



## When Synergy Works – Or Fails

By Kenneth B. Collins

### **When $1 + 1 = 3$ or $2 + 2 = 5$**

It's called **SYNERGY** and it represents the benefit that results when two or more agents work together to achieve something that neither one could have achieved on its own. We refer to this concept when we say that the whole is greater than the sum of its parts.

Synergy occurs when two or more elements interact or combine their efforts, with the result that they accomplish more together than if you measure them independently. The concept applies broadly to sports teams, to medicine, to chemistry – indeed in virtually every aspect of our lives.

In business, companies often attempt to achieve synergies by merging with other companies with which they are compatible. For example, a manufacturing company that produces a specific product may have the most up-to-date technology to make the best product of its type on the market, but a lackluster logistics system. An older manufacturing company may have a stellar logistical system but outdated manufacturing equipment. If the two companies merge, they can accomplish more together than they can apart – typically measured in higher revenues and/or lower expenses.

In the world of M&A, synergetic benefits are often a key objective – and a critical driver of valuation. That is why strategic buyers can and often do pay more than purely financial buyers for businesses where there are synergetic benefits to be realized with their own companies. These synergies might include cross-selling to customers of both businesses or gaining access to new distribution channels, or it might be created between management teams, resulting in increased capacity and workflow. Synergies usually allow for economies of scale through the reduction of duplicate management or spreading fixed costs over larger operations.

But what if it turns out that  $2 + 2 = 3$ ? Unfortunately, that is the result in a surprising number of cases.

That's called **Negative Synergy**, where the whole actually turns out to be less than the sum of its parts. In other words, we can actually accomplish more by working independently than we can by working together. A common example occurs where two very different cultures are merged and the amount of time spent squabbling or infighting actually diminishes the efficiency of the organizations.

Like the proverbial shotgun marriage, synergy usually looks great on paper – until, that is, you actually implement it.

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