THE POSSIBLE ACQUISITION OF SLACK BY SALESFORCE

Group constitution:

Student Name	Program	Individual Title
Rita Alves Gonçalves	Finance	Can Salesforce Help Slack Pick Up Its Slack?: A Strategy Overview and Internal Analysis

Work project carried out under the supervision of:

Advisor: Rui Silva

Co-advisor: Euclides Major

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Can Salesforce Help Slack Pick Up Its Slack?: A Strategy Overview and Internal Analysis

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ABSTRACT

This Case Study aims to introduce the potential acquisition proposed by Salesforce to Slack. To conclude on this matter, an introduction to the technology sector will be presented, followed by a detailed overview of Salesforce and Slack, positioned in the second quarter of 2021, before the acquisition took place. To better understand the several impacts of the deal, the teaching notes will produce various analyses of the macro and microenvironments, including an external and internal analysis of both companies, in a pre-acquisition moment, and several Mergers & Acquisitions standards will be developed to analyze the deal, post-acquisition.

KEY WORDS

THE CURRENT ENVIRONMENT

As simply put by Andrew Anthony, Writer for The Observer, "*With the exception of Covid itself, working from home has been the big story of 2020*". When the pandemic hit, lockdowns were enforced throughout the world, whether the State Leaders worked fast to implement them or not. Students were sent home to continue their academic pursuits through Skype and Zoom, restaurants and food chains relied on pick-up and delivery apps to keep clients in the loop, and corporations introduced new platforms for connectivity.

While everyone is trying to stay afloat, small and medium businesses are more likely to be hit the hardest by the pandemic and all its consequences because of their lack of scale, while bigger enterprises can better survive and endure due to their stronger financial strength and capacity. Although public-listed businesses can raise funds by issuing bonds or selling stock and even lobby with their governments for aid, small companies typically do not have that option. Nevertheless, Covid-19 proved to be the exception when firms of all sizes prevented the expected trend of mass-firing and bankruptcies due to the widely accessible pandemic relief measures.

Imposed work-from-home became the norm for the ones who could. By May 2020, almost 50% of the world's working population was operating remotely, as per ONS data. Companies needed to keep their employees engaged and connected while maintaining a favorable and reliable digital space for their personnel to efficiently communicate in real-time and investing more in technological infrastructures could achieve that. As face-to-face teamwork was not possible, collaboration software and Instant Messaging tools became a pillar in everyday working life.

Before the 2020 coronavirus outbreak, working from home was a luxury. However, continued digitization and the shift to a knowledge economy are making remote work more

feasible for companies all over the world. Due to these changes, the possibility to work remotely is now key to evaluating employment. Businesses around the world are seeing significant reductions in the fixed costs of maintaining a work environment, and senior management is feeling more confident about the remote performance of their employees. Employees say that, in addition to more flexible hours and the ability to work from anywhere, a home office environment is better for them financially. Despite difficulties due to an absence of personal interactions and some difficulties in using communication tools, nearly seven in ten employees in the United States find online meetings easier and less stressful than face-to-face meetings in 2021 (Sava, 2022).

Consequently, the frequency of working remotely in 2020 has increased a lot to adapt to this new reality as can be seen in this survey done to assess the level of adaptation done by enterprises after the pandemic. In Exhibit 1, it is clear that the majority of people, 65%, have a remote experience more than occasionally.
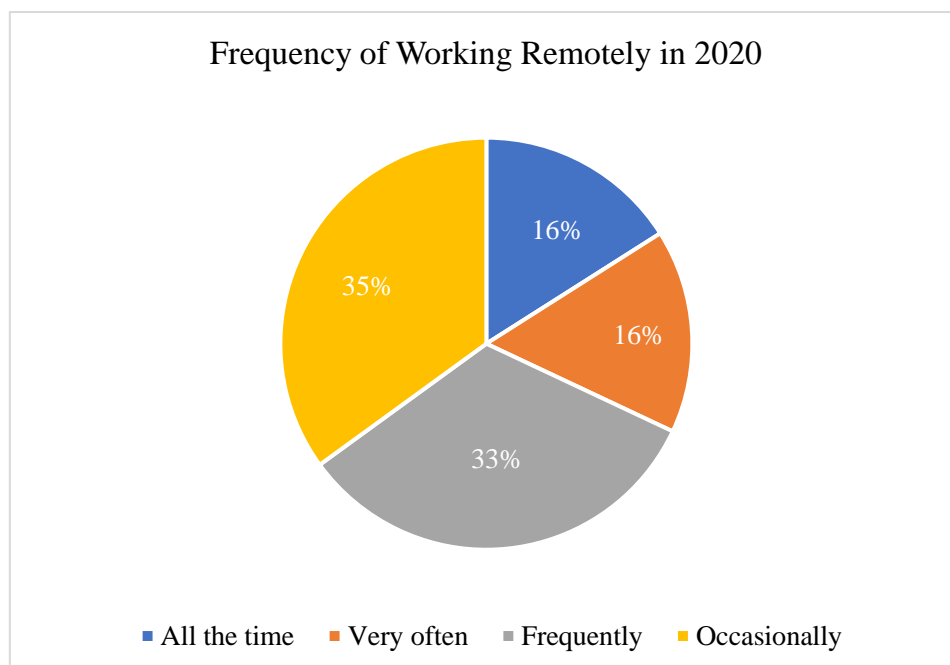

Exhibit 1: Frequency of working remotely in 2020. Source: Statista.

DIGITAL ECONOMY

The digital economy has been increasing its role as a critical element whilst shaping national security, international competitiveness as well as economic growth. Nowadays, digital technologies are notably present influencing the world's trajectory and people's quality of life in aspects varying across resource distribution to income growth and allocation, as shown in Exhibit 2 below.

Exhibit 2: Global distribution of top 100 digital companies and market. Source: Murphy, A. (2018). The 2018 Digital 100.

The main challenge is finding an effective way to measure the digital contribution to the economy's growth and relevant social indicators. Indeed, many experts recognize the complexity of accurately measuring a digital market which is described by promptly modifying goods and services. Still, Huawei and Oxford Economics researchers estimate that "*the digital economy is worth $11.5 trillion globally, equivalent to 15.5 percent of global GDP, and has grown two and a half times faster than global GDP over the past 15 years*.".

Following this, the Bureau of Economic Analysis (BEA) claims that the difficulties in evaluating the digital economy are due to an absence of agreement over events comprised in its

definition, as well as the increased pace of constant adaptation associated with digital technologies' evolution.

Despite the challenges of national statistical accounting, tracking the growth trajectory of the digital economy is crucial in the sense that it provides an essential indicator for both international competitiveness and economic growth that the U.S. is experiencing over the years.

Theoretically, the digital economy consists of products and services that are produced or include the use of digital technologies. The main activities within this economy are centered on the information and communications technology business, also referred to as the ICT industry, which has been used as a trustworthy benchmark for its performance.

TECHNOLOGY SECTOR

The technology sector relates to the investigation, development, and delivery of products and services that are technology-based. The businesses covered within this sector are widely broad, including electronics manufacturing, software creation, as well as matters relating to information technology (IT) and artificial intelligence.

In this sense, both individuals and corporations are offered a wide variety of technological products and services that have become increasingly present in their day-to-day tasks, ranging from consumer goods, such as mobile devices, to the development, protection, and update of enterprise software and logistics systems. Furthermore, it is considered one of the most desirable when considered in terms of growth investments in any economy. In particular, the U.S. is the worldwide leader concerning innovation within the technology landscape, thanks to its entrepreneurial dynamism, financing mechanisms, pioneering environment, and vigorous institutional pillars, which all together augmented its competitiveness.

Therefore, one can perceive that countries and companies can achieve a strategic competitive advantage when prioritizing investments in research and development to generate

advanced technologies, taking full benefit of digital economies that can enable an increase in productive capacity and effectiveness through automation and advanced software systems while optimizing their time available.

Adding to the positive contribution to gross domestic product (GDP) growth, and boost in productivity, as previously mentioned, the continuous interest of companies in incorporating improved technology features in their businesses has been increasing the demand for professionals with experience in the area. In fact, studies conducted by the Bureau of Labor Statistics estimated that, between 2020 and 2030, there will be a growth of around 13% in careers within the computer and information sector.

Moreover, according to Bain & Company's studies, technology has been the driving force behind global economic expansion. Companies with technology as a central part of their identity, known as "born tech" businesses, account for most of the growth. Since 2015, these businesses have contributed 52% of the overall increase in market value, and another 20% of market esteem development has come from organizations with a tech-drove system that enhances more conventional models.

Considering all aspects previously mentioned, it is noticeable that the IT industry is the prime factor for digital innovation in both established and emerging countries. Particularly, in the U.S., the real economic growth attributed to this sector has grown steadily since 2007, enhancing its rising importance. Companies such as Amazon, Netflix, IBM, Apple, Microsoft, and Google are important in pushing the unceasing IT sector's growth. Besides, their long-term prospects regarding technological competencies had been increasing their market value.

TECH SECTOR EVOLUTION

Initially, the technology sector was associated with semiconductors, communications equipment, and computing hardware, starting to evolve and include features to solve

sophisticated computer issues and control people's access to specific systems. However, nowadays it is integrated into the world in such a way that companies would collapse if any problem would prevent people from operating digitally. Specifically, information technology has been evolving and professionals are able to establish procedures to guarantee that IT systems operate effectively and are aligned with the company's strategic goals. Moreover, they enable companies to be continuously updated on new technologies and business needs while automating processes to improve business efficiency and maintain service security and connectivity.

Besides this, the increased volume of software companies broadened the tech sector activities to any matter related to and based on coding. This, along with the Internet boom and the fast-changing needs of society toward a more digital lifestyle, enhanced the vital need for internet companies. By this time, internet companies ranged from the ones just using coding to improve their media and content; to the ones developing advanced features that powered social media, communicating economy, e-commerce, and cloud-based computing, being able to access a wide variety of data at any time and place. Subsequently, the rapid implementation of promptly emerging technologies, including the internet of things (IoT), machine learning, cloud computing, robotic automation, 5G technologies, and artificial intelligence (AI) is advantageous for this sector and is expected to stimulate ongoing growth.

There are many classifications to describe the IT sector, applying the standard method, it can be split up into five top-level pails. Accordingly, 56% of the global total consists of the traditional categories of software, hardware, and services. This is followed by 25% accounted for telecom services, another core category; and the outstanding 19% is attributed to various new technologies that do not fall into one of the conventional categories or that fit into more than one category. Most of the options in this case concern new as-a-service solutions that blend service, software, and hardware, including drones, IoT, and several systematizing tools.

Thus, one can perceive that, nowadays, the IT sector comprises a varied range of capabilities and businesses so that the subsectors start to become more valuable than the global part, being far from having reached its full potential as new needs and trends emerge constantly.

TECH SECTOR CHALLENGES

As more advanced technologies rise, consumers and businesses are expecting to observe more opportunities with future technology as it will be faster, becoming easier to operate, connect and accomplish matters that were not possible to achieve until then. Thus, these developments are great for productivity, however, some challenges can arise from a more digital world.

With more technology, fewer workers will be needed to carry out tasks that are quickly completed through automation, so the impact on workers is yet to be determined as companies will have the machinery tools and knowledge to accomplish more while employing fewer people, which can threaten society as a whole if occurred on a big scale, since job projections will surely be largely impacted.

Although new job opportunities will arise with the demand for coding, data science, e-commerce, and digital platforms since tech experts will be needed to ensure that everything is working as it should, the development of the skills needed to operate in these areas will be a challenge for the workers affected. Thus, the mismatch between the capabilities of workers and the skills required will force companies to invest in training programs. This necessary investment will be added to the high cost of moving from a traditional system to a more digital-based one, while companies try to keep up with the changing needs of consumers toward more advanced products, without losing quality.

Moreover, as computing systems and skills continue intensifying globally, a progressively important issue appears related to "*data overload*". IT professionals have encountered

challenges while efficiently handling massive amounts of data to develop valuable business intelligence due to the huge volume of processing capacity, complex software, and human analytic skills required for everything to operate successfully.

Furthermore, with the rising innovations in technology, cyber security threats emerge. For this matter, companies are focusing on and investing in cybersecurity features that can mitigate potential challenges coming from cyber-attacks. Thus, network security instruments that can prevent and rapidly warn companies when any suspicious activity occurs in the systems, are of primary interest to most business executives, since any security incident can damage the corporation's reputation. Besides, situations like these cost huge amounts of money and time to recover from the incident.

HISTORY OF SALESFORCE AND ITS STRIVE FOR INNOVATION

From its beginning in 1999 until today, Salesforce had the ability to grow a lot as a brand, gathering a large customer base and achieving huge revenues by constantly innovating and addressing the evolving needs of its users.

It started in February 1999 when Marc Benioff together with Parker Harris, Dave Moellenhoff, and Frank Dominguez transformed the dream of becoming "*A World-Class Internet Company for Sales Force Automation*" into reality by creating Salesforce. The base of success was to build their Customer Relationship Management – CRM – strategy, and the way they found to do this was by creating a business software through a SaaS (Software-as-a-Service) model, which simply means to deliver applications through the Internet, as a service, instead of installing the software in your device.

In 2000, Salesforce stepped up by starting its advertising campaigns alongside a big event with interactive activities for its attendants. The company started gaining relevance in the market due to an article in the Wall Street Journal. However, like the majority of tech

companies, it was highly affected by the dot-com bubble crash and due to this event, the company had to lay off around 20% of its workforce. Surpassing the previous difficulties, in the next year the firm manages to expand its headquarters, Marc Benioff is nominated for CEO and Chairman, and in 2002 revenues continued to grow and the prospects for the future were very promising at the time.

In 2003, they hosted an event called the Dreamforce that became an annual event to present new ideas and products to registered attendees. At this point, the expansion continued with new offices opening in five European countries, Japan, and Australia. During this year, revenues rose steeply achieving $100 million in this fiscal year.

The year 2004 was very important for Salesforce since it had its IPO on the New York Stock Exchange, which managed to raise $110 million at $11 per share. Afterward, in September 2005, Salesforce launches the AppExchange service which consists of a platform for developers to create their applications and then distribute them directly to Salesforce clients.

From the beginning, Salesforce wanted to attend to its customer needs, which is why in 2007 it released IdeaExchange, later re-named Trailblazer Community. This program aimed to increase customer engagement by allowing them to suggest ideas for new releases.

Later in 2008, Salesforce was considered one of the fastest-growing technology companies in the World by Forbes, and Parker Harris, one of Salesforce's founders, developed Apex. Apex is a programming language that was used for users to write and run the code on Salesforce design. This unified the programming language used and gave them a platform to work on. Following this, Force.com is launched at its annual event. This tool consists of a platform that allows its customers to build their applications or websites in a cloud to make them more easily accessible to the users. This was a turning point in Salesforce's history as their biggest clients such as Citigroup and Morgan Stanley started using it to build their applications.

In 2009, Salesforce released the Service Cloud, a service to help increase the efficiency of the customer support team, by having self-guided support for the most common doubts of customers. This automation helped in re-directing the customers to the specific solutions to their problems. Another important milestone this year was that Salesforce became the first company partner on the App Store as the first app for iPhone was built on Force.com. The company kept on innovating to release Chatter in 2011, which allowed its users to collaborate in real-time with each other to share ideas. Once again Salesforce's constant innovation is recognized as it is considered at the top of the list of "*The 50 Companies of Tomorrow*" by Fortune.

With the increasing usage of smartphones, in 2013 Salesforce decided to launch the Salesforce1 platform, which allowed its users to access and custom all Salesforce apps and also AppExchange apps downloaded from the App Store. This allowed customers to run a business from their phones.

In 2014, they released the Trailhead Learning Platform that allowed users to learn about the technology to build a career in the industry one day, without the need for payment in exchange. The users learn to code in Apex, Java, or Visualforce and there are different levels of learning so that it is interactive and appealing for everyone. This strategy allowed for the specific knowledge and skills needed for Salesforce to be available to anyone interested in it. Following the constant seek for innovation by the company, in 2016 the CEO Marc Benioff is considered by Forbes "*the decade's top innovator*".

The modernization continues, as in 2017, a new product is announced: the Einstein. Einstein is an artificial intelligence software used to predict future sales (by using past data) and give support to sales, service, and marketing. Every firm can now use AI thanks to this platform, which is a tremendously innovative development.

To bring customers and Salesforce even closer together, in 2018 it introduced Salesforce Customer 360, a platform that brings each department of the company closer by connecting them in a platform with the customer needs at the center.

The culture and vision of Salesforce are much appreciated not only by its users but also by the rest of the community, and because of this, it was considered *"one of the 100 Best Companies to Work for the 12th year in a row, one of the top 10 Most Admired Companies in the World and one of the Best Workplaces for Giving Back"* by Fortune, in 2019.

In 2020, the market position of Salesforce is extremely strong as it is considered, for the 7th year in a row, #1 in CRM by Gartner while holding a higher market share than its next nine competitors all combined. Also, it reached the Dow Jones Industrial Average becoming the largest technology element of the index at that time.

In order to support its customers during the pandemic, Salesforce launched three resources: Salesforce Care, Work.com, and the Vaccine Cloud. These measures allowed Salesforce once again to stand out from its competitors.

Salesforce Care consisted of an employee and customer help center designed to respond to requests fast while keeping everyone informed. This way it was easier to deal with the increasing volume of doubts received across the different channels. Also, it was created, for example, a special channel to support small business customers who might deal with different struggles at this time.

Work.com was a digital platform that centralized the employee's information, such as assiduity, position, and contact information. This was an essential feature during the pandemic since some employees were working remotely and others were not so it could be challenging to organize this information.

The Vaccine Cloud entailed a vaccine management program to assist health authorities to coordinate the future vaccination plan, analyzing the vaccination rates, and tracking their inventory.

R&D EXPENDITURE

Research and development expenditure consists of all the money spent on activities to innovate and create new products or services. The first mover advantage is particularly relevant when it comes to developing innovative products or services because it can be what makes you a market leader in a given area.

These expenditures are more important in the Software industry than in others because software developers are constantly finding new ways to become more efficient. Since it is a fast-paced industry, it is key to invest in R&D not to fall behind the competition. Nowadays more than ever, Salesforce and its competitors are aware of this and there is a clear positive trend for this type of investment, as can be seen in Exhibit 3.
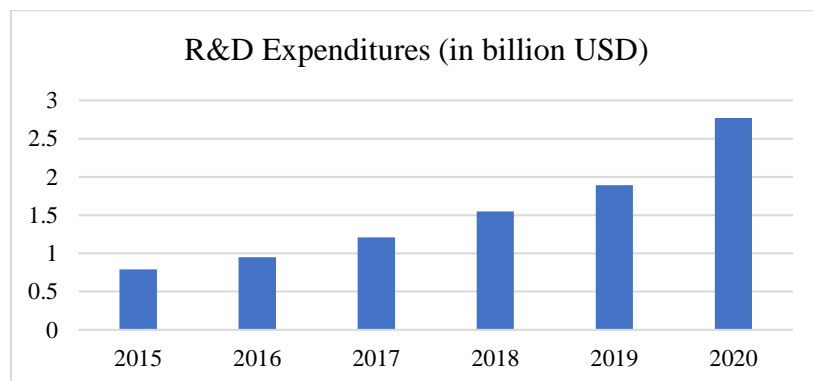

Exhibit 3: Salesforce R&D expense worldwide from 2015 to 2020 fiscal year. Source: Statista.

THE TEAM BEHIND THE SUCCESS

Marc Benioff is the Chief Executive Officer and Chair of the Board of Salesforce. Ever since he founded the company along with Parker Harris, Dave Moellenhoff, and Frank Dominguez, he has always been considered a visionary. Benioff graduated from the University

of Southern California in 1986 with a Bachelor of Business Administration and joined Oracle immediately after. When he was 26 years old, he became the vice president of Oracle, the youngest person in the company's history to reach this position, making over $1 million a year. After 13 years of work in the company, Benioff takes a sabbatical year and returns home with the idea of creating Salesforce and developing the concept of Client Relationship Management in a software service.

Parker Harris is one of the co-founders, a Board member, and the Chief Technology Officer of Salesforce. He graduated from Middlebury College in 1989 with a Bachelor of English Literature, however, he always had a passion for computer programming. In 1996 he founded Left Coast Software along with Dave Moellenhoff and Frank Dominguez. Later, in 1999 when Benioff was looking for gifted engineers to partner with him, the three founders of Left Coast Software were recommended by the CEO of Saba Software, Bobby Yazdani. Harris is in charge of the technology vision and its architecture in the company, a very critical role.

Bret Taylor is a Board member, the Chief Operating Officer, and the Chief Product Officer of Salesforce. He graduated from Stanford University in 2003 where he finished a bachelor's and a master's degree in computer science. In that same year, he was hired by Google and two years later he co-created Google Maps. During his path, he was also CTO at Facebook and in 2012 founded Quip, which was acquired by Salesforce in 2016. His role in Salesforce revolves around overseeing the company's operations and also implementing strategies for new product launches.

THE STRUCTURE OF THE COMPANY

Salesforce is broadly divided into fourteen departments that ultimately work together to achieve a common purpose. Each of the fourteen departments is then divided into several positions that focus on more specific issues. Each department will be briefly discussed in order

to better understand how Salesforce is organized and what can a possible target add to the existing company's internal structure.

First, there is the Sales department which acts as an advisor to Salesforce's clients in order to find new solutions that are more effective in solving their problems. By introducing new digital answers to facilitate day-to-day activities, this department helps businesses connect with their clients, business partners, and employees.

The Technology and Product department is in charge of designing the core of the Salesforce business – the code that solves or facilitates the customer's problem. The core of this team is the constant search for innovation to meet the customer's needs.

Also, the Customer Success department is responsible for focusing on attracting new customers, retaining the current ones, and improving their experience as a whole. These department partners with others to maximize business value creation across the different parts of Salesforce. This way it is possible to provide customer support in every stage of the customer's experience with the company.

The Marketing and Communications department is also a key piece of the puzzle here since it is the one that is accountable for transmitting the company's ideals and its innovative creations to both customers and potential customers. The way that this department decides to share these has a huge impact on the perception of Salesforce across the globe.

The Employee Success department comprises HR, People, and Recruiting all in one. This means that this team is in charge of creating experiences to connect Salesforce employees by engaging with each other, building programs for the employees to develop a new set of skills, and also recruiting new talent while bridging the gap between the candidate skills and what the company looks for in its workers.

Then there is the Real Estate and Workplace Services department that manages everything related to the workplace services of the company. It ranges from a team dedicated to delivering the best guest experience to customers visiting the offices to events for employees, partners, or nonprofits.

Like in every big company, there must be a Finance and Strategy department that takes care of the operations segment of the business and seeks to optimize every aspect of the strategy being followed. The ultimate goal of the teams under this department is to optimize the operations and continue to grow the company in a sustained way.

The Legal and Corporate Affairs department is also a crucial part of the company in that it is in charge of ensuring that all of Salesforce's actions are legal and compliant. The functions of the teams of this department comprise for example the risk management that is required in any strategic decision, or the contracts and agreements involved in acquisitions.

Additionally, there is the Salesforce Research department that is responsible for Artificial Intelligence research and engineering. Being a part of the Software industry, it is essential to have a department in charge of investigating the new trends in the market in order to always be on the edge of innovation. Since AI is a popular matter nowadays, it is constantly changing and evolving into a more functional software, therefore the teams under this department need to be aware of this while building the new tools.

There is also the Business Technology team who specializes in delivering services that increase the efficiency of other companies. The functions of the teams under this department include developing new application features using the company's technology, managing the existing applications, and providing support by diagnosing the problems of companies requiring Salesforce help.

Since Salesforce is committed to being a progressive company, it is important to attract and retain young talent. This is according to the role of the University department, which focuses on recruiting students for internships in order to give them the chance to have an impact on the company's progress at a young age.

Among other acquisitions, between 2018 and 2019 Salesforce acquired MuleSoft, Datorama, and Tableau. So, these are considered the last three departments in the company's structure. MuleSoft is focused on *"building application networks that connect enterprise apps, data, and devices in order to have a fully integrated digital transformation",* according to Salesforce's website. Datorama is providing marketing solutions by using AI and machine learning in order to solve marketing challenges with a more effective approach. Finally, Tableau is an analytics platform that helps people become more data-driven by simplifying the way data is explored and managed. This way it summarizes the data and makes it easier to present it within one's organization.

PRODUCT, VISION, AND GOAL

The idea of the product to create with Salesforce was clear to Marc Benioff from the beginning: a CRM software that was affordable and delivered as a service, so that there was no need to download the software to each user's device. This was a bold move since it seemed almost impossible to do at the time, however, they knew that if they managed to, it would be revolutionary for the industry.

The vision of Salesforce has always been to improve the software business by constantly innovating while considering the interests of all its stakeholders. This was fulfilled as the company was constantly asking for feedback and ideas before designing the next launch.

Their Vision Statement says: "*We believe that the business of business is to improve the state of the world, and we work to make sure Salesforce is a platform for change through*

serving the interests of all our stakeholders — employees, customers, partners, communities, and the environment."

Marc Benioff is known for caring a lot for giving back to his community, which is why all of his workers volunteer on their first day of work. Also, they are given 7 paid days of volunteer time off. Along these lines, in 2016 Salesforce spent $3 million to eliminate payment disparities in the company. Due to the high number of volunteer hours worked by the employees, the company's donations in grants, and the several discounts given to many non-profit organizations it was considered the #1 "*Workplace for Giving Back*" by Fortune in 2016.

Salesforce Purpose Statement is also along these lines: "*Salesforce.org powers the purpose of people dedicated to solving our world's biggest problems. A global community of non-profits and educational institutions relies on our technology to help them operate effectively, raise funds, and build more meaningful relationships with those they serve.*"
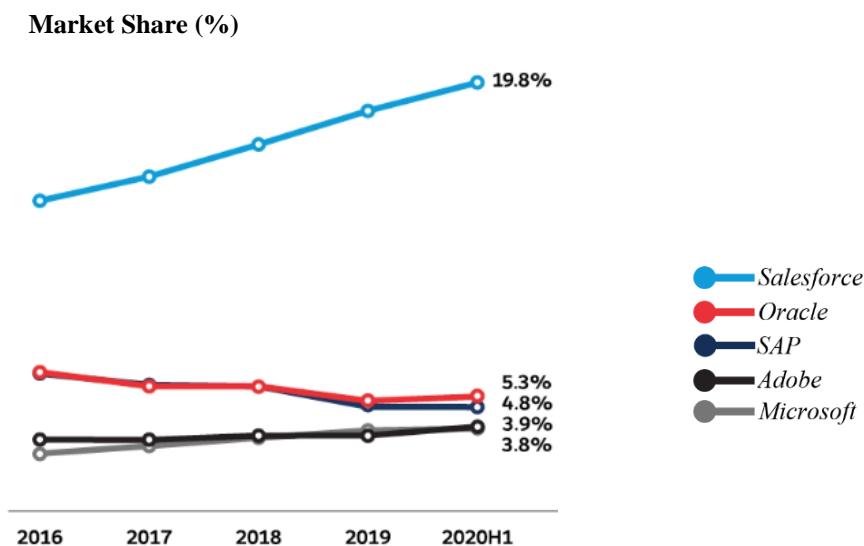
SALESFORCE AND CONSUMER RELATIONSHIP MANAGEMENT

As has been mentioned, Salesforce has been considered the unquestionable leader in the Customer Relationship Management (CRM) industry. Specifically, the year 2020 was the 12th consecutive year in which Gartner recognized the company's leadership in its Magic Quadrant for CRM Customer Engagement Center (CEC).

CRM technology is considered, by a great majority, to be impactful, which therefore leads several firms to invest in CRM technology for a boost in their operations within the first five years of business. From 2018 to 2019, the use of CRM improved from 56% to 74%, and Grandview Research on the industry's estimates concluded that CRM is adopted by over 91% of businesses with at least ten or more employees.

The CRM system has been growing a lot in the past years, as so has the demand for CRM technology, currently having a market size of $120bn, which accelerated mainly in 2020 due to the pandemic impact, which led many companies to turn their business into digital platforms.

SALESFORCE STRATEGY

Taking into account the leader position of Salesforce in the CRM segment, it is relevant to understand such successful and consistent results, despite the rapidly changing in technology and digital evolution, in comparison to companies operating in the same industry, such as Oracle, SAP, Microsoft, and Adobe, as demonstrated in Exhibit 4 below.

Market Share (%)

Exhibit 4: Market share realized between 2016 and 2020 by Salesforce, SAP, Oracle, Microsoft and Adobe. Source: IDC, Worldwide Semiannual Software Tracker, October 2020.

Salesforce's CEO stated a plan to improve gradually its revenue in 2018 aiming to reach about $20 billion by 2020, $40 billion by 2028, and at least $60 billion by 2034. An annual growth of 12% for 16 years is needed in order to achieve these goals.

A fundamental part of Salesforce's mission, which represents an important driver of its distinguished growth, concerns its acquisitions strategy. The integration of the new technologies into the Salesforce platform has propelled the CRM leader's credibility to extend

beyond just being a CRM supplier. The strategy of Salesforce consists of creating focused innovation and mitigating any disruption risks. Moreover, Salesforce reinforces its product portfolio mainly through acquisitions, which at the same time complement its offerings and technologies. Salesforce has been following a well-drafted methodology. The way they choose the companies they acquire compresses an evaluation of criteria and balance, as well as possible risks that can be brought by the target company. In order to drive growth and experimentation, Salesforce takes as key how to balance integration vs innovation.

It is relevant to point out the main reasons that have been leading Salesforce to acquire so many companies. It is relevant to acknowledge the fact that CRM software demand is increasing quickly, with the CRM business segment's sales predicted to exceed $80 billion by 2025, prompting Salesforce to seek innovative businesses. Therefore, Salesforce aims to be at the same pace as the competitive CRM market that comprises various platforms providing a "*360-degree view of customer*" services. On the other hand, the CRM platform offers valuable tools related to marketing and sales, for a variety of industries, such as manufacturing, science, healthcare, financial services, retail, media, and nonprofits. By acquiring new technology, Salesforce makes it simpler for Business to Consumers and Business to Business, medium and big-sized firms to conduct their operations and make use of data efficiently. As a dynamic and expanding company, Salesforce always explores new possibilities and solutions, as shown by Salesforce's extensive list of acquisitions, also confirming its prominent status in the CRM software market. The major Salesforce competitors are Microsoft Dynamic 365 CRM, Oracle CRM for Demand, Adobe, and SAP, each of them including specific features. Salesforce acquires leading digital companies in order to be competitive and stand out from its competitors.

To better understand the company's decisions regarding M&A deals, in specific the one studied, the acquisition of Slack, it is relevant to point out some of Salesforce's M&A successful deals, and the benefits that came with them, as well as possible ones that did not end up going

through. Hence, the company has acquired 60 companies, which include 15 in the last 5 years, 12 in different US states, and 5 countries, and the most targeted sectors were internet software and services, and software.

Salesforce purchased MetaMind in 2016, a deep learning startup, that aims to leverage its technologies to improve marketing automation and better automate and customize customer care. This acquisition was meant to improve data science potential by incorporating deep learning into the Salesforce platform. Tableau Software, data analytics platform, was also acquired by Salesforce, in an all-stock deal for $15.7 billion, with the aim to offer more data insights to its clients - "*Together we can transform the way people understand not only their customers, but their whole world—delivering powerful AI-driven insights across all types of data and use cases for people of every skill level.*", as well as stronger analytics "*Tableau will make Salesforce Customer 360, including Salesforce's analytics capabilities, stronger than ever, enabling our customers to accelerate innovation and make smarter decisions across every part of their business*". It was Salesforce's most expensive acquisition to date, surpassing the 2018 acquisition of MuleSoft for $6.5 billion, in a mixed offering deal, focused in providing "*one of the world's leading platforms for building application networks that connect enterprise apps, data and devices across any cloud and on-premise—whether they connect with Salesforce or not*".

Moreover, leading companies, such as Coca-Cola, Barclays, and Unilever, rely on MuleSoft to "*change and innovate faster, deliver differentiated customer experiences, and increase operational efficiency*". ClickSoftware Technologies was another noteworthy acquisition for $1.4 billion in October 2019, again in a cash and stock deal – "*Our acquisition of ClickSoftware will not only accelerate the growth of Service Cloud but drive further innovation with Field Service Lightning to better meet the needs of our customers*". Large organizations, such as Bosch or Deutsche Telekom, rely on ClickSoftware to improve each

service interaction, making this another reason for this to be a beneficial deal for them. Salesforce also acquired Rebel in 2018, a marketing technology to further expand its marketing cloud, and an Israeli cloud-based AI marketing company, Datorama, aiming to leverage Artificial Intelligence and Machine Learning to give campaign optimization tactics using marketing intelligence and analytics.

On the other hand, it was made clear that for Salesforce, an M&A deal follows a strict valuation, and the decision to buy a company is not only based on the availability of money. This is clear through Salesforce's intentions to buy Twitter in 2016. Twitter was a problematic social media platform at that time, and even though they had the money to buy it, the investors questioned the agreement in the sense of how it would maintain its customer relationship. The deal would indeed enable real-time data, which is advantageous for an artificial intelligence-focused organization, however, the price should be considered carefully in order to be fair, the cultural aspect should fit the business, and it surely needs to be worth the financial risk as well.

Considering everything that was mentioned above regarding the company's previous acquisitions, one can state that with every one of them, Salesforce aimed to expand its capabilities and offerings, including the ecosystem of business cloud firms and key partners, boosting cloud-based technology adoption, and developing the next-generation AI engine, mobile apps, and associated items.

SALESFORCE ACQUISITION OF SLACK - SPECULATION

As was mentioned above, Salesforce has been basing its strategy on acquisitions, enjoying its market cap growth in recent years. Slack would be one of the industry's largest software acquisitions as "*This would be a game changer move for Benioff & Co. to further build out its collaboration engine and product footprint as cloud spending ramps across the enterprise,*" Wedbush Securities' Dan Ives told CNBC, referring to Salesforce CEO Marc Benioff.

THE HISTORY OF SLACK

Slack was created in 2009, in San Francisco, California, and started as an internal group chat tool for an online game, Glitch, under Canadian Stewart Butterfield's company, Tiny Speck. Slack was only launched to the public, as it is today, in August 2013, by three other co-founders: Eric Costello, Cal Henderson, and Sergei Mourachov. Tiny Speck modified its name to Slack Technologies, LLC, one year later.

Slack, or Searchable Log of All Conversation and Knowledge, was an instant hit with over 8000 clients signing up for the app in less than 24 hours. Corporations involved in advertising, media, and the Internet signed up for subscriptions, and the company's success was attributed to having customer feedback as the focal center of their strategy.

The first round of funding came after the closure of Glitch and the launch of Slack, which raised $17 million from Andreessen Horowitz, Social Capital, and Accel. One year later, in April 2014, an additional $42.75 million was raised. In that same year, in October, Slack raised in venture capital $120 million, got valued at $1.2 billion by Kleiner Perkins and GV, and was among other highly prominent digital unicorns that year, such as Buzzfeed, Lyft, and Wish. The earlier investor mentioned above also joined in this round.

In March 2015, the company signed a deal with investors to raise $160 million, which raised its valuation to $2.76 billion. First-time investors participated in this funding round, such as Horizons Ventures, Institutional Venture Partners, DST Global, and Index Ventures. In April, Slack raised an additional $160 million.

Another $200 million was raised in April 2016, in a funding round led by Thrive Capital, with participation from Comcast Ventures and GGV, and some existing investors. At this point, Slack was considered number 1 by Forbes on their *Cloud 100* list.

In September 2017, the company raised $250 million, the majority coming from Softbank Vision Fund. This round left the start-up with a valuation of $5.1 billion, which included the total cash raised of $841 million. In 2018, they named their first CFO, Allen Shim, which had been with the company since 2014.

On June 20, 2019, its stock "WORK" started trading on the New York Stock Exchange through a Direct Listing Offering (DLO), meaning they were made available directly to the public by selling shares already held by registered shareholders and without releasing any new shares, unlike in a traditional IPO, while not being restricted to a mandatory lock-out period. After the first day of trading, "WORK" closed at $38.62, which earned Slack a valuation of $19.5 billion.

THE MEN BEHIND

The CEO and co-founder of Slack is Stewart Butterfield. He is deemed as a designer, entrepreneur, and technology leader, being known for his foresight and originality that helped and motivated him to develop two successful businesses with the ability to bring a new perspective to the means through which people use technology to communicate, cooperate, share and store information. In 1996, at the University of Victoria, he received a B.A. degree in philosophy, taking his Master of Philosophy at Clare College, Cambridge two years later. In 2003, Butterfield co-founded Flickr, one of the innovators of social web and image sharing, was able to build the company that become one of the biggest web services worldwide and was named in 2006 by Time magazine as "*one of the hundredth most influential people in the world*". Ten years later, Stewart along with his team of three, launched Slack.

The co-founder, and CTO of Slack, Cal Henderson, is known as a knowledgeable technology leader and popular speaker on engineering scalability. He studied at Birmingham City University, graduating with a degree in software engineering in 2002. While working in

Slack, he is responsible for overseeing the company's engineering team and setting its technical vision. In the past, he developed and managed the engineering teams at Flick, until it was acquired by Yahoo. Besides this, Cal was also a pioneer concerning web APIs usage and produced the base behind OAuth, and oEmbed, now used by YouTube Twitter, and others.

The other co-founders, Eric Costello and Serguei Mourachov have also worked in the past at Flickr with the other members. At Slack, Eric has the function of Client Lead; and Serguei is the Principal Engineer, having studied in Moscow at the National University of Science and Technology MISIS.

Therefore, one can understand that experience, expertise, and connection among team members are the reasons for Slack to be recognized as a company-leading channel-based messaging platform, transforming business communication, and being used by masses to bring teams and systems together, as well as to improve businesses' operations and efficiency.

THE PATH BEFORE SLACK

It all started after the 2000s dot-com bubble, when Butterfield decided to build Neverending, a web-based multiplayer game. Although the game had lack of funding and rudimentary graphics, it was through this business that he found his enthusiasm for design and communication, as well as a great team able to build a technology that was revolutionary for that time. This technology would allow users to tag images between themselves far before platforms that are known today, such as Instagram and Facebook. From this point onwards, the team and the passion needed were built.

The next step was the creation of Flickr in 2004. Along with his team, Butterfield was able to create a tool that was not available either in Google or in Blogger, which was the storage of images. By using these platforms users would be redirected to Flickr to store their pictures, which enabled the company to grow at a rapid pace. Even though its storage costs made the

business unprofitable, the Flickr team received an offer of $20M from Yahoo!. However, this deal ended up slowing down the start-up-style decision-making process, rather than maintaining its culture of instant iteration and agile workplace.

In 2009 Butterfield created Tiny Speck and decided to return to his initial project, taking with him his core employees to the development of another web-based multiplayer game known as Glitch, which officially launched on September 27, 2011. As the team was already known for the success of Flickr, it had no problems in finding initial investment, used mostly for new hires, and attracted a lot of users. Nevertheless, the story repeats and there was a leaky budget. Besides, 99% of users did not return after the first use because they considered the game too obscure and abstract. Realizing this, Stewart made the hard decision to put an end to it on December 9, 2012.

Yet, Glitch was not a total disaster in all terms. During its development, the team created an internal communication system that permitted team members to speak quickly across the network, storing all communications. This was innovative at the time, since other platforms such as email, had not the framework of stored communication nor the ability to make messages visible unless users are cc-ed. It was only after Glitch shut down that the team realized that their communication system was much more practical than the typical email-based one, which led to the thought that, if they find it useful for themselves then more people could find it as well.

SLACK: THE PLATFORM FOR ALL

It was by this time that Stewart Butterfield, along with his team started to develop an original and advanced system for the massively multiplayer online role-playing game market. Slack is not unique for being the fastest-growing start-up in history, but also because its product development was made under an unorthodox process, as mentioned previously.

After realizing that their communication system had great commercial potential, together with their productivity and motivation to enter new challenges, Butterfield and his team started to rebuild the entire internal communication system to make it better and more agile for outside users, creating Slack along the way. Catching people's attention through their exciting brand, simplicity of use, and customer-centricity, Slack was able to stand out from competitors, such as Yammer, and HipChat, in a time when all types of companies, from start-ups to massive enterprises, needed a tool like this. By improving its system with users' feedback, the team was able to create a valuable tool for everyone, which become an evident success as it went immediately viral as soon as it was released to the market, increasing exponentially its number of users in the second semester of the first year, as shown in Exhibit 5 below.
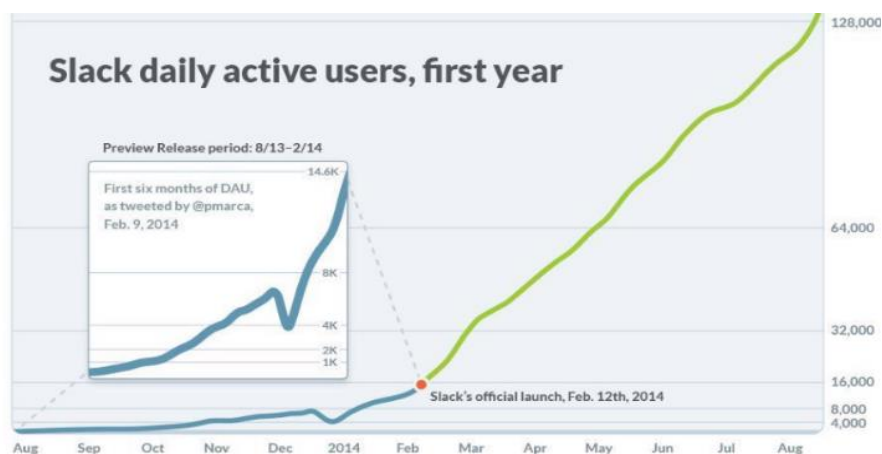

Exhibit 5: Slack's daily active users between the six months before and after the company's official launch. Source: ClickUp Blog.

As it stands today, Slack is a messaging app for companies that helps connect employees to the information they are searching for and in need of. To create a specialized digital ecosystem for work, Slack allows its users to connect conversations with the services and tools needed for the job. With a robust API and more than 2000 apps as partnerships, like Office 365 and Google Drive, the platform works with developers and partners worldwide to build integrations and apps that simplify and reorganize the client's work, automating ordinary tasks,

such as sharing updates or requesting updates. Slack's integrative nature allows its users to spend less time shuffling between tabs, and more time focused on the tasks at hand.

Slack's platform wants to facilitate work for clients and inside and between organizations. As such, consumers can stay focused and organized with central channels for messages, tools, files, and people, while staying connected by being able to collaborate with teams from other companies as easily as with their own.

Furthermore, Slack also offers security so that the data it processes is protected at every layer and meets compliance requirements. Features such as domain claiming, single sign-on, and assistance for company mobility management help ensure that only approved people and devices can access the information of the client. Slack encrypts all data and protects it using different tools, like audit logs, data loss prevention integrations, and Slack Enterprise Key Management (Slack EKM). Slack EKM improves the capability of organizations to communicate and share sensitive information and files on its platform, while still meeting security requirements.

In brief, Slack is deemed a software-as-a-service (SaaS) business that can be used to communicate with co-workers both inside and outside the workplace. It is accessible from any device, and as a result, is ideal for businesses of all sizes because it can help improve communication and team productivity.

BEYOND THE PLATFORM

Besides the platform itself, Slack has also been helping organizations through its venture capital fund, Slack Fund. Created in 2015 in partnership with the likes of Andreessen Horowitz, Social Capital, and Accel, Slack's initial investors, the Slack Fund invests in the future of work and joins forces with entrepreneurs to create the next great software corporations. They offer mentorship from world-class experts from Slack on the go-to-market strategy, team building,

product-led growth, and more, investing in companies specialized in Voice and Video, IT and security, Next-generation productivity, Organizational Wellness, and Developer tools, although this scope is continually broadened to adapt to the changes in businesses around the globe.

In 2020, Slack started investing solely in their second fund, which has a size of $50 million and by the end of the year, they had more than 85 investments across Europe and North America. From the 85, they've followed up on 23 of the invested companies.

Slack Fund's strategy is not to be a source of capital for companies taking their first steps, but to go beyond and take a hands-on approach to partner and invest with partners at their seed stage and early rounds.

As Slack's mission and vision are to make working life more pleasant, simpler, and productive, to work hard and go home early, and its channel-based messaging program is on the way to achieving just that. Their early investments set out to co-create and design a booming ecosystem that seeds innovation and helps companies grow into long-lasting companies.

OPPORTUNITIES FOR SLACK OR LACKING

In November 2020, when rumors of the acquisition emerged, Slack was in a fairly good position. According to their Fiscal Year 2020 Results, the company finished the year with 110,000 paid customers (a 25% increase from 2019), almost 900 clients spending more than $100,000 annually with the platform (up 55%), 70 paid clients spending more than $1 million per annum (up 79%), and total revenue had topped $630 million. Nonetheless, in the first quarter of 2021, when Salesforce shared that the Department of Justice's Antitrust Division would be seeking supplemental information from both parties on the proposed agreement, Slack's shares fell to $43.17, a 2.5% decrease, indicating a lack of trust from the public.

Earnings growth for Slack is expected to come from higher and more efficient integration with internal systems and external software, and by keeping customer experience as a key pillar.

"At the end of the day, that's what fuels our organic growth rates – Slack does what it says, is delightful to use, and in return, people tell others about it.", explained Kelly Watkins, VP of Global Marketing at Slack.

Nevertheless, Slack also faces obstacles on its growth path, as the tech market is not easy to navigate. Throughout the years, speculation surrounding the acquisition interest from potential buyers, such as Google, Amazon, and Microsoft, has been confirmed by sources near the parties, although never by Slack itself. One of the rejected players, Microsoft, went on to challenge Slack and introduced a competing platform, Teams, which comes in the Office 365 subscription package, and has 85 million users. As such, in July 2020, Butterfield's company filed an anti-trust complaint in the European Union against Microsoft for abusing its market power and bundling its products, while absorbing the cost of the new app. A decision from the Court has not been made yet.

Furthermore, other competitors offer similar services, which started diluting Slack's market share, including Google Hangouts from Alphabet, Telegram, or Facebook's Workplace. Yet, according to The New York Times, the best Team Messaging App is Slack, even though that might not translate into the highest number of active daily users. Slack's challenge will be to show and prove to its clients that it is not just a messaging app, as stated by an IDC research director, Wayne Kurtzman.

LITIGATION CASE

In October 2020, investors filed a class action lawsuit, led by Fiyyaz Pirani, in the California Northern District Court against Slack Technologies Inc, alleging securities violations. Pirani had purchased from Slack 30,000 common shares, $40 a share, on the day of the direct public listing, purchasing an additional 220,000 shares later that year, at various prices. Pirani and the other plaintiffs that acquired Class A common stock in Slack's DPO

claimed that they "*suffered losses to the value of their purchased shares as a result of misstatements or omissions of material facts in the Offering Materials*." These misstatements and omissions revolve around documentation on the competition with Microsoft Teams, growth and growth strategy, scalability and supposed key benefits, and service outages and highly punitive Service Level Agreements in place with clients in case of said outages.

The Judge also found that the "*Key Benefits*" reported by Slack, which included statements such as "*Slack increases the value of existing software investment*" and "*People love using Slack and that leads to high levels of engagement*", were unactionable. Furthermore, regarding the contracts with clients with the unusual, promised uptime service of 99.99% (which is stricter than the 99.9% guaranteed by competitors), the court found it adequate. Finally, the Judge granted a motion to partially dismiss the claims that the company mislead stockholders on the scalable architecture of Slack.

Earlier that year, a similar federal class action against Slack had been dismissed by the same District Court, which could serve as a legal precedent for Slack's defense case. The plaintiffs ask for an award for rescission, an award for damages, disgorgement, and pre-and post-ruling interest.

BE LESS BUSY

With the pandemic's consequences, one could perceive that remote working has become a necessity in the age of the Coronavirus pandemic, forcing companies to adapt to newer workflows. This is where collaboration tools come to aid, helping firms to improve software, so that employees work together both remotely and in real-time while adapting to the world. With the pandemic, remote working specifically, made companies search for ways to offer secure and conducive digital space for employees to connect and perform as efficiently as they did when working side by side. Global shutdowns made evident the need for collaboration tools

and robots, boosting this market sector. According to a Queen University survey from 2019, 75% of employees considered team collaboration as a very important point in their daily work. Team collaboration tools have many advantages since they provide a solution for the existent gap between remote and real, creating a digital workspace for employees to work together on projects with easy-to-use tools that can replace physical communication and collaboration.

One of the key benefits of collaboration tools is the improved collaboration and communication that comes from it, as it facilitates cross and within-team communication by using features such as instant chat or remote video conferencing. Furthermore, communication becomes more transparent and efficient, as it will all be stored in the tool system. Employees are not dependent on their memory and what was said in the physical meeting, they can simply re-read the chat or review the recording from the video meeting. These tools provide, thus, a secure and immediate space for document sharing, which reduces overall redundancy and time spent on tasks and increases overall company efficiency. Besides, most of this software also allows the management of projects within a team, in which scheduling, resource management, assignment, project reviews, and project overviews can be programmed. Employees and teams can take advantage of the schedules and better plan their work to more efficiently create targets and meet expectations.

Nevertheless, when searching for collaboration software tools, companies must ensure that the offers cover certain essential features. For starters, it should be equipped with robust communication options to allow team members to communicate on goal setting, action items, and planning. Moreover, it should be highly secure by design and have encrypted servers, preventing unauthorized access and usage to critical data, offering as well detailed access and usage statistics for further analyses by administrators. Additionally, the tools should be able to integrate seamlessly with other technologies and software used typically in the corporate environment, allowing for a cohesive workspace experience, where collaboration tools are at

the center of all processes and workflows. All platforms should be intuitive and easy to use for even the least technical employees. Lastly, these tools should also be able to store documentation, promoting information sharing, in a central repository, which tends to be more secure than most self-storage solutions.

Taking this into consideration, Slack launched, in partnership with BCG and Management Leadership for Tomorrow (MLT), a conglomerate that supports companies with the necessary tools for the unceasing changes to prosper in the new economy, called the Future Forum. For years, workers have been dissatisfied with the office status quo, and the pandemic only brought those issues to the surface. This Forum has the goal of helping companies to understand and make the shift to adapt and makes available original case studies, research papers, and position papers, done by leading academics, such as Pamela Hinds, a professor at Stanford University.

ROAD TO SUCCESS (OR FAILURE)

Besides collaboration tools, and improving performance in specific fields, mergers and acquisitions are also transactions that have proven to be valuable in this matter. Many tech companies focus on developing the necessary expertise to be the best in one or more areas, such as communication, marketing, security and compliance, social network, business intelligence, etc. Therefore, when one finds it difficult to stand out in a particular area, one might try to join efforts with other companies specialized in that aspect to become better.

For example, Google concentrates on technology-based tools and electronics for businesses and individuals including artificial intelligence, online advertising, cloud computing, and others. As a strategic move, and to be able to compete more successfully with Amazon, Google purchased Nest, which focused on smart home products, so that the company could perform better and be more competitive within that market.

In the case of Slack, its initial focus was on cloud-based communication. To become a better player in the market and stand out from competitors, achieving its actual performance and recognition, the company has also acquired other firms in the past. The acquisition of Spaces and Screenhero allowed Slack's clients to collaborate on the same documents simultaneously, as well as screen sharing at any time and place. Other acquisitions, such as Missions, HipChat, Stride, and Astro Technology, provided the firm with improved software, communication, and collaboration tools. Finally, the acquisition of Rimeto in July of 2020, and Woven at the beginning of May of this year, developed Slack's directory building, providing additional search offerings of employee profiles and information, as well as intelligent calendar organization and integration, respectively.

Over the years many tech companies have found it beneficial to merge or acquire other companies in the same field to enhance their performance and be more competitive in a world where technology becomes increasingly important in people's day-to-day lives. The announced acquisition of Slack by Salesforce mentioned earlier, is expected to reach a value of $27.7bn which immediately puts it amongst the top five greatest tech acquisitions up to the present moment. Having this value as a reference, there are some deals of similar size involving tech companies that lead to both success and failure.

On the good side, there is the example of Facebook acquiring WhatsApp in 2014. Even if expensive, around $22 billion, this deal enabled Facebook to expand massively its client base, while WhatsApp's image remained unchanged and popular in society. Likewise, the acquisition of LinkedIn by Microsoft allowed it to connect companies and employees in an accessible platform, without harming LinkedIn's recognition. However, some deals seem promising but turn out to be a failure, leading companies to downturns, such as the $25 billion deal that Hewlett-Packard made when purchasing Compaq, and that was ranked the worst tech mergers and acquisitions in a 2016 publish by ZDNet.

Therefore, one can question if Salesforce acquiring Slack will be beneficial in the future for both companies, or if there are better alternatives that both companies should explore before deciding whether they belong together or not.

THE EFFECTS OF CONGLOMERATE MERGERS: MONOPOLIES ON SMALL BUSINESSES – Is salesforce trying to build a monopoly?

While analyzing the Salesforce-Slack acquisition, the idea of larger firms trying to acquire plenty of small firms, aiming to create a monopoly, emerged.

Firstly, it is important to distinguish between competition in economics and monopoly. Competition relates to pricing, quality, and product improvement rivalry. When a firm reduces its price or launches a superior product, it is essentially competing with its rivals, and as a result, consumers find alternative suppliers that compete for their business in terms of price and quality. In the long term, the product's price approximates its production cost, reflecting bidding for resources from other occupations. Monopoly power, on the other hand, relates to the capacity to raise prices, ignore product quality and improvement, and limit production supplied in a market. The inherent capacity to limit supply is beneficial since fewer units are available on the market and may be sold at a greater price. Few suppliers acting collectively, available in the market, or even one supplier that is large enough, can lead to a reduction of price rivalry. Independent enterprises may then create monopoly-like results by understanding their shared need to avoid rivalry. In the long term, if such supply restriction is conceivable, prices vary from production costs as monopoly profits are obtained by enterprises with monopolistic power. Concluding, customers have alternative suppliers when there is competition, and prices reflect production costs; however, when there is monopoly power, customers have limited alternatives, and suppliers are able to raise prices above cost, limit output sold in the market, and obtain additional profit.

In the event of mergers between suppliers of substitutable items in the same market, the choices accessible to customers might be limited, resulting in a decline in competition. Furthermore, if the merging partners are sufficiently substantial, the possibilities may be greatly limited. Conglomerate mergers combine the businesses of two firms that do not operate in the same industry, are not rivals, and do not have a buyer-seller relationship. In pure conglomerate mergers, which involve firms with nothing in common, the two companies may continue to operate independently within their own markets, however, in a hybrid merger, firms are looking for product extensions or market extensions. While this type of merger might help the new company increase its market share and diversify its operations, merging disparate organizations can be highly challenging, raising the risk of cultural disputes and lost efficiency due to disrupted business procedures. The ownership of the assets changes as a result of the merger, but the consumer's options remain the same. The number of companies, the distribution of output among these firms, brands and brand name allegiance, the height of barriers to new firm entry into a market, and other aspects of market structure that bear on price and output decisions in a market appear to remain constant; a conglomerate merger can reduce competition or increase monopoly.

Considering that Salesforce has a clear growth strategy based on acquisitions, as previously explained, people can argue that the company might be seeking to increase its presence even more in the CRM market, expanding services while keeping quality, for instance, which ultimately can lead to a position similar to the one of a monopoly.

VALUING SALESFORCE AND SLACK

In order to determine Salesforce and Slack's stock price to get to a realistic offer price, a discounted cash flow analysis (DCF) was used, available in the Excel attached. Due to the fact that this deal has already taken place, and thus there is accurate information regarding the share price, it was decided not to perform a scenario analysis, applying only one base scenario. This would instead be developed in case there would not be the actual information to compare our results, since the DCF relies on several assumptions that generate large variability in the resulting share price, and such analysis would diminish its volatility.

First of all, it is relevant to point out that the forecast period for both valuations was assumed to be different. Since Salesforce is already established and a mature company, and in order to decrease the volatility inherent to the assumptions needed for the forecast, the forecast period was 3 years. However, since Slack is at an initial stage, and not profitable, several assumptions were made to reach future positive returns, with a forecast period of 5 years. The first assumption made in both valuations is that the tax rate is assumed to remain constant at 35%, assuming no changes in the regulatory environment.

Exhibit 6 in the appendices shows Salesforce previous year's revenues, EBITDAs, and EBITs as well as the forecasted ones. It should be stated that several assumptions were made. Firstly, EBIT and EBITDA margins were calculated using Salesforce's 2020 predictions; and the long-term growth rate remained constant at 1%. Revenue, EBIT, and EBITDA growth were considered to be equivalent to the preceding two years' average increase.

A discount rate of 5.21% was estimated using a weighted average cost of capital calculation, as demonstrated in Exhibit 7 in the appendices. It should also be highlighted that the WACC was computed using the target leverage ratio projected for 2020 rather than book values, and the weighted average interest rate on long-term debt was used as the cost of debt to

appropriately reflect Salesforce debt default risk. The Capex growth rate was assumed to be 2%. It is assumed the growth rate to be positive due to Salesforce's growth strategy, however, a lower absolute value was presumed when compared to previous years due to such a large acquisition as Slack. Changes in net working capital were assumed to decrease by 23.12% YoY based on the average of NWC growth over the last 3 years from 2018 to 2020, therefore reflecting improved working capital management so the company requires less additional funding. This can be achieved through improved supply contracts, for instance.

The case valuation present in Exhibit 8 in the appendices yielded an enterprise value of $217.3bn, based on the previously explained assumptions. When accounting for net debt held by Salesforce in the acquiring year (2020), this then yields an equity value of $218.8bn and a final stock price of $257.40 per share. Nevertheless, both the long-term growth rate and discount rate applied to reach this value are subject to vulnerability and depend on people's expectations, therefore a sensitivity analysis was conducted to understand how a change in those measures would impact Salesforce's final stock price, which results are in Exhibit 9 in the appendices.

Regarding Slack's valuation and its limited operating history, a 5-year forecast was applied to allow positive growth, taking into consideration that, as a start-up, Slack presents a historic negative EBIT (Exhibit 10 in the appendices). Firstly, it was assumed that revenues will continue to grow, but their growth rate will follow the decreasing trend that has been presented thus far, as per the Annual Report. Although the company has experienced rapid growth thus far, these growth rates may not suggest future growth.

During previous years, the company suffered losses due to its troubles with the monetization of its product. As most of their active users only adhered to freemium packages, the company was not paying customers, leading to issues with capital. As such, to effectively continue to compete in the marketplace and prove its relevance to investors, an entry of cash

occurred, either by the issuance of capital or convertible debt, which was assumed to be already reflected in the EBIT of the fiscal year of 2021 (ending January 2022). This is similar to what occurred in the fiscal year of 2020 where, as it is mentioned in the company's annual report available in the Excel attached under the "Support Prints" worksheet, a boost through additional financing is possible, although it may not be able to obtain debt or equity financing on favorable terms. Likewise, investing and financing activities have given an improvement in the money available for the company in the fiscal year of 2020 compared to previous years, which it will be assumed to provide again in the future, impacting already the results of 2021. Moreover, net cash provided by operating activities has been increasing over the years, and it is not expected this trend to slow down. Subsequently, by itself, this measure will give an extreme boost to next year's EBIT (2021), specifically two times more than in 2020, in monetary terms. Following the boost, the EBIT and EBITDA growth will behave similarly to the one observed in the previous year's revenues, as it is expected for the firm to prosper under good management, leading revenues to increase at a slightly faster pace than operating expenses.

The long-term growth rate was assumed to be 1.3%, slightly higher than for a mature company like Salesforce. Additionally, the discount rate applied was 6.62%, in line with the weighted average cost of capital approach. Note that the WACC was calculated according to some assumptions, displayed in Exhibit 11 in the appendices, specifically a cost of equity of 8.15%, a cost of debt of 7%, and a target debt-to-equity ratio of 0.74, determined from the weighted average of the quarterly debt-to-equity ratios in 2020. The Capex growth rate was generally assumed to be 7% for the 5-year forecast, which was estimated according to the company's prospects for the need for significant capital expenditures mentioned in its annual report, available in the Excel attached under the "Support Prints" worksheet, and the Reuters' report on Capex breakdown by country and sector, specifically the one raised by U.S. tech firms, where although an exponential increase is expected for 2021, this trend slows down in

2022, evidencing the vulnerability associated with regular oscillations. Therefore, it was considered a lower percentage than the one expected for 2021, but higher than the one estimated for 2022 by Reuters, as an estimation for the 5-period forecast.

Furthermore, Working Capital Reduction was assumed to be the average of NWC growth over the last three years, representing a 78% growth, which leads to the 5-year forecast for the changes in working capital present in Exhibit 12 in the appendices. Although a large growth was considered, it is important to notice that the changes in working capital are forecasted to be negative due to the company's historical difficulties in the monetization of its product, meaning that it will continue to have its short-term obligations outweighing its liquid assets. Nevertheless, firms with significant brand recognition and strong selling power, such as Slack, are typically capable of remaining solvent in these circumstances. The reasoning behind this is that, by investing in short-term projects with great prospects and reduced risk, or by acquiring long-term debt, these businesses can quickly raise additional funds. Additionally, over the years estimated, Slack will become more efficient in obtaining the liquid funds needed to cover most of its short-term obligations.

Finally, and according to the several assumptions mentioned previously, the valuation model yielded an enterprise value of $11.25bn. After considering net debt held by Slack, composed of convertible senior notes, revolving credit facility, and capped call transactions, this then leads to an $11.68bn in equity value, which corresponds to a final stock price of $20.59 per share, as per Exhibit 13 in the appendices. Again, it is important to notice that both the long-term growth rate and discount rate assessed to reach this value are subject to vulnerability and depends on people's expectations, therefore a sensitivity analysis was conducted to understand how a change in those metrics would influence Slack's final stock price, which results are in Exhibit 14 in the appendices.

Rita Gonçalves

**CAN SALESFORCE HELP SLACK PICK UP ITS SLACK?: A STRATEGY
OVERVIEW AND INTERNAL ANALYSIS**

As a proposition for the acquisition of $27.7B hangs over Slack Technologies, this teaching note serves to analyze if Salesforce is an advantage for the start-up's development and transformation, or if the tech giant is not a good match, and a competitor like Microsoft should intervene instead. For that, an internal analysis of Slack, including a SWOT analysis, was performed.

Slack quickly got noticed in the industry as an up-and-coming collaboration tool. What were Slack's Sales and Marketing, Culture and Pricing Strategies that drove them to the top, and to receive a proposition to be acquired by Salesforce?

According to Statista, the three main motives for business failure amongst start-ups in 2021 were lack of cash/capital raised, market unnecessity for the products sold, and being outcompeted. Although it usually is a combination of multiple factors, rather than just one, that leads a company to not prosper. As per the United States Bureau of Labor Statistics, approximately 10% of start-ups fail within the first year, and the failure rate will only increase over time, with around 90% of these companies not succeeding in the long term. To be successful, tech-focused start-ups must find a way to expand before being able to make sustainable and substantial revenue. "*They must be able to cope with significant global competition. They need to be able to develop and protect their intellectual property. And they need to be able to attract talent skilled in technology development*", stated Robert Atkinson, president of the Information Technology and Innovation Foundation (ITIF), in a 2017 study.

As such, Slack prioritized strengthening internal ties (between employees), as well as external relationships (with other companies and clients). Stewart Butterfield understood this need and was a pillar in Slack's success throughout the years. By creating a people-first culture,

Slack's founder was capable of engaging its employees and leading them to be more productive. "*The voice of the company sounds like us. And so it should—we're talking, human to human. Because, after all, the company turned inward creates a culture that makes the product*", stated Anna Pickard, Head of Brand Communications at Slack (refer to Exhibit 32).

Employees are encouraged to understand what people want, rather than what would be the best product-market fit. Thus, the company does not sell a software product, but an organizational transformation, particular results to aid teams perform better. Butterfield kept as important pillars of the company's inclusion and diversity. In April 2020, Slack reported that 44.9% of their global workforce were women, and 46.1% of all managers are women. Additionally, 13.9% of their workforce is composed of people from one or more under-represented ethnic and/or racial groups. This spreads the message that the start-up cares about its employees.

Moreover, the original founders, specifically Stewart Butterfield and Cal Henderson, are passionate about this project and enjoy working with each other. They have failed and came back victorious together, and their common goal keeps them connected: to keep their clients satisfied. Slack has been established as an industry icon: they are appreciated and loved, both by large and small companies. Their answer for internal communication was not only useful but packed in an easy and fun way to use. In addition, employees love contributing to it, trusting they are producing a positive difference.

Furthermore, for their sales and marketing strategy, Slack blends a go-to-market self-service approach to entice non-paying consumers, while using direct sales efforts to grow the number of paid users from large organizations. As such, their sales process follows the flywheel model, which was first introduced by Jeff Bezos in 2001 as Amazon's marketing strategy. More than a framework, this strategy is a mentality, a way to capture opportunities within businesses, where disorganization is the rule. At the same time, it facilitates the speed up of growth by

investing as much as possible in customer experience. Among the marketing tactics and strategies pushed by Slack to drive initial adoption and awareness, there is the Slack platform, in which customers are driven to join the free plan. Having the framework in mind, Slack takes advantage of its free version to attract a high number of users more easily, called the self-service users that, although not paying, offer other opportunities to Slack. These users become leads for salespeople, who can be converted into paying customers, typically within large corporations. Then, the large corporations will organically create and raise awareness, inside and outside of their own organizations, to Slack, which throughout this process is constantly investing in customer experience and their product.

Slack has been acquiring users at a fast pace without high-touch customer service. As an alternative, it relies on a frictionless, low-touch process to attract as many active users as possible. Thus, Slack has been focused on getting organic adoption and growth, although the organization also relies on two crucial metrics. First, raising the free-to-paid conversion rate, as the higher this rate gets, the lower the customer acquisition cost will go. And second, the net dollar retention ratio, which measures the organization's year-over-year performance, was 123% for the year 2020.

Likewise Slack, it is common for software-based businesses to offer a freemium product as a growth and monetization strategy, also known as a bottom-up sales strategy. In essence, the customer decides to move from the free package to buying the product without having to ever speak to a sales representative, as the great customer experience advocates for itself. As a result, Slack can save on what would otherwise be spent on hiring a large sales department and generous bonuses.

Along with the pricing options, Slack also benefitted from the viral distribution of its product, due to the immediate value it delivered to its users, not only individually, but as a team. However, more than just brand, word-of-mouth took Slack to a whole new level of virality, as

the direct channel. According to SimilarWeb.com, a web analytics corporation specializing in web performance and traffic, 96.72% of traffic sources were attributed to the direct channel, meaning most users were directly searching for "Slack" in the browser (refer to Exhibit 33). Furthermore, according to research by HubSpot, a CRM platform, on the sources of information respondents relied on when making purchasing decisions, 55% stated as their number one answer word of mouth referrals (refer to Exhibit 34).

Since their product is not hard to replicate, their growth was balanced with acquisitions and mergers to fill in the gaps of their success. From all the acquisitions that took place over the years, the one of HipChat and Stride, products of Atlassian, was the one adding the most value, as it enabled Slack to also offer customers voice and video features (which migrated from Stride) and to kill their competitor, HipChat. This gap in their product offering could have led the organization to lose clients to a more robust product available in the market.

Slack understood that the secret was starting small and building a strong relationship with the clients. The start-up entered large markets with a product that was clearly superior to the ones presented by incumbents and offered freemium packages to lower the client's barriers to initial adoption. However, to stay in the big league, that might not be enough.

Slack follows a Best of Breed Strategy in terms of growth. In what does it consist of, and can it be sustainable?

For as far as Slack has existed, the company has embodied what is referred to as the best-of-breed strategy, by directing its efforts to maximize the quality of a stand-alone platform and focusing on that only. As the ultimate goal is to guarantee that the project is the most complete option available in the market, companies following this strategy do not need to undertake trade-offs that weaken the quality of the product for the sake of integration and can aim all their resources to a specific project. Managers commit capital, sales talent and engineering to a single

application. Committing excess resources, known as slack resources, enables organizational flexibility and, consequently, enhances organizational performance (Adkins, 2005).

As a best-of-breed application does not impose on its customers to pay for a whole bundle of tools, consumers have the liberty of optimizing and customizing their own experience, by choosing which products fit their needs best. Instead of obtaining the Microsoft Office 365 package, which comes only in a bundle, the consumer might favor purchasing or adopting the best file hosting (e.g., Dropbox), the best video conferencing (e.g., Zoom) and the best design for presentations (e.g., Canva), all best-of-breed vendors. In alternative, Microsoft follows a best-of-suite strategy, meaning they sell an ecosystem of tools and applications, where those products are not necessarily the greatest in their group categories, but complement each other.

Furthermore, best-of-breed companies are usually seen as non-threatening partners to other tools following the same strategy but aligned in a different category, which facilitates the shift to a multi-sided platform from a single and separate application. Research performed in 2020 by Tommy Fang and co-authors shows that this opportunity can, in the best-case scenario, give rise to a sequence of indirect network effects among third-party complementors and end users, leading to mass adoption.

If Slack intends to continue with this strategy, they will need to guarantee that its product has such incremental improvements that its customer value is disproportional to the value of similar bundled "free" products existent in the market, and that the consumer is well positioned to capture and maximize its potential value.

To assure the first condition, the product needs to be used intensively by the consumers. If the Slack platform is used frequently enough and for long-enough timespans, customers will attribute more value to it, and even more, contingent to the incremental quality of the product. Its interface, easiness of use, communication, and other channels, all features will contribute

(or not) to consumers' preference over zero marginal cost products. As, according to Slack, users spend only around 90 minutes actively using the platform per day, a few small inefficiencies in the chat will most likely not be draining and might even go undetected. The same cannot be said about Zoom, in which customers spend hours in videoconferences, and quality plays a more significant role in destroying value for the user.

In addition, the platform needs to be crucial for the customers that choose to go with the paid version, not necessarily at all times, but in critical moments where failures are intolerable. If for a certain client Slack is its only way of communication between departments, an outage in the chat system might lead to unexpected losses and, consequently, a decrease in attributed customer value.

Regarding the second condition, the larger and more global a client is, the better positioned it also is to take advantage of best-of-breed applications. If a client has scale, then it is easier to defend the cost associated with the incremental advantage of the single product. Large, complex companies have the resources and scale to effectively implement their own bundles, while a small-sized client would be better off acquiring an integrated bundle, as it does not have enough end users to justify the benefits linked to the customized effort.

Moreover, several best-of-breed companies rely intensely on direct network effects to generate added value. In the case of Slack, its platform is only valuable if a high enough amount of people from the client side is using it, otherwise, it loses value. If management does not require the organization to use the specified platform, and employees chose to opt for another messaging application, then the investment does not pay off and does not generate enough value that justifies its separate purchase.

A best-of-suite company does not have to invent or innovate on its own, it only needs to replicate best-of-breed products, which usually can be done swiftly using superior resources.

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To stay ahead, best-of-breeds must exert the potential to sustain product distinction, as its past innovations will continuously be copied by competitors. The innovations around user interfaces and topic-based channels from an application like Slack are visible to rivals and copied without effort, which could be a real challenge to tackle, long-term.

Additionally, ease of adoption is key for Slack, whose product relies on internal organizational effects, although it also makes it exposed. Customer lock-in factors are often in direct conflict with the easy-to-use accessible design, as a steep adoption and learning curve makes it more difficult for clients to switch to another application when they have already invested a significant amount of time to understand the features associated to the Slack platform.

Slack may realize that the strengths associated with this strategy do not translate into an advantage long-term, and all the challenges that arise from being a best-of-breed cannot sustainably be faced alone when competing against the likes of Microsoft.

What are some areas of improvement, or competitive advantages exhibited by Slack, and how do they connect to the company's motives to join Salesforce?

On Slack's strengths, the start-up offers great customer satisfaction which, in return, delivers customer loyalty, improved market share, increased revenues through clients' referrals, and sustained brand growth, having, thus, develop into a leader in software communication products, as per The New York Times. Even if the sales team needs to pitch the project to a potential buyer, it is often easier given the familiarity the public has with the product and the brand. Furthermore, their product is strong, providing real solutions for customers' real needs, allowing the integration of more than 2,000 applications available in the Slack App Directory, granting great workplace convenience and flexibility to users.

Rita Gonçalves

Since being created as an internal communication tool, Slack has developed into the collaboration tool it is today by investing strongly in innovation to keep up with the shifting trends for the workplace – for instance, changing from traditional desk jobs to hybrid workspaces. This investment in innovation through user feedback and agile cycles centered on swift testing is crucial for Slack to increase revenues and profitability and extend its product life cycle.

Lastly, some customers might get drawn to them due to their pricing options, as a subscription model and a freemium alternative are available. Although the freemium option does not offer as much as the paid version, it is still very attractive for price-sensitive markets. In addition, with the monthly plan, according to their fair billing policy, customers only need to pay per active user, rather than per worker, which is a regular practice with competitors.

On Slack's weaknesses, the company is primarily a free tool, most of the crucial features necessary for optimal experience are not included in the freemium package and need to be paid for. This can be a weakness for start-ups, specifically Slack, as it has issues with the monetization of its product and does not have the budget to cover the gap left by the unpaying customers. In 2020 they reported having around 750,000 clients, while only 112,000 were paying customers, meaning that around 14.9% of their clients were paying.

If the acquisition by Salesforce takes place, Slack will be built and integrated into the Salesforce software stack, which will enhance Slack's user experience. Contrasting with the best-of-breed strategy, the best-of-suite strategy, followed by Salesforce, offers economies of scale and scope throughout applications that benefit consumers or lower costs for the company. By giving its third-party channel partners and account managers more to sell, the bundle can be more efficient in go-to-market sales and profit from client relationships. Clients from Slack can be cross-sold to another Salesforce application, and vice-versa.

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Regarding revenue streams, besides offering their freemium packages, Slack does not sell user data for targeted ads or any purposes or makes money off advertisements in their platform. That contrasts with many other known online platforms, such as Facebook, Google, and Twitter, to name a few. For those companies, the customers are the advertisers and marketeers, and not the individual end consumers, which allows for that type of monetization. Geoff Belknap, Chief Security Officer at Slack, stated that monetizing consumer data was something Slack had no intention to do in the future. He observed that "*who would want to use a platform where you're having a work conversation and an ad pops up in the midst of the conversation (...). If we were going to do that, we would have done that from the outset*.". As such, Slack has issues monetizing its product, a concern with which Salesforce could help. Given the dimension and reputation held by the CRM giant, Slack would be in constant contact with organizations that already use the CRM, and monetization would become an issue of the past. They could stay truthful to their culture and ideals, and not have to sacrifice customer experience for a quick profit.

Slack also depends on third-party vendors to distribute their applications via smartphones and tablets, which are managed by, among others, Apple and Google. According to their Form 10-Q, filed with the US Securities and Exchange Commission (SEC), "*Certain of these companies are now, and others may in the future become, competitors of ours, and could stop allowing or supporting access to Slack through their products, could allow access for us only at an unsustainable cost, or could make changes to the terms of access in order to make Slack less desirable or harder to access, for competitive reasons*." This can be viewed as a major weakness, as Salesforce cannot be a direct solution to it, although its influence in the industry might undermine third-party vendors' power to isolate Slack and its product from the public.

Focusing on the opportunities for Slack, their expansion and growth go hand in hand with technological innovation. Technology presents more avenues for Slack to link the gap in its

service offering to offer much-needed answers adequately and successfully in the market. The efficiency offered by technology helps cut costs and increase the precision of the service delivered. Also, the company has a competitive edge through its product, an open platform, which allows for the promotion and development of applications within the workplace.

Furthermore, the advent of the Coronavirus led to more opportunities for communication tools to improve global teamwork, which was and continues to be a great opportunity to Slack. The recent McKinsey report stated that "*The Covid-19 crisis has created an imperative for companies to reconfigure their operations — and an opportunity to transform them. To the extent that they do so, greater productivity will follow*." As such, Slack needs to position its product strategically to allow for growth and scalability. This scalability would be more easily achieved if Salesforce was involved.

Slack can also expand its market reach and enrich its customer experience through strategic acquisitions or partnerships. On the other hand, this can also be accomplished through Salesforce acquisition, in which the acquirer will be providing Slack with the opportunity to reach new, bigger customers, that already have an established business relationship with Salesforce.

On threats, Slack faces intense experienced competition both direct and indirect from comparatively bigger brands. Direct competitors include Office 365, Adobe Acrobat, Google Workspace, and Atlassian Confluence. With the shifts brought about by the pandemic, Slack faces indirect competition from Google Meet and Zoom, among others. It is critical for Slack to expand and develop its product portfolio so as to successfully compete with the indirect competition that presents crucial answers for the present crisis.

A best-of-suite bundle can defend against the higher cost associated with acquiring new customers, given that the potential revenue is also greater. For Slack, their sales efforts may

possibly never be as cost-effective as some of their gigantic competitors. Microsoft's decades-long client relationships and deep-rooted network of partners can barely be compared with the one of a start-up. However, together, Slack and Salesforce's sales effort is more effective, even if not yet at the same level as Microsoft. Slack's current venture in inter and intra-business chats would allow salespeople that use the CRM as well to communicate seamlessly with clients, without leaving the CRM platform to make a phone call or send an email, and thus, the overall bundle would seem more appealing to potential customers. In addition, the ecosystem of third-party tools and supporting applications that these companies could offer together is also a selling point to businesses, as the CTOs, the ultimate decision-makers when it comes to managing technological requirements and applications to be bought, would have to deal with less individual vendors when salespeople eventually had technical issues.

As fast as technology unveils itself, it becomes obsolete in an ever-changing global environment. And, thus, Slack's technology and innovation can quickly become outdated if they don't continuously invest in it, ensuring their place in the relevant market. Furthermore, increasingly developed cyber laws on data security, data privacy, and data sharing and the consequences connected with hacker attacks may harm user sentiments, pushing them from using these tools. At the beginning of 2019, a researcher at Tenable, a cyber exposure management company, discovered that the desktop app Slack was affected by a downloading hijack vulnerability, which could be exploited to change the location of downloaded files of users. This vulnerability was corrected in the following update of the application.

More recently, in mid-2020, a New York Times report on the massive Twitter hack came out, detailing the involvement of Slack in the attack. A group of teenagers social-engineered an employee of Twitter and got access to the organization's Slack network. The hackers found a password and username for a domestic Twitter administrator tool pinned to one of Slack's chat rooms, which was used to later damage high-profile accounts, such as former US President

Barack Obama and Elon Musk, with a crypto scam. Following this incident, KELA, a cybersecurity firm, discovered that around 17,000 Slack credentials, mostly from government or corporate channels, were available for sale online, in marketplaces such as Genesis Store, an entity pioneer in the cybercrime space, although not receiving much attention.

This concern many people have had around Slack's platform, overall security, and enterprise security, will be better dealt with by Salesforce. Before, it would have been contingent on the companies in question's security; specifically, the safety of their enterprise software. And, in case the enterprise vendor did not devote time to cybersecurity, it might have been easy to gain access to delicate data through Slack. However, Salesforce already has to deal with a few of the strictest security requirements in the globe due to its involvement with organizations such as the U.S. Department of Defense. If the companies come together, they will have the opportunity to build a tougher security infrastructure around Slack, adding to what the start-up already is as of now, and layering in business continuity plans on a business scale. On the other hand, one can predict that many other enterprise software vendors, such as SAP or Oracle, will try to leave the back-office automation space to provide office productivity solutions as well, leading to increased competition.

What if Microsoft had acquired Slack instead of Salesforce? Would they be a better match? Could they have outgrown their past problems? What part does 'Company Culture' play in acquisitions to be successful?

By being a strong name in the industry, Microsoft has some challenges in regard to maintaining its position and having to deal with their competitors, which include Oracle, Amazon and Salesforce. As such, and knowing that collaboration tools have become a pilar in the everyday work of employees all around the globe, Microsoft was motivated to cooperate with a company like Slack, and further cement their position in this business. In March 2016, TechCrunch stated that Microsoft was interested in acquiring Slack for up to $8 billion, but no

deal came about. The acquisition of Slack would have ended their rivalry and put a stop to the competition the start-up was able to achieve. Later that year, Microsoft launched Teams, a communication app.

If Butterfield and the Board at Slack had accepted this offer, they would have gained from their position in the industry and their knowledge. Microsoft has acquired and built numerous other companies in this industry of collaborative tools, including Yammer, SharePoint, Skype, and Lync. These already provided sufficient features to compete with Slack without acquiring the start-up and integrating it. However, Slack captured and seized mindshare in the corporate space in a way that other competitors, such as Microsoft, had not succeeded in. Consequently, Microsoft was interested in seeking that same mindshare.

Nevertheless, finances and reputation are not the only requirements for a company to be willing to sell, as there are numerous reasons that can lead to difficult integration or even a failed one. One of the most important reasons is the cultural differences between the organizations. Cremer (1993) highlights that company culture needs to be established and should not be altered frequently for two reasons. First, culture is a stockpile of accumulated data, and this pile is expensive to obtain. As such, cultural changes are costly. Second, rules of action and coding need to be constant within the entire organization. Particularly in the tech world, there have been several instances of mergers and acquisitions that resulted in challenges for businesses. Companies have a tendency to merge cultures by ignoring other factors and selecting the positives from both. Yet, that might be superficial as it does not cover or address the negative points and how they will be magnified.

The fundamental conflict between the cultures of Whole Foods and Amazon led to suboptimal results for the merged company. Amazon's culture is deep-rooted in technology, productivity, and not being highly customized, whereas Whole Foods is powered by a more idealistic set of approaches and values. On the unsuccessful acquisition by AOL of Time

Warner, Richard Parsons, the acquired company's president, stated that "*It was beyond certainly my abilities to figure out how to blend the old media and the new media culture*.". Hewlett-Packard had an engineering-driven culture that was more inclined to look for agreement in decisions, while Compaq's culture was sales-driven and stressed swift decision-making, leading to a failed integration as well.

When a customer looks at Slack, they picture quirky loading messages and bright colors, while when looking at Microsoft, customers see a whole different brand message, which takes a more serious tone and is corporate-oriented.

Slack and Microsoft have had many issues and altercations throughout the years. In an interview for CNBC in May 2020, Butterfield stated that Microsoft Teams isn't competition to Slack, although they did file Microsoft Corporations as their main competitor in a recent 10-Q filing. "*When they [Microsoft] talk about the product, they never mention the fundamentals that Slack does, and it's been 3+ years at this point that they've been bundling it, giving it away for free, and talking about us.*"

For successful integration to take place, the leadership team should discuss management style across the new organization, establish shared values, communication processes, employee expectations, innovation and engagement. Yet, it is not certain that that would be possible with Microsoft and Slack, given the early animosity between the two. Furthermore, Butterfield is a key player in Slack's success and, in case he was not considered or did not desire to continue carrying his role after the acquisition, a lot of crucial employees could have left with him, similar to what happened with some of Nest's employees after its previous CEO, Tony Fadell, quit from his position due to Google's acquisition of the organization, following different approaches and leadership styles.

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When Bill Gates' founding company rolled out Teams, this tool did not possess several features that elevated Slack among its peers. Features and characteristics like document indexing, document imaging, single sign, and mobile integration made Slack more desired and interesting to the public, and arguably the rarest and unique tool out in the market at the time. Slack's user-friendly and simple user interface and straightforward third-party integrations were the greatest contributors to its reputation.

Although Teams is newer and still has a long way to go to challenge Slack feature-wise, it has benefits that come from being part of the Microsoft family, and all the practicality attached to it, with being included in the Office 365 subscription. This bundle guarantees its users that they can have Teams for free if they already have Office 365 (refer to Exhibit 35).

CONCLUSION

Slack was created as a communication tool to solve a niche problem and grew to become the solution for the problem no one knew existed. Their popularity has exploded in recent years among organizations and users, and the simplicity of the platform's capabilities makes it ideal for coordinating operations within organizations.

As presented above, Slack is in a position to sell. Since going public on June 20, 2019, and until about a month before the rumors of the acquisition started, Slack has lost around 28% of its value and reported net losses of $147.6M during the first two quarters of 2020. A takeover from a giant like Salesforce is necessary, even though the valuation comes as a surprise. The start-up will have the opportunity to leave its cycle of losses and embrace the change that comes with it, as well as the greater capacity and maturity to challenge Microsoft in the industry. Nevertheless, Slack should be careful to not derail from its culture and values, the pillars that make the success they are.

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APPENDICES

For Fiscal Year Ending Jan, (dollars in millions, except per share data)	2018A	2019A	2020A	2021P	2022P	2023P
Revenue	10 540	13 282	17 098	21 778	27 887	35 616
Growth Rate		26,02%	28,73%	27,37%	28,05%	27,71%
EBITDA	1 799	2 234	3 308	4 503	6 399	8 902
EBITDA Growth		24,18%	48,08%	36,13%	42,10%	39,11%
EBITDA Margin	17,07%	16,82%	19,35%	20,68%	22,95%	24,99%
EBIT	454	535	297	257	183	144
EBIT Growth		17,84%	-44,49%	-13,32%	-28,90%	-21,11%
EBIT Margin		4,03%	1,74%	1,18%	0,66%	0,41%

Exhibit 6: Salesforce's forecasted Revenue, EBITDA, and EBIT from 2021 to 2023. Source: Company's Annual Reports; Excel attached.

WACC:	
Equity Beta	1,10
Risk Free rate	0,92%
Market Premium	5,60%
Cost of Equity	7,08%
Cost of Debt	3,45%
D/E Ratio (31/01/2020)	0,63
Tax Rate	35,00%
WACC	**5,208%**

Exhibit 7: Salesforce's Weighted Cost of Capital. Sources: Excel attached; Finance.Yahoo.com; Marketwatch.com; Statista; Macrotrends.net.

Present Value Map (in USD millions)				
FCF Present Value		4 918	6 401	8 240
Terminal Value Present Value				197 760
Enterprise Value	217 319			
Add: Cash, Cash Equivalents, & ST Investments	4 145			
Less: Total Debt (S.T, L.T, minority interest)	2 673			
Equity Value	**218 791**			
# shares (Diluted shares)	850			
Equity Share Price	**257,40**			

Exhibit 8: Salesforce's 3-year valuation and Equity share price in 2020. Source: Company's Annual Reports; Excel attached.

Sensitivity Analysis										
Discount rate					Terminal Growth rate					
257,40	0,5%	0,6%	0,7%	0,8%	0,9%	1,0%	1,1%	1,2%	1,3%	1,4%
4,06%	308,13	316,60	325,57	335,08	345,20	355,99	367,50	379,81	393,02	407,22
4,25%	292,24	299,83	307,85	316,33	325,32	334,86	345,01	355,82	367,36	379,72
4,44%	277,89	284,73	291,94	299,54	307,57	316,07	325,08	334,64	344,82	355,66
4,63%	264,86	271,05	277,56	284,42	291,63	299,25	307,30	315,81	324,84	334,43
4,82%	252,97	258,61	264,52	270,72	277,24	284,10	291,33	298,97	307,03	315,56
5,21%	231,67	236,37	241,27	246,41	251,78	257,40	263,30	269,49	276,00	282,86
5,41%	221,94	226,24	230,73	235,41	240,29	245,40	250,75	256,35	262,22	268,38
5,61%	213,05	217,00	221,12	225,40	229,87	234,53	239,40	244,49	249,81	255,39
5,81%	204,83	208,47	212,26	216,20	220,30	224,57	229,02	233,66	238,51	243,58
6,01%	197,21	200,58	204,07	207,70	211,48	215,40	219,49	223,74	228,17	232,80
6,21%	190,12	193,24	196,48	199,84	203,32	206,94	210,70	214,61	218,68	222,91

Exhibit 9: Salesforce's Sensitivity Analysis regarding Long-Term Growth Rate and WACC. Source: Excel attached.

For Fiscal Year Ending Jan, (dollars in millions, except per share data)	2017A	2018A	2019A	2020A	2021P	2022P	2023P	2024P	2025P
Revenue	220 544	400 552	630 422	902 610	1 284 556	1 804 732	2 500 192	3 412 790	4 583 961
Growth Rate		81,6%	57,4%	43,2%	42,3%	40,5%	38,5%	36,5%	34,3%
EBITDA	(140 063)	(138 902)	(568 357)	(326 178)	158 180	225 115	316 274	438 152	598 082
EBITDA Change $		1 161	(429 455)	242 179	484 358				
EBITDA Growth						42,3%	40,5%	38,5%	36,5%
EBITDA Margin	-64%	-35%	-90%	-36%	12%	12%	13%	13%	13%
EBIT	(156 346)	(155 815)	(601 457)	(372 936)	84 106	119 696	168 167	232 970	318 007
EBIT Change $		531	(445 642)	228 521	457 042				
EBIT Growth						42,3%	40,5%	38,5%	36,5%
EBIT Margin	-71%	-39%	-95%	-41%	7%	7%	7%	7%	7%

Exhibit 10: Slack's forecasted Revenue, EBITDA, and EBIT from 2021 to 2025. Source: Excel attached; Company's Annual Reports.

WACC:	
Cost of Equity	8,15%
Cost of Debt	7,00%
D/E Ratio (2020)	0,74
Tax Rate	35,00%
WACC	6,62%

Exhibit 11: Slack's Weighted Cost of Capital. Sources: Excel attached; WORK; csimarket.com.

Change in Working Capital (in USD $k)	Historical				Forecasted				
	2018A	2019A	2020A	2021A	2021E	2022E	2023E	2024E	2025E
Receivables (incl. proceeds from securitization)	-21 964	-50 305	-58 202	-92 361					
Prepaid expenses and other current assets	6 362	-53 072	-20 594	-16 601					
Accounts payable	4 851	2 846	6 726	-3 411					
Accrued liabilities	12 470	22 504	19 045	43 669					
Total Changes in Working Capital	**1 719**	**-78 027**	**-53 025**	**-68 704**	**-53 592**	**-41 803**	**-32 608**	**-25 436**	**-19 841**

Exhibit 12: Slack's Total Change in Working Capital forecasted for 2021 to 2025. Source:

Excel attached; Company's Annual Reports.

Present Value Map (in USD $k)						
FCF Present Value		181 284	208 258	249 636	306 031	378 131
Terminal Value Present Value					5 828 370	9 921 933
Enterprise Value	11 245 272					
Add: Cash, Cash Equivalents, & ST Investments	1 081 357					
Less: Total Debt (S.T, L.T, minority interest)	651 398					
Equity Value	**11 675 231**					
# shares os (normal)	567 152					
Equity Share Price	**20,59**					

Exhibit 13: Slack's 5-year valuation and Equity share price in 2020. Source: Company's Annual

Reports; Excel attached.

Sensitivity Analysis										
Discount rate					Terminal Growth rate					
20,59	0,9%	1,0%	1,1%	1,2%	1,3%	1,4%	1,5%	1,6%	1,3%	1,4%
4,50%	29,00	29,76	30,57	31,43	32,33	33,30	34,33	35,44	32,33	33,30
5,00%	25,82	26,41	27,03	27,68	28,36	29,09	29,85	30,66	28,36	29,09
5,50%	23,32	23,79	24,28	24,79	25,33	25,89	26,48	27,11	25,33	25,89
6,00%	21,31	21,69	22,09	22,50	22,94	23,39	23,86	24,35	22,94	23,39
6,50%	19,65	19,97	20,30	20,64	20,99	21,36	21,75	22,15	20,99	21,36
6,62%	19,30	19,60	19,92	20,25	20,59	20,94	21,31	21,69	20,59	20,94
7,00%	18,26	18,53	18,80	19,09	19,39	19,70	20,02	20,35	19,39	19,70
7,50%	17,07	17,30	17,54	17,78	18,04	18,30	18,57	18,85	18,04	18,30
8,00%	16,05	16,25	16,45	16,66	16,88	17,11	17,34	17,58	16,88	17,11
8,50%	15,15	15,33	15,51	15,69	15,88	16,08	16,28	16,48	15,88	16,08

Exhibit 14: Salesforce's Sensitivity Analysis regarding Long-Term Growth Rate and WACC.
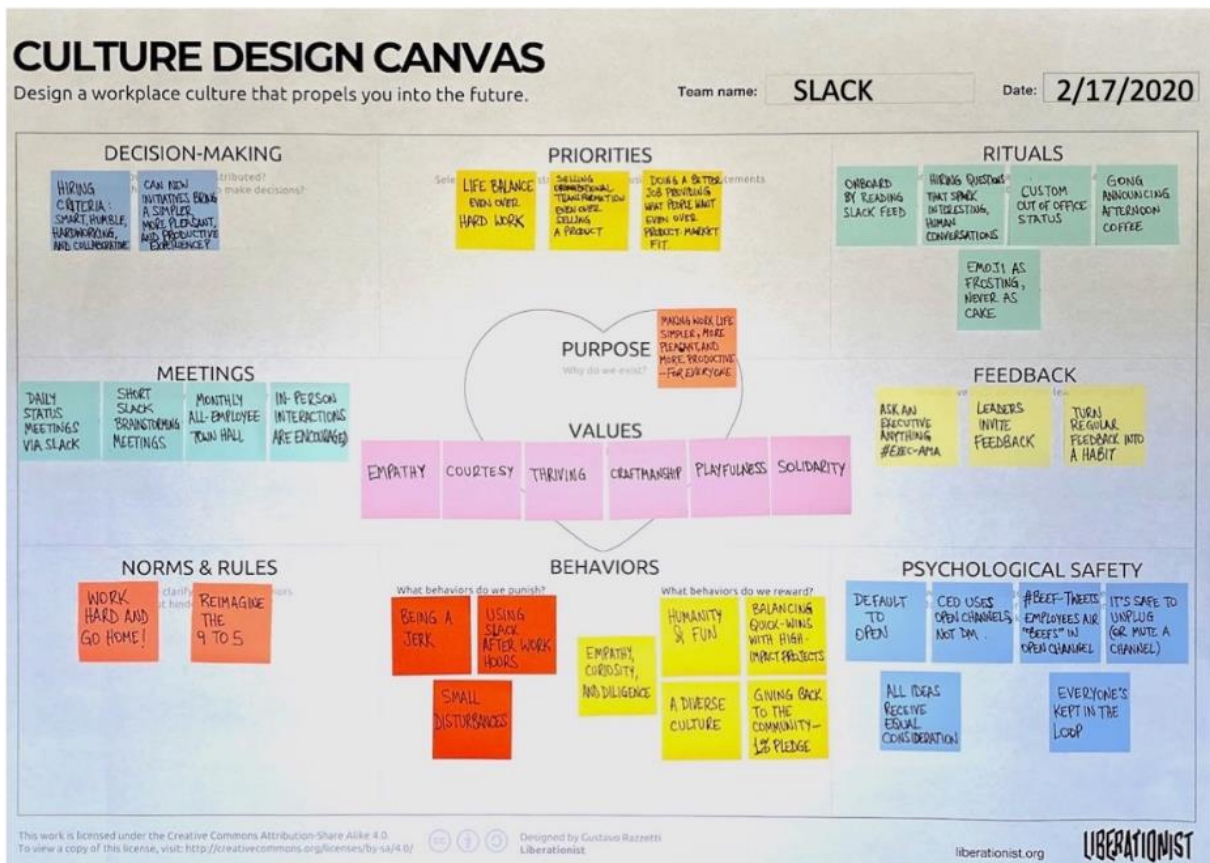
Source: Excel attached.

Exhibit 32: Slack's Culture Design Canvas, designed by Gustavo Razzetti (2020). Source: Liberationist.org.
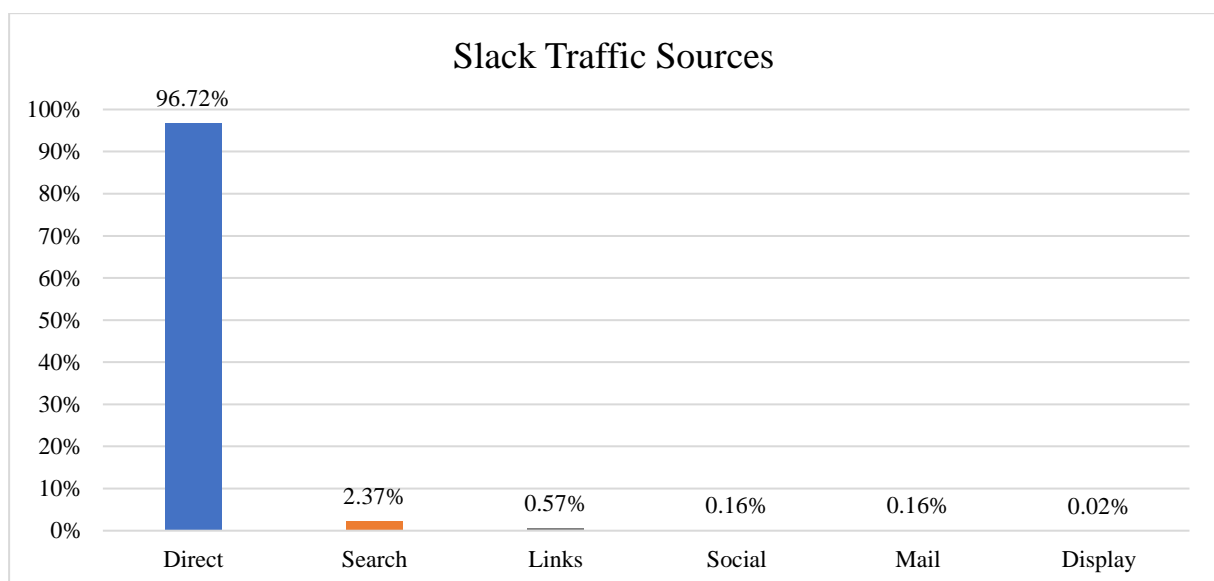

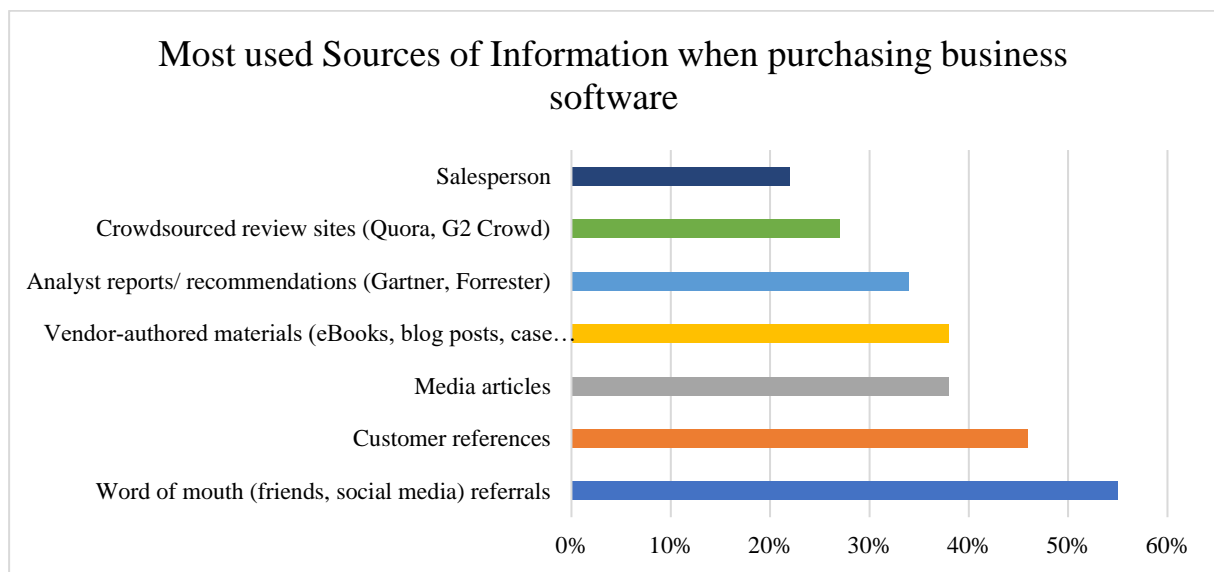Exhibit 33: Slack Traffic Sources and channels. Source: SimilarWeb.com.

Exhibit 34: Study on Sources of Information individuals rely on when making purchase decisions for software (2018). Source: HubSpot Research.
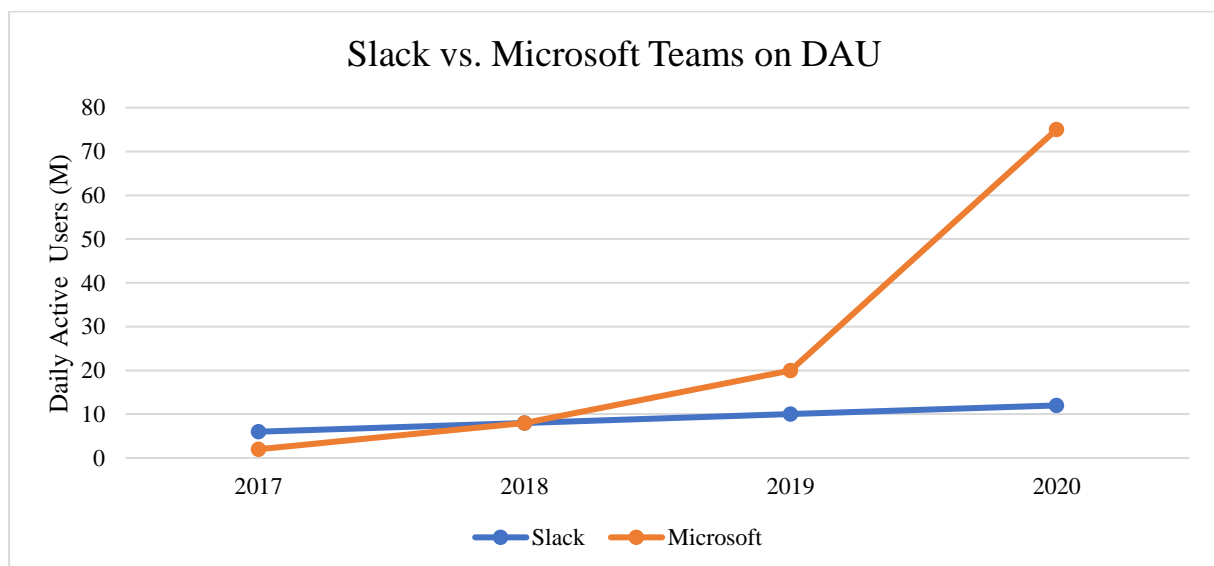

Exhibit 35: Daily Active Users reported by Slack and Microsoft Teams between 2017 and 2020. Source: Company Data.