

## Lessons learned from four failed electronics mergers

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Electronic Business

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Every year the electronics industry sees dozens of mergers and acquisitions. Although all of them present management challenges, a handful have ended so badly that they've become proverbial.

We asked four industry analysts to pick their favorites and tell us why the deals eventually went belly-up. Their choices are object lessons for any company trying to merge its way into success.

### Lesson 1: Don't acquire a product line that's already in decline



Even if a deal looks strategic, it has to have real growth potential. **Applied Materials** learned that the hard way when it acquired Etec, a maker of mask-pattern-generating equipment, for \$1.77 billion in stock in 2000. At the time, analysts praised the merger as a logical addition to Applied Materials' product portfolio, especially because subwavelength lithography was forcing fabs to constantly retool manufacturing processes.

Even before the acquisition, though, there were signs that Etec was a bad deal. The company had experienced a drop in both revenue and profit in the year prior to the acquisition, and there were problems with product shipments. Once it was integrated into Applied Materials, the Etec business degenerated into a death spiral of losses and layoffs. By the time Applied Materials pulled the plug, in late 2005, Etec had shrunk from 1,000 employees to a skeleton crew of less than 100. Tellingly, the division was such an insignificant portion of Applied Materials' revenue that the shutdown barely caused a blip on investors' radar screen.

In the end, it was the customers that turned this merger into a debacle, according to Risto Puhakka, president of **VLSI Research**. "The customer base was forgiving and patient as long as the company was independent, but when it became part of Applied Materials, those same customers expected things to improve quickly, and when it didn't happen, they lost patience and left in droves," he explains.

### Lesson 2: Don't bite off more than you can chew

It looked like a match made in heaven: a megamerger between Compaq, the world's largest PC firm, and Digital Equipment Corporation (DEC), the world's second-largest minicomputer/mainframe manufacturer and a major provider of computer services. The combined giant was supposed to give **IBM** a run for its money, but in the end, DEC simply became an albatross around Compaq's neck.

The problem wasn't duplication of products: DEC's PC business was insignificant compared to Compaq's. What really soured the deal was a fatal clash of corporate cultures. DEC had just suffered from a half decade of debilitating layoffs. Much of its engineering and management talent had long since left for greener pastures, and the DECites who remained were largely bureaucrats more skilled at

ensuring their own survival than building a business. Even after the merger-spawned layoffs, DEC employees still significantly outnumbered Compaq's. This made it impossible for Compaq to "digest" DEC and assimilate the DEC employees into Compaq's culture. In the end, Compaq became nearly as ineffective as DEC had been.

If managed poorly, a merger of this size can almost instantly put a company into crisis mode, according to Rob Enderle, former vice president at Giga Group and now head of the [Enderle Group](#). "When you merge two big competitors, you're asking a bunch of folks who for years have wanted to kill each other to play together nicely," he says. "When the company that's being acquired is larger than the acquiring firm, there are inevitable struggles for control that can quickly bring a merged company to its knees."

### **Lesson 3: Two old products don't equal a new one**

Founded in 1981, Daisy Systems Corporation was a true EDA pioneer, making both computer hardware and software for handling schematic capture, logic simulation, parameter extraction, and PCB design. Toward the end of the decade, though, it was pretty clear that Daisy's forte, gate-level design, was in decline and RTL design was the wave of the future. Unless something extraordinary happened, Daisy's product set would soon be obsolete.

Daisy tried to create more critical mass and a bigger customer base by merging with rival Cadnetix. But the whole proved to be far less than the sum of its parts. The combined entity, a.k.a. DAZIX, was racked by mismanagement and filed Chapter 11 soon after the merger, eventually disappearing into Intergraph. Although the tail end of the product set survives today inside [Mentor Graphics](#), the most notable legacy of Daisy/Cadnetix is the large number of alumni who today are top EDA execs.

The DAZIX failure is all the more telling because EDA mergers frequently go reasonably well, according to Gary Smith, former Gartner EDA analyst and now head of [GarySmithEDA.com](#).

"The merger of Synopsys and Avant! was problematic, and the merger of Synopsys and Epic was worse still, but in both those cases the product survived, so you can't really classify them as bad mergers," he says. "Probably the DAZIX merger was the worst, because the company actually imploded."

### **Lesson 4: Synergy is easier spelled than done**

With computing beginning to move beyond the desktop, [Intel](#) was (by all accounts) lucky to have won DEC's StrongARM processor business in 1997. Because Intel dominated desktops and was becoming a major player in the server segment as well, it seemed only logical that it should provide CPUs to the rapidly growing number of alternative platforms, such as PDAs and smart cell phones.

The new division, renamed XScale, was marked not by market growth but by a comedy of strategic errors. Bucking conventional wisdom, Intel continued to position XScale as a stand-alone CPU architecture rather than the kind of SoC design appropriate for the new generation of cell phones. Intel also invested heavily in WiMAX, a market that stalled in the face of better 3G cell phone service.

In the end, Intel pumped billions of dollars into its cell phone business, only to bail out in the summer of 2006—at a fire sale price of \$600 million.

"Intel's processor business is so large that I don't think its executives ever really took this market seriously," suggests Rich Wawrzyniak, senior market analyst at [Semico Research](#). "When the division heads got together to discuss resources and strategy, I suspect that this segment remained an outside bet that wasn't really worthy of top management's attention."

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