Semi-Organic Growth

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Tactics and Strategies Behind **Google's** Success

George T. Geis

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To George S. Geis, Terri L. Geis, and Anne L. Geis—three ongoing sources of semi-organic growth

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Preface

Around 1995, I became intrigued with developing a methodology and related visualization technology to systematically analyze company acquisitions, minority equity investments, alliances, and other corporate development activities. At the time, I was concentrating on companies that included Microsoft, Intel, and Cisco.

Then along came Google. Starting with the early days of Google, acquisitions appeared to play a particularly important role in the strategic unfolding of this iconic company. Google was becoming an experimental lab, not only for products and services but also in utilizing M&A to further its purposes.

I wanted to understand in depth why Google was engaging in what was an unprecedented level and type of M&A activity.

As of 2015, Google had acquired some 200 companies. But there's much more to the story than numbers. The major thesis of this book is that early in the company's existence, a playbook for M&A activity (which I dub *semi-organic growth*) was established, and that this pattern became a core element of Google's success.

Semi-Organic Growth presents a unique analysis of Google's distinctive expertise in the area of mergers and acquisitions. The book provides insights derived from the many Google acquisitions completed over the company's brief history. While organizational revenue growth has traditionally been characterized as organic (internally generated) or inorganic (from acquisition), this book features Google's use of a blended, semi-organic strategy to accelerate product and service revenue.

Google's extensive use of M&A during its period of rapid growth has been in sharp contrast to rivals such as Apple. In addition, Google's overall success in M&A further contrasts with the failures of many other companies in this area of corporate business development. All readers will gain distinctive insights from the M&A expertise and practices of this iconic company.

Semi-Organic Growth illustrates how Google's M&A moves can be explained through a unique sector/subsector classification scheme that dynamically maps the media, Internet, and technology platform markets. Market modeling dynamics are illustrated with some 50 infographics to help understand important categorical M&A dimensions and visualize deal

constellations. These market-modeling techniques are applicable to any company.

The book examines Google's practices in disclosing M&A deal structure (such as valuation and form of consideration) and in using contingent consideration in the form of earn-outs and stay bonuses.

But perhaps most importantly, we examine how Google has integrated its acquisitions, thereby accelerating the growth of its array of products and services.

Chapter 1 describes the challenges of building a successful M&A program in domains that include strategy, economic valuation, organizational design, and deal dynamics. This chapter discusses each of these activities, emphasizing approaches linked to positive outcomes.

Chapter 2 features Google's acquisition of Applied Semantics, a watershed transaction in that it imprinted on Google a methodology for revenue acceleration through semi-organic growth. This chapter provides a history of the Applied Semantics deal and how the acquisition led to the creation of AdSense, which grew into a highly significant service within Google.

Chapter 3 contrasts Apple and Google, two companies that have had dramatically different corporate philosophies with respect to the role of M&A in strategy. Until 2012, Apple engaged in M&A only sparingly, believing that innovation should essentially originate from within. In contrast, Google was acquiring companies at a rapid clip and using technology and talent from the purchases as a major part of its innovation efforts.

Chapter 4 introduces marketing modeling, which involves connecting knowledge chunks comprised of three elements: market segments, companies, and deals. The chapter illustrates market modeling by developing a sample model for Google in the MIT (media, Internet, and technology infrastructure) spaces.

Chapter 5 highlights advertising as Google's core business. The chapter develops a market model for media and then analyzes Google's acquisitions in sectors such as online content and advertising.

Chapter 6 analyzes numerous acquisitions that Google has made to strengthen its position in Internet search, as well as accelerate its move into a range of additional Internet products and services. This chapter develops a market model to explain Google's Internet-related purchases.

Chapter 7 explains how acquisitions have played a key role in extending Google beyond its core search/advertising business to an ever-expanding technology platform for new products and services. The chapter explores acquisitions that relate to subsectors of this platform, including smartphone, smart home, robotics, and artificial intelligence.

Chapter 8 illustrates that although Google is regarded as having developed the most successful technology M&A program in history, certainly not

all of its deals have done well. This chapter examines some of Google's abortive transactions and suggests reasons for these failures. We also provide an analysis of gains and losses associated with the purchase of Motorola Mobility.

Chapter 9 examines when a publicly traded company such as Google announces an acquisition. When must the company disclose deal valuation and other key terms? This chapter focuses on the M&A disclosure practices of Google and Apple and explores possible motives for deal disclosure or secrecy.

Chapter 10 describes how an acquirer can pay for a target using accumulated free cash flow, using cash raised from a new debt or stock offering, exchanging shares of its stock for shares of the target, or combining these forms of payment. How often has Google used stock in purchasing a company? What are the motives for using stock as opposed to cash? How does Google's consideration choices in its M&A transactions compare to those of other major technology companies such as Apple or Facebook?

Chapter 11 highlights that for some M&A transactions, not all consideration is paid out by an acquirer at the close of the transaction. Earn-out consideration contingent on the target meeting performance metrics can be used. Or retention bonus consideration (in cash or in stock) can be provided to motivate target employees to stay on with the acquirer for a period of time. We'll explore how these forms of contingent consideration have been used by Google and other leading technology and media companies.

Chapter 12 stresses that successfully integrating an acquisition is vital if M&A value is to be captured. This chapter explores some classic strategic dimensions that provide a high-level framework for M&A integration. We examine how Google's semi-organic form of acquisitions fits into this scheme and how Google has learned to be more effective in executing a challenging integration strategy. We also describe some notable Google failures in M&A integration.

Chapter 13 highlights that a substantial amount of M&A activity is undertaken to support specific products or services that can reach customers. This chapter uses Google as an example to illustrate a market model that maps a company's products and services and how a particular acquisition might enhance these offerings. We also identify four major types of acqui-hires, talent/technology purchases designed to accelerate sales of both existing and new products and services. Finally, we explore career moves by a number of Google M&A alumni, company founders who sold organizations to Google, worked to add value to a Google offering, and subsequently made significant career changes.

Chapter 14 examines how competitive contests such as the Amazon/Google struggle for market control in e-commerce and advertising can be

understood by developing M&A deal constellations. We next illustrate the concept of ecosystem synergy and demonstrate how this type of synergy can strengthen competitive positioning and add value to a company. We show how a number of Google's acquisitions have achieved this higher order of synergy.

I hope you enjoy and benefit from this journey through the land of Google's semi-organic M&A!

Watch the Videos

This book is accompanied by a companion website that includes a short introductory video, together with 14 additional online videos, each about 10 minutes in length. The content of each video is designed to add to your understanding of key concepts found in a given chapter. You'll find these videos referenced at the end of each chapter.

For the URL and access code for your online videos, please refer to the instructions at the end of this book.

Acknowledgments

I have greatly benefited from the insights and support of many colleagues, friends and students in writing this book.

Debbie Foster, Olaf Westheider, and Steven O'Toole provided inspiration and outstanding technical support in the development of the concept of market modeling.

Sean Carr, Executive Director of the Batten Institute at the Darden School of Business, University of Virginia, suggested that I give a talk while on campus as a visiting professor. The talk, which involved Google's acquisition strategy, was uploaded to YouTube and subsequently viewed by Bill Falloon, Executive Editor of Finance and Investment at Wiley. Bill encouraged me to write a book expanding upon the talk. Thus the origin of *Semi-Organic Growth*.

My special thanks to Bill Falloon and Meg Freeborn, Development Editor at Wiley, for their encouragement throughout this project. I also appreciate the assistance of the entire Wiley team for their support in completing this effort.

I regard the M&A writings of Bob Bruner, Dean of the Darden School, as foundational to a number of ideas that appear in this book. I've benefited from my ongoing conversations with Bob.

I am indebted to many students and research collaborators for insight and assistance. These include James Biskey, Debadutta Bhattacharyya, Neelima Clark, Tom Crow, Zubin Davar, John Dearing, Reggie Hall, Kevin Hopkins, Ahreum Hong, Kyle Jansen, Joey Lei, K. Burns McNamee, Alisa Sommer, Emily Scadden, Renu Senjalia, Joshua Schachter, Jacqueline Sutro, and Miao Wang. Please forgive any omissions.

I am not writing this book as a Google insider. However, I have benefited from interviews with numerous present and past Google employees, conducted as reality checks. I am extremely grateful for the insights provided.

I deeply appreciate the entire UCLA Anderson environment for decades of support. Special thanks to Al Osborne, Elaine Hagan, Martin Lieberman, and George Ingersoll.

Finally, I'd like to thank my wife, Penny, who graciously postponed getting our new Springer Spaniel until the first draft of this book was completed. Now it's time for many more long walks along the Cambria ocean bluffs.

CHAPTER 1

M&A Success and Failure

Konrad Lorenz's classic experiment with graylag geese captures the attention of many college freshman enrolled in an introductory psychology class. Lorenz found that geese would *imprint* on the first movable object within a *critical period* occurring 13 to 16 hours after hatching. It didn't matter whether the "parent" object was Lorenz's boots or a box placed on a toy train moving around a circular track.

Imprinting involves phase-sensitive learning whereby an animal or person establishes a pattern of attachment to another animate or inanimate object. Business ventures can also experience imprinting events during the early stages of development.

The notion that a corporation's early experiences can have lasting impact on future development has long been noted.[1] A firm commonly experiences an inertial impulse very early in its history that persists for a significant duration.[2] This initial organizational experience can involve corporate development activity. For example, Milanov and Fernhaber presented evidence that the initial alliance experiences of a venture affect future alliance formation patterns.[3]

Similarly, the acquisition of Applied Semantics early in Google's history (before going public in 2004) imprinted upon the company not only a proclivity to do mergers and acquisitions (M&A), but also to favor a certain style of *M&A activity*. Indeed, over its relatively brief corporate history, Google has acquired some 200 companies. In addition, Google has enjoyed an unusual degree of achievement in its dominant style of M&A activity, in 2012 asserting success in two-thirds of purchases,[4] significantly higher than commonly cited acquisition statistics.

However, before we examine strategies and tactics that Google has employed in its transactions, let's examine how M&A performance has traditionally been measured, as well as some of the most common reasons for M&A failure and success.

M&A Activities

Developing a successful M&A program is a major challenge for any organization, arguably significantly more difficult than operational functions. Nevertheless, the pace and volume at which technology firms have been buying is staggering. For example, according to Thomson Reuters, the total spent on technology M&A worldwide during the first quarter of 2014 was $65.2 billion. This represented the largest dollar volume for any equivalent period since 2000.

Consider the breadth of activities that must be considered in doing a deal (Table 1.1).

Strategy

First of all, a compelling strategic rationale for a transaction must be developed. This may involve responding to an opportunity or shock in a market. Or it may be based on a creative vision whereby the company desires to establish new positioning in a market or even attempts to create a new market. For example, Google's cluster of eight robotics acquisitions in 2013 clearly signaled that the company saw significant market opportunity in areas that could range from robotic manufacturing to android-assisted home health care. Although to be successful such strategic thinking necessarily must involve senior executives, a company such as Google also has strategy leads engaging in analysis to support the growth of each major business division, including areas such as search, social, mobile, and YouTube.

TABLE 1.1 Deal Activities

Strategy	Economics	Organization	Deal Dynamics
Responding to opportunity or threat	Doing valuation/ NPV analysis	Establishing best practices for integration	Designing the deal, including tax strategy
Determining attractiveness of industry position	Determining synergies	Building acquisition teams	Engaging in negotiation and bidding
Establishing strategic deal system	Estimating revenues, costs and cash flows	Merging corporate cultures, as necessary	Handling legal concerns
Determining optimal type of transaction	Determining effects of deal financing		Engaging in negotiation and bidding

Strategy also involves establishing a systematic approach to M&A activity. Organizations have established systems for virtually every activity of the firm—from HR management to supply chain management—but typically lag in thinking systematically about M&A and other corporate business development activities. There are some notable exceptions, such as GE Power Systems (later renamed GE Energy), as documented by Robert Bruner.[5] We'll later examine Google's systematic approach to M&A.

In addition, deal strategy involves determining the optimal type of transaction. This includes knowing when not to acquire a company, but instead designing an alternative form of partnership relationship. For example, in 2003, as Apple was in the process of launching its iTunes platform, the *Los Angeles Times* reported that Apple was considering the purchase of Universal Music (a global player in recorded music) owned at the time by Vivendi.[6] Apple correctly decided against the purchase. Doing so, among other things, would have created supply-channel conflict with other music providers that it needed to launch iTunes into a platform with a broad music library. Instead, Apple licensed music from Universal (and other music companies) in order to build an extensive collection for users to download using iTunes. (In 2014, Apple was facing different challenges as it attempted to maintain a leadership position in digital music and, as we'll see in Chapter 3, decided to engage in a major M&A activity to do so.)

Deal Economics

Second, deal economics must be evaluated. This involves conducting a valuation analysis that is appropriate for a given M&A transaction. This may require obtaining a constellation of values using methodologies such as discounted cash flow analysis, revenue, or earnings-related multiples using public company comparables, multiples from past M&A transactions, or multiples of *something-or-other* in early-stage ventures, There is rarely one North Star valuation metric. The constellation approach is intended to provide an acquirer with perspective regarding an appropriate range of value.

Jaw-dropping valuations have not been uncommon for deals in technology markets, including some Google transactions. Although not as staggering as the estimated $350 million/employee multiple that Facebook paid in its $19 billion acquisition of WhatsApp in 2014, Google has spent $1 billion or more for newly minted companies such as YouTube, Waze, and Nest.

Such valuations subject a company to critics who characterize the purchase as an irrational spending spree, but a deal might be later dubbed as brilliant if the target's platform proves out as a core asset in the acquirer's growth.

Synergy analysis is an essential ingredient in valuation, although *synergy* is perhaps one the most misused terms in corporate strategy. The word *synergy* has a most interesting origin as part of business jargon, according to the following account.

Professor J. Fred Weston was a giant in the field of M&A.[7] He arrived at UCLA from the University of Chicago in 1949 and over his career wrote 32 books and 147 journal articles, many of which dealt with M&A. He mentored many outstanding graduate students, including Nobel Laureate Bill Sharpe. I worked with Fred, taking over as faculty director for UCLA Anderson's *Executive Program on Mergers & Acquisitions* from him in 2005. Fred continued to speak in the program. When I introduced him as the "John Wooden of M&A" (referring to UCLA's legendary basketball coach), it was scarcely an overstatement.

Fred told the story about how the term *synergy* came to be used in corporate deal making. The year was 1950, and Fred was at lunch in Westwood, California, with executives from a nascent industry that would later become aerospace. Fred saw a drink menu on the table that promoted *Irish coffee, The Perfect Synergy* (Irish coffee blends coffee and Irish whiskey). Not knowing what synergy meant, Fred looked up the term after he returned to his office at UCLA and saw that *synergy* equals the interaction of two or more agents so that their combined effect is greater than the sum of their individual effects. "Now that's what an M&A is supposed to do," thought Fred. He began using *synergy* in his writings to characterize successful deals, and the term became a cornerstone of academic and professional thinking.

Many of Google's deals involve estimating *revenue synergy* that is believed will occur sometime in the future. Only rarely does a Google M&A transaction center on cost savings resulting from the combination of Google and the target company. Much of this anticipated revenue synergy involves creating or accelerating new products or services—rather risky synergy goals, but we'll see how Google considers and attempts to manage such risk.

Organizational Design

Third, organizational design plays a crucial role in M&A activity. For example, it's widely understood that unless deal integration efforts succeed, the premium or even the basic consideration paid for a target can evaporate. Some executives feel that this implies that integration efforts must necessarily be concluded rapidly, certainly within a year. After all, cash flows associated with an acquisition have *time value*, so the sooner positive flows are realized, the more valuable they will be.

Although rapid assimilation is the correct path for some deals, we'll see that one size doesn't fit all with M&A integration. In fact, there are numerous

styles for successful integration, some of which require that targets be left alone for a considerable period of time after the deal closes.

Google has come to understand that there is not a holy-grail path to integration and utilizes numerous styles for its acquisitions in attempting to make a deal work. For example, consider Google's 2012 acquisition of Wildfire Interactive. Wildfire's technology enabled advertisers to serve campaigns on social websites such as Facebook, Google+, Twitter, Pinterest, YouTube, and LinkedIn. When Google acquired Wildfire, Jason Miller, a Google product manager, made this blog posting: "With Wildfire, we're looking forward to creating new opportunities for our clients to engage with people across all social services … social presence can complement all marketing campaigns—search, display, video, mobile, offline ads and more."

As part of the deal terms, Google established a significant retention bonus in order to motivate Wildfire co-founders Victoria Ransom and Alain Chuard to continue leading the company's 400-employee team. Wildfire was left alone in an attempt to pursue key enterprise social marketing metrics that Google felt could be better achieved without immediate tight integration into a Google product group. There certainly was no guarantee that this integration approach would yield desired results, but Google apparently believed it would maximize the chances that it would.

In contrast, other acquisitions have been immediately associated with product groups within Google. For example, in 2011, Google purchased Green Parrot Pictures, a developer of tools for the manipulation of digital video and images. Almost immediately, Green Parrot's technology and team was attached to the YouTube group with the goal of helping users make flicker-free videos, particularly for videos taken with mobile phones.

Still other acquisitions become part of a collection with the goal of introducing a series of new product introductions. Consider the cluster of robotics acquisitions mentioned earlier. Google initially placed these acquisitions and its robotics initiative under Silicon Valley veteran Andy Rubin to explore greenfield opportunities based on the collective technologies from these deals.

There is much more subtlety in Google's approach to integration. Many of these efforts have been successful, but there are also notable failures. We'll devote Chapter 12 to exploring acquisition integration in detail.

Deal Dynamics

Finally, consider the deal dynamics dimension of M&A. This dimension includes designing the terms and structure of the deal. Will the consideration of the transaction involve cash, stock, or some combination? Will there be contingent consideration, payable to the target only if certain milestones are

met? How about retention or stay bonuses for key talent? Will the employees of the acquired company need to relocate, or can they stay in place?

Consider some dynamics issues relating to Google deals. When Google purchased Waze, an Israeli crowd-sourced mapping and navigation company, the consideration was $966 million in cash. (Retention bonuses could increase this amount.) Google would use the technology to enhance its Google Maps with Waze's real-time traffic information. In closing this deal, Google allowed Waze personnel to remain in Israel. This concession was reportedly an important factor in Waze's decision to agree to the acquisition.

Google rarely uses its stock in making acquisitions, although it has done so in certain key purchases (such as Applied Semantics AdMob, and YouTube). However, going forward, Google might use stock more often in M&A transactions. After a stock split in 2014, the company has nonvoting stock to use as a potential acquisition currency.

Taking all four of these major activities (strategy, economics, organization, and deal dynamics) into consideration, the bottom line is that successful M&A activity is an intricate challenge. It is no small undertaking for a company such as Google to succeed in building an acquisition program that becomes a core strategic capability.

Evaluating Performance

M&A success rates for corporations are generally considered poor, although just how poor has been the subject of some disagreement. Some studies report the rate at which acquisitions fail to create value range to be 40 to 60 percent, while others assert a failure rate within an even higher range of 70 to 90 percent.[8]

Abstracting from a wide range of studies, Robert Bruner concluded: "The buyer in M&A transactions must prepare to be disappointed. The distribution of announcement returns is wide and the mean close to zero. There is no free lunch."[9] (Announcement returns involve *event studies* that examine abnormal returns to shareholders in the period of time surrounding transactions.) Bruner went on to further assert that negative performance post-merger is troubling, but suggested that more rigorous testing is necessary to draw firm conclusions about the returns after an acquisition is completed.

M&A activity performance has been studied extensively, with various schools of thought emerging.[10] First, the *financial economic* school measures value creation and stock market returns around the time of a transaction. These studies are prominent in academic thinking, but are of limited use when the acquirer is private or when the acquirer engages in a small

transaction (or series of small transactions) relative to its market capitalization. And such small acquisitions have long dominated for Google and other leading technology companies, as reflected in the practice known as *acqui-hiring*. Acqui-hiring, in general, involves the process of acquiring a company to recruit its talent, with or without being interested in the target's technology, products, and services. We'll examine various forms of the acqui-hiring phenomenon in Chapter 13.

A second school of thought involves evaluating the effects of *strategic relatedness* on M&A performance. Traditionally, this line of thought has argued that acquisitions enjoyed a higher likelihood of success if they were in some way related to the acquirer's current products or markets. Significant evidence has been presented that acquisitions involving unrelated diversification commonly result in lower financial returns than nondiversifying deals.[11] Peter Lynch, well known as a mutual fund investor, went so far as to coin the term *diworsification,* implying that an organization that diversifies too widely risks destroying its original business, given the management energy and firm resources that are diverted from core activities.

The concept of strategic relatedness is highly relevant to our study of Google's M&A activity. While many of the company's targets have been related to its core ad-tech activities, other deals, such as Google's $3.2 billion acquisition of Nest Labs in 2014, offering smart home products such as smart thermostats and smoke alarms, might be considered as taking Google afield from its advertising center.

Not all companies that have used M&A to diversify have failed in this effort. For example, Berkshire Hathaway has been a notable success. We'll evaluate the likely performance impact of Google's diversification deals as we explore its expanding market footprint.

A third school of thought used to evaluate M&A effectiveness involves *organizational behavior*. Here, a host of questions are asked. What role do organizational variables such as acquisition experience play in M&A results? How can cultural distance between two companies be measured, and what is the impact of cultural distance on M&A success? What are the styles of post-acquisition integration, and how quickly and to what degree should the target be integrated?

As mentioned earlier, conventional wisdom argues for rapid integration. After all, the sooner positive cash flow from cost or revenue synergies is realized, the higher the present value to the acquirer. However, consider Facebook's $2 billion acquisition of Oculus, a developer of virtual reality technology. Immediately following the announcement of the acquisition in 2014, Oculus founder Palmer Luckey was astounded at the outpouring of negativity received by the company and stunned that some employees had

even received death threats. Luckey was forced to respond to dozens of questions involving privacy concerns now that his company would be owned by Facebook. Rapid integration was not likely to work well for this deal!

As we've illustrated, Google employs a range of integration speeds and styles in its acquisition program. And the company continues to learn from integration successes and failures as it attempts to build a strategic core competency in the organizational behavior domain. In order to succeed, the organizational behavior practices of any acquirer must involve active knowledge management.

Target Financial Performance

Overall *M&A target performance* has varied across the decades. For example, average abnormal returns (above what an investor would expect to return given comparable risk level) averaged 25.1 percent during the 2000s, up from 18.5 percent during the 1990s.[12]

Furthermore, in any given period, the range of premiums paid to acquire a company has a large variance. For example, Bloomberg reported a spread of premiums paid to shareholders of target firms for a sample of deals during the second quarter of 2013. Of these, 49 deals had premiums between 0 to 10 percent, 54 had premiums between 10 and 25 percent, 52 carried premiums between 25 and 50 percent, and 19 enjoyed premiums of 50 to 100 percent. Finally, 13 had hyper-premiums of greater than 100 percent.[13]

Also, the trend for premiums paid can be increasing or decreasing. In 2013, U.S. companies were paying on average a premium of only 19 percent above their target's trading price one week before the deal was announced.[14] This reflected the lowest takeover premium since at least 1995, according to Dealogic. Given the uncertainty of macroeconomic conditions, executives and corporate boards were being cautious.

Nevertheless as suggested earlier, wide variance across deals in premiums typically occur, especially when the premiums paid to rapidly growing private high-tech companies are included. (Private company premiums are harder to measure than those associated with public companies, but are often based on the most recent private valuation.) Using another metric, WhatsApp's $19 billion price tag implied a multiple of approximately 100 times revenue and a huge premium over previous valuations.

It's not always possible to know the premium paid for an acquisition, For example, we'll see in Chapter 9 that Google discloses the valuation and terms for only a small number of its deals. Third parties provide estimates for a larger set of Google acquisitions.

The bottom line? M&A pays for almost all targets across industries. But in hot technology areas, the payoff can be off-the-charts.

Acquirer Financial Performance

As we've seen, classic research findings suggest that acquirers on average do not have much room for optimism, given that the distribution of announcement returns has a mean close to zero. Thus, a pressing question facing an acquirer is: How can my company do better than average?

More recent research involving large-scale samples provides a little more room for optimism. Abnormal returns to acquirer shareholders are modestly positive (about 1 percent) if large public company deals and deals involving stock-for-stock exchanges are filtered out.[15]

Post-merger returns typically analyze cash flow or operating profit over a period of time (typically three-to-five years) after an acquisition. However, there's a major problem with these analyses. The longer the period of study, the greater the likelihood that confounding factors (extraneous to the deal) impact financial performance.

In addition, it is not possible to analyze how the company would have performed had it passed up the acquisition. In an attempt to address this problem, some studies compare the performance of two similar companies, only one of which made an acquisition. But here again, confounding variables swamping the M&A dimension can enter into play.

Complexity in the M&A performance analysis is taken to an even higher level when a company is a serial acquirer or focuses on smaller acquisitions that are rounding errors in its market capitalization. Google is a prime example of such a company.

The bottom line is that research studies on acquirer performance face substantial methodological hurdles. With this caveat in mind, one study of studies analyzed 26 studies of post-merger performance, 14 of which showed a decline of operating returns, 7 showed positive (but not significant) returns, and 5 showed positive (statistically significant) returns.[16] This is hardly a confident, conclusive picture of M&A performance results.

Numerous studies show acquirers of privately owned firms realize positive returns of 1.5 to 2.6 percent.[17] Such higher returns are generally attributed to factors such as a limited number of bidders and the relative illiquidity of private companies, resulting in an associated liquidity discount. But such discounts may not apply to venture-backed companies that Google attempts to acquire—ventures where other deep-pocketed bidders may also be in pursuit. For example, reportedly both Apple and Facebook were interested in Waze's crowd-sourced traffic technology.

Some evidence exists that high-tech firms realize positive value by acquiring small, but related ventures to fill in gaps in their product offerings.[18] This is one likely reason why successful high-tech companies persist in being very active deal makers. There will be more about this in our next chapter.