Capgemini Consulting

Post-merger integration of small digital companies into larger organizations

How Capgemini turned the oinio integration into a success story

Contents

1. When a speedboat meets a supertanker

The era of digitalization provides many challenges. To overcome these challenges, many companies consider acquiring a small digital company that brings digital talent, technology and agility and that helps to navigate the changing market environment. However, to fully exploit the benefits offered by small digital companies, an acquisition needs to be based on a dedicated integration approach that takes into account their specific characteristics.

Small companies usually focus on a narrow product or service range, gathering know-how and expertise to tailor their offering to the target market. For instance, the German start-up Metaio successfully focussed on the niche market of Augmented Reality and quickly became a global market leader in this segment – until it was acquired and fully integrated by Apple in 2015.

Another key characteristic of these companies is the consistent usage of innovative and modern technology approaches to deliver their service offering. Small digital companies rely on these technologies to redefine existing and established business models (or to invent new ones), and to reach out to large customer groups. For example Runtastic, an Austrian mobile fitness start-up, serves a global customer base of more than 70 million from two office floors in Pasching. In 2015, Adidas acquired Runtastic for 220 million euros to deliver new digital experiences to their customers.

It is noteworthy that size and growth of small digital companies are often not limited by demand but rather by a lack of resources. This implies huge growth potential when a larger company provides the small one with the required resources and support to scale up its business.

After Capgemini acquired oinio, a market leader in Germany for CRM consulting with special expertise in Salesforce, Capgemini became one of the largest Salesforce consultancies in Germany. This enabled Capgemini to gain additional traction with customers and to partner directly with Salesforce.

Given these advantages it comes as no surprise that small digital companies are considered attractive acquisition targets, especially as a means to get a foot in the digitalization door. However, such acquisitions can only be successful if companies recognize that the characteristics of the acquired companies are not only an advantage but also a challenge as they require a dedicated integration approach.

Figure 1: Overview of recent acquisitions by Capgemini Group

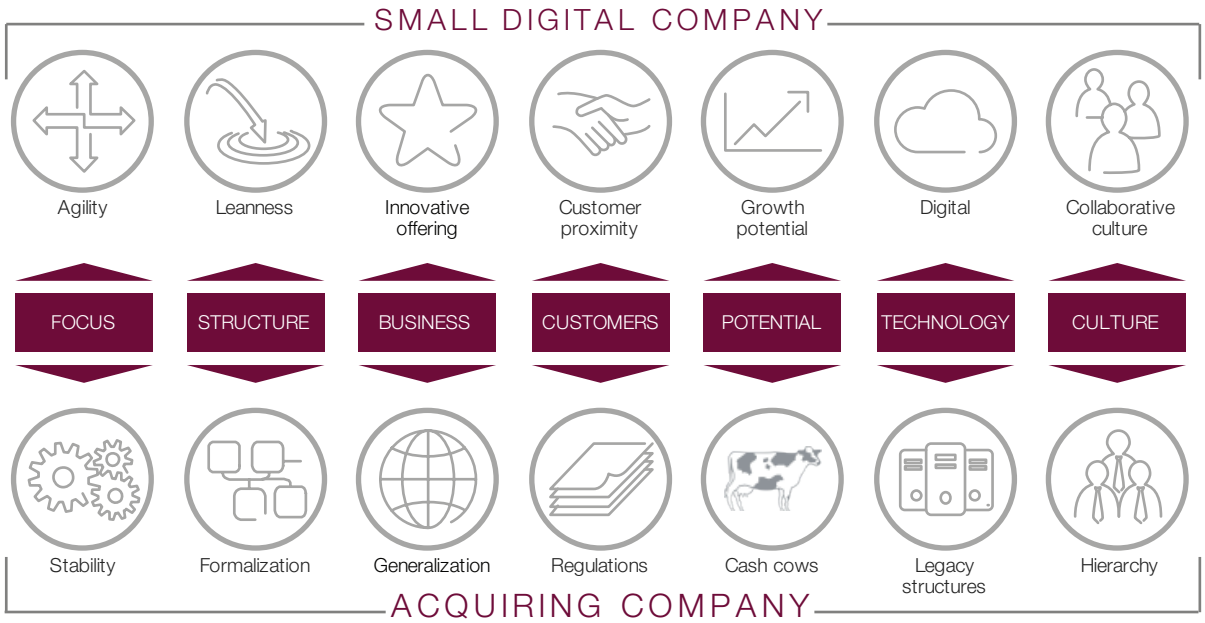
	oinio (promise. deliver. succeed.)	Fahrenheit212	BACKELITE
Background	▪ oinio is one of Europe's leading partners in the Salesforce market ▪ Established in 2000, the company has already successfully carried out more than 600 client projects	▪ Fahrenheit 212 is a New York company specialized in innovation strategy and user-centric design ▪ Clients include respected companies such as Marriott, Citi and Coca Cola	▪ Backelite is a French leader in the design, conception and development of services for mobile devices, tablets and connected televisions, having served over 100 clients
Acquisition rationale	▪ By acquiring oinio, Capgemini was able to establish an even stronger Salesforce unit that leverages oinio's expertise and Capgemini's strong brand recognition	▪ By acquiring Fahrenheit 212, Capgemini accelerated its ability to define new products, services and experiences for clients	▪ Backelite was acquired by Prosodie, a Capgemini subsidiary, to expand Capgemini's capabilities in experience strategy, digital design, prototyping and development

2. Challenges

A merger with a small digital company often means two worlds clashing. Lean structures are confronted with the established, formalized and often bureaucratic structures of the purchasing organization, while the flexible speed of the smaller company is thwarted by the slow approach of the acquirer. Guidelines and compliance rules that are necessary for the large company can overburden small companies with smaller teams and less back office support. Overburdening, slow processes and complicated procedures can cause a lot of frustration in the team. In addition, large enterprises offer such a large variety of opportunities that the small company can have problems keeping its focus. The sheer size of the new organization can contribute to that. For example, the 180 Runtastic employees, who knew each other by name, suddenly had more than 55,000 new Adidas colleagues.

A simple and standard post-merger integration will not lead to success in these cases and a full integration into the buying organization will not suffice. A transfer of all processes, structures and guidelines from acquirer to target would result in the small digital company losing all the characteristics that made it an acquisition target in the first place. Employing a strategic approach ensures that the benefits of the small digital company are preserved while simultaneously leveraging the capabilities of the larger company.

Figure 2: Differences between smaller and larger companies



3. The common journey

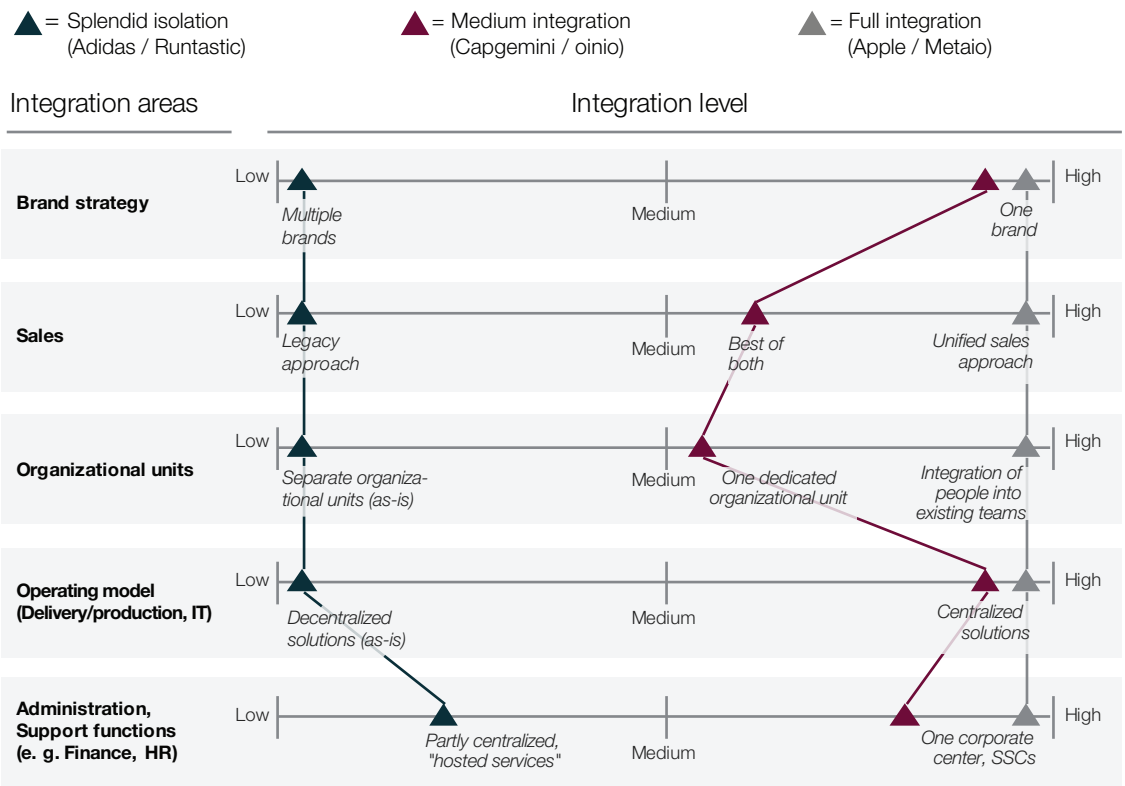
3.1 Choosing the destination

A successful post-merger integration relies heavily on a defined shared vision outlining the strategic rationale for the acquisition. The vision defines strategic goals for the merger and lays out according guidelines. The wide variety of such goals may include the following examples:

- Increase capacity, exploit synergies and achieve economies of scale by acquiring a competitor ("Volume Deal")
- Acquire know-how or new technologies ("Capability Deal")
- Push a geographical expansion by acquiring a company within the same industry but in a different region ("Cross-Region Deal")
- Acquire a company outside the own industry field ("Cross-Industry Deal")

This merger vision provides the basis for the integration approach. Ultimately, the buying company has to decide between either allowing the small company to run autonomously with little external influence ("splendid isolation"), fully integrating the small company into the large one - or any integration level in between. It is also worth noting that for different integration areas (e.g. Branding, Employees, Administration etc.), different levels of integration might be appropriate. A more comprehensive integration typically leads to the exploitation of more synergies and therefore enables companies to leverage their combined capabilities. However, this increases the risk of replacing agile and flexible processes as well as alienating valuable talent and customers.

Figure 3: Different integration levels in comparison

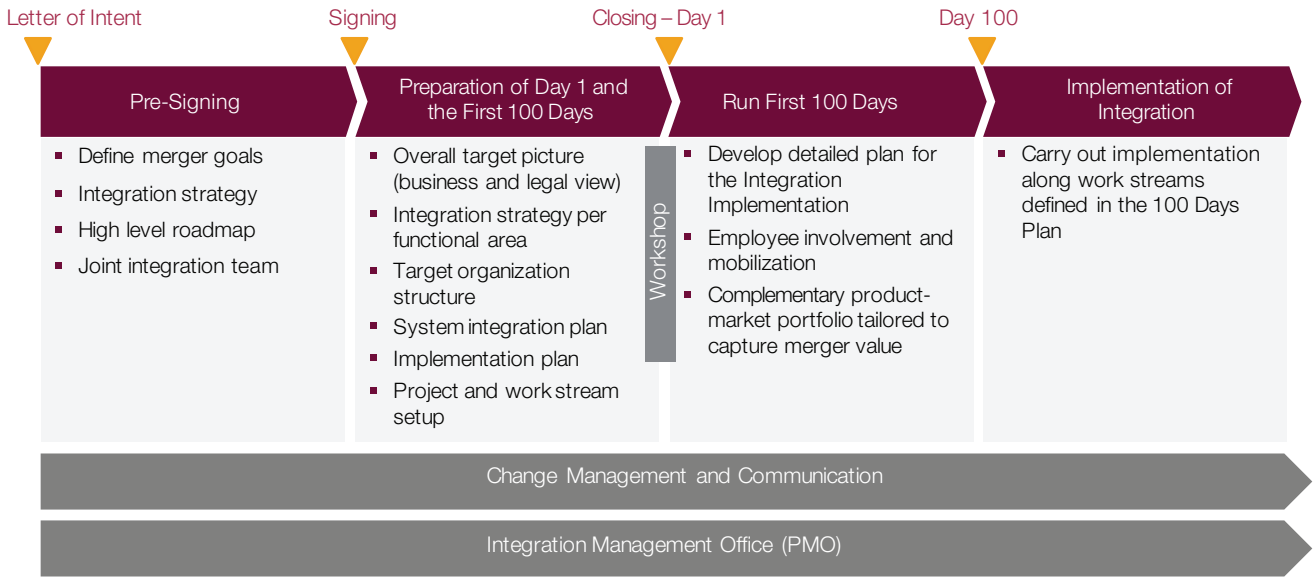


When Apple acquired Metaio, the aim was not to gain access to Metaio's customer base – comprising reputable clients such as IKEA, Volkswagen and others; the merger was instead motivated by Metaio's know-how consisting of both human resources and patents. Accordingly, Apple chose a full-integration approach: Metaio stopped selling and supporting products, their branding and website vanished and the patents and employees were transferred to Apple.

An entirely different approach was taken by Adidas for the post-merger integration of Runtastic. The rationale for the merger was presumably the digital competence of the company, as well as access to a customer pool of more than 70 million fitness-savvy young people. Accordingly, the post-merger integration was focused on not disrupting the start-up culture of Runtastic in order to maintain the customer base. Runtastic kept its branding and its executive team and remained largely autonomous. Only slight integration steps were initiated within the first year of the merger, including cross-company blog writing and participation of the Runtastic staff at the Adidas Global Brand Conference.

When Capgemini acquired oinio, a successful attempt was made to reconcile the best of two opposite approaches. The rationale of the merger was to combine oinio's strong Salesforce business, agile culture and organization with Capgemini's global brand recognition and broad resources. The aim of the acquisition was to win the European champions league in the Salesforce business. In order to meet this objective, a full integration approach with dedicated dents was chosen. The oinio brand was merged into the Capgemini brand. However, autonomy for oinio was preserved by maintaining the Salesforce practice as a separate unit with designated office spaces, keeping useful IT applications and retaining oinio's successful sales approach. With this integration strategy, based on a clear vision and taking into account the particularities of the acquired company, Capgemini achieved remarkable success. Synergies allowed for a strong increase in revenues, while the preservation of oinio's agile and flexible culture led to extremely low attrition.

Figure 4: PMI framework



3.2 Planning the journey

The integration strategy must be transferred into an actionable master plan outlining how the integration will be implemented. Thus, a plan for the first few days as well as the first 100 days following the acquisition needs to be developed.

Day one preparation includes developing the overall target picture and target organization structure. A communication and change management plan needs to be designed to ensure effective communication of the shared vision and mobilization of all relevant stakeholders. It is imperative to communicate goals, achievements and next steps often and throughout the entire integration process in order to avoid uncertainty or frustration among employees.

The plan for the first hundred days outlines all major actions, milestones, and responsibilities. This plan is typically divided into three stages: analyzing the current state of the small digital company, establishing the to-be-design of the newly integrated entity, and finalizing the integration execution plan. As with the integration levels, it is reasonable to differentiate between integration areas such as Sales, HR or IT and to develop work streams accordingly.

Ultimately, the first hundred days should result in a comprehensive as-is analysis of both companies, a detailed to-be-design regarding processes, functional areas and systems as well as a precise plan how to implement the to-be-design and therefore execute the integration.

3.3 Setting sails

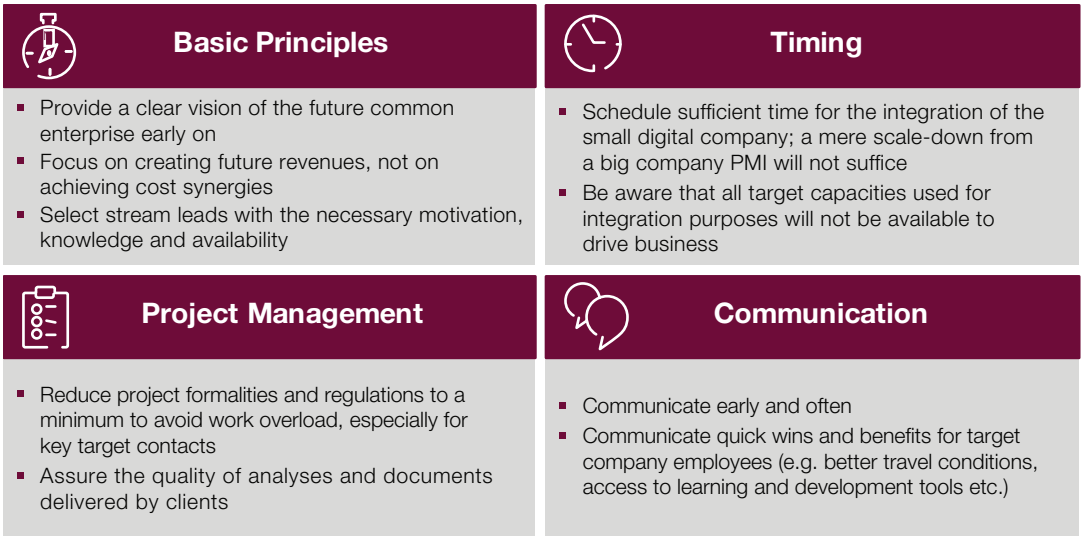
The integration execution builds directly on the first hundred days, following the same work streams and is based on the to-be-design. Some work streams may become less relevant and the work requirements within them will vary depending on the nature of the company as well as the objectives set to be achieved. Some representative activities divided by streams are summarized in figure 5.

Figure 5: Key activities across selected work streams

	Sales	Delivery	Finance	IT	HR
Key Activities	▪ Define joint focus accounts to leverage access and reputation of the larger company's accounts ▪ Define handling of opportunities and documentation ▪ Ensure knowledge sharing and collaboration across companies	▪ Ensure that the smaller company is able to meet the increase in demand and sales resulting from the merger ▪ Enable access to technology and know-how of the larger company	▪ Convert target accounting standards to acquirer accounting standards ▪ Ensure migration of finance data from target to acquirer systems ▪ Enable target finance staff to provide reportings and figures according to acquirer standards ▪ Clarify tax impact	▪ Grant target employees access to acquirer intranet as soon as possible and align corporate directories ▪ Provide target employees with acquirer e-mail addresses ▪ Analyze target hardware ▪ Analyze and align software	▪ Align contract conditions, minimize any deterioration of conditions for target employees to improve retention ▪ Enable target employees to benefit from acquirer training/e-learning programs as soon as possible ▪ Conduct on-boarding

4. Success factors

Figure 6: Selected success factors



In addition to the specific integration activities, some general success factors should be kept in mind throughout the integration process:

Formalities and regulations during the integration should be reduced to a minimum. Small digital companies typically combine lean administration with flexible processes and are therefore easily overburdened by the administrative and formal requirements commonly found in larger organizations. This is especially important if the merger is expected to deliver increasing sales because this requires additional business activities to be carried out alongside the integration activities. Another potential source of overburdening lies in asymmetric team structures of the two companies: Tasks carried out by a big team in the acquiring company are often performed by small teams or even one-person teams in the digital company, resulting in overburdening of the latter.

Furthermore, the integration should not be rushed under any circumstances. A common mistake is to reduce the time scale for integration since the target is very small in relation to the acquirer. However, the integration process takes time regardless of the company size. In particular, the time required to align two very different company cultures should not be underestimated.

It is also vital that the entire integration process is accompanied by extensive communication, both to external and internal audiences, paying special attention to the smaller company's employees.

During the oinio integration, Capgemini engaged in extensive communication measures. The acquisition was accompanied by several activities to make customers and business partners aware of the change in ownership and to avoid any confusion or uncertainty regarding future business relationships. At the same time, internal communication was focussed on answering all questions of oinio employees concerning their new work environment.This was achieved by scheduling web Q&As immediately after the deal announcement as well as establishing a permanent chat-room. Another key aspect of the communication efforts was making oinio employees feel welcome in the Capgemini family, by organizing team get-togethers and enabling collaboration on projects and proposals. These communication measures were successful in avoiding uncertainty and helped retain oinio's talent.

Successful integration execution therefore consists of a realistic time frame, unbureaucratic integration project management and consistent communication to all affected stakeholders. Furthermore, the integration team needs to establish mutual trust by engaging cross-company teams and working on joint projects. This also applies to the management team, which needs to be aware of its new role, a more political environment and increased requirements.

5. Conclusion

Capgemini's comprehensive experience with the integration of small digital companies into larger organizations - both in the context of client projects and with integrating companies like oinio - has yielded valuable expertise.

The key finding repeatedly confirmed is that the characteristics of a small company require a sensible and strategic integration approach. The objective and rationale of the merger needs to be defined and kept in mind throughout the entire process. This rationale builds the basis for selecting the appropriate integration level.

The desired integration level is translated into an actionable master plan that is subsequently implemented along relevant work streams and communicated to all relevant stakeholders – most notably the affected employees.

Getting all of these aspects right is definitely a challenging task, but when executed correctly, a post-merger integration can surpass the expected objectives: Adidas may now boast of being a member of the digitalization club, Apple has new patents in its portfolio to develop the next big product and Capgemini's new joint Salesforce unit is getting ready to make a huge impact on the market.

6. Interview with Uwe Dumslaff (CTO, Capgemini Germany) and Dennis Flüchter (Managing Director, oinio)

Uwe Dumslaff is Corporate Vice President and CTO of Capgemini Germany and member of the German management team. He has more than 20 years of client-, unit- and project management experience.

Dennis Flüchter is managing director of oinio. He has more than 10 years of experience in designing comprehensive CRM solutions and managing global Salesforce.com implementations.

What was the situation at Capgemini / at oinio that put the acquisition on your agenda?

Uwe Dumslaff: The transaction reinforced our capabilities in providing digital transformation services around Salesforce cloud solutions and platforms. Cloud and more broadly Digital are Capgemini's key levers for growth and margin expansion.

Dennis Flüchter: After tremendous growth for several years we realized that we were reaching our limits regarding global delivery for big enterprise customers. Also we felt increased competition from big Salesforce partners like Accenture and Deloitte. Therefore, we had to create a different customer approach and balance the risk in the Salesforce market by gaining different competencies apart from Salesforce.

Which criteria were most important for you in choosing the acquisition partner oinio / Capgemini?

UD: Quality! We planned to make a short cut concerning different business aspects. On top were market reputation and references. Furthermore Salesforce is a strategic partner of Capgemini and the acquisition of oinio is a bold committment to the Salesforce market. These guys only collaborate with you if they have a clear advantage. Salesforce has a different rhythm compared to established software companies. But the foundation of everything is the quality of the team!

DF: Capgemini is known for making long-term and strategic investments, not just financial ones. We could always interact with the people at Capgemini in a very trustful way, providing a basis for a cooperation with high degrees of freedom. In addition, Capgemini can provide access to enterprise accounts at the C-level as well as a big sales team and global delivery capacities, e.g. in India.

What were the strategic goals of the acquisition?

UD: For digital transformation projects we as Capgemini have to understand the incorporated agility from sales to delivery. It is based on the public cloud solution approach including the digital technology platform force.com. The Salesforce solution catalogue will grow, e.g. with Demandware and Einstein in 2016. SaaS based solutions beyond Salesforce will become more and more relevant for digital solutions – fast, agile and flexible as well as easy to integrate into legacy application landscapes.

DF: We wanted to gain access to the big enterprise market. In this area, we could strongly benefit from the established processes, standards and scaling of a company like Capgemini. We had reached a critical phase in our growth path where we could really benefit from the organizational and delivery expertise of Capgemini.

What were your biggest concerns before the acquisition?

UD: Since oinio is a relatively small business compared to Capgemini Germany, the story had to be built on two pillars: Salesforce jump start and pushing the SaaS-solution-based market. The balance between leveraging the Salesforce business experience and building the foundation to SaaS digital solutions is a challenge. An additional aspect was to understand the key success factors of oinio as soon as possible and to find ways to keep them alive.

DF: The biggest concerns before the acquisition were that one of our biggest success factors might not live on – our company culture. Employees who strongly identify with a start-up-like business might not be able or willing to deal with the hurdles, formalities and lower speed of a bigger company. However, during the integration process we managed to overcome most of these hurdles and combined the best of both worlds.

Which major challenges did you encounter during the first year of the acquisition?

UD: We knew each other for a long time, but we didn't work together. When we started to collaborate and to integrate in January 2016, it was really a cold start. We had to and we did find a way to collaborate internally as well as externally, but we are not completely ready yet.

DF: It was a cold start indeed. The warm-up phase after the acquisition was underestimated. Nonetheless, the expectations regarding the new joint business were high from the very beginning. The joint planning of the first year, especially regarding customers, should have taken place earlier – even before the acquisition. It was very challenging for the whole leadership team to pursue integration and business topics simultaneously.

In your opinion, what are the most important factors for a successful integration?

UD: Keeping the oinio success factors alive and developing them into a bigger context for bigger engagements with digital transformation ambitions. However, a "splendid isolation" of oinio was not the solution either. How to bring the value of oinio to Capgemini clients was a question that proved to be more difficult than expected. Where we were successful we generated new digital business.

DF: It is key to generate successful business together. This can be achieved by combining the best of both worlds, planning and delivering in joint teams and keeping the willingness to try and to accept new things. There has to be further strategic investment after the acquisition to make the joint business successful. In addition, professional PMI support can help to provide proper alignment of all processes and systems, disburden key people and build bridges between the two companies.

What are the future prospects for the joint business of Capgemini and oinio?

UD: Doing, as planned, more Salesforce business and becoming a leader in this market. Leveraging the oinio digital experience to big deals in digital transformation with Salesforce solutions or with other SaaS solutions from, for example, SAP, Microsoft or IBM. Let's think big!

DF: We want to be a leader in the German Salesforce market and among the top three in Europe by leveraging synergies between the different countries. Furthermore, we want to enrich Salesforce with additional technologies and solutions to generate new business cases for enterprise customers and to become an innovation leader in Digital Business Transformation.

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About Capgemini Consulting

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With more than 180,000 people in over 40 countries, Capgemini is a global leader in consulting, technology and outsourcing services. The Group reported 2015 global revenues of EUR 11.9 billion. Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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