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Corporate Mergers *Can* Create Winners: A Case in Point

An Original Essay Written for CSAB

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Corporate mergers have been very much on our minds in the past year or so, as we've become somewhat accustomed to turning on the Monday morning news and hearing the deals for the week being announced. In the "mega-merger" category, we've heard about Amoco and British Petroleum...BankAmerica and NationsBank...Chrysler and Daimler-Benz. And there have been many others.

Whether it's banking, automotive, transportation, technology, or retailing, industry consolidation is a trend on the upswing. My own industry has seen some action, too. SBC's merger with Pacific Telesis was history-making in our sector. We have just concluded a merger with Southern New England Telecommunications, and we've announced our intention to merge with Chicago-based Ameritech.

We have plenty of company. Bell Atlantic and NYNEX merged last year. MCI and WorldCom completed their merger this fall. AT&T and TCI have announced their plans to merge, and Bell Atlantic plans another combination—this time with GTE.

Edward E. Whitacre Jr. is chairman and chief executive officer of SBC Communications Inc. He has been widely acknowledged as an important leader in the telecommunications industry. He helped guide his company through the first merger of former Bell operating companies–the merger of SBC and Pacific Telesis. For the second year in a row, SBC was recently named the "World's Most Admired" telecommunications company in a survey of industry executives and analysts conducted by *Fortune* magazine.

What's the Impact?

Against this backdrop, it's fair to ask: what's the impact of mergers such as these on jobs? On local economies? On services? On prices? As these questions and other issues related to mergers are discussed in the media and other public forums, there are a couple of themes that come through pretty consistently.

Take the Daimler-Chrysler deal as an example. Synergies between these two companies, such as the potential to combine Chrysler's lower production costs and Daimler's distribution system, will enable the new enterprise to accomplish more on a global scale than either company could achieve on its own. That theme of increased scope and scale, or some variation on it, runs through nearly all the mergers taking place.

A second theme running through these mergers is shareowner value. As investors enter the equity markets in record numbers, it takes an ever-larger financial base to continue to generate earnings that meet shareowner expectations. Combining with other companies is one way to achieve that larger base.

A second theme running through these mergers is shareowner value.

Still another theme is that this merger trend is inevitable—and will likely continue. But this trend toward consolidation can create concerns that mergers aren't just inevitable, but that they inevitably create losers—be they customers, employees, or communities. We believe our merger with Pacific Telesis has shown that it doesn't have to turn out that way. Before I go on to discuss that, I have to admit that these concerns about mergers in general have some foundation in fact. Some mergers don't seem to work out particularly well for anybody concerned.

It's not uncommon for a company to write down much of its investment when a merger doesn't pan out, or to wind up selling or spinning off the acquired company when things just don't work out as planned. I saw some statistics recently that indicated that 60 percent of acquisitions are financial failures.[1]

Half The Battle: Knowing What You Need … and How to Get It

When mergers *don't* work, it's usually for one of three reasons. The companies aren't a good fit. The merger is seen too much as an end in itself, and not as part of a larger strategic design. Or the implementation of the merger isn't handled well.

In SBC's business—telecommunications—the mergers we're seeing are part of a steady consolidation and globalization of our industry. Ultimately, we believe we'll end up with a small number of large, well-financed, full-service, global telecommunications providers. A big reason that's true is that our customers today have *global* needs. They want one-stop shopping from a company with the size and scope to make the investments to meet their needs.

So companies will either be part of this group of global providers, or they'll evolve into specialized niche players. SBC intends to be one of the big, global players. And our mergers with Pacific Telesis, Southern New England Telecommunications, and Ameritech are critical to our ability to do that.

So, for us, this is not a matter of size for the sake of size. It's about having the geographic presence, the management depth, and the financial resources to be a strong, successful company in a new environment.

Everybody Can Win: SBC and Pacific Telesis

When SBC and Pacific Telesis began serious discussions about a merger, we were confident we could avoid the pitfalls I've noted. And we believe we have. The two companies have proved to be an even better fit than we realized at the time. And the merger has been a major step forward in our strategy to become a global company.

But I remember something else from those early discussions. We rejected the premise that our merger had to create any *losers*. We believed then—and believe even more strongly now—that a merger can be very much in the public interest. We believed it was possible for everybody to win—customers, employees, the community and shareowners.

After all, we had a lot going for us. Our companies were a great fit. We were bringing together great markets, especially California and Texas. And our employee teams were a great fit, as well. Our cultures were very similar, and for good reason. We were two companies born out of the same tradition.

This compatibility between our people and our cultures was, I believe, a major factor in the quick, smooth implementation of our merger. Unlike some mergers that take years to complete, SBC's and PacTel's operations were substantially integrated less than a year after the deal was finalized in April 1997.

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Further, the merger was by no means an end in itself. As noted above, it was an integral part of our strategy for success in a rapidly changing telecommunications industry.

As we developed our merger plans, we were especially concerned about employees and the communities in which we operated. This was early 1996; *Newsweek* magazine had recently run its famous "Corporate Killers"[2] cover story about wholesale layoffs at U.S. companies. Downsizings were a daily feature in the news.

All About Growth

We believed we could do it differently. When we announced our merger, we said it was about *growth*. And the record shows that it has been. We're creating jobs... improving our service...and increasing our commitment to the community.

We committed to create 1,000 new jobs in California if we were allowed to complete the merger. As it turned out, we more than doubled that commitment in the first year and a half or so after the merger closed. Most of those new jobs were in frontline positions, such as field service technicians and customer service reps—the people who make the difference when it comes to customer service.

These additional staff, combined with other improvements, are enabling us to take better care of our customers. In the first year after the merger, our California telephone subsidiary, Pacific Bell, reduced repair times an average of 60 percent—and cut service installation times by an average of 80 percent. And that was accomplished in spite of record demand for new lines and new services.

The merger also has led to growth in the number and availability of products and services that meet the needs of our customers. There's no question that, right now, one of the most critical of those needs is more and faster data communications. Thanks to the merger, Pacific Bell now has more capacity to invest in new data technologies and infrastructure. And we're bringing some of tomorrow's technologies to customers today.

One major step we've already taken is deployment of a high-speed data service known as ADSL in 200 California communities. This service enables users to move much more data, or surf the Internet 50 times faster, than they could before. And they can download data, graphics, audio, and video files over existing telephone lines, while at the same time using their phone or fax machine. To our knowledge, this is the largest deployment of ADSL technology anywhere in the country. And we're not just offering it in major business centers. Some of our first ADSL markets are low-income areas. We believe *all* the communities we serve deserve access to these kinds of tools.

Community Leadership

There's another important way SBC's merger with Pacific Telesis has been about growth. I'm talking about growth in our ability to serve community needs. This is an area where expectations ran especially high in California ...as well they should have. And we've taken those expectations very seriously. Earlier this year, when I was preparing to speak to a group of business and civic leaders in the San Francisco Bay Area, we polled a number of those leaders on what the people of their region expect of the companies who do business there.

I believe their thoughts have implications well beyond California. Some of their responses were about what one would anticipate. That is, a good corporate citizen provides good jobs and provides financial support for various causes. SBC and Pacific Bell are doing those things—and we're doing more in these areas since the merger.

Looking to the future, though, the local leaders we interviewed predicted that we will *all* be asked to do *more*. People increasingly expect businesses to step up to issues that haven't always been our responsibility. Issues like helping to rebuild neighborhoods. Issues like helping communities deal with public health concerns.

> *When we announced our merger, we said it was about* growth*….We're creating jobs… improving our service…and increasing our commitment to communities…*

To me, that means businesses are increasingly expected to provide community *leadership*. We are expected to take ownership of the community's problems...and lead the way toward solutions. In California, we are working with a variety of community-based groups to find creative ways to do that. For example, SBC and Pacific Bell have pledged to spend $50 million to support technologically underserved communities. A program to accomplish that, called the Community Partnership Agreement, is under way. The program has a goal of bringing new technologies to all of our customers...and making sure everyone has access to the information age.

We also have created what we call a Universal Service Task Force, which will work over the next seven years toward a goal of increasing the penetration of telephone service to 98 percent in California's disadvantaged populations.

In summary, I believe SBC and Pacific Bell have shown that a merger can indeed create winners. This particular merger, certainly, has advanced the public interest; it's been good for employees...good for customers...good for shareowners. And we fully intend to apply the lessons we've learned in the process as we go forward with our mergers with Southern New England Telecommunications and Ameritech.

For me, the most satisfying of those lessons has been this: A merger, entered into for the right reasons and implemented effectively, can not only enable a company to accomplish more in the *marketplace*; it can enable a company to do more in the *community*, as well.

Notes

1. McKinsey & Co. study of 115 acquisitions done in the early 1990s in the U.S. and the U.K. Cited in "Merger Mayhem," *Barron's*, 17 April 1998.
2. *Newsweek*, 26 February 1996.

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