The StratOps Group
Bridging the Gap Between Strategic Intent and Operational Execution

Mergers & Acquisitions – Protecting the Core & Maximizing Value

By Bruce Miles and Dwight Mater

Acquisition potential is pre-determined by your criteria

Successful acquirers know what they are looking for before they begin. They have developed insights driven by thorough analyses of markets, customers, competitors, regulators, and internal capabilities that lead them to identify a handful of very specific acquisition criteria. Moreover, these criteria enable a dispassionate evaluation of the target's fit from a strategic, financial, and cultural perspective.

Your Corporate Development team has done their job well – and you have successfully identified and negotiated the deal. The decisions you make in the next 30 days, well before you close the transaction, will determine the probability of a successful acquisition integration.

Capturing the full potential – mining for Silver and Gold

Most research indicates that only 40% to 60% of mergers succeed - and only 30% for cross border mergers (Association for Corporate Growth). What exactly is a successful merger and why aren't there more success stories? Generally, a merger is considered to be successful if the company both achieves the strategic imperative behind the merger, and achieves the merger synergies and operating results promised when a deal is announced.

Regardless of the strategic imperative, it has been our experience that the most successful mergers recognize that true long-term value is found in the white spaces within and between key Value-creation functions (Product Development, Sales & Marketing, and Supply Chain), while less successful mergers tend to focus too much attention on back-office integration and systems consolidation.

This is often immediately reinforced by the creation of a single Merger Integration team, with functional departments each addressing issues related to their functional scope. Instead, we recommend a two-pronged approach, reporting to an Integration Team Leader.

- Silver Team: This team takes the internal perspective, and is responsible for Day 1 execution and synergy capture (cost reduction) related to Human Resources, Legal, Finance & Accounting, and Information Technology. A key role of this team is avoiding employee defections and managing employee communications.
- Gold Team: This team takes the external/customer-focused perspective, and is responsible for maximizing the value contribution (revenue and profit) of the Product Development, Sales & Marketing, and Supply Chain organizations. A key role of this team is avoiding customer defections and managing external customer communications.

Capturing Value in the White Spaces

The Gold Team should be formed to specifically focus on leveraging the synergies within and between the value-creation assets entrusted to the newly combined organizations. Revenue increases during a merger are always more difficult to achieve, and take longer than expected. Don't under-estimate the degree to which competitors will seek to poach your best customers and your best sales people, as your team develops strategies to address the following:

- ✓ Product Portfolio - To what degree do we need to rationalize the existing portfolio of development projects? Can we establish common platforms for existing products?
- ✓ Innovation Agenda - How do we best combine our teams to increase efficiency, fully leverage new capabilities, and improve innovation?
- ✓ Sales Channels - How can we consolidate our sales force to remove overlap yet improve customer retention and sales?
- ✓ Marketing & Branding - How do we protect, enhance and project our brand(s)? To what extent, and when, do we combine or shift our brands? What messages do we want our customers to hear during the merger integration?
- ✓ Supply Chain – When and how do we introduce new capabilities? To what degree can we consolidate and how do we make this seamless for our customers?

Clearly defined integration strategy

To successfully integrate two companies, the approach employed must be consistent with your strategic intent. Guiding principles, priorities and governance must reflect the logic behind the merger. A well-defined integration strategy should clearly articulate both financial and non-financial goals, as well as risk mitigation strategies.

The following areas of focus are foundational to the ultimate success of an acquisition.

1) Solid corporate governance process

Comprehensively linking strategic intent to principles, processes, people, measurements and communications is challenging at the level of one company. Introducing a second company and stakeholder group to the mix multiplies these complexities. Decision making authorities and approaches must be well defined. *Cross-functional coordination, not only in the timing and execution of merger tasks, but also in the timing and consistency of communications to customers, employees, and suppliers, is absolutely critical*.

2) Cultural fit

Bringing disparate groups of people together from different companies may be more difficult than it sounds. Subtle differences in language, decision-making, performance measurements, incentives – "culture" -- can translate into major differences in expectations and behavior. Addressing these differences takes real work on the front-end of any merger, and throughout the integration period. *Allowing differences to "resolve themselves over time" is a recipe for failure*.

3) Appropriately resourced integration team

Selecting the right individuals to lead the integration effort is essential. Those you choose will need to move quickly and make tough decisions based on limited information, yet remain sensitive to the needs and concerns of customers and employees from both companies. Although most of the organization should remain focused on running the existing business, full-time resources must be dedicated to the merger integration effort. Furthermore, *incentives, for the integration team and adjacent leaders critical to the integration should be implemented and equitably aligned across the organization*.

4) Internal Ownership vs. External Assistance

A central issue in the integration process is to find the right balance between internal and external resources to ensure success.

We believe it is imperative to have your people take ownership and responsibility for the success of the merger. A consultant's role is to help your people succeed. They should provide objectivity and practical experience in aligning the integration strategy with the merger's strategic intent and both organization's capabilities, honest evaluation and guidance regarding cultural and leadership challenges, cross-functional orchestration, continuous review of risk and risk mitigation strategies, and a persistent focus on maximizing merger synergies.

Don't over-burden your people with outside assistance - fewer, more senior-level consultants can provide the coaching and guidance needed (and address management bandwidth issues) … whereas a small army of more junior-level consultants can overwhelm your team with endless task lists, stretching them thin, distracting them from running the day-to- day business, and increasing the risk that bigger picture issues go unaddressed.

5) Appropriate and Aligned Performance Expectations

Setting and aligning performance expectations begins well before the acquisition transaction even closes. As the acquirer builds its valuation model and identifies both revenue and cost synergies, expectations are being quantified and bought-in-to by leadership. Successful acquirers *evaluate the financials both from an acquisition justification perspective and how they will operate the business once acquired*. Performance expectations developed and established in this process enhance the likelihood of a successful acquisition.

In conclusion, successful mergers and acquisitions thrive on intentional, measurable, and adaptive plans with dedicated resources incentivized to deliver results – capturing both the silver and the gold.

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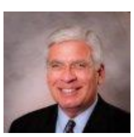

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