few of which I have mentioned briefly here and to put some real leadership with a lot of firepower into what is going to be a battle. That's a starting point.

I wish them well.

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