

CONVERGENCE AND INTEGRATION: WHAT DRIVES SUCCESS?

Air Force Association Space and Cyberspace Warfare Symposium

June 16, 2011

Chris Daehnick

Space and cyber integration

- Ideal outcomes:
 - Military: better organize, train, equip and execute
 - Industry: provide the most useful capabilities, profitably
- Ultimate purpose: integrated awareness and effects

What can experience teach about the prospects for space and cyber integration, and how to do it well?

The environment: overarching concerns

- Operational demands—needs, TEMPO and threats
- Budgets
- Pace of technological change
- User expectations

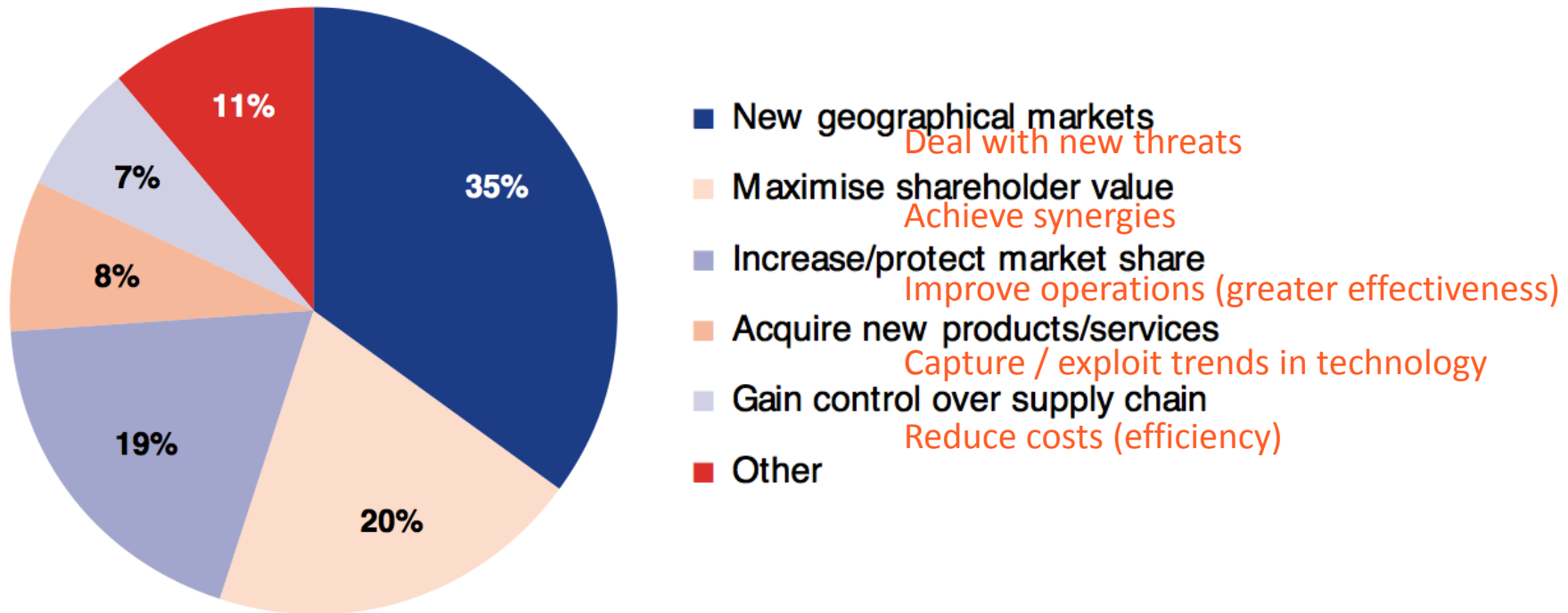
- ...and of course, who's in charge

Why integrate?

- Deal with new threats
- Achieve synergies
- Improve operations (greater effectiveness)
- Capture / exploit trends in technology
- Reduce costs (efficiency)

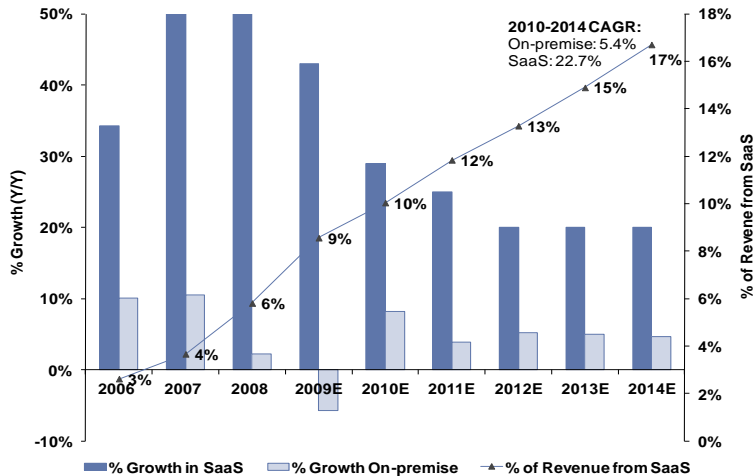
The rationale for commercial M&A sounds different, but has parallels

Reasons given for pursuing M&A
(107 companies, 700 deals)

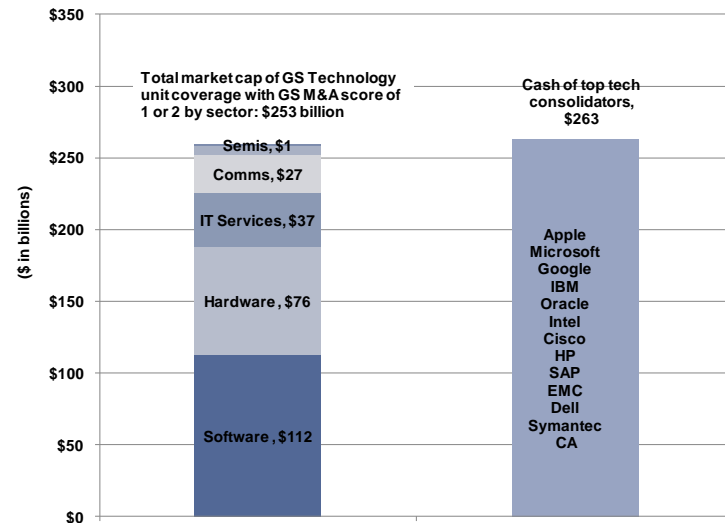


Goldman Sachs' perspective: five forces are driving the IT industry

- “Tectonics” - Cloud Computing
- Software-as-a-Service (SaaS): an “unstoppable shift”
- Mobility
- Virtual desktops
- M&A



Growth in SaaS vs. on-premise enterprise applications and SaaS as a % of total



Market capitalization of GS Technology coverage with an M&A score of 1 or 2 versus cash of tech consolidators (\$ billions) as of 12/31/2010

Do the considerations change for tech-driven businesses?

- Arguably, a lot of M&A in the “tech” industry is driven by the desire to adopt / exploit emerging technologies
- IT industry convergence today includes
 - Oracle strategic acquisitions
 - HP (EDS, 3Com, Arcsight, Palm, 3PAR)
 - Verizon (Terremark)
 - Intel (MacAfee)
 - Dell (Verisign MSS, Secureworks)
 - Microsoft (Skype, alliance with Nokia)
- All are attempting to gain advantage in a market which is rapidly changing

Oracle strategic acquisitions

	2007	2008	2009	2010	2011
Database	Moniforce	e-Test	mValent	Secerno DataScaler	
Middleware	Bharosa Bridgestream Tangosol	Captovation BEA ClearApp Tacit Software	Java (Sun) GoldenGate HyperRoll	Silver Creek Systems AmberPoint Passlogix	Datanomic
Applications	AppForge Interlace Systems LogicalApps	Haley		Market2Lead	Ndevr
Server / Storage			Sun Virtual Iron		
Communications	Netsure Telecom Limited		Sophoi	Convergin eServGlobal Universal Service Platform (USP)	
Engineering		Primavera			
Manufacturing	Agile		Conformia Software		
Utilities	LODESTAR				
Financial / Insurance		AdminServer Skywire Software			
Health			Relsys	PhaseForward	
Retail		Advanced Visual Technology			

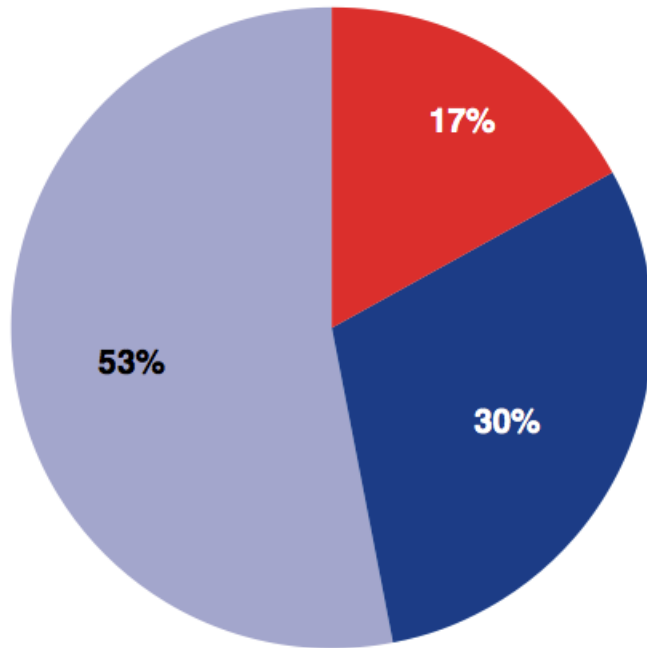
Source: Oracle web site: <http://www.oracle.com/us/corporate/Acquisitions/index.html>

But remember...

- AT&T – NCR
- AT&T – TCI
- AOL – Time Warner
- Sprint – Nextel
- HP – Compaq

In general, mergers and acquisitions seldom produce desired results

“83% of mergers were unsuccessful in producing any business benefit”

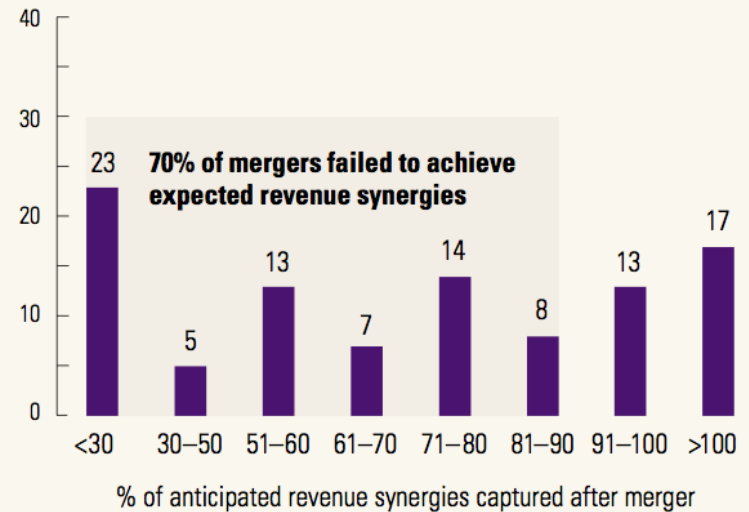


- Deals added value
- Deals produced no discernible difference
- Deals destroyed value

Source: Mergers and Acquisitions: Global Research Report 1999, KPMG

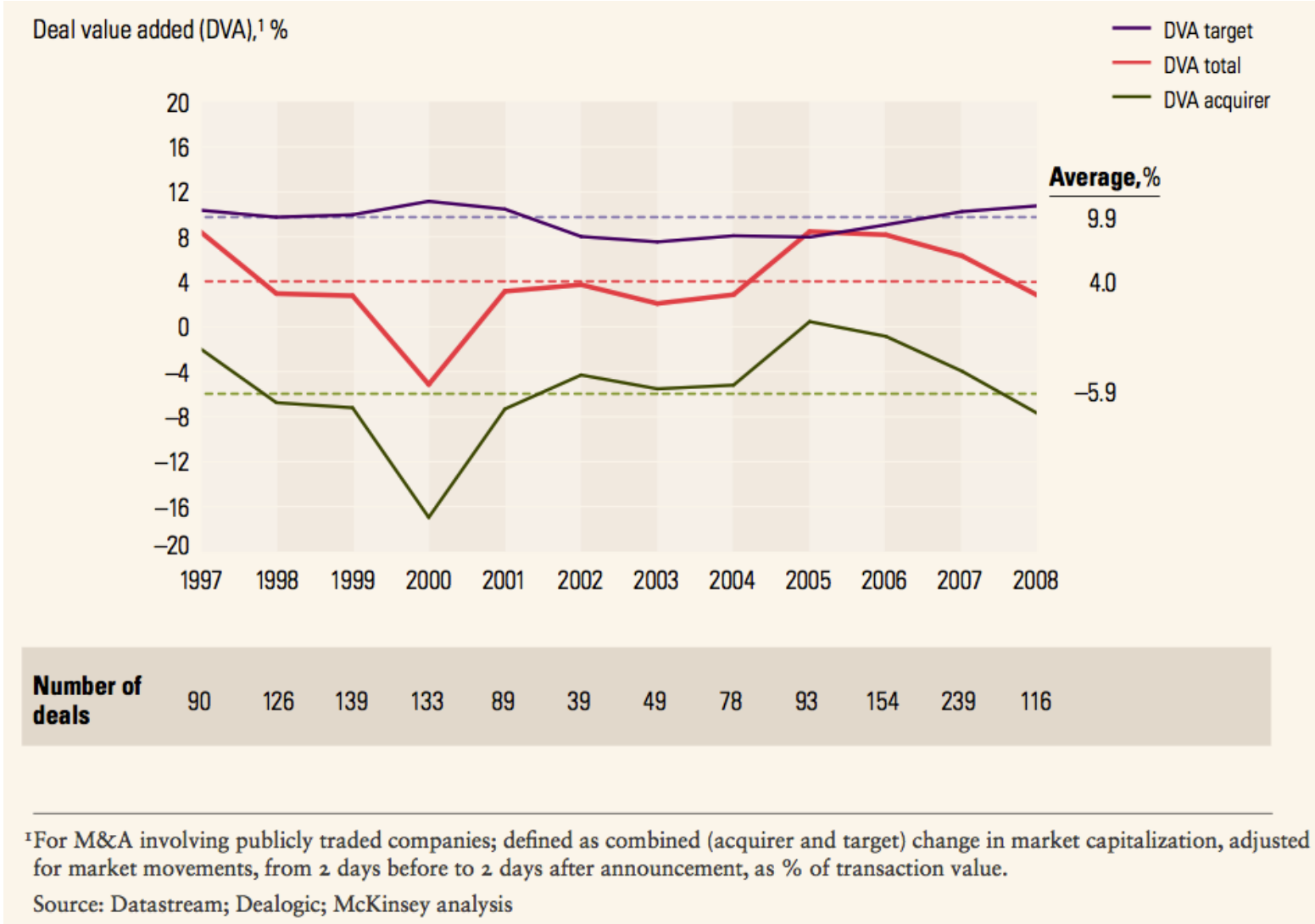
Top-line tribulations

% of companies (n = 77)



Source: 2002 McKinsey postmerger-management survey

In addition, when value is added, it tends to be for the target company



Source: Mergers and Acquisitions: What's Different about M&A in this downturn, *McKinsey on Finance*, Winter 2009

The results beg the question, why is the track record so bad?

- KPMG identified six keys to success
 - Hard
 - Synergy evaluation
 - Integration project planning
 - Due diligence
 - Soft
 - Selecting the management team
 - Resolving cultural issues
 - Communications
- KPMG’s conclusion was that both types must be addressed in conjunction—and that this is seldom done
- KPMG also found that “companies focusing their attention on arranging finance or legal issues (to the detriment of other areas) were 15% less likely than average to have a successful deal”

Factors driving military reorganizations are different—but have business parallels

- Operational effectiveness / efficiency
 - New geographical markets
 - Maximize shareholder value
 - Increase / protect market share
 - Gain control over supply chain
- Technological developments
 - Acquire new products / services
 - Other market changes
- Bureaucratic and political factors
 - Owner / management ego, “intuition” and ambition

Some air / space / cyber “M&A”

- **AFSC and AFMC**
 - Rationale: “lust to dust” weapon system management
 - Concerns: loss of focus, particularly on new capability development
 - Resolution: ongoing; SMC moved to AFPSC
- **Space and missiles under AFSPC**
 - Rationale: align missiles with similar capabilities
 - Concerns: SAC vs space culture
 - Resolution: missiles shifted to AFGSC
- **Space Acquisition under AFSPC**
 - Rationale: restore technical focus and integration of early space program
 - Concerns: integration of acquisition and operations
 - Resolution: ongoing
- **Executive agent for space**
 - Rationale: synchronize space activities
 - Concerns: ability of a single leader to effectively manage the work; concentration of authority
 - Resolution: ongoing
- **STRATCOM-USSPACE and new missions**
 - Rationale: consolidate all “strategic” missions
 - Concerns: loss of focus on individual missions, span of control
 - Resolution: ongoing
- **Executive agent for cyber (proposed)**
 - Rationale: “We are the most dependent therefore we should be in charge”
 - Concerns: concentration of a cross-cutting capability in one Service
 - Resolution: abandoned

Space and cyber integration “keys”

KPMG Key	Actionable?	Implied actions
Synergy Evaluation	Partial	Reassess objectives and expectations Consider evaluating synergy mission by mission
Integration project planning	Partial	Efficiencies are easier to achieve than expanded capability Focus on reduction in overhead, management and duplication of effort Don't expect the merger itself to improve capability
Due diligence	Partial	Honestly assess potential pitfalls Ensure fundamental rather than superficial technological and procedural overlap exists
Selecting the management team	Yes	Objectively assess who should lead, and why
Resolving cultural issues	Yes	What are the similarities and differences? Who leads? When and why?
Communication	Yes	Encourage input and new ideas

Open issues for space and cyber integration

- What exactly does the warfighter want and need?
 - What type of integration would help?
 - How much is dependent on technology?
 - How is this best done?
 - What kind of innovation is needed, and what is the best source?
 - What should the government incentivize, and how?
- Are there similarities in space and cyber acquisition that can be exploited?
 - Challenges (cost, timeliness)
 - Process (methods / means of acquiring capabilities)
 - Shift to buying services versus things
- Does any of this imply common operating procedures (rooted in similar environments / needs)
 - Situational awareness
 - Vulnerabilities
- Are synergies achievable in personnel and training?
- What is the point of debates over control and authority?

QUESTIONS?

Contact info:

Chris Daehnick, 719.659.7162

chris@bspokegroup.com