

Mega-Mergers and Acquisitions: A Post-Mortem

ExxonMobil, Royal Dutch/Shell, BP Amoco, ChevronTexaco, DaimlerChrysler, AOL-Time Warner—the list goes on and on of mega-mergers and acquisitions in recent months. For much of the 20th century, the business strategy underlying mergers and acquisitions was relatively simple and was largely driven by achieving economies of scale in production, distribution, and marketing. Scaling up production also meant an increased market share, so much so that “scale and market share” became the mantra in business models of the past century. However, recent signs are that this paradigm may be shifting. Witness the oil and gas industry—mergers and the whole shift to cost cutting in exploration and production budgets enabled stock buy-backs with resultant savings, thus helping the merged entities and the shareholders. On the other hand, this has not yet led to higher investments and production volume, with the result that energy costs and gasoline prices remain high for the average consumer.

The well-publicized woes suffered by AT&T and DaimlerChrysler in two rather diverse industries (namely, telecom and auto) are other cases in point. Thus it appears that simple pursuit of scale and market share may no longer be a viable business model for the 21st century. The most effective and profitable enterprise will be one that is most adaptable and one that knows how and where to create customer value. This is well exemplified by the success enjoyed by Southwest Airlines and Starbucks—two relatively small firms, again in two diverse business sectors.

Scale no longer translates to the same level of benefits as before, even in the telecom industry. While a minimum level of operation undoubtedly is critical to success, the forces of globalization and the communications revolution have led to the keys for business success being located in other areas. Business experts have talked about a recent trend toward incessant migration of value and opportunity. Clearly then, a viable business strategy will be one that is dynamic and capable of rapidly adjusting to this moving target. Industry behemoths are generally ill-suited to this scenario—a situation that can catalyze their break-up into more compact entities.

Another Mega-Marriage: GE Acquisition of Honeywell

General Electric has recently agreed to its largest purchase ever, acquiring Honeywell International. This merger of the two conglomerates will lead to the fourth largest chemical company—behind DuPont, Dow, and ExxonMobil. Readers will perhaps recall that Honeywell had earlier merged with AlliedSignal. The new merger will serve to provide a synergy between the GE interests in engineering plastics and the expertise resident with Honeywell in performance polymers and chemicals. According to GE sources, this is the most

exciting deal for GE since RCA, when GE acquired the NBC television network in 1986. However, as discussed in the preceding piece, only time will tell whether this marriage will work for the consumers and stockholders alike.

Even Faster Chips

Two companies, namely Intel and IBM, have separately announced plans to manufacture processor chips that are ten times faster than current versions. The Intel version is rumored to run at 10 GHz. The current Pentium 4 processors run at 1.5 GHz. The IBM technology will feature a chip design that facilitates voice recognition, fingerprint authentication, and wireless video in computers and hand-held devices. These company announcements come in the wake of largely gloomy forecasts for the chip manufacture and computer industry.

Automobiles: An Old Economy Hotbed for High-Tech Devices

Automobiles have undergone a quiet but steady high-tech revolution in recent years. Much of this is largely hidden (from the driver and the passengers) under the hood and inside the dash. High-tech devices have increasingly become transparent, especially in the luxury vehicle segment of the market under the guise of on-board navigation, voice-recognition, and wireless communication systems. These devices are projected to permeate into less expensive vehicles to an increasing level in the future. The rear-view mirror (somewhat surprisingly, at least to some) is likely to join this high-tech group of gadgets.

A first glimpse of this trend came in the form of auto-dimming rear-view mirrors based on electrochromic material technology. This device was pioneered by Gentex Corp., a relatively small outfit based in Michigan. Now Gentex wants to make the rear-view mirror into a “portal” for all the high-tech navigation and communication systems in the future automobile. Its other functions will be to serve as a “smart” sensor to activate window tinting along with wiper and headlight operation depending on climate and environmental demands. Gentex and other high-tech players such as Donnelly Corp. (again based in Michigan) may ultimately revive a largely dormant auto-supplier industry that has been plagued by slow growth in recent months.

The above commentary and news items were based in part on various media releases. Further information may be obtained by contacting the Interface Editor, Krishnan Rajeshwar, at rajeshwar@uta.edu.