Sanchez, Ray

Thomas Weisel Partners - Individual Case Analysis D

As a Montgomery Securities partner in mid-1997, would you argue for or against selling the firm to NationsBank? Why?

As a Montgomery Securities partner in mid-1997, I would have argued for the selling of the firm to NationsBank. Montgomery Securities was a definite contender to the banking industry, but the dynamics were changing and many other companies were starting to merge together. Montgomery securities might not have been able to compete with these other banks who became even bigger through merging. They were in need of more capital to realize their true growth potential. They needed to expand their debt arena to stay competitive and keep their clients.

Also, there was an opportunity to create a solid private equity practice, but that would require additional capital too. Montgomery Securities would have to follow suit and merge in order to remain competitive in the market. Lack of capital for their clients that have grown significantly was a big factor that made the merge sound even better. With Montgomery Securities and NationsBank as one, they would be able to fill the financing needs of these clients and retain their client base.

Another factor that influenced the merger of the companies was the incentive pool of money for the partners and the 840-million-dollar pool that would be distributed to the partners. After Weisel was paid 120 million, 10.5 million would be distributed to each of the 68 partners of Montgomery Securities. This was a hard deal to pass up for most and it looked great on paper. Of course there would be potential issues such as management bumping heads, but most of the employees were excited about the growth potential at this time and the cash incentives outweighed the negatives.

Why do you think the NationsBank-Montgomery Securities partnership imploded? What lessons can be drawn from the difficulties faced by the partnership about post-merger integration?

I think that NationsBank-Montgomery Securities partnership imploded because the Montgomery Securities partners and upper level management continued to clash with the partners of NationsBank. When companies merge, it is very important for the managers to decide how the culture and dynamic of the business will operate. In this case, they didn’t integrate effectively and there was a constant battle of how to accomplish tasks. Montgomery Securities wanted to do things the way they always have and NationsBank wasn’t willing to change either. NationsBank actually bought Montgomery Securities so they were the ones who should have been in charge. The partners of Montgomery Securities were paid significantly to surrender their ways and to adopt the NationsBank way of business.

There are a couple lessons that can be learned from the difficulties faced by the partnership about post-merger integration. First of all, the acquisition agreement needs to be set in stone and followed accordingly. In this case, NationsBank went against the agreement because Montgomery was supposed to maintain autonomy and control over their side of operations. NationsBank took over the investment banking and high-yield units that Montgomery was promised to retain. Also, another lesson to be learned here is when there are too many chiefs and not enough Indians, there will be friction among the management. One of the companies has to surrender to the others ways in order to remain successful during a merger. Without a synchronous mentality, the efforts of both sides of the company will be wasted due to inefficiencies.

Evaluate the TWP business plan. Under what conditions can a niche strategy succeed?

Thomas Weisel Partners created a business plan for a full-service merchant bank that would attract top talent. In order to accomplish this, they would cater to entrepreneurial companies that would attract top talented bankers which would welcome the competition among top banks. This merchant bank would be “research-driven” and focused on the new economy that was transforming key growth sectors, technology, consumer and business services, media and communications, healthcare, and financial services. TWP’s business strategy was structured around “tailwinds”, which meant they would follow the currents of change in the economy that would create growth opportunities.

Niche strategies can succeed in this case because smaller growth companies don’t always attract the attention of larger banks. This is where Thomas Weisel Partners will shine. They will assume the risk of these smaller growth-oriented companies and reap the benefits when the companies take off. The larger banks lack the creative, entrepreneurial spirit that is required for these small growth companies. The larger banks spend more of their time and energy on larger companies which make larger transactions.

What advice do you have for Thomas Weisel as TWP proceeds into 2000 and beyond? Specifically, what should TWP’s competitive and growth strategies be going forward?

The advice that I would give Thomas Weisel as TWP proceeds into 2000 and beyond would be to maintain the business structure and mission statement that the firm began with. There main focus should be to maintain a research-driven firm that caters to smaller growth-oriented firms in order to set themselves apart from bigger banks. Also, TWP could avoid the common pitfalls that other sell-side research firms fall into. These include over-covered large cap focus, excessive client contact requirements, and a diminished availability and value of proprietary information. TWP’s business plan was to avoid large cap companies so they are on point avoiding that pitfall. Also, other brokerage firms visit and call clients way too often. More time could be spent on other more important things such as research. In addition to avoiding these pitfalls, there are other areas that TWP could capitalize on in order to maintain a competitive advantage. The internet is progressing at a very rapid pace and the bandwidth requirements will increase every year. TWP should have a knowledgeable IT team that can stay up to date with the changing technology. Also, TWP will have to be able to remain profitable even if it means that some of their jobs will have to be outsourced. Departments such as human resources and sales management could be offered to employees overseas for lower wages.