At last... the secrets to make acquisitions succeed

Expert knowledge means success

Contents

Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction and Overview

It's a fact, and often a disappointment to those involved in the process, that many acquisitions show a downturn in profitability after they have been purchased. This highlights the key role of integration in the process.

As long ago as 1997[1], Ernst & Young and Warwick Business School investigated the key success factors in the process. The major findings were:

- The need to define a small number of critical success factors for the proposed acquisition;
- The need to bridge the gap between pre-acquisition evaluation and post-acquisition implementation;
- The importance of information systems.

The Ernst & Young report also identified *conflict* as a disturbing factor in the initial period after the acquisition. Rationalisation may make sense to the deal strategists but it can be met with fierce resistance. All too often, the window of opportunity is missed by the acquirer who arrives at the table without the historical or political burdens suffered by the previous owner.

It's important that the acquirer imposes financial control over the company acquired at the very beginning. That way, people know where they stand - strong leadership makes the opportunity to implement change all the easier.

One major area of difficulty identified in the Ernst & Young report was the proliferation of pricing promotions operated by the acquired company - often these promotions were poorly documented and were too complex.

Managing people was a priority for all acquirers - having a communication plan is essential. Equally important is the need for an integration plan. There are four main factors that need to be included in the plan:

- Standardisation of operations;
- Availability of information;
- Knowledge of the target business;
- The role of incumbent management.

The Ernst & Young report stated that 75% of acquirers had addressed suppliers and customers as a key focus in the 90 days following the acquisition. There are usually opportunities at this time for gaining margin improvements and changing supply terms and conditions. The elimination of duplicated head office functions is an obvious cost saving opportunity, as is the reduction in staffing levels - but care has to be taken in handling these issues. They are real "hot potatoes" and can have implications outside of the immediate business.

Information System integration is usually a major problem area in the period after the acquisition is completed.

Practical Advice

When news starts to spread around the organisation that an acquisition is in the offing, people start to be concerned. Some think that their company is going to be taken over. Others think that their company is going to buy another business. One thing is for certain - people start to worry, asking questions such as: *How will I have to act after the deal goes through? Will I get fired? Will I get a promotion? Can I cope with new rules and regulations?*

TIP 1
Start to think about the impact an acquisition is going to have on your people. Have you communicated it well enough?

TIP 2
Think about creating a transition management team - so that they can swing into action as soon as the deal is publicly announced.

Start to think about what might happen if the deal falls through. What about the costs incurred to that point? How will the people cope with disappointment? How will you pay for the costs on an abortive transaction? It's not going to be plain sailing if you don't succeed.

TIP 3
Think about preparing a contingency plan. Should you hold a "wake" party?

TIP 4
Agree the costs with all the professionals - and do it at the earliest possible point in the acquisition cycle. Get all the professionals to commit their agreement to fees and get it in writing. Get the terms of engagement set out in a formal letter too.

The proposed acquisition will be a major distraction to your existing people and also to those who work in the target business - productivity is likely to take a hit during the negotiation process. Even after the acquisition, employee productivity in a newly acquired business gets cut in half or worse. The messages this situation will send out can be interpreted very badly - from "this was a bad merger" to "inefficiency is quite acceptable now".

TIP 5

There are some simple ground rules to cope with sagging productivity:

- Set out and stick to short-range goals
- Initiate new, merger-specific incentives during the transition stages
- Monitor performance closely
- Provide your people with fast feedback about successes and failures on post-acquisition production effectiveness
- Clarify roles so there is no confusion
- Create and distribute "psychological pay" during the transition
- Even though you really expect less from your production people during the transition stage - ask them for more and keep the pressure valve screwed down.

It's very important to create visibility of the acquisition - it answers questions like: *Nothing seems to be happening - what's really going on? Why are the management taking so long?* Employees need answers.

TIP 6

Give your employees the facts so they won't need to ask questions - communicate more.

Get wise soon - an acquisition or merger always rocks the boat. Some employees think the boat is destined to sink. If that negative thinking filters through all the business, you really could be in choppy waters. Watch out for:

- Resistance to change (it's always there somewhere);
- Divided loyalties;
- Envy;
- Confusion over roles and responsibilities;
- Communication hang ups;
- Power battles;
- Job insecurity and uncertainty;
- Policy and other changes.

TIP 7

Start out from the very beginning with a sophisticated and well thought-out logical integration strategy that is as understandable as possible.

Are there any cultural differences in the existing business and that of the business to be acquired? If so, you could be in big trouble unless you get the integration right. Don't imagine that a "best of both worlds" cultural hotchpot is going to work - the chances are that it won't. The "best of both worlds" approach usually ends up with getting the "worse of all worlds". It's too confusing.

TIP 8

Adopt a pragmatic, business-oriented approach - try to integrate one company, not two. The more successful and dominant culture usually wins the vote. Adopting their methods throughout emphasises success. Achieve a happier transition by:

- Telling it as it is - don't pull any punches
- Try to identify the key cultural differences in the two organisations
- Educate the employees so that they know what the new cultural realities will be

There are bound to be casualties. No acquisition has ever taken place without some increase in employee turnover. It's something that's going to happen so you'd better expect it and have a strategy to cope with it.

TIP 9

- Never bet that there will be no casualties - it's a bet you'll lose
- Use the transition as an opportunity to shed any marginal employees who are unlikely to "buy into" the enlarged culture
- Keep your eyes open for ways to create efficiencies - perhaps encouraging employee input/suggestions
- Look after your top employees - you certainly don't want to lose any of them

The process of merger or acquisition invariably involves legal, financial and commercial due diligence. Pritchett & Associates, a Dallas-based mergers and acquisitions strategy consultancy business has coined a phrase for another kind of due diligence - "soft due diligence". It's concerned with methodologies, people and relationships.

TIP 10

Look out for the soft spots in the target business:

- What's the management like - strengths and weaknesses?
- What's the organisational structure like - does it work or will it need to change?
- Who makes the decisions?
- Who can you rely on?
- How are decisions transmitted down the organisation?
- What are the key differences in cultural terms/
- Are there serious pay differentials between the two organisations?
- What are the soft spots in the target organisation that could put the acquisition at risk?

Your managers and executives will have a lot to think about during the transition stage after the acquisition is completed - they're going to find it hard to set the right priorities and stay focussed. The best merger managers are those who are the most flexible, are prepared to take some risks (but, note - only calculated gambles, not wild abandon!), the more decisive than deliberative, more aggressive than cautious, and the more creative rather than fixed in their approach. But the greatest danger comes from a poorly conceived or muddled integration strategy - don't make up your strategy as you go along. You'll need to concentrate on the key issues.

TIP 11

Concentrate on keeping the transition period to a minimum, stabilising the business as fast as it can run, strengthening the talent in the business (don't assume your work load can increase without something going wrong), hanging on to the business you already have, focussing the business to better serve its defined marketplace - and last of all, protecting your bottom line results.

In the early stages after an acquisition, it's important to demonstrate signs of success. It will convince the sceptics that the deal was a good one and that the judgement of the Board was right in making the acquisition. How success is made visible depends very much on the particular circumstances of the business.

TIP 12

Demonstrate clear evidence that the deal was a good one. Articulate the successes so far. Try to put monetary values on the progress to date. Communicate - and when you've done that, communicate some more. Don't be financially irresponsible, particularly at times when you're saying, "things are going to be tough". Deeds and words should be in harmony. Your people want your company to be financially responsible and not foolishly generous in the wrong direction.

Don't expect that your people can play a new game without the benefit of coaching - particularly on merger dynamics and simply how to handle transition and major change. You may need to engage an industrial psychologist to ensure that you've thought about how your people might be thinking (and worrying).

TIP 13

Coach your people on what to expect about the acquisition - what it is going to be like. Don't pull any punches. Educate them on the reasons why the deal was necessary. Teach them how to avoid the most common management mistakes. Show them how to get their priorities right and find shortcuts to success. Let them know how to handle change and how to deal with surprises and ambiguity - there are usually plenty of these things happening in the post-acquisition stage.

Expect that a Judge and Jury will be in session - your people will be assessing the rights and wrong of the corporate strategy that's behind the decision for the acquisition deal. "Telling" them what's going on and why it's happening may not be enough - you'll have to show them too. Pritchett and Gilbreath in *Mergers: Growth in the Fast Lane*, 1996, may have the right ideas when they suggest that you should show that things are moving in the right direction by encouraging ideas such as:

- The two company leaders have met and get along – meaning: *They're real people!*
- A new name and logo – meaning: It's pretty snappy!
- Consolidating employee benefit packages – meaning: *They haven't forgotten us!*
- One company adopts the best practices of the other – meaning: So, we can learn from them!
- Those that should be are promoted – meaning: *There really is room for winners here!*
- Unpopular product lines are killed off – meaning: *It's about time!*

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Reference:

[1] See "The First 90 Days", published by Ernst & Young and Warwick Business School

Important Notice

Publication issued or updated on:
13 February 2012

Ref: 43