



15.387 – Entrepreneurial Sales

<i>Case</i>	Bay Networks A
<i>Class</i>	Merger Problems
<i>Assignment</i>	See case, Bay Networks B

Overview:

Paul Severino, CEO of Wellfleet Communications, called Gary Beach, his Senior Vice President of Sales into his office.

“Well, Big Guy, it’s done – we finished the merger agreement with Synoptics last night. That’s the Good News.”

“Any time you start off telling me good news, I know that there is another shoe to drop – what is it?” said Beach.

“Ah... we have been together for a long time and you know me so well...so...you have the job of integrating the sales forces...and we have to do it quickly, we have to do it fairly, we have to have as little disruption with our customers as possible, and we have to do it worldwide. And we have to do it in 100 days – what’s your first inclination?” said Severino.

“Quit!” smiled Beach.

“Not an option!” said Severino...”And by the way, you have to make sure that sales for both companies continues during this transition. Remember, we have been the number one company in the stock exchange the past two years... so everyone is expecting the stock price will stay up there.”

“Does our new company have a name?” asked Beach.

“How does ‘Bay Networks’ hit you? We are in Billerica, Mass and they are in Santa Clara – and we each have a bay – of course they are 3000 miles apart... and we haven’t decided on where the headquarters should be. But I have more good news – American Airlines now has three non-stops a day from Boston to the San Jose airport! And three non-stops the other way!”

“Why don’t we just make our headquarters in the air at 30,000 feet?” said Beach.

“Great idea... I will take it up with the Board... by the way, the new Board is equally divided between their holdovers and ours. Remember this is a Merger of Equals – whatever that means!”

Beach went back to his office and closed the door. He then took a pad of yellow lined paper and began to write down issues that he would have to address. Next to each, he put a “done by___” column but didn’t fill that out quite yet. He knew this would be a tricky timing problem.

The two companies had complementary product lines. Synoptics was an important early innovator of Ethernet, a technology first developed by Digital Equipment and Xerox. Its primary architect was Bob Metcalfe, a graduate of MIT, early inhabitant of Xerox Park, and the founder of 3COM. Synoptics had developed twisted pair 10 MBPS solutions as well as a modular Ethernet hub which had been quickly adopted by enterprise users; the Wellfleet product line was also sold to the enterprise market for network routers.

Things to Do:

1. Both companies have been growing rapidly; both companies have a common enemy – Cisco. Wellfleet is their strongest competitor with 20% of the market. Synoptics owns the Ethernet Hub Market for now. How can we keep both companies humming while doing this integration?
2. They have a sales force of 200; we have a salesforce of 300 and we have amazing overlap. Do we really need competing teams going into the same account? I have to get the sales force combined to 400 – that is the headcount I have to deal with. How do I decide which is the better salesperson? Look at who made quota? Do I try to find the best salesperson in each region? Or is that going to take too long?
3. Cisco is going to be recruiting my salesforce starting today. My guys are going to be concerned with the transition and worried about their jobs and their quotas. Cisco might try/will try to pick off my best people – leaving me with the second best player in each territory. How do I handle that?
4. If we are a merged sales force, how and when do I cross train each on the other’s product? Or do I not do that now?
5. I have to come up with a budget for next year and a compensation scheme. Should it be just numbers based? Or should we have a quota for each product?
6. How do I handle customer support? They have a support center in Santa Clara and we have one in Billerica? Merge them? How? When?
7. What do we do internationally? I surely don’t need two country managers in Australia.
8. I am going to need 4 regional sales managers. Do I take two from each company? Try and figure the best?
9. What is going to happen to morale? If I pick too many of my people, what message does that send? If I try and split the baby, am I undermining the organization by trying to be fair.



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10. Advertising? Do I split the advertising? Marketing? Who runs this? And from where?
11. The price of this deal is \$2.7 Billion – which means that key sales management of each company has made a lot of money – including me. How do I keep the team intact? How do I keep the people I want?
12. We are going to issue stock options to employees in the new company – how do I decide who gets what. One of our companies believed that salespeople didn't get options – they got bonuses. The other believed in options. Is this going to be a problem?
13. We both were going after a new product – Asynchronous Transfer Mode Switch/Router/Hub – so both companies also have to combine R &D –is this merger going to slow product development?
14. Some of our customers have VPA's – volume pricing arrangements – which give them as much as 48% off list. They don't have anything that aggressive. What happens when our customers want 48% off their products?
15. What do I do about the product managers? We have 10; they have 5 – each of these wants to fight for sales attention from the salesforce; I really only need 12 product managers.
16. What do I do about the layoff. Do I worry about being 'Politically correct'? If I believe that "last hired, first hired" should be my solution – then I will be dismissing a fair number of women and minorities. Should this even figure in my decisions? Should I just assume that I am going to be sued by somebody and build the best salesforce.
17. How can I build "one salesforce" – and get both of these salesforces to stop introducing themselves as either "I'm from Wellfleet" or "I'm from Synoptics".... Or else this will be a civil war.
18. Paul is the CEO but the other guy is the COO – and it is anticipated that Paul will kick himself upstairs in a year to Chairman and the other guy will be CEO – so it looks like there is going to be a "sharing of power" – which sucks. And neither one of these bozos wants to move so we will have bicoastal turf wars. Our guy is the CFO but what does that mean?
19. Those idiots from Yankee Group are suggesting that the integration effort is going to handicap us for three years. How can I shut them up? If I don't, the customers may actually decide that Cisco is the safer choice.
20. Each customer is going to want to know what products we are really behind and which we are going to either discontinue or cut support for – if a communications manager doesn't get this right – he stands in danger of losing his job or, at best,

being seen as someone who doesn't understand what is going on. How do I handle that?

At this point, Gary realized that he was out of paper – and maybe he had enough questions for Day One.

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