

Learn to Leap! #2

# Achieving M&A success by letting start-up acquisitions be themselves

Acquiring a start-up is only the beginning. Successful integration takes time, a shared vision, and a strategy to get there.



**Giving acquisitions** operating freedom, integrating slowly, harmonizing processes—as well as knowing when *not* to acquire in the first place—are all hallmarks of successful M&A strategy. Delivery Hero cofounder and CEO Niklas Östberg shares his M&A insights with McKinsey’s Philipp Hillenbrand.

### Key insight #1

## The acquired leaders of young companies require a great deal of autonomy.

**Philipp Hillenbrand:** It is often difficult to make M&A work. Is postmerger integration easier with smaller and younger companies?

**Niklas Östberg:** I’m not sure if it is easier. Younger companies may have more flexible structures and be more used to change. Having said that, younger companies often employ a young workforce who are quick to jump to the next company if they don’t like the new direction.

Also, young companies are often acquired to drive growth rather than synergy, and they are led by young entrepreneurs used to full autonomy and exceptional speed.

These characteristics create many challenges. For us, what has worked well is to take a very balanced approach to the integration of such companies,

one that gives the founders a lot of freedom to continue building their business and harmonizes processes over time as they mature.

**Philipp Hillenbrand:** It is a well-known saying that when you invest in a young venture, the leadership team you invest in is more important than the idea or the product. How do you make this work with the leaders you acquire who aren’t used to having a boss?

**Niklas Östberg:** We absolutely buy into the idea that local leadership teams and founders are hugely important. In order to allow them the necessary independence and autonomy, we have developed a set of detailed operating principles. These give a lot of freedom to the local leaders while still allowing us to capture the main benefits of working as a group through

### Sidebar

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## Niklas Östberg biography

Niklas Östberg is cofounder and CEO of Delivery Hero, a European-based multinational food-delivery service. Niklas has been involved in the start-up scene since the late 1990s, after spending several years in banking and consulting. Following five years as a management consultant at Oliver Wyman, he cofounded Pizza.nu (later OnlinePizza.se), where he served as chairman. Niklas has also been responsible for building market-leading online food-ordering companies in Austria, Finland, and Poland.

### Key insight #2

**Uniting around common goals and strategies requires communication, effort, and mutual respect—from both the acquiring and the acquired company.**

**Philipp Hillenbrand:** How do you balance the right performance management, synergy, and the necessary degree of freedom for the acquired leaders?

**Niklas Östberg:** What helps us to steer in a common direction is a shared vision of where we think our service should be in a few years as well as a shared strategy around the key objectives we need to achieve in order to get there.

This also means that we share upfront what will change. But we are very careful to not overstep and

do things that don't add value. We discuss this regularly with our local leadership teams.

On top of that, our Berlin-based central team helps with monitoring performance, alignment of local strategies, sharing internal best practices, and building great tech products that can be used by everyone in the group. Within that framework, our local leaders are free to contribute in the best way possible to the shared vision.

## Our local leaders are free to contribute in the best way possible to the shared vision.

### Key insight #3

**To integrate an acquisition quickly, you need to be willing to make short-term trade-offs.**

**Philipp Hillenbrand:** What memorable mistakes have you committed in an M&A situation, and what can others learn from them?

**Niklas Östberg:** We had a negative experience in one large M&A transaction, where we didn't follow our playbook and instead tried to integrate the company quickly to capture synergies. But since we weren't willing to make some trade-offs, such as losing short-term business, ultimately this led to slow execution.

This put us in a very bad limbo, including managing a team that was frustrated by our actions. We learned that we either follow our playbook and integrate more slowly or move fast with integration and make the necessary trade-offs. Anything in between is difficult.

Other learnings are around communication, which can rarely be too much or too honest. People like to have clarity and are quick to pick up on explanations that don't make sense.

## About Delivery Hero

Delivery Hero SE is a publicly listed online food-delivery service based in Berlin, which currently enjoys a market capitalization above €13 billion. The company operates in more than 40 countries in Asia, Europe, Latin America, and the Middle East, partnering with some 500,000 restaurants. The company is the global leader in many categories, including orders, restaurants, and active customers. Delivery Hero processed more than 450 million orders in the first three quarters of 2019 and has recently completed the acquisition of Woowa Brothers, the number one delivery service in Korea, which increased its market capitalization by \$5 billion.

### Key insight #4

#### **An acquisition is not always the best use of capital.**

**Philipp Hillenbrand:** It is difficult for start-ups to achieve and sustain high growth rates inorganically, making it tempting to shortcut growth through M&A. What are the warning signs a young company should heed to resist the temptation to buy a seemingly promising company?

**Niklas Östberg:** There are probably many, and they depend a lot on the market and product as

well as the maturity of the acquiring start-up. But two important questions to ask oneself are, “Is the organizational capability for a successful integration in place?” and “Is the cost of acquiring a competitor really worth it compared with simply deploying the same capital to develop your own product and marketing exactly along your own vision?”

**Philipp Hillenbrand** is an associate partner in McKinsey's Berlin office.

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