

Mergers and Inquisitions in High Technology Industries

Key strategic and practical considerations during the M&A process for decision makers in the telecommunications industry

The telecommunications industry is undergoing rapid transformation, putting pressure on incumbent firms and their strategies. One strategic aspect that can give these firms an edge is their M&A practices. In this study, key considerations during the M&A process for companies in the telecommunications equipment industry are identified.

Background

The telecommunications industry is the foundation of global mobile connectivity and resides on decades of technological advancements. The introduction of the fifth generation of mobile technology (5G), is expected to bring disruptive changes and has been described as an archetypal example of technological change where technological and business uncertainty remains high. The opportunities for future growth will require significant investment in new capabilities and incumbent players' ability to acquire external capabilities will thus be put to the test. In this context, decision makers need to turn their attention to mergers and acquisitions (M&A), i.e. transactions where a firm purchases a controlling majority of another firm. What are the factors most critical to ensure M&A deal success and in what strategic sense can M&A benefit incumbent firms? We found out by studying previous high-tech deals, interviewing experts, and reading up on the literature in the field.

Strategic considerations to be aware of during periods of technological change

Any solid deal rationale should be anchored in the company's long-term strategy. Acquiring capabilities or assets from external domains can be feasible in the following scenarios: Do the upcoming innovation have potential to render our current competencies and skills obsolete due to a revolutionary new technology, or will we lose our customers to firms who better meet their needs in a disruptive fashion? Next, firms should ask themselves if they can access strategically important complementary assets via vertical integration to restrict competition and mobility in their own segment and consequently force competitors to collaborate. Identifying what capability configuration that will ensure beneficial outcomes in the post-change environment is thus crucial. Lastly, understanding how M&A can be leveraged to reinforce or develop the firm's network position is crucial in transitory industries.

Success factors for M&A summarized in a 4-step advisory model

The first level is to answer the question, What type of company should be acquired? At this level the two main considerations are to ensure that the M&A activity is consistent with the overall strategic aim of the company and to ensure that the acquired product or technology can not be developed in-house within a sufficient time-frame.

At the second level the question that needs to be answered is which specific company should be acquired? Here, it is important to consider the cultural fit between the two companies as well as realizing the unique challenges that arise

at different relative sizes between the companies.

Thirdly, the company has to decide how to manage the acquisition process. The company needs to ensure that stakeholders are informed sufficiently. The employees of the acquired company are seldom satisfied with the volume and quality of information they are given. It is also vital to involve the right people in the process, making sure that different parts of the company are represented and ensuring that as many perspectives as possible are considered.

At the final level, the company has to answer what to do after the acquisition. The degree of integration is a vital aspect at this juncture, with findings pointing towards giving the acquired company

autonomy as the safest and most efficient way to go. The acquiring company also has to make sure that they do not lose track of their overarching aims and spend too much time and resources on the acquisition.

Concluding remarks

This master thesis has used an abductive methodology, combining results from case studies, interviews and literature reviews in order to create an M&A advisory model. The advisory model summarizes strategic considerations in the telecommunications industry as well as identifying important aspects to consider when making acquisitions for companies in technology industries ■

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4-step M&A Advisory Model

