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Achieving radical innovation through symbiotic acquisition[☆]

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ACHIEVING RADICAL INNOVATION THROUGH SYMBIOTIC ACQUISITION

Evidence shows that radical innovation is important for long-term firm success. There are still strong uncertainties about the way companies could achieve such innovations. Internal growth has been extensively studied as a way to develop value-enhancing innovations. External growth through mergers or acquisitions appeared more recently as a new option to innovate by acquiring successful startups, leading to a form of technology risk and market risk externalization. For example, in 2014 Google Inc. acquired DeepMind Technologies for more than $400 millions. In 2012, Oracle acquired several technological startups, such as Taleo ($1.9 billion) and Vitrue ($ 300 million). Another example is the acquisition of Zappos ($1.2 billion) by Amazon.

If innovation can be achieved by finding new ways to combine resources or competencies, managers may wonder whether it is possible to achieve such innovation by combining internal and external resources through acquisitions. Instead of acquiring on the market ready-to-use innovations, firms could also acquire targets to achieve radical innovation by combining both the acquirer and target's specific resources (e.g. Google Inc.'s acquisition of DeepMind Technologies). This external growth strategy, oriented toward innovation, is called "symbiotic acquisition". Our objective is to describe what the main and specific features of this strategic option are and to understand how managers can proceed to generate radical innovation through this type of acquisition.

This article is structured as follows. First, we describe what is and what is not a symbiotic acquisition. We differentiate between collaborative acquisition and symbiotic acquisitions and focus on two specific characteristics of symbiotic acquisitions: its initial strategic intents and the framing of its integration process. Second, we put an emphasis on the role of organizational initial conditions, initial viewpoints of both parties and potential "conflicts" between the acquirer and the target. Finally, we put forward some managerial implications from both our theoretical work and professional experiences in the management of symbiotic acquisitions.

WHAT IS AND WHAT IS NOT A SYMBIOTIC ACQUISITION?

Symbiotic Acquisition is Not a Collaborative Acquisition

Symbiotic acquisition goes beyond simple collaborative acquisition, although they share some similarities. While collaborative acquisitions favor cost synergies and sharing of resources, symbiotic acquisitions aim to create something that does not exist yet on the market (radical innovation). Symbiotic acquisitions are riskier operations. Their purpose is to change permanently and profoundly the rules of the competitive game. Symbiotic acquisition, like collaborative acquisition, emphasizes a "merger of equals" attitude, which aims to preserve the target's identity and to avoid any asymmetric relationship where the acquirer would dominate the target.

The emergence of new forms of acquisitions referred to as collaborative or cooperative acquisitions, such as Air France—KLM, American Airlines—US Airways or Renault—Nissan, has already provided a glimpse of the changes in how to differently manage relations between the acquirer and the acquiree. The acquisition may lead to collaborative relationships and not simply to a logic based on domination. Napier proposed a theoretical model of collaborative acquisitions,

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highlighting the attitude of the acquirer with respect to the acquired business, particularly with regard to the balance of power changes within the new entity.

The Merger of Air France—KLM

The merger of Air France—KLM illustrates key features to be taken into account when managing non-asymmetric acquisitions. The main strategic aim of this acquisition was to build a world leader together around a simple but original idea of "one Group, two Airlines". At the time of the operation, Jean-Cyril Spinetta, Chairman and Chief Executive Officer of Air France, said:

> "We have always been convinced of the necessity of consolidation in the airline industry. Today, we announce a combination with KLM that will create the first European airline group, which is a milestone in our industry. This will bring significant benefits to customers, shareholders and employees. Capitalizing on the two brands and on the complementary strengths of both companies, we should, within SkyTeam, be able to capture enhanced growth opportunities."
>
> Source: *Air France Annual Report*

Everything was done to avoid the adverse effects of a merger: partnership governance, safeguarding the national identities of Air France and KLM, logos and brand; no discrimination in promotion decisions; Long-term sharing of "centers of excellence"; and Air-political status (Air France and KLM retain their respective home bases, operating licenses, Air Transport Certificates and traffic rights). Similarly, priority has been given to growth synergies and cost synergies, with limited job losses, a preference for cooperation and sharing on issues of rationalization (largely confined to peripheral activities).

The Case of Renault—Nissan

Renault—Nissan is a significant example of this type of policy. As Carlos Ghosn (CEO of Renault-Nissan) noted the aim of the merger was to transform a volume-oriented company into a customer-oriented profitable company. At least three conditions have emerged as essential: the revival of Nissan, the strategy of profitable and consistent growth of all Renault—Nissan in a balanced approach to partnership and, finally, the existence of two separate identities and strong brands. The first condition in the short term has been the financial recovery of Nissan. Nissan had to approximate the performance of Renault. The logic was clear: what is good for Nissan is good for Renault. The second requirement was to develop synergies between the two companies in order to provide Renault—Nissan a coherent and coordinated strategy for profitable growth. The third essential element was the absolute and inviolable respect for each brand in a comprehensive and shared vision.

Symbiotic Acquisition's Strategic Intent is to Innovate

The acquisition of symbiosis is an original model that goes beyond collaborative acquisition. It aims to reconcile two strategic options that are often separated: radical innovation and acquisitions. It allows combining resources to create new resources on the market. Symbiotic acquisition is a very interesting mode of development in the case of a merger between big business and small innovative companies (e.g. Apple Inc.'s acquisition of Soundjam in 2000). These acquisitions are carried out especially in mature industries (automotive, mechanical, heavy industry) or in threatened industries where business survival is a critical issue. They also concern certain sectors marked by technological turbulence and high competitive intensity (Internet, computing, telecommunications, innovative services...).

At the strategic level, the decision to conduct symbiotic acquisitions is particularly relevant when the acquirer must respond to a threat or an external shock (strategic response).

The Case of Mediamétrie—eStat

In France, the merger "Médiamétrie—eStat" is an example of a joint innovation-oriented operation, whose objectives go beyond economies of scale and scope, market share, critical size and financial security. There are new objectives, paving the way for a change in the perception of the acquisition and its implications for businesses. As Mr. Bisac, co-founder of e-Stat said:

> "The principal objective of the merger was to develop an innovative audience-rating tool, by combining the specific know-how of the user- and site-centric technologies into a single tool to provide customers with information on both their web sites and the web site visitors".

This merger was a response to market needs and the combination of data was expected to lead to an innovative "universal" audience-rating tool. The two companies also hoped to attain their ultimate objective of becoming market leaders in audience-rating tools. For Mediametrie, this objective was linked to the desire to position itself as the benchmark in the Internet market and to maintain its brand image and reputation. For eStat, the merger was vital for its survival (financial stability).

A symbiotic acquisition is no longer simply a means to capture resources, increase market power or achieve cost savings. It also helps to create new strategic interdependencies with the acquiree, to provide systems, services or products with high added value, to meet the new requirements of the environment.

Symbiotic Acquisition Can be Defined by its Integration Process

What are the differences between symbiotic acquisition and other acquisition policies? Symbiotic acquisition gives rise to the establishment of a single authority system controlled by the acquirer as with any other acquisition. However, it attempts to rethink the business model of the acquirer, by imposing new logic in business strategy and value creation. Symbiotic acquisitions are riskier. They cannot rely on programmed actions. They aim to encourage initiatives and diverse viewpoints with the ability to accept unforeseen events and some disorder during the interactions between the acquirer and the acquiree.