THE HBT MERGER
(U.S. ROLES VERSION)

THE SITUATION IN BRIEF

It is 2002, and the PC market is booming. Although the iPod has just been introduced, smart phones and tablets are products of the future.

Haley-Burroughs is a diversified technology company that is a global leader in computer hardware, software, and services. Its revenues for the last four quarters were close to $50 billion. Faced with increasingly strong competition, a weak global economy, and a correspondingly challenging market, it decided to acquire TriFec, a $40 billion company and top producer of personal computers. The acquisition was completed six weeks ago and the new company—HBT—officially launched.

Planning for the merger was long and rigorous. Big tech mergers such as this do not have an encouraging track record—indeed, the vast majority fail to meet their goals. If this merger is to succeed, it is absolutely critical that the post-launch consolidation process be fast, efficient, and thorough.

Unfortunately, just a month and a half into the merger, HBT China has missed several critical deadlines outlined in the Worldwide Integration Plan (WIP). The Shanghai-based Country and Product Managers (both of whom come from TriFec) have not responded to long-distance remonstrations. Instead, they appear to be running the China business as though the merger had...
never occurred. Although the numbers remain strong overall, their failure to adhere to the WIP will cause the China business to suffer in the long run.

One student will be the HBT Integration Manager and the other will be the Worldwide Product Manager, both U.S.-based. Together, they must fly to Shanghai to conduct a 20-minute meeting with the China Country and Product Managers, played by two other students. The meeting will focus on missed (or ignored) integration goals and the importance of achieving these within a specified timeframe so as to maximize the value of the merger and maintain the confidence of shareholders. HBT CEO Chris Carson is expecting to be updated shortly after your meeting and wants a specific plan for getting back on track.

**SETTING**

An overly air-conditioned conference room on the 54th floor of a soaring office tower in Shanghai. Outside the window, tiny tugboats pull overloaded barges along the Huangpu River. Neighboring high-rises gleam in the sunshine of a rare blue-sky day. In stark contrast, the mood of those about to enter the conference room is tense.

**CHALLENGE**

Students must reset post-merger expectations, address the different underlining interests, and get the merger plan back on track.

**ROLES**

<table>
<thead>
<tr>
<th>Role</th>
<th>Player</th>
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<tbody>
<tr>
<td>Addison Ames, Integration Manager</td>
<td>MBA Student 1</td>
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<tr>
<td>Alex Fay, Worldwide Product Manager</td>
<td>MBA Student 2</td>
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<td>Sydney Lee, China Country Manager</td>
<td>MBA Student 3</td>
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<td>Dominique Pan, China Product Manager</td>
<td>MBA Student 4</td>
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<td>Chris Carson, HBT CEO</td>
<td>Fellow</td>
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**TIMELINE**

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<th>Event</th>
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<tr>
<td>Student Strategy Session</td>
<td>5 minutes</td>
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<tr>
<td>Case Role-Play: Meeting of US &amp; China Teams</td>
<td>20 minutes</td>
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<tr>
<td>Case Role-Play: Meeting of both teams with HBT CEO</td>
<td>5 minutes</td>
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<tr>
<td>Feedback Session</td>
<td>15 minutes</td>
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<td><strong>Total time</strong></td>
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**PREPARATION**

Read this document and be familiar with its contents. Then, imagine yourself in the assigned roles and be prepared to hold a 20-minute meeting in which you address—and resolve—pressing issues that could impact the ultimate success of the merger. Then the two teams will meet with HBT CEO.
Please note: This role-play is based on a real situation, and the case provides you with information about the context, positions and interests of each character. The case does not dictate how you should behave during the role-play. To maximize your learning from the case you can A) employ your current style to test its effectiveness in this situation or B) try out new behaviors that are aligned with your learning goals.

The Situation in Detail

Haley-Burroughs completed its acquisition of TriFec six weeks ago today. The new company, HBT, now has 150,000 employees with operations in more than 150 countries and anticipated annual revenue of $90 billion. HBT is able to provide the most complete array of IT products and services in the industry—to businesses and consumers—and will hold top or leading market positions for most of its products and services. The acquisition should result in a markedly improved cost structure, generating cost synergies to the tune of $2 billion in the first year and $2.5 billion in the second.

Prior to the transaction, both Haley-Burroughs and TriFec were mature industry leaders. HBT, however, is a new company in a critical state of reconstruction. To retain the confidence of shareholders, customers, and employees, it is essential to maintain forward momentum, meet all integration milestones, and follow the agreed-upon Worldwide Integration Plan.

Pre-Merger Background

Haley-Burroughs is a diversified, global technology company with a storied history that dates back to the 1930s. It was founded by a pair of engineers with a strong intellectual bent. Indeed, they initially named their fledgling business after the great German polymath Gottfried Leibniz (1646-1716), the renowned inventor of many mechanical calculators whose work with the binary number system laid the groundwork for modern-day computing. But, on being told the German name was too hard to pronounce, they decided to use their surnames instead. Over the years, Haley-Burroughs has been responsible for numerous innovations; it is legendary company.

In its early days, Haley-Burroughs made a variety of electronic products for a wide range of industries—signal generators, oscilloscopes, thermometers and the like, prized for their sensitivity, accuracy, and reliability. It expanded into business computing in the 1970s and eventually became a pioneer of the personal computer industry. In subsequent years, it introduced printers, scanners, faxes and multifunction machines for consumers, small businesses, and large enterprises. Its total revenue for the last four quarters was close to $50 billion and it employed 80,000 people in 50 countries. Though it remained a paragon of the information industry, it had recently seen its market share eaten away by younger, nimbler competitors and critics have started using terms like “ossified” to describe it.

TriFec was a leading manufacturer of personal computers, with global operations on a scale akin to Haley-Burroughs. Its revenues for the last four quarters were $40 billion. It was founded in the early 1980s by three industry executives who decided to go into business together during a day at the races. The design for their first portable computer was sketched on the back of a tip sheet. They named their company after the Trifecta—a wager in which a bettor chooses the first three horses in a race, in order—but determined their own winning “horses” would be
engineering, research, and quality control. True to its roots, TriFec shot out of the starting gate and surpassed the $100 million sales mark in its second year. Within a decade, its sales had skyrocketed past $1 billion. TriFec’s computers were popular with consumers because they were more powerful than those of the then-market leader, but cost the same or less.

Stiff competition emerged in the early 1990s as other companies began to produce comparable, less costly PCs with off-the-shelf components. But TriFec replaced its CEO, regrouped, and rebounded by the end of the decade. It made several acquisitions, including that of a major rival, AlphaCom. The AlphaCom acquisition was initially expected to make TriFec more competitive, largely because it brought an expansive global services operation of more than 20,000 well-regarded consulting and service personnel. However, the integration process proved fraught—despite the pricey assistance of three major consulting firms—and employees from the two companies never meshed. Business results deteriorated at an accelerating pace and the merger was soon deemed a wasted opportunity.

**Opposites Attract**

Haley-Burroughs had a corporate culture that was collaborative and process-oriented. Seemingly every new program spawned a manual, a training program, and even a train-the-trainers program. Meetings were followed by debriefings and best practices summaries, and the promotion process was laborious with numerous reviews. The company fostered an atmosphere of open debate (that could include heavy doses of constructive criticism) and encouraged its employees to generate new ideas and make technical contributions. If the incubation period for a new product was long, so be it—at Haley-Burroughs, it was more important to do it right than do it fast. As its founders so often said, the company was a meritocracy—one that was analytical, data-driven, respectful and patient, so long as it got results.

TriFec, on the other hand, was more of a command-and-control style operation that was something of a good-old-boy’s paradise when it came to corporate culture. “The TriFec Way” included prescriptions to “build awesome stuff,” “live large,” and “go for the gold.” TriFec prided itself on its entrepreneurial spirit and risk-taking. The pressure to meet targets and sales quotas determined by higher-ups was tremendous; the unwritten rule of its sales force was to act now, ask forgiveness later. Quick turn around was emphasized and trial and error preferred to laborious planning. TriFec executives tended to run meetings as if they were drill sergeants and it was rare for anyone to disagree while seated around a conference table. Country managers in overseas operations were granted significant autonomy. The take-no-prisoners work environment could be intimidating to new arrivals, who were bluntly told that if they couldn’t stand the heat, they should get out of the kitchen.

To an outsider, this might sound like a combustible combination but executives of both companies instead consider it synergistic, with each company’s boardroom seeing in the other traits that it would like to possess. They believe that by merging these distinctive corporate cultures, they will create a powerful new hybrid culture that draws on the strengths of each, while eliminating the weaknesses. In their vision, a reinvigorated HBT will thrive in an increasingly cutthroat market and remain at the top of the IT industry for decades to come.
Reaction

Reaction to the merger has been largely negative.

Proponents—most of whom, it must be said, come from within the two companies—argue it was necessitated by consolidation in the computer industry and the growing number of corporate clients seeking to buy from large, integrated suppliers able to provide computer equipment, software, and after-sales services. By merging, Haley-Burroughs and TriFec put themselves in a prime position to meet such evolving market demands and become the number one IT company in the world. Together, the companies would have greater geographic reach, expanded distribution channels, and a more diverse talent core. They would be better able to dominate in the consumer business, which is expected to grow rapidly, especially in emerging markets. That said, while supporters defend the merger’s logic, some have nonetheless expressed fear that its actual execution may prove challenging.

Opponents are less sanguine. They note the dismal track record of tech industry mergers—a case in point being TriFec’s acquisition of AlphaCom—and suggest the merger will make HBT overly dependent on the PC business, which is low profit and full of aggressive competitors. One vocal detractor called it “the stupidest deal of the new century” and the CEO of a major competitor even claimed to have opened a bottle of Dom Perignon when he heard about it.

Wall Street analysts have expressed fear that the mundane, but essential, details of operational integration will stymie the new organization’s ability to make breakthrough innovations going forward. And everyone seems to agree that the merger was one of opposites. While supporters cheer from the sidelines, critics are lined up like vultures, awaiting the inevitable clash of corporate cultures with voyeuristic glee. When the all-share deal was first announced, it was worth nearly $25 billion, but nervous shareholders subsequently marked it down by $3 billion.

Haley-Burroughs CEO Chris Carson—now the HBT CEO—responded to naysayers by noting that the failure of previous tech mergers was primarily due to insufficient planning. As soon as the two companies began to work toward a merger, she created an integration team composed of top-level executives from each. The 600-person team (which eventually more than doubled in size) worked full-time for eight months preparing to combine the two companies. It clarified how decision-making processes would work in the new organization; created comprehensive plans for operational and strategic integration phases; and set concrete long- and short-term performance goals with specific timelines for meeting them.

Post-Merger Progress

On day one after the merger cleared, email systems from the two companies were already integrated and employee directories synchronized. Customers who called either company received the same new greeting and voicemail message from external call centers. Even critics of the deal had to admit that this was among the best planned and prepared for mergers in memory. One commentator quipped that preparations for the launch of HBT were as detailed and precise as those for the launch of a space shuttle.

The integration team will stay in place for the first twelve months post-merger to shepherd the company through this make-or-break period and ensure that all HBT divisions adhere to crucial
integration and product road maps. Managers and employees must be supported as they strive to cut costs and enhance operational efficiencies in order to raise margins on every business. Projected cost savings will come from the eradication of redundant corporate functions, which will require a workforce reduction of 15,000 employees; the elimination of overlapping product lines; procurement synergies; closing administrative facilities to reduce real estate expenses; shuttering unneeded factories; and eliminating middlemen by improving direct distribution sales channels for PCs and servers.

Though much has been accomplished, much more remains to be done.

The Problem

Rigorous pre-clearance integration planning was critical to allaying pre-merger fears. Now, the value created by the merger must be maximized and CEO Carson has pledged to “hit the ground running.” Her credibility—and that of the company—depends upon continued, unrelenting implementation of the integration and product plans and the timely realization of many milestones.

Unfortunately, absent the pressure of merger deadlines, it has become harder for some employees to maintain focus and productivity. Indeed, many appear downright disgruntled as they see jobs eliminated, colleagues let go, and strangers brought in to do their jobs. Even as leaders pursue “synergies,” too many workers cling to old habits and resist the changes imposed on them from on high.

Corporate inertia and individual resistance appear particularly strong in overseas offices, where considerable redundancies have required major overhauls, including the selection of a single country manager to lead the unified business. High-level pre-integration planning did not involve individual countries because top management worried about anti-trust violations and the loss of control over the businesses. Once the merger was finalized, country managers were brought up to speed on the worldwide integration plan. So, the post-merger spotlight is now on country-level integration and implementation.

The most urgent overseas problem is in China, which is both a major market for products and a critical link in the global supply chain. In brief, it appears that the new Country Manager for China—who came from TriFec—is continuing to use TriFec processes to run China operations exactly as before the merger. Rumor has it that s/he has scoffed off the entire merger by quoting the old Chinese saying about marriage “Same bed, different dreams”—and then told the China division that it should continue to follow its own dreams, rather than HBT’s. S/he ignores or responds late to emails and phone calls, blaming the time difference or technology integration issues. Given the Country Manager’s cavalier attitude, it is perhaps little surprise that the China Product Manager—another TriFec veteran—is also ignoring agreed-upon directives. Indeed, s/he reportedly dismissed the entire Worldwide Integration Plan with another old saying s/he had learned in China, “The heavens are high and the emperor is far away.”

Specifically,
• The China Country and Product Managers have failed to implement the WIP, which clearly states that TriFec PCs should be sold to commercial enterprises in China and Haley-Burroughs PCs should be sold to individual consumers. Haley-Burroughs is stronger than TriFec in the China consumer market—which is projected to grow faster than the commercial market—and this continued insistence on selling only TriFec PCs is causing the business to suffer.

• The WIP calls for the Haley-Burroughs and TriFec Shanghai offices to be combined; reducing real estate costs is a significant part of planned savings in the first year of the merger. The Country Manager knows this, but has evidently done nothing about it. Former Haley-Burroughs executives still work out of one office, and former Trifec executives out of another.

• The WIP mandates that two PC factories in Shanghai be combined; one will be shut down within three months and the other expanded. There are a variety of reasons for this decision, including real estate savings. But both factories are still running, and the China Country and Product Managers have apparently taken no steps toward either closure or expansion. Instead, it’s business as usual.

Addressing the Problem

Post-merger integration is of paramount importance in part because shareholders who objected to the merger regularly pointed to TriFec’s unsuccessful integration of AlphaCom. In response, CEO Carson has publicly argued that the TriFec-AlphaCom integration failed because product road maps were not clear, consistent, and well-communicated; too many compromises were made as new relationships were established; and financial accountability was weak. She has vowed to ensure that no such problems occur in this merger—and is singularly unhappy to learn that important milestones are in fact already being missed in China.
ADDITIONAL INFORMATION FOR U.S.-BASED ROLES

Addison Ames, Integration Manager

You report directly to Carson, the CEO, and have led the entire integration effort. Your team’s work in the pre-launch portion of the merger has been deemed exemplary and you want to keep it that way. So does Carson. Indeed, she recently told you, only half in jest, “We have already spent a million hours on this integration effort—make it work!”

Now, however, HBT Shanghai has apparently gone rogue and is failing to follow your carefully laid plan. Having devoted your entire professional career to Haley-Burroughs, rising through the ranks from the position of sales engineer, you hardly need such warnings; you are not going to allow a couple of renegades to hurt this merger. At the same time, you value your new colleagues from TriFec for their business acumen and country knowledge (as does your CEO)—and know that if they jump ship, the floodgates might open.

Here is some additional information that might be of use in your discussion:

- In TriFec the Country Manager was king—s/he would have triumphed in almost any issue with headquarters. But this is no longer the case; HBT adopts a global view to which all country offices must now adhere.
- The Country and Product Managers’ joint loyalty to TriFec products is misplaced. Indeed, it is hurting the business. Although the total sales numbers are thus far meeting targets, HBT is already losing market share in China in the individual consumer segment—and it is just six weeks into the merger. The WIP calls for Haley-Burroughs products to be sold to this segment, yet the local team is only selling the less-competitive TriFec products.
- It is critical to combine the TriFec and Haley-Burroughs administrative and sales offices in Shanghai. Eliminating one office will result in significant cost savings—a key promise of the merger. Furthermore, in your experience, the most powerful way to integrate corporate cultures is to make people work together in the same office—and the TriFec and Haley-Burroughs cultures clearly need integrating. So, there are two good reasons for making this move, and making it fast.
- It is essential that one PC factory be shut down and the other expanded, as called for in the WIP. China is part of the global supply chain and any surplus capacity will be needed for export; the factory will not produce exclusively for China.
- In future, the China Country Manager’s bonus will be based on meeting export goals in addition to revenue and profits in China. This possibility is not yet known to the Chinese team, but can be disclosed to them.

Alex Fay, Worldwide Products Manager

You report to the Executive Vice President of the Personal Systems Group. Because the consolidation of product lines is a critical aspect in projected cost reductions outlined in the WIP, you now also work closely with the Integration Manager, Addison Ames. Chris Carson, your CEO, was not happy to learn that the product roadmap for China is not being followed—indeed,
when a dashboard on the integration process was presented at a recent meeting, China showed up as red. Carson told you that the situation was unacceptable and instructed you to “Go fix it.”

The consolidation of product lines involved major decisions, but the process generated surprisingly little debate. Given the fact that the China Country and Product managers had the opportunity to weigh in—and didn’t—you are particularly irritated by the current situation. Indeed, you distinctly remember a meeting at which the Product Manager had been present, and expressed his agreement with the decision to market Haley-Burroughs computers to consumers in China, a decision they have since failed to implement.

Here is some additional information that might be of use in your discussion:

- By failing to follow the Worldwide Product Plan contained in the WIP, the China Product Manager is effectively pushing the less successful brand—and, as a result, is already not meeting the goals for the consumer business. This is illogical and detrimental to the future of HBT.
- Some of the parts used to manufacture the TriFec consumer PCs are going to be phased out in just six months—the China Product Manager will soon be unable to buy these parts.
- The closure of one factory and expansion of the other is essential. In addition to the business reasons for making this move, the IT systems that run the factory are being phased out in 18 months—a situation of which the China Country and Product Managers may not be aware.
- The product roadmap contains clear metrics for communicating with the marketplace, realigning internal efforts, and synchronizing branding strategy. It is a map, not a wish list, and it must be followed.
- Capable product managers are notoriously hard to find in China.

In this meeting you are going to meet with the following China managers:

**Bio of Sydney Lee, China Country Manager**

Sydney Lee joined TriFec more than a decade ago, starting out as a systems engineer and moving rapidly up to positions such as product marketing manager, marketing manager, commercial account manager, and finally China country manager. S/he is a hands-on executive who is equally comfortable haggling over prices, drinking Maotai with customers, or regaling government officials about the strengths of TriFec and the many residual benefits of its investment in Shanghai—and can do all this in English, Mandarin, Shanghainese, and Cantonese. S/he excelled at every position s/he had—always meeting the numbers—and is fiercely loyal to TriFec. Lee saw Haley-Burroughs as an inferior competitor and the adjustment to the merger has not been easy.

**Bio of Dominique Pan, China Product Manager**

Dominique Pan has excelled as TriFec China Product Manager for the PC business, navigating numerous cross functional situations, building and maintaining relationships with key sales channels, and working collaboratively with service and worldwide marketing teams, executive management, and regional marketing representatives. S/he became a master at creating marketing plans that helped TriFec grow by exploiting the channel and service weaknesses of its
competitors—chief among whom was Haley-Burroughs. Pan prefers to work independently and is deeply knowledgeable about China, having done business in all 33 mainland China’s provinces, autonomous regions, municipalities, and special administrative regions—a rare feat for any executive.