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INDUSTRY CHARACTERISTICS AND MACRO-ENVIRONMENT ASPECTS
INFLUENCING THE POSSIBLE ACQUISITION OF SLACK BY SALESFORCE

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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 note will produce various analyses of the macro-environment surrounding both companies, including Industry, Porter's Five Forces, and PESTLE analyses. Finally, there will be a conclusion on whether the possible acquisition of Slack by Salesforce makes sense from a macro perspective.

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.
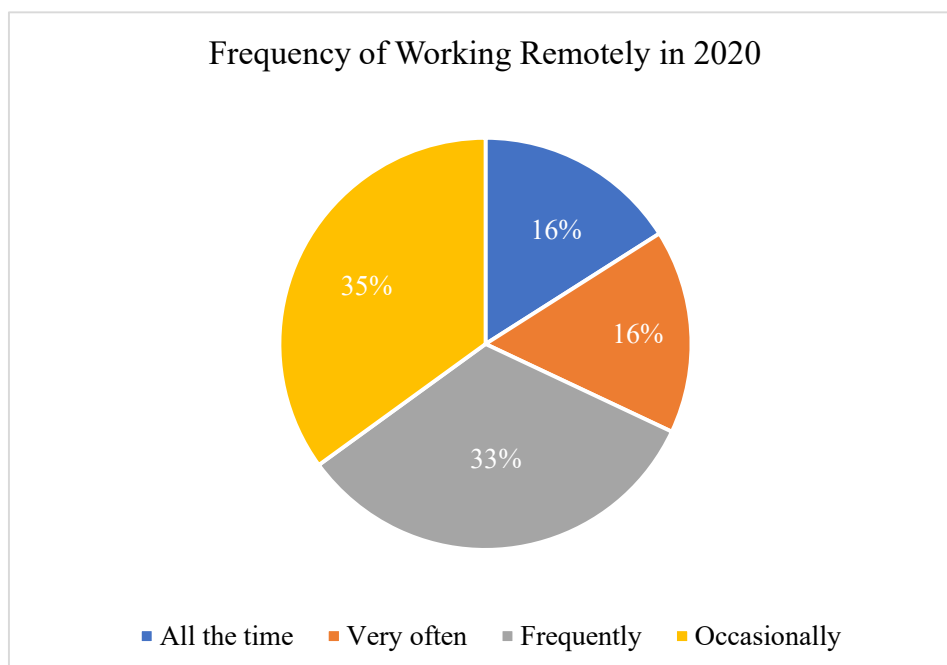

Exhibit 1: Frequency of working remotely in 2020. Source: Statista.

Group Part

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.

Group Part

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.

Group Part

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.

Group Part

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.

Group Part

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.
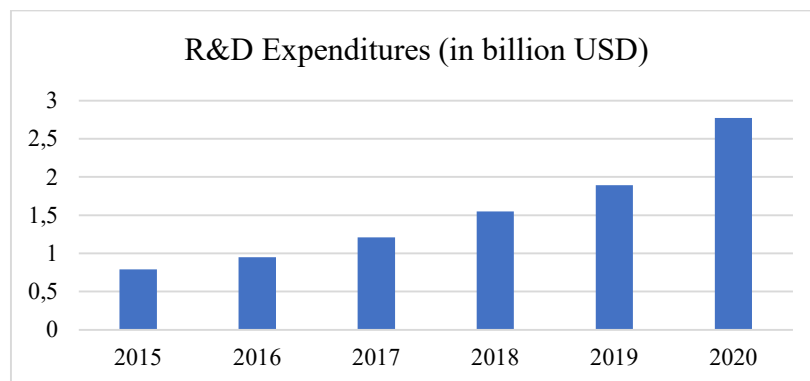

Exhibit 3: Salesforce R&D expense worldwide from 2015 to 2020 fiscal year. Source: Statista.

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.

Group Part

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.

Group Part

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.

Group Part

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.
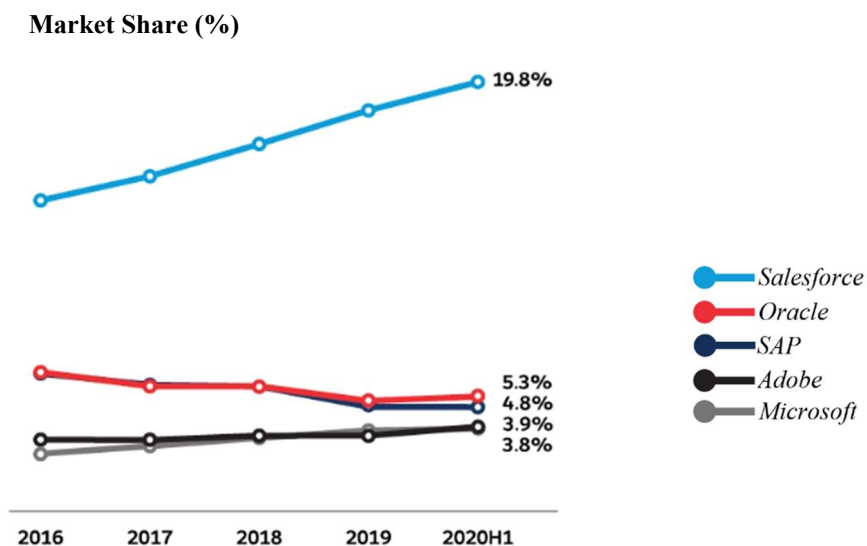
Market Share (%)

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.

Group Part

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.

Group Part

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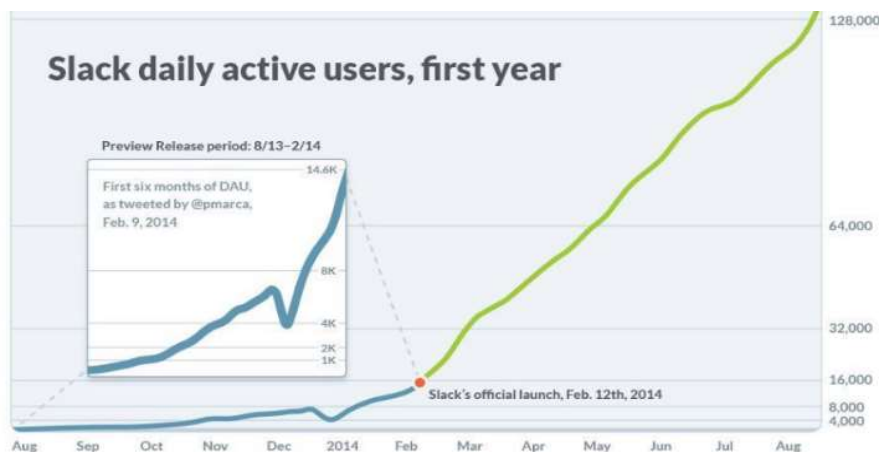
Exhibit 5: Slack's daily active users between the six months before and after the company's official launch. Source: ClickUp Blog.

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.

Group Part

"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.

Group Part

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.

Group Part

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.

Group Part

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.

Inês Abegão

INDUSTRY CHARACTERISTICS AND MACRO-ENVIRONMENT ASPECTS INFLUENCING THE POSSIBLE ACQUISITION OF SLACK BY SALESFORCE

This teaching note aims to analyze the industries and macro-environment in which both Slack and Salesforce operate, understanding how industry dynamics and external factors can influence their performance and success. The analysis of several market characteristics and trends is needed to conclude whether the possible acquisition of Slack by Salesforce makes sense from a macro perspective. In this sense, two specific industries within the Technology Sector are relevant and representative of both companies, focusing more specifically on the industries of Information Technology Services, and Software. Subsequently, both Porter's Five Forces and PESTLE analyses will be conducted in order to comprehend how the macro-environment can affect both Salesforce and Slack before the possible acquisition takes place.

Which are the characteristics, trends, and competitive frameworks of the industries in which Salesforce and Slack operate? How can those influence the possible acquisition?

IT SERVICES INDUSTRY

Information technology services (ITS) refers to the construction, development, implementation, assistance, and supervision of computer-based information systems. The ITS industry includes a diversified range of devices that provide organizations with the proper tools to manage and optimize their information and business processes. In general, the IT services industry serves as a medium for companies to work and communicate from different locations and in new and innovative ways through advanced technologies and tools, promoting hybrid work patterns and cooperation. Consequently, IT services are useful in applying technical expertise to systematize and simplify business processes, designing automation platforms for routine tasks and functions, and enabling companies to easily access and update their information in a world where a reactive approach is needed as technological advances are constant and adaptation is crucial to stay competitive.

Inês Abegão

In the last five years, these devices have witnessed an impressive rise in attractiveness, as it was the case with Slack, and are now an indispensable part of digital transformation, often speeding up the process. For this reason, companies such as Salesforce, are investing more in this industry since it creates an innovative business environment that provides teams with practical and flexible tools that can be managed from different locations, allowing them to collaborate and complete tasks more productively and effectively.

Gartner, a prominent research and consulting firm, estimated that worldwide IT spending in 2021 will grow by 9% compared to 2020. More recently, IT services companies have turned their focus into becoming their clients' business partners, instead of providing only the services. Therefore, the benefits of IT services are considerable and have been established to enhance business agility, coordination, and automation, which are fundamental for businesses operating in digital economies to stand out among the competition. This is one of the reasons why, from a market point of view, Salesforce may find Slack attractive, as it is recognized for its high-quality system of connecting and communicating with clients in an easy and efficient way.

SIZE, SEGMENTS, AND TRENDS

The IT and business services industry is strong and growing in the global IT sector. According to a German company specializing in market and consumption data, named Statista, in 2020, the industry reached a total of $1.050bn in revenues. In the long run, it is projected that IT services will continue to expand and be a central element of a large range of industries and businesses since the devices offered are able to facilitate and accelerate digital transformation in the work environment. Also, the impact that the pandemic had on work conditions highlighted the urgent need for reliable IT infrastructures and collaboration platforms for companies to effectively implement hybrid and multi-cloud strategies enhancing flexibility so that people can still be productive and secure while working from home.

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As previously mentioned, this industry contains various services such as cloud computing, managed, and security services. The segment that has experienced the most significant growth is cloud computing, which concerns the use of remote networks and servers to manage and process data. Besides this, the fact that IT resources can be offered via the internet expands the range of service models available to companies, contributing to increased efficiency levels. One of the markets that have been of major interest for companies' investments when shifting to a more digital environment is the one providing cloud services, such as Salesforce and Slack, which can be gathered into platform-as-a-service (PaaS), software-as-a-service (SaaS), and infrastructure-as-a-service (IaaS). In the last years, SaaS has been representing the largest segment of this market reaching a value of $165bn in revenues in 2020, displayed in Exhibit 15 in the appendices, which corresponds to around 48% of global revenues for the cloud services market, which reported a total value of $344bn in revenues.

A key industry trend is a shift towards edge computing, which is characterized by having the information processing located near the data source, instead of in a centralized location. Hence, Slack has the opportunity to increase its appeal in the market as it offers quality services that allow people to interact without the need to be connected to a bigger network, diminishing the chances of data overload. In this segment, revenue growth is motivated by a rising number of companies worldwide that are starting to incorporate edge computing technologies to boost innovation. Specifically, edge computing offers companies advanced and improved capabilities regarding storage, computing, and network, which will ultimately lead to reduced costs and great performance. According to Statista, as the world is witnessing significant growth in the amount of data being created, replicated, and consumed, it is estimated that, by 2025, the worldwide edge computing market revenues reach $274bn, as presented in Exhibit 16 in the appendices. For this reason, the possible acquisition can give Slack a boost in its market presence and enable Salesforce with a service recognized for its quality, efficiency and ease.

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COMPETITIVE LANDSCAPE AND LEADERS

The IT services industry is characterized by its high competition shared among a few major players, such as Accenture, IBM, and Amazon Web Services (AWS). Although these players are currently dominating in terms of market, the continuous advancement in IT consultancy services stimulates new players to raise their presence in the market through competitive edge. Here, profitability will depend on companies' ability to create competitive advantages concerning technical expertise, innovative services, and effective marketing. Regarding large companies, such as Salesforce, they might have greater opportunities to establish a competitive advantage as they benefit from extensive service offerings and global reach, being able to offer outsourcing services to large corporate customers. However, by focusing on specific market segments or through partnerships with larger businesses that wish to expand their range of services, smaller and recent companies such as Slack can also effectively compete in this industry. The opportunities emerging from a possible acquisition in an expanding industry, as the one of information technology, are another reason for both companies to seek this deal.

SOFTWARE INDUSTRY

The software industry comprises primarily the development, distribution, and maintenance of software. In addition to being used in computers, software is also used in mobile phones, automobiles, airplanes, industrial control systems, and consumer electronics. A software developer is someone who writes software code, including programmers, technical writers, analysts, project managers, business analysts, and others. Software is usually seen as associated with hardware; however, the main difference stands in the set of procedures powered by software which enable services to be managed on physical devices. Specifically, it consists of software that is traded between its producers and consumers, representing a reduced portion of the general computer programming business.

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From simple punch-card programming services offered to the few businesses with computers in 1955, to revolutionary trends like device programming for the Internet of Things (IoT), software-as-a-service (SaaS), and the acceptance of open-source alternatives by major corporations, the industry has undergone several revolutionary shifts. The way businesses interact with, create, and utilize software has been fundamentally altered by the rise of cloud computing and the Internet in the computer software business. In the past, software was a product that had to be acquired, installed, and preserved. Moving forward in the information age, the use of software has been impacting all aspects of everyday life since people and organizations depend heavily on applications and systems to undertake their day-to-day duties efficiently. Despite the Covid-19 pandemic in 2020, enterprise software spending is expected to grow further in 2021, outpacing the decline suffered in 2020.

SIZE, SEGMENTS, AND TRENDS

In the economic downturn, businesses have tightened their resources allocated to software solutions, which would cause the industry to shrink in 2020. Still, the pandemic and its consequences convinced businesses of the importance of digital transformation. According to Statista 2021's forecast, beyond the anticipated resumption of growth which will get enterprise software expenditure to reach a value near the $600bn threshold, it is estimated for this industry to continue to play an increasingly significant role as the engine of digital transformation in the years to come, as forecasted in Exhibit 17 in the appendices.

Nowadays, it can be grouped into software-as-a-service, operating systems, databases, and software related to analytics, enterprise and system infrastructures. Over the years, the main segment of this industry is enterprise software which, in 2020, accounted for around 40% of total revenues for the software industry worldwide, reaching a value of $205.6bn, as opposed to a global value of $524.75bn, as it can be observed in Exhibit 18 in the appendices.

Enterprise software includes technologies linked with customer relationship management (CRM) and enterprise resource planning (ERP) technologies, like Salesforce, which are used by organizations to strengthen their daily operations and optimize business functions. During Covid-19, SaaS was among the best-performing tech subsectors because of its accessibility and efficient model, based on clients' subscriptions, as well as added benefits regarding on-premises software. Therefore, SaaS is projected to continue to be in prominence as businesses and activities shift to the cloud while digitalization intensifies. In fact, Statista anticipated that spending on SaaS will persist to rise, reaching $152.18bn in 2021, having no expectations for this growth trend to slow down, refer to Exhibit 19 in the appendices.

COMPETITIVE LANDSCAPE AND LEADERS

The software industry is characterized by being highly concentrated, being dominated by a modest number of players holding a considerably large portion of the market share. The industry's concentration may be explained by the convergence of network effects, the principle of increasing earnings, and the switching costs associated with it. Microsoft has been leading the software industry for years, as is mostly recognized for its Windows operating system and Office Suite. Additionally, thanks to its impressive ability to keep up with the shift towards digital ecosystems, the company is deemed as one of the major cloud service providers. The possible acquisition of Slack may enable Salesforce to create a competitive advantage through the various range of quality services available to clients, which can give the company a boost that can equal or even surpass this leadership phase of Microsoft.

SOFTWARE AS A SERVICE MARKET

On-demand software, commonly referred to as Software as a service (SaaS), is one of the major tiers of cloud computing, enabling companies to transmit resources from information technology hardware, software, and personnel expenses, towards further business needs.

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Specifically, it delivers software applications to end users via a subscription-licensed model, centrally maintained in the cloud and easily accessed with an internet connection. As a result of the rise of cloud computing, which Slack is recognized for, along with the migration to the cloud by most businesses, the popularity of SaaS has been increasing. The reason behind this is that it is seen as a substitute for traditional on-premises software systems, as it offers innovative business applications involving software related to office and communication, human resources management, customer relationship management, and enterprise resource planning programs, among others.

Through its applications, most businesses can benefit greatly in terms of cost savings, accessibility, and adaptability. This is because it stands on a subscription-based model, where clients use the Internet to access the software, known as the cloud. Afterward, it is preserved on the servers of the creators, which are in charge of handling all the issues and upgrades that might arise. The increase in SaaS popularity turns Slack into a company of attention for major firms in need of advanced software to enhance their market presence, hence Salesforce's interest. However, the disadvantages related to security and data concerns, lack of control, and connectivity requirements should not be disregarded. Despite this, it is indeed appealing to firms of various sizes because one just needs to purchase the applications and programs for the business to operate successfully, and most SaaS modules are almost immediately scalable in case the business needs to expand. For this reason, the SaaS market is estimated to unceasing growth throughout next years, which makes it desirable for investors since return prospects do not appear to be risky, although this can change with unpredicted events such as the pandemic.

In this order, Microsoft, Salesforce, Oracle, SAP, and Google are currently the leading companies in this market. According to Statista, regarding the worldwide public cloud SaaS market share in 2020, Salesforce accounted for 9.3% of the global market share, followed by Microsoft with 8.7%. The vendors included in the "rest of the market" represent 69.5%, a

significant portion. It is within this section that Slack, a cloud-based communication platform, is incorporated, which significance will increase if the acquisition by Salesforce goes through thanks to the company's size and power. The market share relative to the several players in this market, for both 2019 and 2020, is available in Exhibit 20 in the appendices.

CUSTOMER RELATIONSHIP MANAGEMENT MARKET

CRM is the abbreviation for customer relationship management, which is the technology used by companies to manage and support their interactions with existing and possible customers. The main purpose of CRM is to improve relationships between companies and clients, allowing business vendors to gather valuable insights into these networks, thereby improving customer retention rates and eventually pushing sales growth. Many businesses had to adopt alternative ways to efficiently interact with their clients, which led many of them to go digital. A CRM system allows businesses to build and grow relationships across the customer lifecycle, comprising sales opportunities, commerce, service, and marketing campaigns, through the storage, tracking, and analysis of customers' information and data in one central location. By doing so, organizations can oversee, share, and analyze in real-time customers' needs and possible future customers. As a result, it is intended to modernize processes and improve business relationships, which presumably enhance profitability.

There are many benefits to companies that use CRM, mainly regarding attaining new customers, closing more deals and deepening customer loyalty. With more and more companies turning their focus to digitalization, suppliers need to catch up since it is not possible to persist in today's competitive marketplaces if sales do not follow the growth trends. According to Statista, CRM revenues reached a value of about $69bn in 2020, a significant value when compared with the $14bn revenues registered in 2010, corresponding to an increase of approximately $55bn, or a remarkable 393% increase in percentage. These revenues are

estimated to expand steadily across the following years since CRM ensures good customer experience, which is essential and considered by several companies worldwide as a key factor for businesses when embracing digital technologies.

Several companies are competing in the CRM market, the ones standing at the top include Salesforce, SAP, Oracle, Microsoft, and Adobe. The company that has been in the lead is Salesforce, which in 2020 accounted for 19.5% of the market share. Exhibit 21 in the appendices displays market revenue shares across the leading players in this market for 2019 and 2020. Being a bigger player in this market, Salesforce is always in search of ways to maintain its top position, which is why it proposes to acquire Slack. This deal can provide the firm with a better communication system and greater storage capacity, powering and improving its relationships with customers and enriching its leadership. By doing so, it can also become more competitive in other businesses, such as in SaaS and cloud computing.

Usually, macro-environment analyses are useful to provide insights regarding companies' opportunities and threats. In this case, how can the possible acquisition impact the external environment surrounding both companies, and consequently their performance?

Changes in the macro-environment can have a direct impact on several players in the industry, shaping the strategy and competitive landscape of companies. As a result, there is an impact on individual firms' competitive advantage and overall profitability levels. In this case, the focus will be the Software industry, in which both Salesforce and Slack have more presence.

PORTER'S FIVE FORCES ANALYSIS

A strategic management analysis usually performed to examine a given industry and identify its inherent profitability levers is the Porter's Five Forces. Through its interpretation, companies' managers can formulate a strategy to enhance Salesforce's and Slack's long-term profitability, as well as to improve their competitive advantage.

Moreover, through this analysis managers can get a full picture of the factors that affect an organization's profitability. This way, they can spot revolutionary trends in advance and take advantage of emerging opportunities. In brief, managers at Salesforce and Slack can exploit the Porter Five Forces in their favor by fully comprehending them.

Threats of New Entrants: Either through a lower pricing strategy, cost reduction, or new value propositions for customers, new entrants in the Software industry bring innovation and new ways of doing things. In order to maintain their competitive advantage, both companies must therefore manage all these obstacles and construct effective strategies and barriers. Thus, the possible acquisition allows Slack and Salesforce to compete together, having more strength in the market, which is a major benefit for Slack, that has less presence and size, making it more vulnerable to new competitors.

Bargaining Power of Suppliers: The majority of businesses in the Software industry acquire their raw materials from a variety of suppliers. The margins that businesses could earn in the market can be reduced by dominant suppliers with superior bargaining power, manipulating prices to their favor. Usually, suppliers in the technology sector with a lot of authority use their bargaining power to get better prices from companies, leading to reduced profitability in the Software market. Hence, Salesforce and Slack together can have more power to negotiate with suppliers than they would have if acting alone, reducing the chances of being exploited in price-related topics, having also more flexibility to search for alternative suppliers offering better prices, not jeopardizing possible higher margins that they could receive from the market.

Bargaining Power of Buyers: Buyers frequently have high expectations since they want to obtain the products that offer the best price-quality situation, meaning at the lowest cost possible, which puts pressure on profitability. Both the size and power of a company's customer base directly influence the bargaining power and the impact of customers' decisions. This is

because a small customer portfolio, in which the buyers have significant power, will make the company more dependent on it as a profitability driver, which gives customers higher bargaining power and the ability to search for increasing offers and discounts in the market. Again, the possible acquisition also brings benefits regarding this force. Salesforce and Slack have a large customer base, by joining both portfolios they will not be as dependent on clients as they would if operating alone in the market, decreasing buyers' bargaining power with the increase in customers' portfolio size.

Threat of Substitutes: Industry profitability deteriorates when a new product or service offers similar customer needs in unique ways. For instance, Microsoft Dynamics 365 competes directly with the 365 services offered by Salesforce, as well as Microsoft Teams can be a substitute for the communication system offered by Slack. This means that, if a firm can give people a substitute product or service that is distinct from what is currently offered in the industry, generating competitive advantage, it becomes a major threat to firms offering identical options. The potential acquisition of Slack by Salesforce gives the opportunity for both to compete in the market with more diversified service options, which broadens the customer base since there would be one company offering quality services that previously would be provided by two distinct ones.

Industry Rivalry: Prices will decrease, and the overall profitability of the industry will be damaged if there is extreme competition between existing players. Slack and Salesforce operate in a highly competitive environment, so overall long-term profitability is directly influenced by this competition. Through the possible acquisition, although Slack will be exposed to more significant rivals, by joining forces they can compete more effectively, offering a wider range of services to customers, possibly becoming their choice due to Slack customers' loyalty and Salesforce services' recognition.

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PESTLE ANALYSIS

PESTLE Analysis is a strategic method used to assess a company's macro-environment, helping managers to take more accurate strategic decisions. This way, a company can keep in perspective the external trends and factors of the overall environment that impact both firms' competitive advantage and Porter Five Forces' overall profitability. While Slack may feel some impacts on a different scale, as it is more recent to the industry, not having the dimension of Salesforce, multiple external factors can affect the performance of both companies.

Political factors are similar for both and include issues that influence their long-term profitability, such as general data protection regulations which turn the growth of business uncertain. Considering that the companies operate in several countries, they are vulnerable to different types of political environments and risks. Accordingly, government restrictions can restrain the business of collaboration, and certain policies, due to security risks, can restrain firms from keeping their residents' information in external locations. While the acquisition will not make both companies less vulnerable to those issues, as they affect the overall industry, it will give them more strength and resources to overcome them.

Economic factors comprise the economic growth and obligations, such as inflation, tax and interest rates that can influence the future value of investments, as well as externalities derived from unpredictable events such as the pandemic, that impact the economy and are beyond companies' source of action. For instance, due to the global decline experienced by the travel and hospitality sectors during the pandemic, Slack lost several of its paid customers. In the case of Salesforce, being the leader in the CRM market, it is based on retaining and acquiring customers, thus its performance also depends on its customers' economic situation. Together, both companies will be more exposed to the change in demand, since their scope of action can expand, but they will also have more flexibility and expertise to quickly adapt and continue to meet customers' interests while offering services that are both innovative and of high quality.

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Social factors refer to society's traits, culture, and expectations regarding consciousness. In this case, technological skills are a crucial factor, which along with the increase of people working remotely, gives Salesforce and Slack a benefit as vendors in the software as a service market. Here, both companies will have more strength to find solutions that can please the most demanding customers and to deal with possible social scandals if working together, rather than individually. Likewise, especially Salesforce can truly benefit from the possible acquisition in the sense that Slack offers a user-friendly platform, which will make people that are unfamiliar with technology, which although in a reduced number still exists, or that simply prefer to use handy platforms, more willing to subscribe to the service, finding its feasibility appealing.

Technological factors relate to several aspects included in the technology industry which has been changing rapidly over the years. Therefore, a business should analyze the rate at which technology is shifting since, if technological disruption comes at a slower pace, there will be more time to adapt and remain profitable. As more businesses convert their services into cloud-based applications, Slack has the chance to grow as a collaboration tool, expanding its range of interested firms, which the possible acquisition can mitigate. Besides, in a world where remote working is prominent, stable internet connectivity and effective security are crucial. However, the increased integration of Artificial Intelligence into customers' relationships, and the rise in initiatives towards technology convergence, may cause reputational harm if there are cyberattacks or if sensitive information is leaked. Again, regarding this matter, the possible acquisition will strengthen companies' abilities to overcome those challenges.

Legal factors relate to the impact of data localization and privacy laws, which are subject to industry-specific regulation. Furthermore, the legal system and institutions of many countries are insufficient to safeguard an organization's intellectual property rights. In the case of Slack, as a business with emerging growth, it has exemptions and diminished disclosure obligations, which may not sustain if the possible acquisition goes through.

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Environmental factors are mostly beneficial, either if Salesforce and Slack are working together or individually, since tech companies have several benefits regarding sustainability. Indeed, remote work implies reduced office waste and fuel usage, which eventually decreases greenhouse gas discharges. Salesforce has been implementing initiatives for a carbon-neutral cloud and focusing on operational sustainability, which the possible acquisition could only damage if Slack would not follow similar projects. Nevertheless, one needs to be aware that unstable events as the effect of climate change and pandemics can directly impact businesses.

OVERALL IMPACT OF THE POSSIBLE ACQUISITION

Companies' emerging need for a digital way to interact with customers, partners and employees is one of the reasons why a combination of Slack and Salesforce could make sense, enabling every company in the world to have a single and simple way to communicate.

While some might argue that Salesforce wants to acquire Slack to have better and more diverse resources to offer its customers, at the extreme, they might claim that the company intends to eliminate one of its opponents in the SaaS market that has been experiencing an impressive growth, being the biggest beneficiary of this acquisition. It is true that, on Salesforce's side, it will be able to have a better communication system and increase the number of customers present in Slack's customer portfolio, which loyalty stands on the quality offered and whose number has been increasing over the years, with no prospects of slowing down this trend. In this way, Salesforce manages to compete more efficiently in a market characterized by high competition between large companies, such as Microsoft and Oracle, where it must stand out to be chosen and have a competitive advantage, while constantly updating its features to be able to meet customer changes, increasing the possibility of long-lasting relationships.

On Slack's side, despite being a company that has been increasing its presence over the years, it is still considered recent compared to other better-known alternatives in the SaaS

market. By being acquired by Salesforce, it will have access to a greater portion of the market, reaching customers that probably would not have the chance to access if operating alone, due to its size. As a result, this acquisition could lead to a huge boost in Slack's growth, allowing for better market insights and faster adaptation to new trends.

In addition, by joining forces, Salesforce and Slack will have more power and resources to adapt and overcome challenges that may arise due to unpredictable events and new policies that are beyond their ability to act and that affect the market as a whole. Furthermore, together they could deliver a more differentiated and improved service, managing to be more competitive not only with the players already present in the market but with possible new ones that may arise in the economy. Thereby, both benefit from Salesforce knowledge and presence in the CRM market and Slack quality and ease, offering businesses a platform for connecting the diverse stakeholders with the apps they use daily, all within the context of their existing workflows.

CONCLUSION ON POSSIBLE ACQUISITION

In conclusion, although there can be other alternatives in the market and opportunity costs associated with the acquisition of Slack by Salesforce, it can bring together two of the most dynamic communities within the software industry. Besides, it will create an open and massive network that will facilitate the next generation of digital-first apps and workflows for business, which outcomes offset the less favorable side that could be associated with this acquisition.

Therefore, from an external point of view, this acquisition would improve efficiency, performance and competitiveness, enabling them to compete neck to neck with other competitors offering similar services in the market, such as Microsoft. However, a more detailed internal analysis of the companies is needed to better understand if, according to their business strategies, this deal would be a "win-win" situation for both or if there are any better alternatives in the market.

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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.
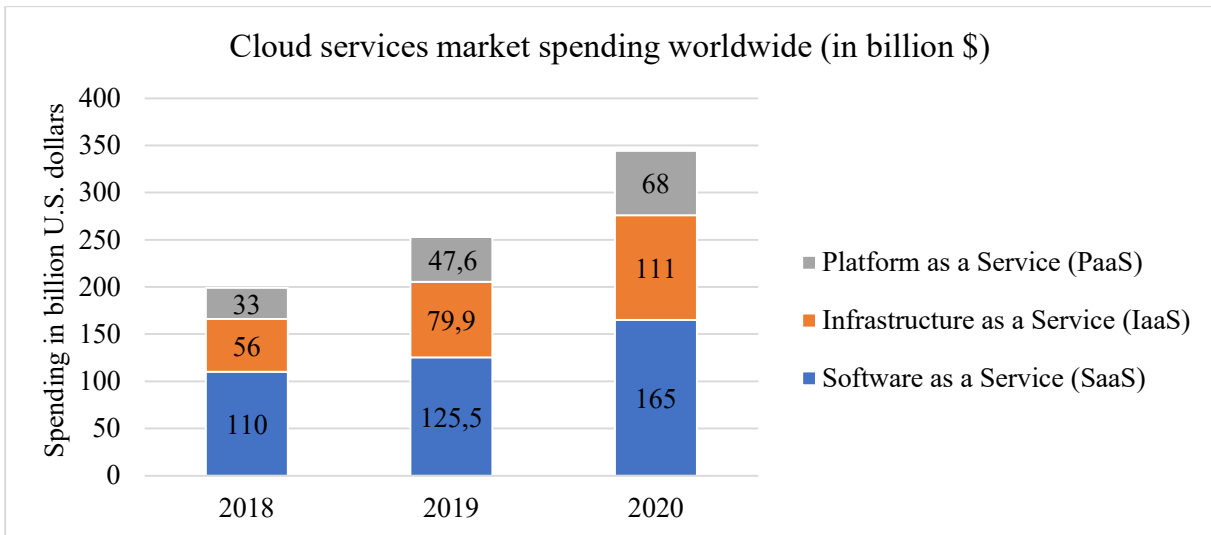
Exhibit 15: Cloud services market spending by segment worldwide from 2018 to 2020 (in billion U.S. dollars). Source: Statista.
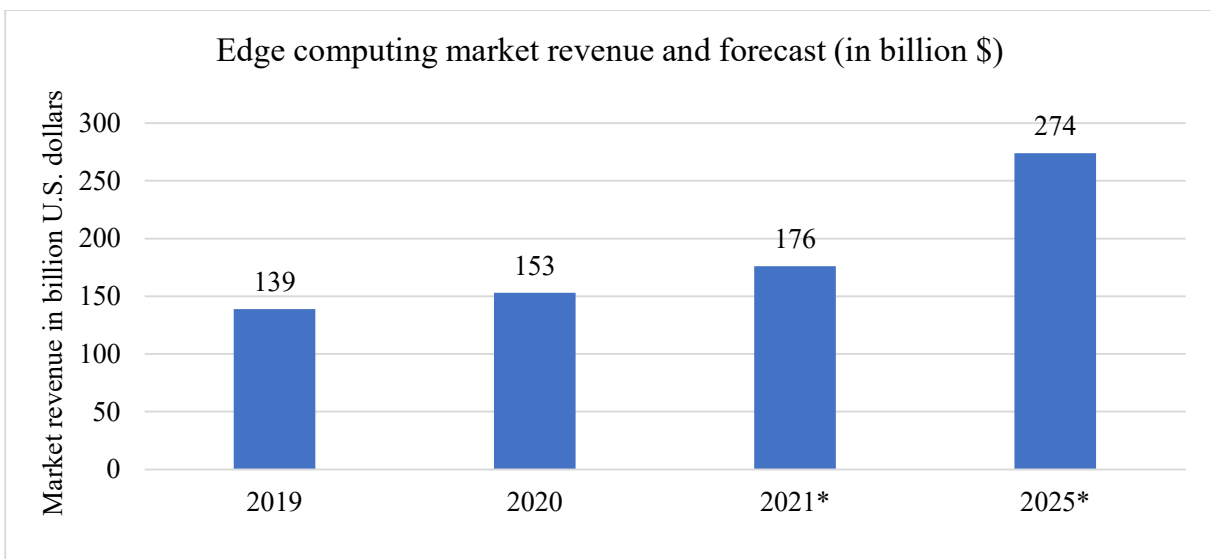

Exhibit 16: Edge computing market revenue worldwide and forecast for 2021 and 2025 (in billion U.S. dollars). Source: Statista.   *Values forecasted

IT spending on enterprise software (in billion $)

Spending in billion U.S. dollars

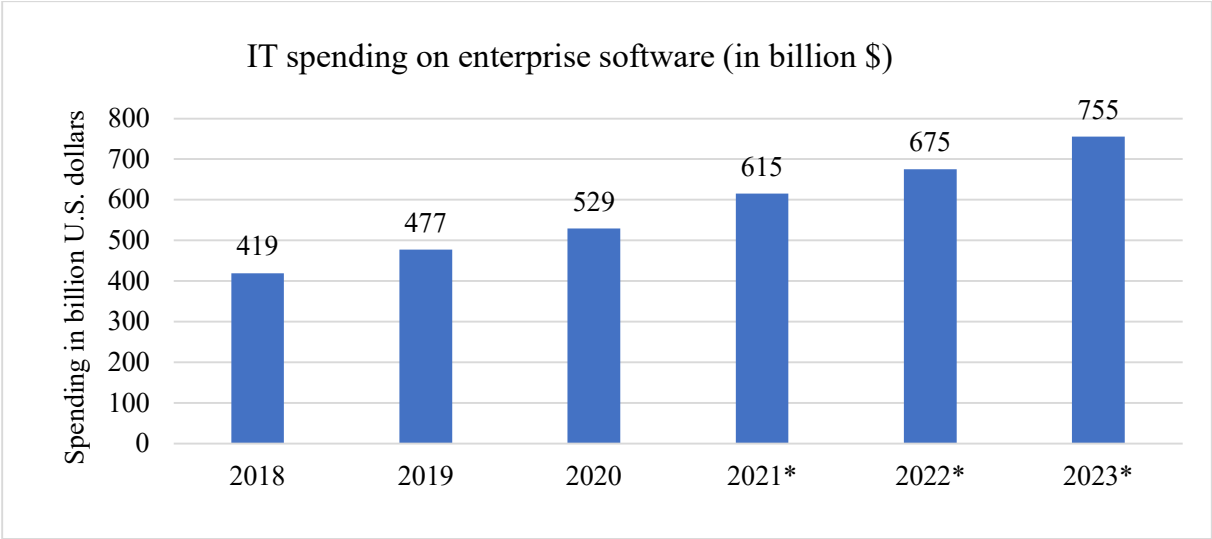| Year	Value
2018	419
2019	477
2020	529
2021*	615
2022*	675
2023*	755

Exhibit 17: Information technology (IT) spending on enterprise software worldwide, from 2009 to 2023 (in billion U.S. dollars). Source: Statista. *Values forecasted
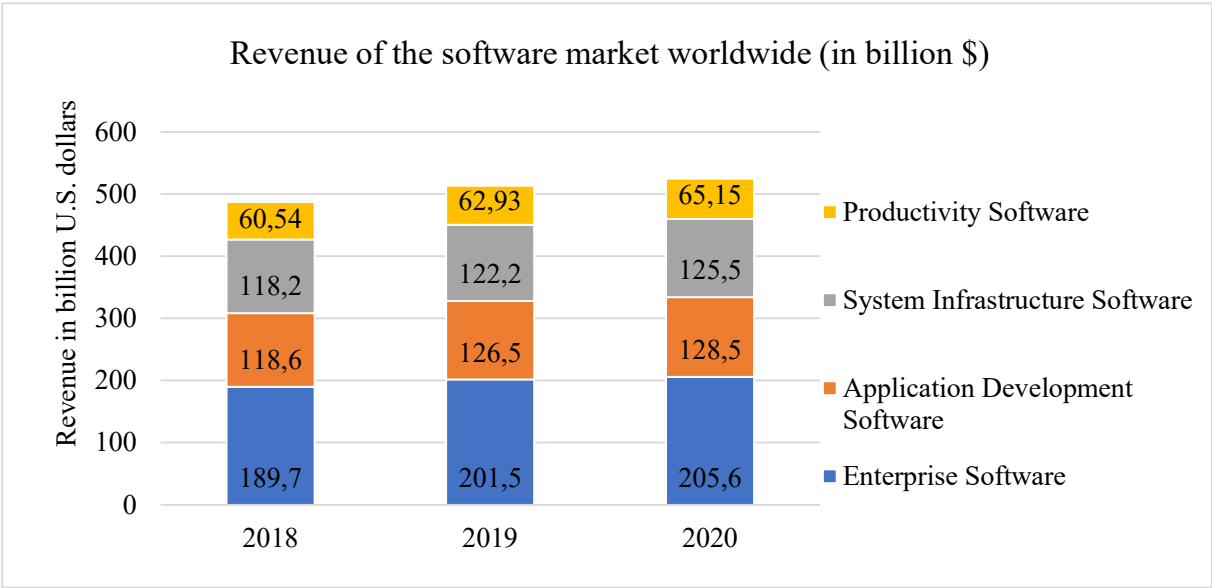
Revenue of the software market worldwide (in billion $)

Revenue in billion U.S. dollars

Segment	2018	2019	2020
Productivity Software	60,54	62,93	65,15
System Infrastructure Software	118,2	122,2	125,5
Application Development Software	118,6	126,5	128,5
Enterprise Software	189,7	201,5	205,6

Exhibit 18: Revenue of the software market worldwide from 2018 to 2020, by segment (in billion U.S. dollars). Source: Statista.

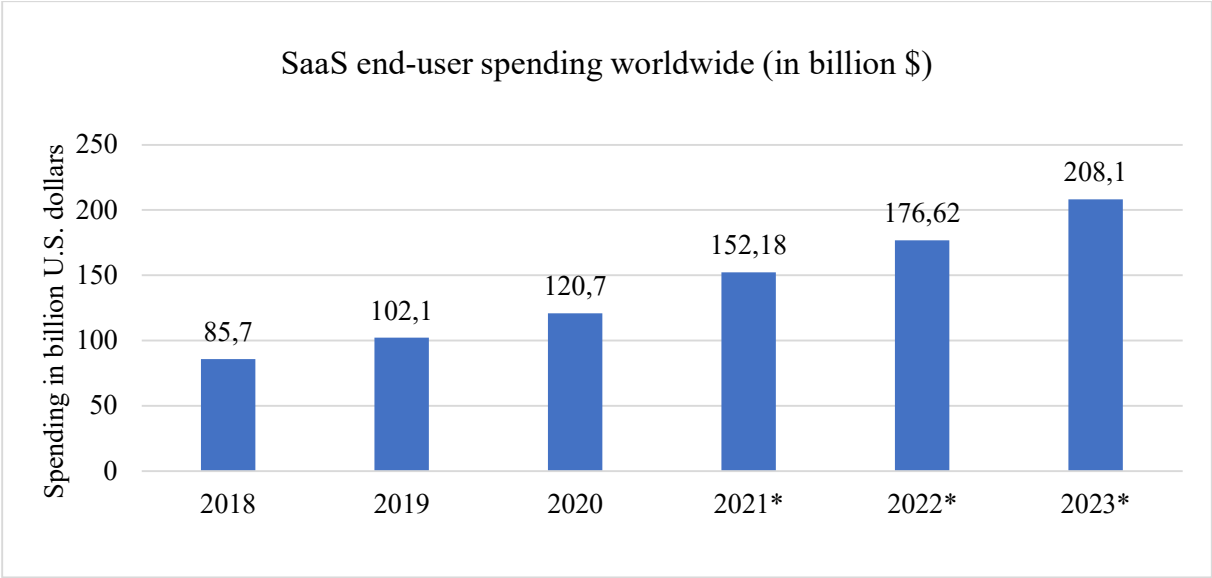SaaS end-user spending worldwide (in billion $)

Exhibit 19: Software as a service (SaaS) end-user spending worldwide from 2018 to 2023 (in

billion U.S. dollars). Source: Statista. *Values forecasted

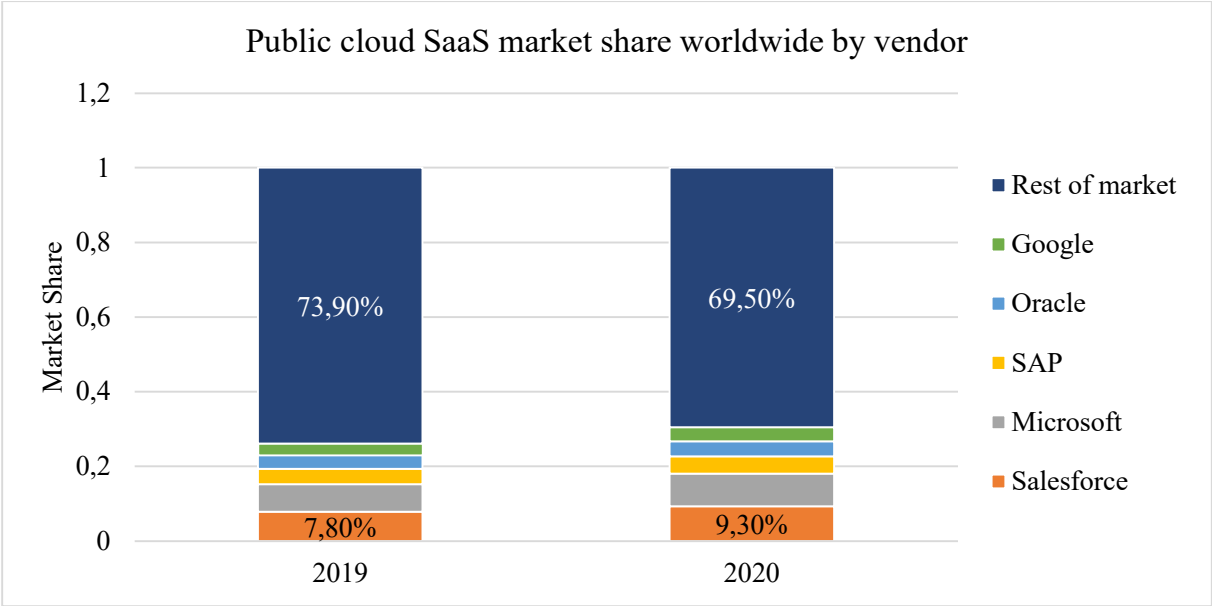Public cloud SaaS market share worldwide by vendor

Exhibit 20: Public cloud software as a service (SaaS) market share worldwide in 2019 and 2020,
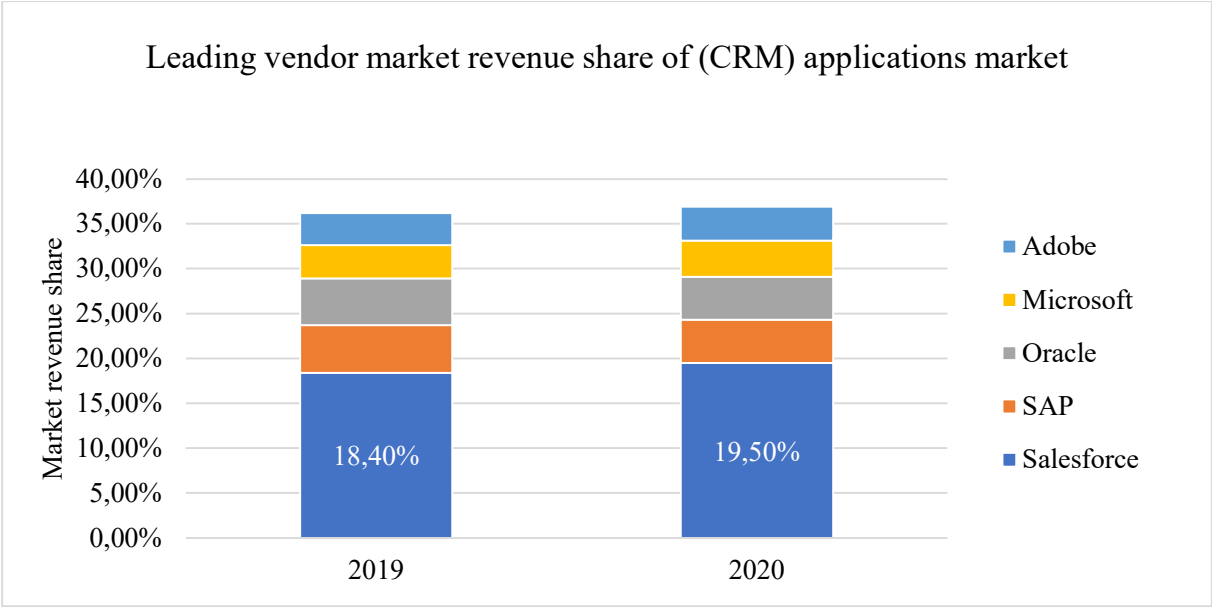
by vendor. Source: Statista.

Exhibit 21: Leading vendor market revenue share of customer relationship management (CRM) applications market worldwide in 2019 and 2020. Source: Statista.