Merger Integration

Studies show that 50-80% of all mergers and acquisitions fail… and often the main culprit is poor communications.

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Purpose

The purpose of this whitepaper is to discuss how companies contemplating a merger or acquisition can greatly increase the odds of success by incorporating a formal Merger Communications Program (MCP) into their planning.

The Need

- Studies show that 50-80% of all mergers and acquisitions fail to meet the expectations of the boards of directors who approved the deals.
- Mercer Consulting found shareholder return lagged the industry average in more than 57% of 300 major mergers studied over a 10-year period.
- McKinsey & Co. research found that 60% of 115 mergers it studied failed to earn returns greater than the cost of capital required to finance the acquisitions.
- *Business Week* found that over 35 years, the stock price of companies that completed mergers and acquisitions fell an average of 4%.
- The University of Chicago found that 44 % of acquiring companies they studied sold the companies they bought…usually at a loss.
- A New York University professor who tracked thousands of mergers and acquisitions in the 80s and 90s says only a third of all deals provide companies with a return that exceeds the cost of paying for the deal.
- Despite this dismal record, mergers and acquisitions continue to be a vital tool for companies interested in growing, evolving or consolidating their businesses. The implication is obvious, if we are going to continue to do mergers and acquisitions… we need to improve our batting averages.

Why So Many Deals Fail

Improving our corporate batting averages in mergers and acquisitions starts with a firm understanding of why so many deals fail. While every deal is somewhat unique, there are several common denominators including:

- Too many companies view integration simply as the stage that follows the signing of the final papers… rather than a business process.
- The Merger Communications process starts too late. It should start with the initial due diligence meeting, not after the final papers are signed.
- Because few companies go through more than one merger, acquirers fail to track and monitor every step in the process so it can be fine-tuned for the next time.
- Cultural differences are sometimes too dramatic to overcome, resulting in loss of productivity, key customers, critical suppliers and some of the newly acquired company’s best employees.
- Deals are cut by one team of managers, lawyers, accountants and consultants who walk away after the final papers are signed.

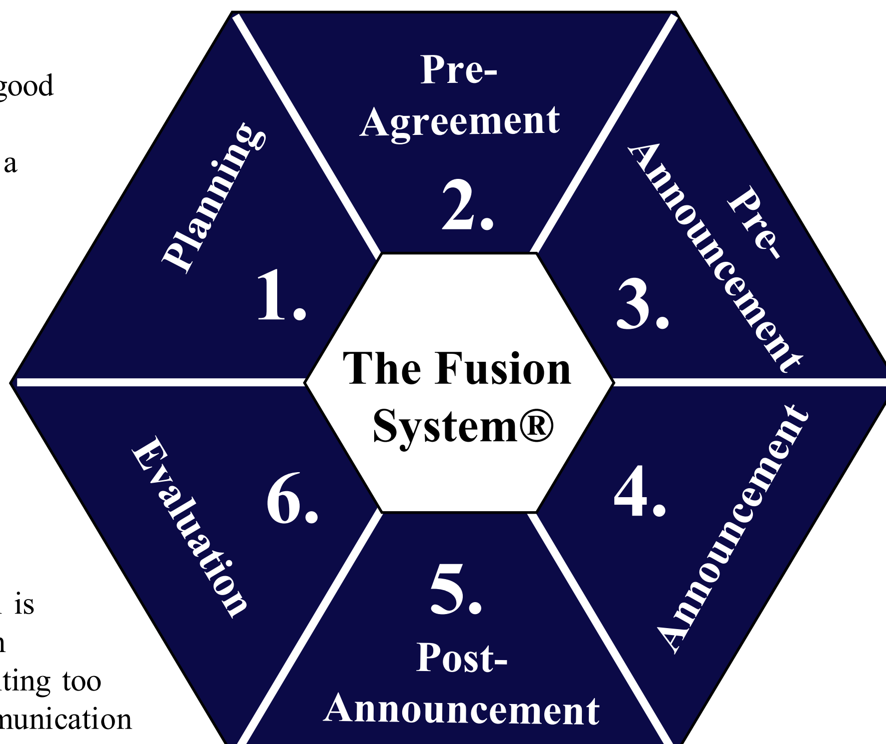
- ❖ Managers assimilating the new firm have little first-hand knowledge of concerns, promises and problems discussed in the negotiation process.
- ❖ Rarely is one person responsible for the entire integration process.

Improving Your Odds

One of the best ways to improve the odds of success with your next merger or acquisition is to develop a replicable business process to manage the communications of the entire integration process from start to finish.

Think about it. Just about every major breakthrough in management thinking that has occurred in this country over the last 50 years has come about through dozens of independent experiments that are repeated until the lessons learned are fused into a replicable methodology. For some reason, we have not applied this proven business approach to merger integration…and we're paying the price.

In other words, we need to manage the integration communications process like we would any other business process. We need to understand that in any acquisition, there are predictable issues that can and should be anticipated and communicated long before the deal is done. And by tracking these issues over time, we can eventually develop a merger integration model that takes a lot of the guesswork out of the effort.



There are many different ways to develop such a process and most good consulting firms that specialize in merger integration normally have a proprietary methodology. Regardless of who's methodology you use, there are several areas that must cover to be successful. These include Planning; Pre-Agreement Tasks; Pre-Announcement Tasks; Announcement Tasks; Post-Announcement Implementation; and Evaluation.

While every merger or acquisition is different, one of the most common mistakes made by acquirers is waiting too long to begin the integration communication process. What normally happens is the acquiring company identifies the target company, conducts a valuation, negotiates price and terms, performs "due diligence" and closes the deal…all before they even start thinking about how the two firms will mesh when merged.

Six Steps to An Effective Program

There are at least six steps to developing an effective merger integration program. These include:

Step One - Planning

The key to proper planning is getting started early. One of the most common mistakes companies make is waiting until the deal is done before addressing how the new company will be integrated into the corporate family. Some of the things that should be addressed early include:

- ❖ Defining your goals, objectives and how you will measure success
- ❖ Creating an integration team consisting of senior leaders from both companies that have the total support, confidence and commitment of the acquiring company's top management. Also, the team leader should <u>not</u> be the person selected to head up the combined company.
- ❖ Identifying the key employees, customers, distributors and suppliers who would be "at risk" and devising a strategy to keep them onboard
- ❖ Creating a media relations strategy that helps you shape and communicate your core messages to external audiences like the financial community, customers, suppliers, etc.
- ❖ Developing a written merger integration communications plan that outlines exactly who does what, when…
- ❖ Establishing specific criteria and decision-making procedures for determining when to walk away from an acquisition…and when to run.

Step Two - Pre-Agreement Tasks

The signing of the Letter of Intent signifies the progression of the deal to the second stage. Some tasks that should be addressed at this time include:

- ❖ Holding due diligence meetings
- ❖ Conducting an initial cultural assessment of both companies to help ensure that the two cultures will be compatible if the deal goes through….(if it hasn't been done already)
- ❖ Assessing of any potential or pending regulatory compliance issues and developing a contingency plan for likely outcomes
- ❖ Forming the integration team…with different people than those on the due diligence team. Also team members should be selected based on their leadership skills rather than their job titles.

- Developing communications strategy for notifying and communicating with both companies' key audiences
- Making initial report on compatibility and operational issues to acquisition team.

Step Three - Pre-Announcement

Once the deal is finalized, the process moves into the Pre-Announcement phase of the project. This normally starts with the signing of the papers, but before this formality is completed much can be done including:

- Doing a joint assessment of strengths and weaknesses of both companies from a sales and marketing perspective
- Contacting key customers to gauge levels of concern and define their expectations of the new company and how it does business
- Establishing a step-by-step plan to communicate decisions on staffing, operations, product consolidations
- Finalizing outplacement plans for personnel that will have to be terminated after the deal is done
- Creating 90-day Kick Start Plan to generate momentum and identify some opportunities for quick successes that will illustrate the strategic value of the merged company
- Finalizing communications plans to announce the deal internally and externally…including setting up a separate website for the acquisition.

Step Four - Announcement

As the saying goes, you only have one chance to make a first impression. So when you're ready to go public with an acquisition, make the most of it both internally and externally. Don't just issue a news release, create an "event" out of the announcement.

- Introduce your newest family member with a publicity blitz that communicates your story to all key media including the trade publications, headquarters and plant city media (print, digital and electronic), financial publications, employee publications, etc.
- If timing allows, consider using a major trade show for the announcement
- Consider a series of briefings for employees of both companies.
- Contact all key customers and suppliers of the new company before the announcement is made publicly.
- If publicly-held, remember to comply with the SEC's Timely Disclosure regulations

Step Five - Assimilation

Once the announcement is made, the focus of the integration plan must quickly shift to assimilating the newly acquired company into the mainstream of the parent company culture. The trick is to leverage the excitement and sense of event created by the announcement into an ongoing assimilation effort. Some things companies do include:

- Making obvious staffing decisions and implementing cost-savings synergies…immediately.
- Determining what the brand and vision of the newly combined companies will be and how it will be marketed.
- Implementing the corporate identity systems to be used by the newly acquired company. .
- Developing and launching a 100-day program to kick start the assimilation process.
- Hosting sessions to orient new employees on how their new parent company does business, what you stand for, etc.
- Reassuring customers that there will be no interruption in the delivery of products and services.
- Creating a "report card system" for customers to rate your performance on a regular basis.
- Looking for opportunities for "early wins" in the form of increased sales, new products and innovative marketing.
- Developing a plan to hit a "homerun" by jointly landing a customer or order so big that neither company could have possibly won it alone.
- Providing training and support for the employees of the newly acquired company to help them "fit" into the parent firm.
- Providing support for employees who lost their jobs due to the merger
- Use email, podcasts, RSS feeds, Word-of-Mouth Programs, e-books, and blogs to communicate with both companies employees, customers and suppliers throughout the acquisition and assimilation processes.

Step Six - Evaluation

A major factor in being able to develop a replicable business process is the ability to evaluate and measure the effectiveness of the integration process. Some things to consider:

- Doing surveys to determine how well your core messages were received by your key audiences…and which communications vehicles were most effective.
- Analyzing media coverage to determine the best ways to make integration announcements
- Tracking merger-related costs against historic averages
- Tracking the results to build a "best practices" model for future mergers

Benefits of a Merger Integration Program

A well-designed Merger Integration Program has many benefits for both the acquirer and the target companies, including:

- ❖ Integrating the new company into your parent organization faster and smoother, minimizing the loss of key employees, customers and vendors
- ❖ Minimizing the time it takes for the deal to pay out by shortening the time it takes for the newly acquired company to "fit" into the parent organization.
- ❖ Helping identify insurmountable challenges before the deal is done saving you time, money, resources, aggravation and even embarrassment .
- ❖ Letting the acquired company's people know what is expected of them, in what timeframes and how you expect them to do business (and not do business) now that they are part of your corporate family.
- ❖ Sending a clear signal to employees of both companies about what kind of company you are, what you (and your brand) stand for, what you value etc.
- ❖ Treating negatively impacted employees with dignity and respect…not to be nice, but because it's good business.
- ❖ Allowing you to build a best practices model.
- ❖ Helping ensure that the acquisition meets the expectations of the board of directors.

The Cost of Doing Nothing

While merger integration costs can be significant…they pale in comparison with the costs of a failed acquisition. These include:

- ❖ Replacing key employees and customers who leave because of real or perceived uncertainty
- ❖ Avoiding or at least minimizing lost productivity due to the uncertainty and stress created by the merger
- ❖ Revenue lost as the result of key people working on integration issues rather than sales
- ❖ Handling and re-handling improperly recorded invoices, purchase orders, sales reports, inventory, etc. due to the new company's learning curve
- ❖ Having to provide greater than expected training and equipment to bring the new company into the fold
- ❖ Replacing any key distributor defections

Some Final Words of Wisdom…

- Merger integration is not rocket science, but it does require management to let go of some traditional thinking…and it always takes more time and resources than expected.
- Don't call an acquisition a merger of equals…it never works out that way.
- People from both companies will be stressed out and stretched to their limits. Employees always want to slow down the integration process…but don't do it. It will only prolong the pain.
- Don't tell people it will be business as usual… it won't be
- Merger integration is a team sport…it must have a head coach and a talented, multi-disciplined team from both companies.
- When it comes to layoffs and restructuring, tell it all and tell it fast. The longer you wait to announce changes, the more key people and customers you'll lose…and that drains value from the deal.
- Expect customer service to be chaotic until you integrate both companies' IT systems, terms and policies.
- Some leaders will not be able to make the change. When this happens, replace them…fast.
- Make tough decisions fast…and realize you'll probably never have all the data or information you'd like to have before making a decision. It is almost impossible to go "too fast"
- Some employees will be anxious and others will be angry…don't take it personally.
- Expect surprises…both good ones and bad ones.
- An acquisition will only be successful if the employees from both companies allow it to be successful.

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