FUNDAÇÃO GETULIO VARGAS

ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

LUIS FELIPE MARIN BANLAKY

START-UP ACQUISITION:

Motivations, difficulties and lesson learned

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Corporate Strategy

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"Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do."

--Steve Jobs, co-founder, chairman and CEO of Apple

RESUMO

Em um esforço continuo de sobrevivência, corporações buscam meios para expandir seus negócios, seja dentro de seus mercados atuantes, ou na exploração de novos mercados. Para alcançar esse objetivo, inovações são realizadas pelos funcionários que, por meio de suas iniciativas, praticam o empreendedorismo coorporativo. São diversas formas em que o empreendedorismo corporativo se manifesta, dentre elas por meio de aquisições. Ao comprar uma outra empresa, a empresa compradora tem como motivação a busca de alguns atributos que complementem seus objetivos iniciais. Após a compra, o processo de integração entre as duas empresas é, por muitas vezes, complicado e penoso. O objetivo desse estudo é o de identificar quais são essas motivações de compra, os problemas enfrentados durante a integração entre as duas empresas, e quais são as lições aprendidas por grandes/médias corporações quando adquirem Start-ups. Muitos estudos atualmente tratam de temas relacionados à aquisição de empresas, porém, quando se trata de Start-ups, pouca literatura é encontrada. Os resultados dessa pesquisa são fruto de entrevistas com os gestores e empreendedores que participaram do processo de aquisição da SAMURAI pela Momentum e da Save-me pela Buscapé – empresas brasileiras. Os resultados são seis sugestões que devem ser consideradas por grandes/medias corporações antes e durante o processo de aquisição de uma strat-up: (i) A base de clientes da empresa comprada deve ser cuidadosamente considerada; (ii) um contato muito próximo entre os gestores das duas empresas é crucial antes da realização da aquisição; (iii) a contratação de uma empresa de consultoria em aquisições pode ser primordial durante o processo de integração; (iv) o empreendedor tem um papel de central importância para o future da nova empresa formada após a aquisição; (v) a forma como a integração entre as duas empresas ocorrerá após a compra deve ser cuidadosamente escolhida e (iv) a criação de uma *corporate venture* deve ser levada em consideração.

PALAVRAS CHAVE: EMPRESAS – FUSÃO E AQUISIÇÃO, EMPREENDEDORISMO, EMPRESAS NOVAS, ESTRATÉGIA

ABSTRACT

In a continuous survival effort, corporations search for different ways to expand their business within the market in which they already operate, or within new desired markets. To reach their objectives, the employees innovate through their initiatives, an act called corporate entrepreneurship. There are many ways that corporates can have an entrepreneurial behaviour, such as through the acquisition of another company. When acquiring a different company, a corporation has as its motivation the desire of some new attributes that either complement or will be part of their indicial objectives. After the acquisition, the integration process between the two (or more) partners is often complicated and painful. The aim of this study is to identify; what are the buying motivations, the problems encountered during the merging process of merge between the partners, and the lessons learned by big/medium corporations when acquiring a Start-up. There is a vast amount of literature concerning the acquisition by big corporations but, when talking about the acquisition of start-ups, one discovers an unexplored gap due to a lack of literature on this subject. The results of this study have been collected through in-depth interviews with employees and entrepreneurs that have taken part in the entire process of acquisition of SAMURAI by Momentum and of Save-me by Buscapé. The results are six suggestions of topics that should be taken into consideration by big/medium corporations when taking the decision of acquiring a start-up: (i) The client base of the acquired company should be previously considered; (ii) a closer contact between the management of both companies before the acquisition is crucial; (iii) hiring a consultancy company to advise during the merge process can be primordial; (iv) the entrepreneur has a central importance for the future of the merged firm; (v) the integration mode has to be carefully choice having the (iv) creation of a corporate venture as a great choice to be consider.

KEY WORDS: START-UP, CORPORATE ENTREPRENEURSHIP, ACQUISTION, STRATEGY.

Table of Contents

1 Introduction

In this first chapter I will introduce the research topic, briefly explaining the reasons for choosing it. I will touch upon some general concepts that introduce and surround the explored topic. The research question will be deconstructed, followed by the introduction of some secondary questions that compose the topic. Finally, the entire structure of this master's thesis will be presented by briefly exposing each of the chapters and its content.

Entrepreneurship is a term that has been widely discussed by ordinary people, academics, and businesses at its corporate level. However, there is still some confusion hovering around the term, in relation to its meaning and scope. Some believe that the entrepreneurial act is related uniquely to certain people that decide to start a new business on their own, while others see the act present in different kinds of spheres that could even embrace corporates.

Fostering innovation is the way that big corporations proceed to generate differentiation and, from that, add value to their stakeholders. They try to attract the best professionals, to not only forecast future trends, but also to find gaps in the market that could be the origin of a new source of revenue. However, the energy spent in this way is not always enough to predict the best trends, mainly when the innovation is disruptive. Christensen (2003) suggested that companies usually struggle with disruptive technologic innovation, as the novelty originates from, and is tested within, a small and irrelevant market niche outside their field of vision. Furthermore, Christensen & Overdorf (2000) argue that existing processes are efficiently aligned with existing resources, products and customers, which foster inertia within corporations.

Entrepreneurs rise up amongst all of this with great ideas and the hunger to market their innovations by creating start-ups. According to Blank & Dorf (2012) this new kind of company, which can be also a partnership or a temporary organization, is formed in the search of a repeatable and scalable business model. As the start-up successfully enters and starts to gain field in a certain market due to its capabilities, big corporations realize the opportunity and perceive it as either complimentary or threatening to their business. From their classification, market forces drive the management towards a decision of an entry strategy; by waiting and observing a little longer, copying, partnering, or acquiring the start-up. The final objective of this work is to help big corporations to take that decision.

This master thesis will explore such decisions by posing a theoretical approach within a practical and empirical study of real cases. The aim is to use empirical data to answer the following proposed research question:

- **How do big/medium enterprises proceed when acquiring a start-up?**

In order to complete the goal of analyzing the acquisition process, and to explore in more detail the different components of that topic, some secondary research questions were raised. The structure to cover the theme was divided in the following temporal categories; (i) before the acquisition, when the management of the acquiring company were still deciding about how, and with whom, to proceed with the acquisition, (ii) during the acquisition, after the signature of the contract when the two companies started to interact with each other, and (iii) after the acquisition, when it was possible to analyze the advantages and disadvantages throughout the process. The three secondary research questions proposed are:

1. **What are the motivations for acquiring a start-up?**
2. **What are the problems faced during the process?**
3. **What are the lessons learned for future acquisitions?**

Other complementary information will derive from the main research question, for example, how did the entire process of acquisition take place.

The topic was chosen because I have a personal desire of starting my own start-up over the next years, and also because of my professional experience working as a consultant to the Brazilian government during two years, and later working for a start-up in France.

This research work is divided in 6 chapters.

Chapter two will explore Corporate Entrepreneurship by first presenting the theory of Entrepreneurship through the exploration of several definitions proposed by different authors over time, and presenting a conciliated definition by Sharma & Christian (1999). The authors also created a table with the terminology for Corporate

Entrepreneurship that is presented and deeply discussed. This chapter also explores the entry strategies of companies in new markets. It presents the market uncertainty and the firms learning distance as the key factors that should be considered when choosing between different entry strategies, especially for the "acquire" strategy. The second part of the chapter is dedicated to start-ups. A definition by Blank & Dorf (2012) is proposed followed by the theories used to define the phases that start-ups pass along time. The "Customer developmental Model" by Steve Blank (2013), the "Mermer Stages" by Max Mermer, and the "Founding Stages" by Paul Graham (2005) are the explored theories that will later help to complement the analysis on classifying the acquired start-ups. The third part of the chapter discusses the reasons that drive a company to acquire another, and explores each category of acquisition, focusing in detail on the "Strategic Acquisition".

The third chapter is dedicated to methodology. First of all the research design is presented, which includes; the reasons for choosing the topic; the structure of the research paper; the entire process of interviewing, from establishing contact to conducting interviews; the analysis of the data gathered during the interviews; and the process of writing the final report. Finally, reflexive issues related to the data collection are discussed, regarding the selection of interviewees followed by a brief presentation of each one of them.

Chapter four contains a description of SAMURAI, Momentum, Save-me, and Buscapé - the four companies involved in the two different acquisition cases. Both the acquiring and acquired companies are described and contextualized. After introducing both companies from each case, there is a detailed description of the acquisition, presenting the story and contextualizing in time and importance the acquiring decision.

After describing the entire process and presenting both interviewees and enterprises, chapter five will finally present the empirical results in answer to the research question. Links are established between the concepts and theories explored during the literature review, and the findings identified in the interviews. The structure is divided by the three secondary research questions; each of them is presented and the subject deriving form each case is contextualized and explored.

The final chapter, chapter 6, is a conclusion to all the work developed throughout the paper. A resume with all the discussed items and descriptions is presented followed by the academic contributions of this thesis, the methodological limitations, and the further research directions are exposed and explored.

2 Literature Review

2.1 Entrepreneurship

Over the past decades there have been many studies that conceptualized entrepreneurs in different ways. The word entrepreneur was first registered in the XVI century in France in relation to major architecture and engineering constructions (Hisrich & Peters, 1995) as well as the coordination of military operations (Longen, 1997).

Schumpeter (1934) was the first scholar to introduce entrepreneurship as an academic field. He considered (1976) the entrepreneur as someone that brings a new combination of existing elements and, by doing so, launches new products and processes, identifies new markets and suppliers, and creates new types of organizations.

The study of entrepreneurship has widely increased with thousands of other authors publishing about the theme. This demonstrates the current importance of entrepreneurship, a phenomena responsible for creating the dynamic expansion of today's global economy (Crosby, 200)

The following table displays important definitions developed by some of the most significant authors in the field of entrepreneurship.

Definitions of Entrepreneurship and Entrepreneur	
Author/s & Yr.	**Essence of Definition**
(Cantillon, 1755/1931)	Entrepreneurs buy at certain prices in the present and sell at uncertain prices in the future. The entrepreneur is a bearer of uncertainty.
(Defoe, 1887/2001)	Entrepreneurs are 'pro-jectors'.
(Knight, Risk, Uncertainty and Profit, 1921) (1942)	Entrepreneurs attempt to predict and act upon change within markets. The entrepreneur bears the uncertainty of market dynamics.
(Weber, 1947)	The entrepreneur is the person who maintains immunity from control of rational bureaucratic knowledge.
(Schumpeter J. A., 1934)	The entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. These can take several forms: • the introduction of a new good or quality thereof, • the introduction of a new method of production, • the opening of a new market, • the conquest of a new source of supply of new materials or parts, and • the carrying out of the new organization of any industry.

(von Mises, 1949/1996)	The entrepreneur is always a speculator. He deals with the uncertain conditions of the future. His success or failure depends on the correctness of his anticipation of uncertain events. If he fails in his understanding of things to come he is doomed...
(Walras, 1954)	The entrepreneur is co-ordinator and arbitrageur.
(Penrose, 1959/1980)	Entrepreneurial activity involves identifying opportunities within the economic system.
(Kirzner, 1973)	The entrepreneur recognizes and acts upon profit opportunities, essentially an arbitrageur.
(Drucker, 1985)	Entrepreneurship is the act of innovation involving endowing existing resources with new wealth-producing capacity.
(Lumpkin & Dess, 1996)	The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start-up firm, through an existing firm, or via 'internal corporate venturing'.
(Shane & Venkataraman, 2000)	The field of entrepreneurship involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them.
(Ireland, Hitt, & Sirmon, 2003)	Entrepreneurship is a context dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.
(Commission of the European Communities, 2003)	Entrepreneurship is the mind-set and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organization.

Table 1 - Definitions of Entrepreneurship
Source: **(Ahmad & Seymour, 2008)**

With the aim of conciliating all the existing definitions, Sharma & Christian (1999) propose that a broad definition is preferable to narrow definitions as they "better reflect the early stage of development of the field, avoid the need for excessive retrenchment as new knowledge becomes available, and provide considerable latitude for a theoretical and empirical process to emerge that will eventually permit the unique parts of the whole to be classified, defined, and understood in relation to that whole." They followed this statement with the given proposition:

Entrepreneurship encompasses acts of organizational creation, renewal, or innovation that occur within or outside an existing organization.

Entrepreneurs are individuals or groups of individuals, acting independently or as part of a corporate system, who create new organizations, or instigate renewal or innovation within an existing organization.

According to Collins & Moore (1970), Entrepreneurship can be subcategorized into two groups: (i) Independent entrepreneurship, in which a group of individuals or a single individual acts independently of any organization to create a new organization; and (ii) Corporate Entrepreneurship, in which a group of individuals or a single individual acts in association with an existing organization to create a new organization or instigate renewal or innovation within that organization.

Focusing on acquisitions of start-ups, this work aims to explore the entrepreneurial efforts of already existing corporations. For a broader overview of the theme, the following table proposed by Sharma & Christian (1999) presents the hierarchy of terminology in Corporate Entrepreneurship and will be used to narrow down the levels to, finally, explain why and how corporates can manifest entrepreneurial acts within merges and acquisitions.

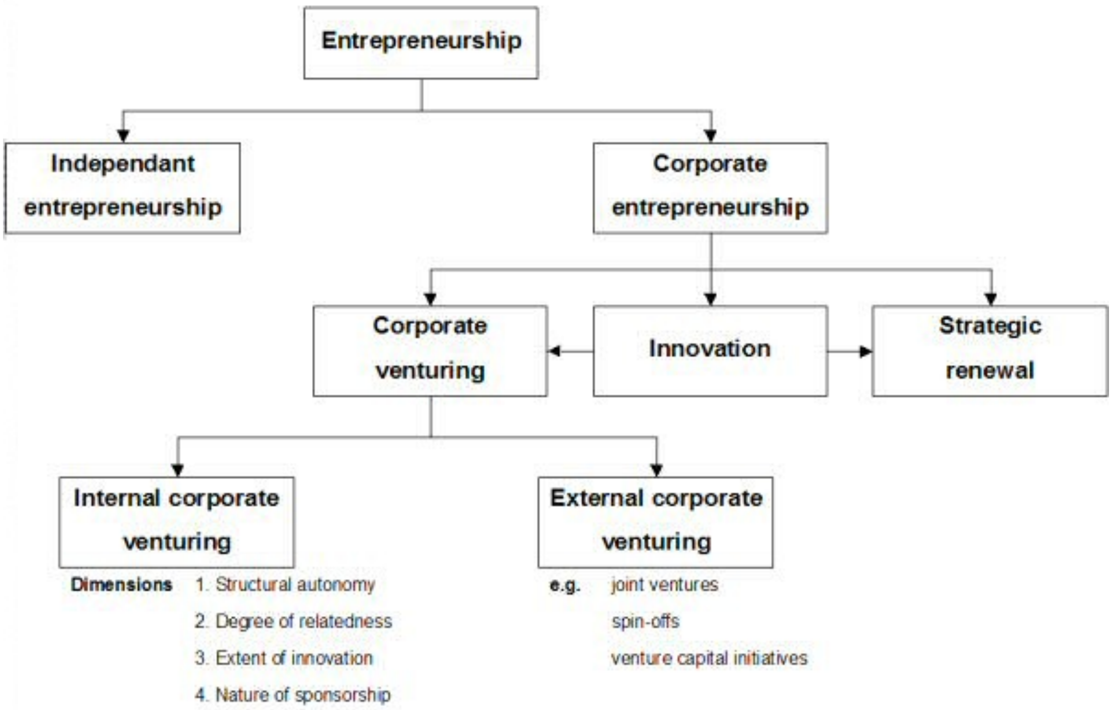

Figure 1 - Hierarchy of Terminology in Corporate Entrepreneurship
Source: (Sharma & Chrisman, 1999)

2.1.1 Corporate Entrepreneurship

Innovation is one of the most discussed themes over the past decade. There are many different definitions for the term. One of the most important definitions was presented by Schumpeter (1984), in which he places an emphasis on innovation by the creation of new products, production methods, markets, and forms of organization. If the innovation results in a new demand, wealth is created. So the function of the entrepreneur is to assimilate different input factors in an innovative way in order to fulfill costumer's demands and generate value to them. By doing so, if the value created is superior to the costs the entrepreneur incurred on their input factors, they generate wealth.

There has been a lack of consistency in the manner that entrepreneurship activity is being defined, as it has become an abstract and hypothetical term linked to a group or to an individual (Lumpkin & Dess, 1996). The entrepreneurial abilities of corporate organizations have been the focus of many studies, but the definitions given within them were an amalgamation of all the terms, and therefore, the literature has become ambiguous. (Sharma & Chrisman, 1999) There is a variety of terms to refer to all the different efforts made by corporations related to entrepreneurship as: intrepreneuring (Pichot, 1985), internal entrepreneurship (Vesper, 1984), corporate venturing (Biggadike, 1979), internal corporate entrepreneurship (Jones & Butler, 1992), strategic renewal (Guth & Ginsberg, 1990), venturing (Hornsby, Naffziger, Kuratko, & Montagno, 1993), and finally corporate entrepreneurship (Burgelman R. , 1983).

From the entrepreneurship concept some other derivations have arisen to classify different situations in which there is an innovation to the market. Corporate entrepreneurship is one of these classifications that have emerged, mainly from the desire of corporations to stimulate their employees in a way to create innovation within its market. (Constante, 2011). The following table shows a list of different definitions related specifically to corporate entrepreneurship:

Definitions of Corporate Entrepreneurship	
Author/s & Yr.	**Definition Suggested**
Burgelman (1983)	Corporate entrepreneurship refers to the process whereby the firm engages in diversification through internal development. Such diversification requires new resource combinations to extend the firm's activities in areas unrelated, or marginally related, to its current domain of competence and corresponding opportunity set (p. 1349).
Chung e Gibbons (1997)	Corporate entrepreneurship is an organizational process for transforming individual ideas into collective actions through the management of uncertainties (p. 14).
Covin e Slevin (1991)	Corporate entrepreneurship involves extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combination (p. 7. quoting Burgelman, (1984, p. 154).
Guth e Ginsberg (1990)	Corporate entrepreneurship encompasses two types of phenomena and the processes surrounding them (1) the birth of new businesses within existing organizations, i.e.. internal innovation or venturing; and (2) the transformation of organizations through renewal of the key ideas on which they are built, i.e. strategic renewal (p. 5),
Jennings e Lumpkin (1989)	Corporate entrepreneurship is defined as the extent to which new products and/or new markets are developed. An organization is entrepreneurial if it develops a higher than average number of new products and/or new markets (p. 489).
Schendel (1990)	Corporate entrepreneurship involves the notion of birth of new businesses within on-going businesses, and . . . the transformation of stagnant, on-going businesses in need of revival or transformation (p. 2).
Spann, Adams e Wortman (1988)	Corporate entrepreneurship is the establishment of a separate corporate organization (often in the form of a profit center, strategic business unit, division, or subsidiary) to introduce a new product, serve or create a new market, or utilize a new technology (p. 149).
Vesper (1984)	Corporate entrepreneurship involves employee initiative from below in the organization lo undertake something new. An innovation which is created by subordinates without being asked, expected, or perhaps even given permission by higher management to do so (p. 295).
Zahra (1991)	Corporate entrepreneurship refers to the process of creating new business within established firms to improve organizational profitability and enhance a firm's competitive position or the strategic renewal of existing business.
Zahra (1993)	Corporate entrepreneurship is a process of organizational renewal that has two distinct but related dimensions: innovation and venturing, and strategic renewal (p. 321).
Zahra (1995) (1996) n	Corporate entrepreneurship — the sum of a company's innovation, renewal, and venturing efforts. Innovation involves creating and introducing products, production processes, and organizational systems. Renewal means

	revitalizing the company's operations by changing the scope of its business, its competitive approaches or both. It also means building or acquiring new capabilities and then creatively leveraging them to add value for shareholders. Venturing means that the firm will enter new businesses by expanding operations in existing or new markets (1995, p. 227; 1996, p.l715).

Table 2 - Definitions of Corporate Entrepreneurship
Source: Adapted from **(Sharma & Chrisman, 1999)**

In the midst of all the proposed definitions, Sharma & Christian (1999) suggest, "the most widely accepted definition of corporate entrepreneurship was proposed by Guth and Ginsberg (1990). They say that corporate entrepreneurship encompasses the birth of new businesses within existing businesses and the transformation (or rebirth) of organizations through a renewal of their key ideas". Sharma & Christian (1999) summarize all their comprehension defining Corporate Entrepreneurship as "the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization."

Among corporate entrepreneurship, three divisions (that could or couldn't be inter-related) have been suggested (Figure 1) by a number of authors: (i) Strategic Renewals, which are activities within the organization, that are not treated as a new business, but changes business or corporate level; (ii) Corporate Venturing, which are activities within the organization that would create a new business organization that may or may not lead to the creation of a new organizational unit; (iii) Innovation, which can be present in the other two divisions, or simply be a novelty to the corporation that wont change any structure or strategy. (Sharma & Chrisman, 1999) According to that definition a spin-in could be classified as a Corporate Venture as it is an internal activity that encompasses all the efforts towards an external acquisition. The outcome of that acquisition is the creation of a new business organization within the corporate organization. The activities involved are the constant watching for outside opportunities, the negotiation, the transaction itself, and later the incorporation of the start-up in the company's operation.

Hoskisson and Busenitz (2012) suggest that acquisitions are not only a way of corporate entrepreneurship, but are also the most effective mode to enter markets new to the firm. The decision is more assertive when there is a low uncertainty within that market but a high learning distance. They also propose that if the market uncertainty is higher and the learning distance is lower, the most appropriate strategy would be to create a new internal venture. All of these aspects are further discussed in chapter 2.1.2.2

As already explained, Corporate Venturing may or may not be allocated within the sphere of an existing organization (von Hippel, 1977), and this is the focus of this master's thesis. According to where the allocation will take place, it is possible to classify corporate venturing into: (i) Internal Corporate Ventures in which the entrepreneurial activity will result in dependent entities allocated inside the actual boundaries of the existing organization; and (ii) External Corporate Venturing in which the entrepreneurial activity will result in semi-autonomous or autonomous organizational entities allocated outside the actual boundaries of the existing organization. (Sharma & Chrisman, 1999). Entrepreneurial activities as well as cooperative strategy and acquisitions are considered external. (Gulati, 1999) (Hitt, Dacin, Levitas, Arregle, & Borza, 2000) (Hitt, Hoskisson, & Johson, 1996)

2.1.2 Entry Strategy

Corporations are exposed to a dilemma that drives them to do some arrangements and efforts in order to guarantee its perpetuity. On one side the size, the processes, and the core competences are responsible for its success, but bring about rigidities (Leonard-Barton, 1992), which can make important changes slow and painful. On the other side changes are a must for keeping the competitive advantages of the corporations that will only be able to face market changes by introducing innovations. To deal with this dilemma, organizations have to foster innovation internally, but also have the possibility to use external solutions. According to Hoskisson & Busenitz (2012), the most common organizational mode of entry includes new ventures, joint ventures, and acquisition. They also state that the entry decision will be more or less appropriate depending on (i) the market uncertainty, and (ii) the firm capabilities and learning distance.

2.1.2.1 Market Uncertainty

Uncertainty derives from the inability of doing future previsions, incomplete or a total absence of information about given events, and the inability to calculate probabilities of future events (Miliken, 1987). Start-ups always have to deal with uncertainty since, by definition, start-ups are temporary organizations designed to search for a repeatable and scalable business model (Blank & Dorf, 2012). As such, the consequences of the word "search" bear a lot of unpredictability about future events, not only related externally to the market one is entering, but also related to internal capabilities to respond and adapt ones business model. The complexity of a given market shapes that specific markets uncertainty, uncertainty which is composed by; the number of market elements, the un-relatedness with other markets, and the unpredictability of change; and by the stability, which is how much that certain market has been changing lately. (Daft, 1995)

2.1.2.2 Firm Capabilities and learning distance

Many scholars have vastly studied the learning ability of firms, as they believe that it shapes company's actions which, in the end, are related to improvements in competitiveness. The access to resources and learning are major origins of competitive advantage (Stuart, 2000). The learning process has to be based on complementary skills and knowledge, through summing up the current different capabilities of the partners resulting in a new context or setting. In other words, by summing the capabilities of firm A (1), with the capabilities of firm B (1), the result would not be a firm C (1+1 = 2), but a firm D (1 + 1 = 3). We name the initial capabilities that become complete only in a combination of the two firms by an acquisition or a joint venture, partial capabilities.

Learning distance is the ability to innovate by using the necessary amount of knowledge acquired from previous experiences, to address the current situation. A higher learning distance means a bigger amount of needed capabilities, whilst a lower learning distance means less needed capabilities. The risk is directly associated to that conception, since if the company already has the capabilities to face certain situations, the risk of failing is lower (Gavetti & Levinthal, 2000). An entry strategy, as an acquisition, is an important option when a firm has a high learning distance from the desired market, as they are able to acquire partial capabilities that would complement the existing ones.

2.1.2.3 Strategic Approaches

When a corporation sees a great opportunity coming from an already existing start-up, there are four decisions that the board has to take: (1) keep tracking the start-ups' progress as they judge that its not the right time to take any action; (2) copy what the start-up is doing since they consider that they can do it equally or better; (3) partner up with that start-up; and (4) acquire the company. The different measures will imply different levels of ownership, costs and risks. To explore that decision I shall use the model created by Hoskisson & Busenitz (2012) in which they describe the best entry mode according to the market uncertainty, the firms capabilities and learning distance. The following table presents the combinations that would most likely lead to success for each entry mode.

		Firm Capability and Learning distance	
		Low Learning Distance	High Learning Distance
Market Uncertainty	Low	NO ENTREPRENEURIAL ENTRY	ACQUISITION
	High	INTERNAL VENTURE	JOINT VENTURE

Table 3 - Best entry decision
Source: Adapted from (Hoskisson & Busenitz, 2012)

Since this study focuses on acquisitions, the other three entry modes will be left aside as a recommendation for further complementary studies.

2.1.3 Acquisitions

The decision to acquire another enterprise is connected mainly to the desire to possess dissimilar capabilities from the current ones. The operational synergy that is created from an acquisition is one of the most common reasons for the acquisition to take place (Chatterjee, 1986). The synergy comes from an economy of scope that Goldhar & Jelinek (1983) defined as "efficiencies wrought by variety, not volume" and Porter (1985) classified as tangible and as intangible. Tangible refers to policies exchanged between the parts, like at the production process or joint sales forces, while intangible synergy refers to the capability to apply in a certain situation what has been learned from another different situation.

2.2 Start-ups

Every day new companies are born and die. New ideas and business models are brought to be tested in the market, and already existing business plans are copied. In the case of small companies, there is a line that classifies start-ups amongst small businesses. While small businesses such as a bookshop operate within a mature market in which most of the incertainties have been mapped and tested, start-ups operate in an unexperienced market with many uncertainties. Blank & Dorf (2012) defined start-up as an "organization formed to search for a repeatable and scalable business model", and also stated that start-ups are temporary organizations that are searching for a product, or/and, a market fit, and a business model.

Another definition presented by Graham (2012) defines start-ups in the following manner: "A start-up is a company designed to grow fast. Being newly founded does not in itself make a company a start-up. Nor is it necessary for a start-up to work on technology, or take venture funding, or have some sort of "exit." The only essential thing is growth. Everything else we associate with start-ups follows from growth".

2.2.1 Phases

As with any other company, start-ups have a lifecycle from the beginning. There are several models that classify the stages of start-ups. In order to classify the acquired start-ups in this study we will use three different approaches: Customer Developmental, The Marmer Stages, and Funding Stages

2.2.1.1 Customer Developmental Model

The Customer Developmental Model is a famous model developed by Steven Blank (2013) in his book Four Steps to the Epiphany. Blank discusses the stages within a start-ups lifetime with the comprehension of customer needs as a main focus. The model is structured with the following phases:

1. CUSTOMER DISCOVERY	
Goal	Discover whether the problem, product and customer hypotheses in your business plan are correct.

Activities	Get outside the building in order to learn what the high-value customer problems are. Find out what it is about your product that solves these problems Discover who specifically are your customers and users With your findings, shape how you will describe your unique differences to potential customers

2. CUSTOMER VALIDATION	
Goal	Build a repeatable sales road map for the sales and marketing teams who will follow it later.
Activities	Prepare sales materials, marketing strategies, sales roadmap Land a few deals with "early evangelists" Develop a positioning statement to influence how the market perceives your product If, and only if, you find a group of repeatable customers with a repeatable sales process, and then find that those customers yield a profitable business model, do you move to the next step.

3. CUSTOMER CREATION	
Goal	Build on the success the company has had in its initial sales.
Activities	Create end-user demand and drive that demand into the company's sales channel. Heavy marketing spending after the point where a start-up acquires its first customers.

4. COMPANY BUILDING	
Goal	Exploit the company's early market success.
Activities	Transition from informal, learning and discovery-oriented Customer Development team into formal departments with VPs of Sales, Marketing and Business Development. These executives now focus on building mission-oriented departments.

Table 4 - Customer Developmental Model
Source: (Lee, 2012)

2.2.1.2 Marmer Stages

Named after Start-up Genome founder Max Mermer, the model is loosely based on Customer Developmental Model by Blanks (2013), but is product-centric. In order to address the progress of start-ups, the model was created with 6 stages made up of a level of sub-stages that start-ups have to follow to advance. The Goals and activities were drawn from self-reported data by thousands of start-ups worldwide (Lee, 2012). The model is structured with the following phases:

1. DISCOVERY (5-7 MONTHS)	
Goal	Validate whether you are solving a meaningful problem and whether anybody would hypothetically be interested in your solution.
Activities	Founding team is formed Many customer interviews are conducted Value proposition is found Minimally viable products are created Team joins an accelerator or incubator First mentors and advisors come on board.

2. VALIDATION (3-5 MONTHS)	
Goal	Get early validation that people are interested in your product through the exchange of money or attention.
Activities	Refinement of core features Initial user growth Metrics and analytics implementation First key hires Pivots (if necessary) First paying customers Product market fit

3. EFFICIENCY (5-6 MONTHS)	
Goal	Refine your business model and improve the efficiency of your customer acquisition process. Efficiently acquire customers in order to avoid scaling with a leaky bucket
Activities	Value proposition refined User experienced overhauled Conversion funnel optimized Viral growth achieved Repeatable sales process and/or scalable customer acquisition channels found

4. SCALE (7-9 MONTHS)	
Goal	Step on the gas pedal and try to drive growth very aggressively.

Activities	Massive customer acquisition Back-end scalability improvements First executive hires Process implementation Establishment of departments

Table 5 - Marmer Stages
Source: Adapted from (Compass.co, 2013)

2.2.1.3 Funding Stages

Paul Graham (2005), co-founder of Y Combinator[1], published after a speech at Harvard Computer Society "How to start a Startup", in which he developed a model describing the different life stages of a start-up, based on the way it funds its operations. The model is structured with the following phases:

1. SEED/ANGEL ROUND	
Goal	Ensure you have enough money to build version one of the software and raise the next round of capital
Activities	Set up the company and fund living expenses Write a skeleton business plan addressing the five fundamental questions: 1. what you're going to do 2. why users need it 3. how large the market is 4. how you'll make money 5. who your competitors are and why this company is going to beat them

2. EARLY STAGE	
Goal	Show some traction and possibly generate revenue

[1] Y Combinator provides seed funding to a large number of startups, particularly those started by younger, more technically oriented founders. The company has now invested in more than 400 startups, including Justin.tv, Xobni, Dropbox, Airbnb and Stripe. (Y Combinator, 2015)

Activities	Turn prototype into something releasable to the public Have solid core features ready Gain a small but devoted following Start generating revenue Formulate an exit strategy — go public or exit. Pay investors who will help the company in some way by letting them invest at low valuations. Use other investors as leverage to prevent funding delays. Pursue alternatives. Hire first employee and freelancers/part-timers/interns

3. SERIES AROUND & BEYOND/GROWTH STAGE	
Goal	Go from revenue to profit. Grow aggressively.
Activities	Spend more on marketing Build infrastructure Hire executives Down-rounds can occur to struggling start-ups

4. LATE STAGE	
Goal	Go from profit to exit/IPO.
Activities	Prepare your business to the IPO Convince Investors (Possibly a Road trip)

Table 6 - Funding Stages
Source: Adapted from (Lee, 2012)

2.3 Entry Strategy

To reach the sought after competitive advantage it is important to create differentiation. By using their network and market observation, enterprises may perceive among start-ups a great opportunity to innovate and reach their goal. To manage the innovation portfolio, corporations can build it internally (in this case copy the business model of the start-up), they can partner up with the start-up, or they can acquire the start-up. (Blank S. , Corporate Acquisitions of Startups: Why Do They Fail?, 2014) This study will mainly focus on the acquisition decision.

2.3.1 Different types of acquisitions

An acquisition is an event that comes with a lot of uncertainty for both sides. The main reason driving an acquisition is that by acquiring a different company, the buyer expects, (after having done a valuation), a positive NPV (Net Present Value) for that investment. However, the determination of the NPV is a very hard mission containing a lot of variables, that brings a high risk to the operation. Steve Blank (Blank S. , 2014) says that in the case of start-ups, big corporations are able to pay large multiples over the valuation since they can factor in the potential impact of the combined businesses.

There are three different categories of an acquisition: (i) Strategic Acquisitions, in which operational synergies, such as higher productivity or lower costs, between the two companies are expected; (ii) Financial Acquisition, in which the buyer believes that the share price of the acquired company is below its assets, and is normally related to a buyers belief that the acquired company hasn't been properly managed; and (iii) Conglomerate Acquisition, in which the expected synergies are related to financial drivers. (Hillier, Grinblatt, & Titman, 2012)

The main focus of this study will be to focus on Strategic Acquisitions, as I believe that the other two categories are not applicable for start-ups, I believe this because start-ups do not usually have enough assets, or are valued as having too high a level of uncertainty, to be considered for a financial acquisition, and they do not have enough size and complexity to consider financial drivers, such as tax benefits, which are related to Conglomerate Acquisition.

Hillier et All (2012) divide Strategic Acquisitions into (i) vertical acquisition, between supplier and customer, that can eliminate problems related to coordination and bargain power between the two parts, and (ii) horizontal acquisition, between competitors, that can decrease the competition and increase cost efficiency.

When deciding to innovate and acquire another company, a corporation is most likely to be looking for one or a combination of the following items: (i) buy out an entire company for its revenue and profits; (ii) acquire a company for the product and its installed base of users, (iii) buy out another company's product line for the product, (iv) acquire small companies for their teams (and discard the product), and (v) license/acquire intellectual property. When buying revenues (i), or sometimes product line plus users (ii), the acquirers are not buying a start-up, since, by definition, a start-up is a temporary organization designed to search for a repeatable and scalable business model. Companies of that stage have already found a desired business model. (Blank S. , 2014)

The benefits associated to acquisitions are denominated synergies. The following synergies can be expected: (i) revenue growth, (ii) cost reductions, (iii) tax reduction, and (iv) cost of capital reduction. Different reasons to justify an acquisition can be related to the access of a new or a complementary technology, which nowadays are a determinant factor to success, and also to reduce or overcome entry barriers, in which an acquisition could be the only way to explore the desired market. (Hillier, Grinblatt, & Titman, 2012)

2.4 Literature Review usage

To help support the analysis and to better organize the literature review, I have built a connection matrix. The matrix links two of the secondary research questions with definitions and proposed models, already exposed in the literature review:

Objectives	Reference
Motivations	• Definition of Entrepreneur - Schumpeter (1976) • Definition of Innovation - Schumpeter (1976) • Best Entry decision - Hoskisson & Busenitz (2012) • Tangible and Intangible Synergies - Porter (1985)
Lesson Learned	• Definition of External Corporate Venture - Sharma & Christian (1999) • Dilemma of process - Leonard-Barton (1992)

Table 7 - Connection Matrix

3 Methodology

Dealing with and studying about start-ups is a little more complicated than big corporations. Not only is the theme more contemporary, but also the information is highly dispersed and most of the time incomplete. The velocity of transformation and the lack of formal registers within these kinds of companies also make changes hard to track and, for that reason, in the structure of my research, using only a secondary data wasn't the most appropriate methodology.

To understand the motivations, challenges and lessons learned in the process of an acquisition of a start-up by a big/medium corporation, I used 'explorative research' (Giorgi, 1994). To do so, I conducted qualitative interviews with people involved during the entire process. The final result not only brought me a very rich experience, but also allowed me to explore both the broad and specific topics that were introduced by the interviewees.

3.1 Research Design

Some steps were taken in the aim of creating a research design that effectively answered my research question:

3.1.1 Choice and evaluation of the research subject

It wasn't easy for me to choose the topic for my final thesis. In fact, I had started working in two different topics before, and with the help of my supervisor, I decided finally to write about start-ups. The decision was leveraged by the fact that I was working for a start-up in France and I always had the dream of having my own start-up. I have also done a very interesting week seminar during my master's program about corporate entrepreneurship. I was hoping that exploration of the topic would somehow be helpful to my future personal and business decisions.

3.1.2 Architecture of the research paper

The next step was to design the entire framework of the research paper. As suggested by my supervisor I decided to explore all the literature available before conducting the interviews. This method would prepare me better on the subject discussed during the interviews, (Morse & Field, 1996) as I would have gathered a lot of preliminary information about the topic and therefore be better equipped to create the script for the interviews. Through discussion with my supervisor we agreed on a minimum of two cases as a sample size for my research.

3.1.3 Gathering interviewees

To find cases that would satisfy my research topic was not very challenging. I talked to some of my contacts whilst also doing deeper secondary research. The main problem faced, and what I found the hardest part of the entire process, was to find and convince interviewees to take part in the interviews. This difficulty was not only caused by the fact that there are usually only a small number of people involved in the decision making process of an acquisition, but also because such people are often difficult to access and lack spare time During this process, I talked to more than ten different companies both in Brazil and France, but could finally only get two Brazilian companies to interview. The first contact was always very welcoming, but afterwards most of the contacts simply disappeared, not answering e-mails, phone calls, or SMS. Another complication was related to my physical location. I was in France and all my contacts and potential interviewees were based in other countries.

3.1.4 Conduction of the interviews

During this following stage, I conducted interviews that varied between 45 and 75 minutes with 4 interviewees. Due to my physical distance from the interviewees, all the interviews were conducted via Skype. To provide a calmer and safer environment (Saunders, Lewis, & Thornhill, 2009) from my side, and in order to avoid any miscommunication, I agreed with my boss of the company where I was doing my internship, that I could conduct the interviews from my home in France. To prepare myself for the interviews a script was created. The aim of the script was to ensure that the collection of all the needed information, therefore not forgetting any important data. The following structure was followed during all the interviews:

1. Thank him for his time and participation
2. Presentation of myself including past studies and work experience
3. Explanation of master thesis and the reason behind this choice
4. Ask them about their professional background
5. Qualify once again the interviewee asking about their relation with the acquisition
6. Ask about the reasons for the acquisition

7. Ask about the problems they faced during the entire process of the acquisition
8. Ask about the lessons learned for possible future acquisitions
9. Thank him for his time and availability to help me
10. Ask for another possible contact within the company to interview
11. Ask what is the best method to possibly re-contact them should I have any other questions in the future
12. Thank them once again

The interview of SAMURAIS's entrepreneur Rodrigo Helcer could not be conducted since he stopped answering my contacts, but a lot of data was previously gathered by e-mail exchanges, and that was an important source of information about the company

3.1.5 Preparation of Data

Before each interview, I prepared myself by reading as many articles as possible related to each company. There were several important sources such as the official website of the companies, however in some cases as the website did not have much useful information. Another important step was to check the profile of each interviewee before the interview, so I could better structure my communication with them. For this task the website LinkedIn was extremely helpful. After all the interviews and secondary data from the companies and start-ups had been gathered, I had to link and connect all the information for future analysis. All the notes taken during the interviews were revised, and similar collected information was grouped together for further analysis. The interviews were conducted both in Portuguese and English, so translations had to be made in order to make all the data fully coherent.

3.1.6 Writing of the report

The last step was to write down all the interesting connections found. The text had to be done in a way that would satisfy the scientific model of the research, whilst simultaneously having a more business driven approach, since the Masters for which this final thesis is written for, has a professional inclination, and not purely an academic one.

3.2 Data Collection

To collect my data through interviews I chose to use the snowball (or chain) sampling method, the most appropriate sampling method in my case, because the people I needed to reach were very specific and difficult to access. I started by contacting close contacts such as friends and professors to help me find the cases and some possible connections. They both introduced me to some potential candidates and some other contacts that may be able to help to find other cases and candidates. Once I had talked to a potential candidate, or after the interview, I asked them to introduce me to another contact within the same company who my desired criteria.

3.2.1 Selection

The selection of participants to be interviewed had to respect certain criteria established by me, and only after qualifying that my interviewees conformed to this criteria did the actual conversation start (Shaw, 1999). The first criterion was that participants had to be either the entrepreneurs from the acquired start-up, or staff from the acquiring company at the time of the acquisition. The second criterion was that participants had to be present during the whole process of acquisition. They had to have taken part in the decision to acquire, and the entire process of merging between the two companies.

I made a huge effort to be able to include other companies in my research. I contacted more than 15 companies, either directly or with the aid of other people. Unfortunately, and this is one limitation of this study, only two companies either agreed on taking part, or answered positively to my efforts. This limitation goes against some manuals of qualitative research that recommend that the study should have up to ten cases and should continue until it gets saturated. (Boyd, 2001)

3.2.2 Interviewees

As I mentioned before, it was really difficult to find the right people to interview that had the time or disposition to talk to me. The following people were interviewed from each case:

3.2.2.1 Save-me X Buscapé

Guilherme Wroclawski

Guilherme was ending his MBA, working for a digital agency when he saw the opportunity of creating Save-me with his friend. He had always looked for opportunities to create companies with his friends, mainly from his University where he graduated in publicity and marketing. With a strong entrepreneurial mindset he took some decisions before launching Save-me in order to prepare himself for an entrepreneurial launch, such as choosing to work for a recently created agency to gain experience of the growth of a new company. Guilherme was present during all the negotiation process of the acquisition and has worked in the company every since he created it.

Mirko Mayeroff

Mirko has been working in digital online marketing for the past 17 years, giving him a vast knowledge of the market. Before joining Buscapé he worked for important corporations such as UOL and Yahoo. At Buscapé he was responsible for the monetization of Save-me with Buscapé or third partners. He was involved before and during the process and was able to give me good insights about the market.

Gustavo Stocco

Gustavo has always had a profile in-between entrepreneur and executive. Starting his career at a derivatives market, he gained a MBA in the United States and has been working with Internet every since (for more than 15 years), both as an entrepreneur and an executive for very important companies such as Yahoo and Microsoft. At the time of the acquisition he was the vice-president of Buscapé, and therefore responsible for acquisitions. He followed the entire merging process between the two companies and mentored and supported the two entrepreneurs from Save-me. At Buscapé, he was also responsible for acquiring another 14 start-ups.

3.2.2.2 SAMURAI X Momentum

Danilo Moraes

Danilo graduated in marketing and publicity and has dedicated almost his entire career working for McCann Group. At the time of the acquisition, he was Chief Creative Officer and General VP of Momentum Brazil. At Momentum he was mainly responsible for the creative and strategic product in all areas: communication, entertainment, sports and shopper marketing. He was both part of a board that decided to acquire SAMURAIU and also, as a VP, responsible for the merge of processes and personnel from both companies.

Rodrigo Helcer

Rodrigo Graduated in marketing and publicity at an important university in São Paulo. He was a junior consultant at INTEGRATION when he visions the chance of creating SAMURAI. Leaving the consultancy company to establish a new startup, he brilliant managed for five years the growth of SAMURAI having also taking part during the acquisition negotiations with Momentum. He has taken a very important part during the merging process between the two companies, he kept working in the new merged company for one and half years until some internal disagreements forced him to leave.

4 Companies Profiles

4.1 Case 1 – SAMURAI & Momentum

4.1.1 SAMURAI

The Brazilian start-up SAMURAI was a communication agency and consultancy created in 2006 from a spin-off effort by another Brazilian consultancy company called Integration, with the aim to push its fast growth strategy. To support its expansion plan, Integration created an internal business plan competition, later called "Acceleration Programme"[2] that would invest and provide all the resources for the winning projects.

With an innovative idea, Rodrigo Helcer, who had been consulting within the marketing business segment for four years, was the winner with his project within the publicity/branding market. The solutions present at that time in the market were always from agencies with a very innovative profile, but lacking a formal and strategic approach. Using the financial resources, and mainly the smart human capital from Integration, Rodrigo created a new business model that offered to the market a new type of service. They had a mix of business strategy (at that time only provided by strategic consultancies), with marketing consultancy (at that time only provided by branding consultancies) and communication activities (at that time only provided by communication agencies). The execution of the services had many differentials, such as the use of Project Management methodologies (PMO), and different tools, like KPI's, to give more visibility to the achieved results. The result was very positive and its services were provided to big corporations such as Johnson's & Johnson's. By the time that the company was acquired by Momentum, there were 80 employees and an annual gross income of R$22M.

According to the stages of start-ups presented at the literature review, SAMURAI at the moment of the acquisition was at the following phase on each model: for the Customer developmental Model (Blank S. G., 2013), they were at the last stage (Company Building), in which they were exploiting the companies early market success and developing their departments activities; for the Marmer Stages (Compass.co, 2013), SAMURAI was also at the last stage (Scale) in which their goal

[2] Programa de Aceleração

was to grow very aggressively; finally for the Funding stages (Lee, 2012), they were again at the last stage (late stage), in which they were ready for the exit, as they did by convincing their investors to get acquired.

4.1.2 Momentum

The advertising agency Momentum Worldwide is a subsidiary of McCann Ericksson, a Global Advertisement Agency present in 120 countries. Momentum could be described as a promotional agency, meaning that the focus was on tactical solutions that didn't greatly affect the brand of the clients. Their portfolio includes some very important national and international companies such as Nissan, Bradesco, Senac, Nextel and Microsoft (Comunique-se, 2015). Among their staff, they have some of the best professionals in the Brazilian market, specialized in the following industries: events, sponsorship, promotion, strategy, publicity, shopper marketing, music, entertainment, social, design, sports, and others. (MEIO & MENSAGEM, 2015).

4.1.3 The Acquisition

After the digital industry's advent, the development of social networks inflicted an extreme change on the industry, exposing brands in a very dangerous way, as it only takes one unsatisfied and angry client to cause them huge damage, through sharing his bad experience on any social platform. Important clients started to demand a more strategically oriented solution, but the company's driver was a tactically oriented solution, meaning some action had to be taken.

Two options were envisioned by its board: hiring people with this different expertise or acquiring another agency with that focus. Thanks to some personal contacts of Momentum's CEO in the market, they ended up getting to know about the solutions proposed by SAMURAI, as an agency that comes from a consultancy firm. After only a few meetings and some rounds of negotiations, the deal was closed and Momentum bought 100% of SAMURAI's shares.

4.2 Case 2 – Save-me & Buscapé

4.2.1 Save-Me

In the begging of 2010, whilst looking abroad for different opportunities, Guilherme Wroclawski and Heitor Chaves, two Brazilian entrepreneurs, saw an opportunity emerging from the US market. The online daily news market was trending at the time and they decided to copy the same business model in Brazil. For the following four months they locked themselves in, until the website and services offered were ready to be launched. Their lack of previous experience as entrepreneurs resulted in a lethal mistake of not observing marketing competition during that time and, it was not until the launching week that they discovered that the main international companies, such as group-on, were already dominating the Brazilian market. At that time there were already five companies competing.

Devastated and desperate, after having spent all their reserves in this project, they locked themselves in again to discuss what they should do. The final idea was to create another website that would group all the different offers from competitors as well as their own in one place. In that way the customers from all the websites would save time and effort by only having to look in one place. A second benefit from this idea is that they would compete equally with their competitors by sharing the same offers on the same platform. Save-me was the platform created and, through not making the same mistake, was online only two days after their decision.

According to the stages of start-ups presented in the literature review, Save-me, at the moment of the acquisition was at the following phase on each model: for the Customer developmental Model (Blank S. G., 2013), they were at the first stage (Customer Building), as they lacked a deep understanding about the market; for the Marmer Stages (Compass.co, 2013), Save-me was at the third stage (Efficiency) because they had already confirmed that the problem they were solving was meaningful to their customers, and therefore already had an exchange of attention with their customer base; finally concerning the Funding stages (Lee, 2012), they were at the second stage (Early Stage) as they had already paid for the first version of their website but didn't generate any revenue.

4.2.2 Buscapé

Buscapé is an online shopping comparison service that was created in 1998 in São Paulo, Brazil. The history of the company is merged with the history of online shopping in Brazil, when the use of browsers such as Netscape was not widespread. The initial idea of building a website to compare products and prices came from a personal dilemma of one of the three entrepreneurs, as he was looking for information about a printer that he could not find anywhere on the internet.

The combination between an idea that was well accepted by customers, and their own luck regarding certain contemporary changes in the venture capitalist market, changes which focused new investment on recently born “dot-com” start-ups, gave them a great opportunity to raise investments. In 1999, Buscapé closed a deal with its first investors, E-Platform, bringing in enough resources to structure the company in a very professional way. The next step was to leverage the company with foreign investments and after a roadshow in the United States, they received capital from Merrill Lynch and Unibanco. (Tasic, 2007)

Throughout the years, Buscapé had to adapt its business model because of problems, as the dot-com bubble burst in 2000. The most important change and, bringing its success today is the revenue model based on Cost Per Click (CPC)

In 2006 they merged with Bondfaro, their main Brazilian competitor, based in Rio de Janeiro. In 2009, Buscapé was acquired by Napster, a broad-based multinational internet and media group headquartered in South Africa, operating in more than 130 countries. The company is one of the most notorious companies today operating in the Brazilian Market, and because its current CEO and board are the ones who started the company 15 years ago, they have the “entrepreneurial vein” to keep investing and growing the business. This characteristic is very important to further understand its mergers and acquisition of other start-ups.

4.2.3 The acquisition

After its official launch, Save-me grew exponentially on a daily basis. The Brazilian market was growing extremely fast and there were at least two new online daily deal websites being launched every week, meaning that from a customer perspective the importance of the service provided by Save-me was also growing. During three months, the two entrepreneurs divided themselves between the two businesses, Save-me and Coletivar, in a non-stop working effort. Coletivar was growing very slowly but was their only source of income, since the business model of Save-me was still being tested and there was not yet any source of revenue source from it.

The growth of access and the importance of Save-me within the market, as well as the free media insertions they managed to acquire, attracted the attention of big corporations, like Buscapé. After an e-mail contact and a few meetings, Buscapé acquired 75% of Save-me's shares, within only one month of negotiations.

5 Empirical Results

5.1 Motivations to the acquisition

As shown in the literature review, there are different reasons that drive a corporation to acquire another company. It is possible to categorize both acquisitions as a Corporate Entrepreneurship because, according to (Collins & Moore, 1970) a group of individuals (Buscapé and Momentum's board), by acquiring another company, instigated the creation of a new company in SAMURAI's case, and innovated within the organization in Buscapé's case. The desired value added could come from one, or from a combination, of the many-presented reasons. As for the acquisition of a start-up, not all the reasons discussed can be applied, because start-ups have a size and complexity that can be considered meaningful when compared to the big/medium corporations.

Throughout the interviews it was possible to identify the following reasons as responsible for the acquisition: in both cases, the human capital linked to the expertise of the professionals from the acquired company that have a specific knowledge was seen as complementary to the existing personnel; In SAMURAI's case, the clients from the acquired company were considered somewhat strategic and valuable for the buyer; in none of the cases the innovation could have been developed and patented by the acquired company.

5.1.1 Momentum X SAMURAI

With the advent of digital, and mainly with the boom of social networks, brands have had to become much more careful about their exposition and initiatives. In the advertising agencies industry, companies were mainly divided according to channels. At the (i) operational level, known as Below The Line (BTL), the advertising is conducted person to person (e.g. pamphlets, promotions at the point of sale, banners, etc.…), and at the (ii) strategic level, known as Above The Line (ATL), the advertising is conducted in mass media (e.g. television, radio, etc.). At the time of the acquisition, Momentum had understood this change and was constantly watching for an opportunity to find the best solution to address this shift, following clients concerns. The existing expertise inside the agency was very tactically driven, the solutions proposed to its clients had a lower brand concern, and were lacking a deep understanding of the implications that certain campaigns could have to the brand, from a broader perspective.

> *Danilo: "… Momentum was born as a promotional agency and the promotional agencies were for tactical solutions. All the strategy was developed by publicity agencies…but the market has changed and the BTLs have disappeared… because of the advent of digital with social networks…"*

On the other hand, the agency SAMURAI had, as a value proposition, a setup that delivered to its clients a more structured service. The innovation presented by SAMURAI's business model or form of organization (Schumpeter J. A., 1976) , bringing to the market a consultancy structure through adopting project management tools and a process to measure results and control processes, was seen by Momentum's board as the perfect complement that would adapt the agency to the new markets foreseen requirements. The definition from (Schumpeter J. A., 1976) that entrepreneurs are someone that brings a new combination of existing elements is well applied in this case, since the founder of SAMURAI used tools already known, but applied in a different context.

Tools and processes cannot be acquired individually because they are part of a culture composed by people. So in conclusion, one of the principal reasons that embodied the acquisition of SAMURAI by Momentum was the skills, the mindset and the characteristics presented by SAMURAI's employees. The aim was to add a deeper technical planning skill to its knowhow, shifting the tactic driven actions to more complete strategic ones.

> *Danilo: "…we wanted to grow up in the strategic field and get perceived as a company with a strategic approach… at the time of the acquisition the agency was missing a deeper strategic planning perspective because our planners were more tactic…"*

Another characteristic of the industry of advertising agencies is consolidation. There are only a few huge groups that dominate the worldwide market, a status achieved mainly through acquisitions. Momentum itself was originated from an acquisition of another agency called Sight by the McCann World Group. It was a desire of Momentum to acquire some very important clients from SAMURAI, such as Johnson & Johnson's.

Analyzing the decision of Momentum through Hoskisson & Busenitz (2012) model of best entry decision I have given the following score from 1 to 10 for each variable: 4 (high) to Market Uncertainty because the market had been changing a lot at the time of the acquisition; 4 (Low) to Learning Distance because even though the two companies had some complementary skills, they belong to the same Industry and market and were sort of competitors, so the quantity of capabilities provided by the acquisition were not that big. On putting the two variables at the matrix we have the following best decision:

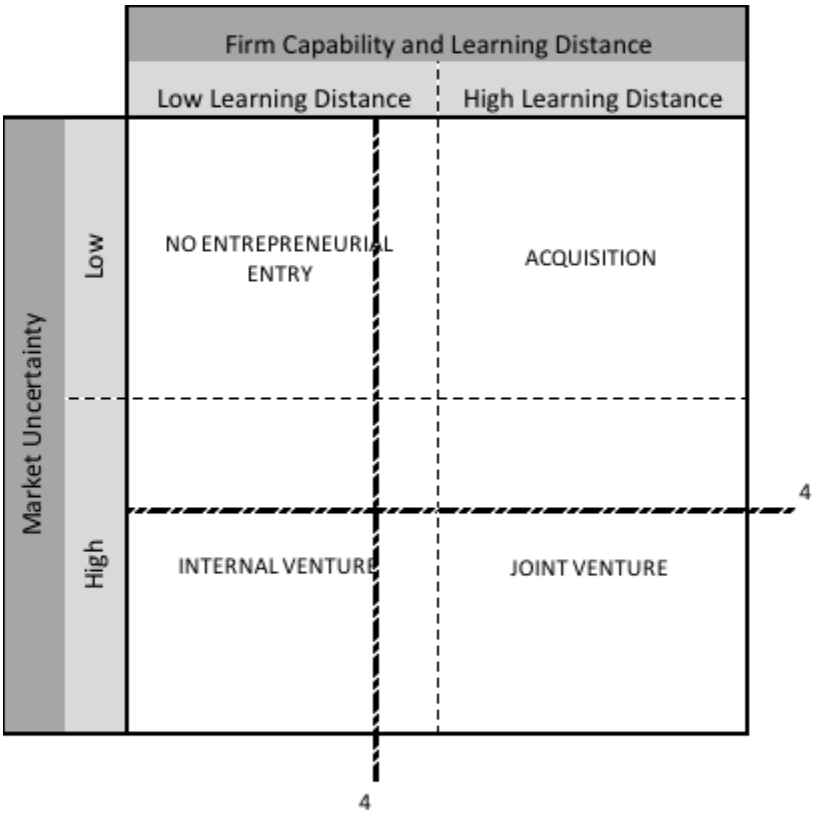

Figure 2 - Momentum's Best Entry Decision

So, from this analysis, the best decision for Momentum according to this model, would have been to develop an internal venture, best addressing their necessities and not to acquiring SAMURAI. They could have done that by hiring people with the desired skills and developing internally the capabilities and processes to make the company more technical planning driven. As such, I believe that the model fails on presenting some other variables that are crucial for decision making, such as the client base of the acquired company, which is according to Porter (1985) a tangible synergy.

5.1.2 Buscapé X Save-me

Concerning Buscapé's acquisition, the characteristics of the industry were also one of the reasons that drove the board's decision. Online markets have, as one of their main characteristics, a high velocity of transformation. Many companies are created from one day to another, with an extremely fast growth, and then end up dying over time. Such events can be called waves for that industry. Several examples can be observed over the past years, such as MSN Messenger or Orkut. Because of the growth velocity of new trends, it is very important for companies within that market to closely follow new events, and to react as fast as possible to changes. A delayed reaction to a new wave can be a lethal strategic choice, by which the company would have to spend a lot in the future to catch up, if it manages to at all.

> *Gustavo: "The internet world is very fast, the companies grow and die very fast… so we looked at them and said that either we buy this company very fast and invest in them for them to become the biggest one in Brazil, or, if we take one or two months, someone else will buy it and we will loose this wave and will never be able to follow that in the future… and to recover the wave would be too expensive…"*

With the advent of "online daily news", with Groupon's business model being my main example, an entire segment of the online market was created. Groupon had an outrageously fast growth and its IPO was completed in record time. Following its success, many other companies "surfed into this wave", which created an entire new promising segment. The idea of using the already existing elements (Schumpeter J. A., 1976) compiling all the different deals from different players into a unique place was seen by customers as a great idea, considered time saving for the consumer as they don't have to trough through different websites to be able to see the different opportunities.

Save-me was innovative by being the first company to create a new market (Schumpeter J. A., 1976) with the concept of aggregating collective shops offers, a fact that gave them considerable media exposure from the beginning. In addition to that, their business model was much like Buscapé's one, through aggregating prices from different online retailers. The proximity of the business models was another factor taken into account during the acquisition decision.

Gustavo: "…we identified one of the companies that was detaching at this new market in an even better way to us since they were an aggregator just like Buscapé…"

Velocity, as described earlier, is fundamental for this particular industry. It didn't take more than two months of Save-me's existence, and one week of negotiations between the two founders of Save-me and the board of Buscapé, for all of them to sign the acquisition of 75% of the company. Buscapé argues that since the company was already working, and it had a great fit between the entrepreneurs and their board, there was no better solution for either of them than acquisition. To copy the business model would not only have been more time consuming, but also a bad approach for this market. Furthermore it would have been harder to create a team and dedicate people to help grow a new business, since they already had two very proactive and dedicated people as founders.

As for the fit between the founders of Save-me and Buscapé's board, among Buscapé's board members are people with an entrepreneurial background, having been in contact and even managed start-ups in the past. They believed that if the two founders were managing to grow Save-me without a professional structure, it would be much easier and faster for them to grow Save-me relying on the structure that Buscapé could provide.

> *Gustavo: "... we have looked at them and figured that they were entrepreneurs, lets help them because if they stay up until 4 am inserting products on the website for two consecutive months, and they are managing to succeed, for them it would be very easy for them to run a company..."*

Analyzing the decision of Buscapé trough Hoskisson & Busenitz (2012) model of best entry decision I have given the following score from 1 to 10 for each variable: 1 (high) to Market Uncertainty because the market was completely new and therefore its development was very unpredictable; 1 (Low) to Learning Distance because even though Save-me belonged to a different market, their model was very similar to Buscapé's, and furthermore the two entrepreneurs had a very low experience and their platform was not well developed. On putting the two variables at the matrix we have the following best decision:

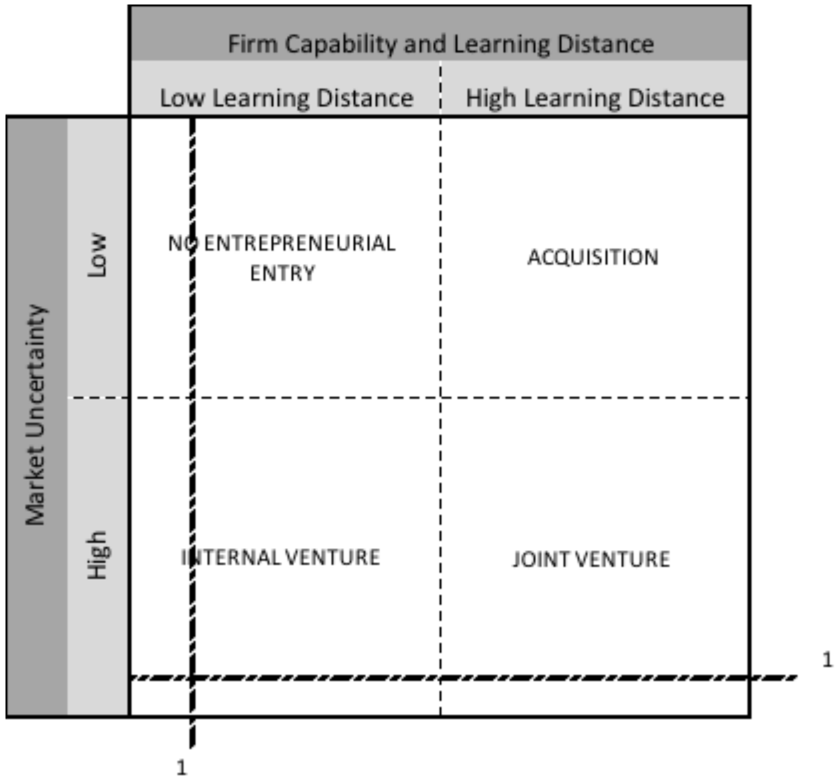

Figure 3 - Buscapé's Best Entry Decision

From this analysis, the best decision for Buscapé according to the model, would have been to develop an internal venture to best address their necessities and to not acquire Save-me. They could have done that by hiring people with the desired skills and developing internally the capabilities and processes to make the company more technically planning driven. As such, I believe that the model fails by not presenting other important variables for deciding, such as the figure and dedication of the entrepreneurs of a startup, which is according to Porter (1985) an intangible synergy.

5.2 Main Problems faced

An acquisition, when followed by a merge of the two companies, can be very complex for both sides. To integrate two different operations is a difficult task that has to be done carefully, in order to avoid negative impacts. The strategy adopted has to be well studied, so that the benefits intended by the acquiring company can be reached, and different problems derived from many other factors, such as the merge of two cultures, can be foreseen.

5.2.1 Momentum X SAMURAI

As in any aspect of business, a preview experience can inform companies and help them to avoid a lot of mistakes that would, in the end, cause the failure of the initial plan. This was one of the main points brought about by Momentum when analyzing its decision to acquire SAMURAI. The lack of experience in acquisitions by Momentum's board of directors had generated many problems, which could have been foreseen if some experienced people were leading, or closely following, the process of integration.

As mentioned before, the advertising agency industry has the characteristic of a high number of mergers and acquisitions as a growth strategy. As such, and in theory, one would expect a structured process with a high level of expertise from the players, since they have been through these processes many times before. However, the big players have a certain expertise but, in the case of Momentum, this expertise was limited to the legal and financial spheres. There was a talented team of professionals from the parental company that followed, advised, and even took control in many moments during the process of negotiation, and later during the merge of the operations. The management sphere, on the other hand, was left to some highly talented people, but who had no experience in acquisitions, and not even any assistance from external parties.

> *Danilo: "...at the financial area there were internal experience because the CFO of McCann group had bought some other companies and were consulting during the acquisition… but at Momentum's board there were a lack of experience in relation to merges…"*

It is well known that one of the hardest challenges when merging two companies is the conflict between cultures. For SAMURAI and Momentum, it wasn't different. The shock between the two cultures generated internal and external problems. From one side, Momentum had an established culture with an aggressive tone of internal communication and a high velocity of decision-making based principally on its staff's intuition; whilst on the other hand, SAMURAI had a softer internal tone, more focused on planning and therefore with less room for intuition. The big differences in the style of the two companies created innumerous frictions between the two that also affected the quality of the services delivered.

> *Danilo: "… the biggest challenge we have encountered is related to culture… Momentum was always had an aggressive attitude being very dynamic with a fast pace and intuition driven decisions, while SAMURAI, coming from a consultancy, had less intuition and more planning driven decisions… so the first problem was this difference on pace having Momentum's leadership accelerating the process and SAMURAI's staff with a slower and more analytical way to work…"*

The problems generated by Momentum's leaders lack of expertise on managing a culture merge, shifted their attention from the clients to their internal staff, due to conflicts and dissatisfactions. This resulted in customers complaining, unsatisfied with the attention paid to them and their problems, remarking that they were given less attention than before the acquisition.

> *Danilo: "… there were some moments of stress in which we were further to our clients because of distractions generated by internal management processes… when you are focusing on internal management processes clearly you have less focus on your clients, so all the distractions have impacts. If I use my day solving cultural problems as unmotivated staff, this same time I could have spent thinking about a client's solution…"*

Another problem faced by Momentum was the loss of important clients belonging to SAMURAI's client base. This fact not only became a financial loss, since Momentum paid a high value on the transaction for those clients, but also generated idle workforce capacity, culminating in big cuts a year after the acquisition. SAMURAI's clients were linked to a certain context, originally clients from Integration Consultancy, from where SAMURAI had its initial spin-off. As a result of this, their link with Integration Consultancy and its specific context was much stronger than their link to the new context created by the acquisition. Due to the distance from Integration and the changes in culture, many clients left the newly merged company, aggravating all their other problems.

> *Danilo: "... the clients are connected with a context and not to a label, so they were not necessarily connected to SAMURAI but to a model of SAMURAI before the acquisition as an agency working together with a consultancy firm, so when we acquire we expected that some clients would come along, but they actually didn't…"*

5.2.2 Buscapé X Save-me

Acquiring Save-me was an important and very successful decision of Buscapé. They did not encounter many problems on integrating both companies, since the size of Save-me, having only the two founders, was not big enough to create any shock for Buscapé's culture. Also, the lack of experience of the founders on conducting a business was a point that made them a lot more flexible to Buscapé's impositions and desires. On one hand their lack of experience didn't cause many conflicts between the parts, but on the other, it could have represented a negative impact on the growth and protection of Save-me, as the two founders didn't have enough experience to know how to internally fight a big corporation. Their desires and thoughts were often "swallowed" by Buscapé's processes.

At the beginning, Save-me had an exponential growth with the aid of Buscapé. Over the first year the entire new market of online daily deals was growing at high rates, which made the service provided by Save-me a lot more interesting and relevant for customers. They were able to monetize their operation by having incredible margins. With the increase of revenues, Save-me began to attract a higher attention and importance for Buscapé, and with that more controls were imposed from the parental company. Shareholders were starting to focus their attention to this booming company, meaning more control and bureaucracy.

> *Gustavo: "…The entrepreneurs wanted to take a different way to conduct the business than Buscapé. A small company can change very fast but when they become a part of a corporation, if they move too fast is a problem because you cannot control that…"*

> *Gustavo: "We left them apart from the process as much as we could but since the income started to increase too much, they had to become part of the reports to explain to investors what is going on, and even get their approval about any intended change…"*

After the first year, the market started to decline and, due to the importance that Save-me had by this time, some financial aid interventions were needed. Save-me finally had to start complying with all Buscapé's requirements. In this way, the actions taken by Save-me had to be approved by Buscapé's board, and some other requirements, such as the use of Scrum methodology, had to forcefully be adopted. This bureaucracy limited Save-me's expansion and its ability to respond in a quicker way to the market changes.

> *Gustavo: "…when they started to have problems was when the online daily news market begun to decrease from one day to another… they start loosing announcers and the profits were decreasing… they were*

really big when the crisis arrived and since they were using more from Buscapé, we had to establish more controls…"

5.3 Lessons learned

An acquisition, as with any other important and complicated decision, always comes with a lot of challenges. The challenges trigger decision making from the manager's side, and from that, after some reflection, a lot of lessons can be learned. Companies have processes that would allow such lessons to be incorporated, or just let such lessons remain with the people involved.

5.3.1 Momentum X SAMURAI

After some reflection about the acquisition of SAMURAI, Momentum questioned themselves whether an acquisition was the best decision at that time. They had come to a point where the acquisition had brought a lot of benefits to the company, responsible for its current success within their market. Be that as it may, when they analyzed the financial returns coming from the acquisition, there was a sense of failure. The fact that some very important clients initially belonging to SAMURAI left the company, financially frustrated Momentum as these clients were priced and estimated according to their future cash flows. A lesson learned is that there should have been a better effort, or a better analysis, from Momentum's side, to understand the motivations of SAMURAI's clients to do business with them. In this case, the final solution would have been paying less for the acquisition or, since the second motivation was to gain the professional expertise, hiring people with the same knowledge and profile as seen in SAMURAI.

As shown before, there was no previous experience from Momentum's management side on acquisitions, meaning that from the beginning some basic errors have been pointed out as lessons learned. The leadership of the two companies didn't have much contact (only 3 meetings) before the day that they signed the final selling agreement. This means that they could not align a lot of important issues, which became a big problem over time.

The lack of management expertise in acquisitions could have been avoided, or minimized, if, as pointed out by Momentum, they had used a consultancy firm to advise them on the best practices, and also to help them integrate the two companies and cultures. The teams were completely lost on the day the contract was signed, but some team building dynamics would have lowered conflicts and helped everyone to establish internal connections. This was the main lesson learned for Momentum and what they would advise any other company to do within the same situation.

5.3.2 Save-me X Buscapé

Even though it was a very successful case, the acquisition of Save-me brought a lot of reflection to Buscapé. To acquire and not to copy was the first lesson learned by Buscapé, arguing that the entrepreneur that comes with the startup is the key element, not only because he brings knowledge and energy but also because it increases the velocity of the process and, as already mentioned, velocity is a key element to that particular industry. This lesson was taken very seriously by them, and was the inspiration for the creation of “Your idea worth a million” (EXAME.com, 2011), a contest between entrepreneurs that invested in startups with potential earnings of one million Reais (Brazilian currency), to develop great ideas brought by entrepreneurs.

Another lesson derived from the process was related to questioning whether the best option after an acquisition is to merge the two companies, or to keep them separated. The merge of two companies can bring a lot of benefits, such as the reduction of costs on duplicated personnel or usage of different resources but, at the same time, can limit the growth of the acquired startup. That is the dilemma proposed by (Leonard-Barton, 1992) in which he states that the processes are important for the success, but brings rigidities. When complying with the processes of Buscapé, Save-me not only had a reduction on changing velocity, but also limited its growth, since the decision of new investments was limited by the contract. Any additional investment would have to be approved and disposed by Buscapé’s board.

If Save-me hadn’t been acquired by Buscapé and had become a semi-autonomous External Corporate Venture (Sharma & Chrisman, 1999), instead deciding to use some kind of founding money to finance their growth, they would have been able to promote new investment rounds, in order to support their growth. Buscapé recognized that if Save-me would have had more flexibility on this point, they could have been even bigger now. As a lesson, Buscapé's executives have discussed the creation of a corporate venture, which would not only give the possibility of new rounds to the acquired startups, but also the possibility of selling their acquired startups in a much easier and organized way. Another benefit of the corporate venture is the fact that the companies are kept financially separated, meaning that a financial problem of Buscapé's wouldn't affect the different ventures as much as if they were kept together. This last lesson stems from a personal discussion that I had with one interviewee, and has never been adopted by the company.

6 Conclusions

This paper is meant to help big/medium corporations by exploring different aspects related to corporate entrepreneurship, and how they should deal with their processes when acquiring startups. In order to do so and to organize and structure the findings, three secondary research questions were presented. Defining the reasons that lead the acquisition, exploring the problems encountered during the process of merging after the acquisition, and the lessons learned from a past acquisition were all central elements.

In order to form a base for the research, some concepts and definitions were presented in the literature review chapter. The definitions were exposed in a progressive way by presenting different definitions of entrepreneurship first, and later defining corporate entrepreneurship. This was followed by a discussion about different issues related to the decision of an acquisition relying on a theory by Hoskisson & Busenitz (2012). They defined the level of market uncertainty, firm capabilities and learning distance, as central aspects to drive companies' best decision when in doubt about buying, copying or partnering another company. The next step was to explore start-ups according to different definitions and their phases of existence. Finally, there was a table linking the theory and the empirical findings of the paper.

To answer the research questions, interviews were conducted with both entrepreneurs from the acquired startups, and staff from the acquiring companies that were participating in the entire process of acquisition (from the decision to acquire until the end of the merge between the two companies). To reach qualified potential interviewees, the snowball methodology was used. Because of the methodology it wasn't hard to establish the first contact with these potential people, but it was extremely hard to actually accomplish the interviews, because most potential informants stopped answering e-mails and phone calls. A script was created to lead me during the interviews that took between 45 and 75 minutes each.

The findings and recommendations are directly linked, since the lessons learned from the past experiences identified at the two studied cases can be used as a reflection for big/medium corporations when deciding to acquire a start-up. It is important to mention that experiences are always different because the industries in which each corporation operates have their own particularities. The context in each case is also different, so the recommendations have to be taken as topics to be discussed, requiring further reflection as to whether they should or shouldn't be applied. The following are the findings and recommendations:

1. If when considering the acquisition of a startup the client base constitutes one of the main reasons, it is important to deeply understand the motivations of these clients and the nature of their relation with any other partner of the acquired company. After that analysis, the potential loss of some clients should be taken into account during the valuation of the deal.
2. Managers from the two companies should try to make as much contact as possible between each other before the acquisition, so they can better align the process and also unify the two different teams of staff. This would help to avoid many problems such as cultural differences.
3. If the acquiring company doesn't have experienced professionals or defined processes to conduct the acquisition, it is highly recommended for them to hire a consultancy company specialized in merges and acquisitions, so the internal conflicts can be avoided, and the processes can integrate smoothly.
4. When still deciding between acquiring or copying, the figure of the entrepreneur must be taken into account. He/she has a central importance for the success of a business, already having accumulated market knowledge, a lot of energy and, in some cases, increasing the velocity when implementing new desired solutions. In such cases acquiring should be prioritized over copying.
5. When acquiring a start-up, it is very important for a corporation to analyze how the start-up will be integrated within the company. The merging processes can be detrimental for the growth and development of the startup, since it increases its complexity and bureaucracy.
6. Based on the last recommendation, corporations should also consider the creation of a corporate venture to organize their acquisitions. By doing so they will give start-ups more flexibility, and the parental company would be able to easily sell them in the future. Another benefit from a corporate venture is that the start-ups would be better protected financially in case of financial problems with the parental company.

One last finding could be detected in relation to the model proposed by Hoskisson & Busenitz (2012). The model has failed twice on showing the best entry strategy for companies when deciding an entry mode, as the model is very simplistic and don't take into account some important variables. So the adoption of that model for startup acquisitions is not recommended.

I hope that, with the proposed findings and recommendations, big/medium corporations will be able to not only reduce their risks, but also reflect further on the best options when deciding to make an acquisition, and after, during the process of merging.

6.1 Limitations and further research directions

Because of the size of the sample, the variety of industries, and the methodology used for choosing the interviewees, this paper cannot have any statistical generalization.

Finally, I am convinced that this paper has laid a solid base of exploration around the decision to acquire, problems encountered during the process of merging, and lessons learned by big/medium corporations when acquiring startups. Nevertheless, future papers could explore the same topic with a bigger sample of cases, all stemming from only one industry, so that the results would me more related to that specific industry.

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