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Point of View

Planning for success after a merger or acquisition

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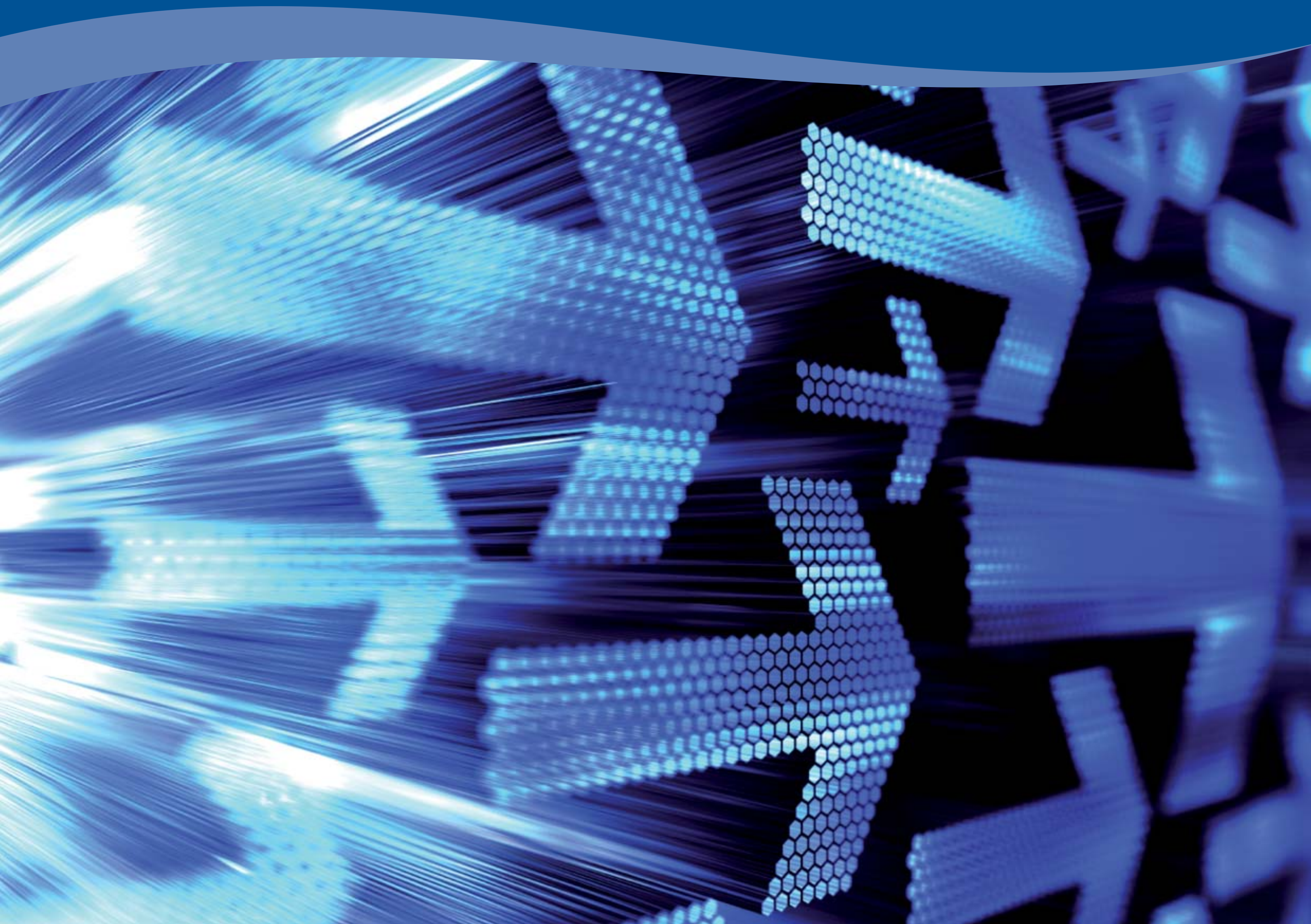


'Without understanding the motive behind the deal, a clear link to post-deal activity cannot be established.'

If it isn't in the plan it doesn't get done – so true, particularly when two different businesses, with different cultures, possibly even in different countries, agree to come together. For a merger or acquisition to achieve its potential it is important for the deal to be well-structured in the first place but it is equally important to plan comprehensively for the integration of the two businesses – something that is often underestimated.

There are a number of strategic reasons for a merger or acquisition to take place - each leading to a different integration strategy. A small growth merger where, for example, one technology company buys another and wants to keep all the people, will be a very different project to that of a larger cost-cutting, overlap driven, deal.

Different reasons for purchase mean different criteria for success and these need to be clear from the outset for the implementation to run effectively. Success can be defined by the buyer (or the deal initiator) and if these success criteria, and the strategic reasons for purchase, are communicated clearly to all stakeholders there is a much greater chance of success. The deal strategy is of paramount importance. Without understanding the motive behind the deal, a clear link to post-deal activity cannot be established. This link between pre-deal and post-deal is often lost with the teams closing the deal and handing over to the business.

Next comes the deal process. It is not surprising that managers in both businesses, away from the senior or the financial management teams, will not necessarily know and understand the overall deal process but without some understanding they cannot plan or deliver for their individual functions. Certainly all employees will go through the whole deal process, but without a clear idea of the stages, they will not prepare well for it and may even fight it.

Defining success

There are many ways to define success in a merger. It's important to create a yard stick to be measured by, come to a clear set of criteria, and lay them open for all to see. These can then be used to guide the person directing integration and the managers in both companies.

Defining success begins with understanding why the merger or acquisition has taken place – or will take place – at all. This purpose or intention will fall into one of four categories – though these are not mutually exclusive:

- Geographic
- Technological
- Expansion (Growth)
- Defensive.

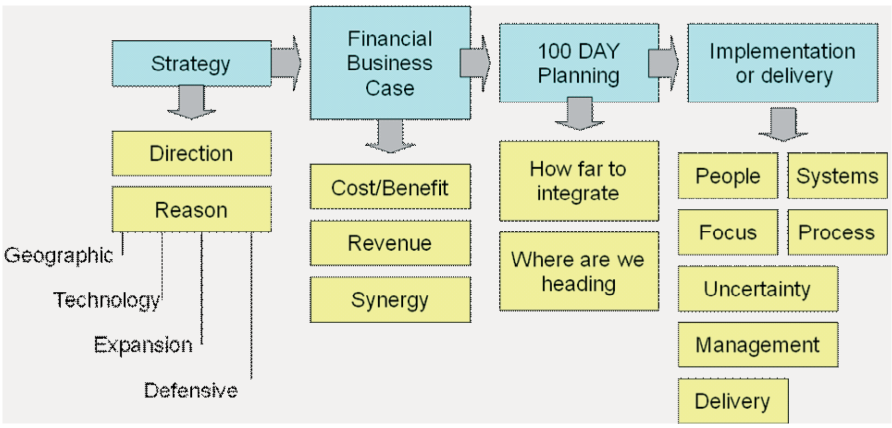
In the process of the merger this original purpose or intention must remain clear. For example, two pharmaceutical giants merge with a growth objective - consolidating the industry and achieving massive cost efficiencies – those efficiencies must manifest themselves for the deal to be declared a success. If one retail bank buys another, with a geographic intention - recognising there is no longer space for both on the UK High St - the aim will be to rationalise the assets and people – that rationalisation forms the objective of the integration plan.

The planning phase, usually involving the top executives of the companies, helps to start the merger process. People meet one another, get to know each other and jointly decide where they want the business to go. The 'vision' document can then be shared internally with top management and externally once the deal is public.

The full integration plan then involves some detailed thinking - thinking about the people, customers, IT, management and processes - where people are focusing their attention and where the uncertainty is. Gaps in thinking at this stage will lead to gaps in delivery of the efficiencies expected and integration will become tough or impossible.

'Without a fully resourced and planned integration, nothing will happen'

The strategic M & A process



Key factors in successful integration

- **Good acquisition thinking**: buying the right company at the right time for the right price, often this is not fully understood till many years later.
- **Good early planning & integration management**: will lead to a sense of purpose and understanding of direction. Without a fully resourced and planned integration, nothing will happen, leading to zero benefit gained through the M&A deal, causing future problems within both organisations.
- **Delivery of target costs and savings in a speedy manner**: with little cost tracking projects can get out of control and reduce profit. With the delivery of savings, in a timely manner, profit is improved rapidly.
- **Choosing who is to lead the integration early**: defining their roles and correctly incentivising people will enable decisions to be made earlier. It has been seen in many mergers of government departments that teams of people are in place and cannot make decisions, knowing that a new leader may come along later and change the direction.
- **Understanding the cultural differences**: between the organisations can help in the way delivery is carried out, minimising the disruption to people and mis-communicated messages.
- **Minimising customer and sales force attrition**: this is essential if sales are to continue as usual. There should be as little disruption to the income of the company as possible. Competitors will use the merger as an opportunity to take customers and key sales people. There will also be customer dissatisfaction if there is poorer service during the integration.

- **Communicating quickly and effectively**: communication must come from the top explaining what plans are there for the organisation, orientating employees toward the corporate goal. Communication must be tailored for use with employees, customers, and stakeholders.
- **Experience**: Experienced acquirers are more likely to be successful, they learn from past successes and failures, improving their resource, knowledge and process as they go. Even if it's as simple as them knowing that they need help with integration and going out to get it.
- **Perception**: if people think it will fail, then it will fail, perception is reality. Focusing on good communications across all the stakeholders and keeping a consistent, positive, reliable, message will drive people and companies in the right direction.

What to expect during a merger

There are a number of things to be ready for. There will be a bit of chaos; people will not know what is happening, or where they are going. There will always be some surprises, however the more time put into planning the fewer surprises there will be. There will be political manoeuvring; people will rapidly see the possibility to manoeuvre themselves into positions of power, to organise themselves for redundancy and so get a package. Some people will start a culture of misinformation in order to help protect their jobs. In sales and marketing it will be tough; understanding account performance and assimilating product knowledge from both sides. A marketing manager, who thinks his product range may be cut, will also assume he will be cut. This can cause people to want to provide biased information. Decision making for the integration team and managers becomes more difficult.

There will be people who feel the integration is not being planned well since there is a time lag between seeing an issue, planning a resolution and then announcing the solution. It takes time to make the initial plans and then announce them. People in both companies will always see these time lags as secrecy or incompetence and ask, 'Why are we not being told what is going on? Does this mean something bad will happen?' Everyone who has been through a merger – though not those who have run one - will always say that it could have been done better. Be ready for this general feeling from all employees, they will all feel it at some point and to some degree. In a well run merger, this is minimised. In a very slow, poorly planned, poorly resourced integration, this feeling grows, people start to leave and the merger can fail. Some people will always leave in a merger process. Remember that there is a time lag, it can take people 3-6-9 months to find a good job elsewhere so waves of people may not leave until after the integration is well underway or even complete in their part of the business. Back-up plans for this expected exodus should be created as part of the HR integration plans. As people go through these feelings that 'our company is not good, or not good at integration', expect an inwardly focused workforce, focused on themselves, not on their work and not on the customer.

Planning – good intentions alone don't make money

Every deal is different, unique even. However, we would not start a IT project with a blank piece of paper so why do we do so with an M&A deal? With an IT project we would have a project process methodology, every large company or academic institution has one. They can be bought off the shelf. We would then take this methodology and populate the plan in order to understand what we are going to do. It is the interdependencies that are the most difficult things to see. So why wouldn't we do the same with M&A? Take a standard methodology and use it as a canvas to start painting our picture and deliver the vision and strategy of the new business?

The next and more difficult task is to resource this plan. Just as in our IT example above there will be lots of people with many kinds of experience, but rarely someone who has implemented an M & A integration plan before. A final, cautionary note from my own experience:

I went to visit a publicly listed company. I met with the HR director and CFO. It was 3 months after the deal had taken place.

They were two chains of shops, both well known brands on the high street, both selling roughly the same products and to a similar market. Both staunch competitors.

The deal rationale was quite simple, to cut costs and consolidate: enlarging the footprint, enabling more rapid growth from the acquirer and a reduction of overall unit cost due to large purchasing power.

From my view point it seemed quite simple. Before our meeting, I looked at their web site and saw a six point M&A plan, showing where the synergies would come from. It seemed to be spot on. They would rationalise shops, potentially change the brand over, cut costs and overhead, consolidate customers, increase purchasing power and look after their people.

I sat down in our meeting. They asked me 'what would you do?', I replied simply 'where are you in your integration?' They repeated their question. They asked, if I was starting from scratch, where I would start. I started with their six-point synergy plan and built out from there, explaining in detail, how I would plan, mobilise and deliver each of the six points. Then going into the issues and problems that would come up during the delivery and finally setting a time scale on each of them and tying the money spent with the synergies delivered and when that money would be seen in their accounts.

They admitted that they had not started their integration planning or delivery and did not know where to start. They were 4-5 months behind where they could have been. Plans are essential – but they are nothing without successful deployment.

'Plans are essential – but they are nothing without successful deployment.'

Danny A. Davis

Danny is a Programme Director at Henley for M&A. He brings a unique background that combines experience as an international sportsman, sales and marketing in large corporates, a strategy consultant and a decade of deal making. This background means he understands the theory but combines this with a proven ability to deliver M&A integration and large transformations in highly complex organisations.

Danny has worked on deals from small to large; a 100 employee company taking over a 25 employee, through to a deal worth $16bn. His contributions have ranged from 2 days to plan integration through to 3 years planning and running a $6bn deal across 30 countries.

Danny has served as the youngest ever trustee (Non-Executive Director) on the board of the Chartered Management Institute, also chairing the Marketing and Policy Committee. He speaks at numerous conferences and recently chaired the M&A integration conference in Europe. He writes for publications targeted at CEO's, CFO's, HR directors, and IT directors across Europe. His blend of strategic theory, practical experience and real-life war stories make him unique in this field.

Point of View

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