Yahoo's challenge: Finding a viable growth path via acquisitions

By Laurence Capron , INSEAD

Yahoo CEO Marissa Mayer recently announced her plan to make acquisitions to revitalize and grow Yahoo. Her announcement generated a lot of reaction, but not so much about her ability to execute M&As — Mayer brings M&A experience gained at Google, and if she sticks with relatively small, educational acquisitions, failure on one deal will not break the company.

Instead, the question is more profound: Does the Yahoo CEO have a long-term, cohesive plan to grow the company or will it turn into a fragmented and chaotic IT holding company?

So Mayer is facing a perennial dilemma of leaders: how to grow a company. Should Mayer let Yahoo grow organically by hiring people and strengthening internal innovation? Should Yahoo obtain skills and talent through a licensing agreement or partnership? Or should Yahoo buy these through an acquisition? These are some of the toughest questions that Mayer will face.

The challenge ahead is not simply to assess whether specific acquisition targets will be worth more as part of Yahoo than on the open market, but whether Mayer will be able to assemble these purchases using a coherent strategic roadmap and balance them effectively with other modes of corporate development — notably, organic growth and alliances.

Through my research on "**Build, Borrow or Buy**" strategies with professor Will Mitchell of Duke and Toronto universities, I've found that firms that can diversify their growth strategies are 46% more likely to be in business five years later compared with those that only focus on alliances. The first group is 26% more likely to survive that time period compared with firms that only use M&A, and 12% more likely to survive than firms that only rely on internal development.

Three recommendations to A newly appointed CEO about growing the company:

1. **Mind the growth rhetoric.** While it is human nature for CEOs to be willing to make radical changes during their first weeks, I counsel CEOs to mind their growth rhetoric so they do not dismiss existing, yet still valuable, ways of acquiring talent. Companies that overvalue outside innovation, notably by overemphasizing the value of M&As, might discourage good research talent from joining their R&D divisions. They'll become less attractive as partners and licensees, and, over time, they'll gradually become less able to finance acquisitions. Employees understand the need for a different focus in the growth strategy, but the refocusing does not have to include disrespect for a core capability or a mode of growth used in the past.
2. **Don't view acquisitions as a convenient strategic shortcut.** In my research on M&As, I found that many firms jump to make acquisitions without even thinking of contracting or making alliances. Keep in mind that M&As are complex, costly and disruptive and should only be used when the ends justify the investment of time, money and human resources — 70% of M&As fail.
3. **Balance M&As with organic growth and alliances.** The bottom line is that a firm needs to consider all of the options rather than just doing what is familiar. Over time, it needs to develop a diverse portfolio of paths for growth or it may not be around in five years. Firms that make

> too many acquisitions, too quickly, run out of integration skills and become fragmented and chaotic. They often need to pause to digest their deals or become acquisition targets themselves. Firms that over-rely on internal development (build) are often too slow and become inert over time — their decline is often less radical than M&A-dependent firms (buy). Lastly, firms relying too heavily on temporary agreements and alliances (borrow) become partner-dependent and lose their strategic autonomy.

Knowing when and how to use the different modes of growth while composing a balanced and sustainable growth portfolio is very challenging. It is even more so in a fast-moving environment where firms need constantly to renew capabilities and talents.

Best of luck to Mayer in reaching her goal of revitalizing and growing Yahoo.

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