Mergers Can Succeed in Today's World

BY TODD ANTONELLI

Flush with cash and propped up by robust share prices, many high-tech companies and their suppliers are in the mood for acquisitions.

Activist investors are pushing boards to decide whether to use funds for dividend distribution or growth. Take, for example, Carl Icahn's challenge to Apple. The fear of losing out on the "next best thing," as with Facebook's recent acquisition of Oculus VR, can induce some CEO acquisition fever as well. Other companies are amassing seemingly disparate businesses for no immediately overt reason; consider Google's obsession for robotics companies. And some buyers are silently making acquisitions—communicating only as or if required—and immediately blending the acquired talent and intellectual property into their product, solution, or service development teams.

Acquisitions also are occurring in industries plagued by revenue stagnation in the traditional settings. Cable companies are merging to pick up more consumers in markets they couldn't reach before with new products and solutions that may create a better traditional choice or compete with the disruption caused by streaming companies such as Netflix or HBO.

In each case, successful acquirers are beating the odds of failure, which are similar to getting heads 50% of the time on a coin toss Why? These organizations typically follow a playbook, built from their past successes and failures, to guide their future integration successes.

REVIEWING THE PLAYBOOK

Many acquirers build their playbook to ensure the successful integration of new acquisitions, to record learnings from leading practices, to capture resolutions to mistakes, to record successful practices, and to drive results. The playbook contains guidance, methodologies, and tools that support the integration team in addressing critical elements of integration, equipping management teams for success.

Let's take a closer look at a playbook model you might use as a CEO to lead the integration process with your board and executive team (see Table 1). Using this one-page view, you can guide the development of your organization's merger integration playbook.

The premerger work or integration planning includes the actions to be taken by the integration team after an agreement has been reached to acquire a company. The most important activities are:

- Establishing an integration steering committee and a management team (from both firms), with an integration project manager and an organization capability lead
- Understanding value drivers and integration implications (acquisition strategy articulation)
- Establishing an overall timeline
- Identifying and resolving early decisions and dates for resolution
- Developing a Day-One checklist
- Determining an accelerated decision-making process
- Establishing communication infrastructure
- Holding the kickoff meeting

The integration steering committee will vary based on the size of the acquisition. For small acquisitions, the committee may be one step up the chain of command from the integration project manager. For larger acquisitions, the committee could include the CEO, COO, and CFO of both companies.

The integration management team (see Table 3), including an integration project manager and an organization capability lead, will provide oversight and support to the integration teams. This management team should leverage information collected by the due diligence team (such as organization charts, process maps, and financial information) to facilitate analysis in the integration planning phase. The team should obtain information from conducting operational due diligence and coordinate with the due diligence team to capture any potential integration risks that were identified during the due diligence process.

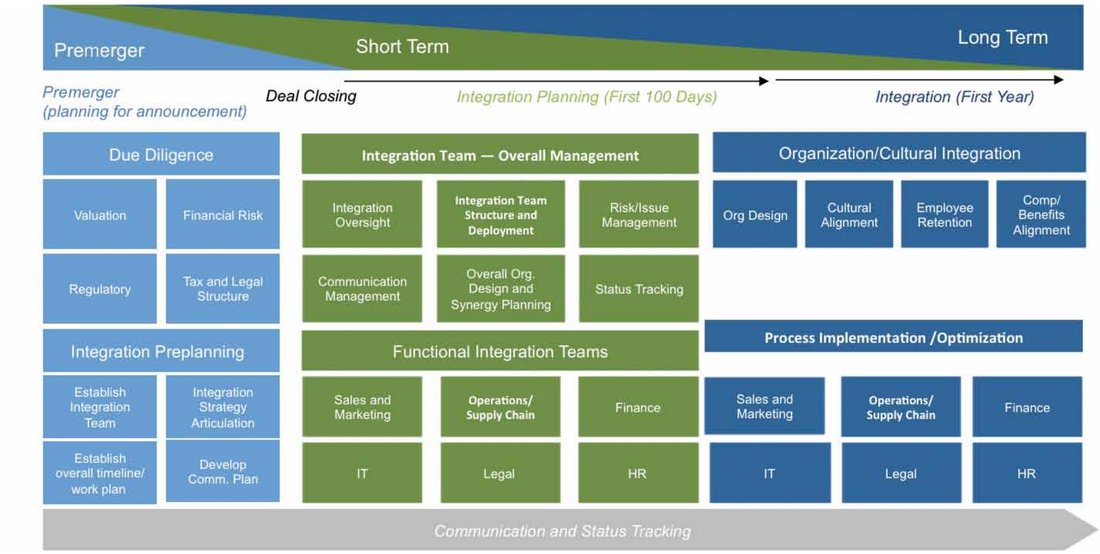
The integration project manager should work with the company's M&A team and the leadership team—typically executive leaders from both companies—to articulate the acquisition strategy and, from this strategy, determine the level of integration required. Once this level has been determined, the integration project manager will use the integration tools to establish an overall timeline and work plan.

The integration project manager will:

- Coordinate all integration activities across functions and establish a master plan
- Ensure adequate resource allocation for functional integration teams
- Maintain focus throughout the merger, beginning with closing mechanics and required Day-One plans
- Track integration project issues, risks, and status toward achieving goals
- Provide regular reporting to the steering committee/senior management

The organization capability lead will use communication planning tools to develop a high-level communication plan,

TABLE 1



including "announcement" communications for relevant stakeholders (employees, acquisition-target employees, customers, suppliers, media, and so on).

The organization capability lead will:

- Oversee change management activities (such as culture change and HR/people)
- Manage the communication plan and execute project communications

The critical first step to set the stage for a successful merger integration process is to develop a well-defined, articulated business strategy. The strategy should explain the reasons for the deal, define the degree of innovation/transformation, and help make the deal's context understood (see Table 2).

The strategy should be driven out of the acquisition and due diligence process, and it must focus not only on why an acquisition is needed, but why *this* acquisition is needed. The explanation should include how it will drive shareholder value and what is critical to integrate quickly to ensure financial and operational results.

One of the most important tasks in the preplanning phase is to determine the level of acquisition integration (see Table 4). This level will be determined largely by the strategic objectives of the acquisition.

There should be no doubt as to why a focus on customers is so important in the process of combining organizations. In fact, customers should receive most of the attention during the integration process. Companies often overlook the need to ensure a seamless customer experience. Make sure that points of contact are clear, attention and support are uninterrupted, and partnership and channel relationships are maintained.

The critical reason for focusing on customers is to determine what's in it for them. You must understand, develop, and articulate clear market and customer value propositions for

TABLE 2

Strategic Objectives	Business Outcome	Integration Implication
Increase Internal Efficiencies /Achieve Synergies	Acquirer eliminates capacity, gains market share, and creates a more efficient operation	• Focus on cost synergies, headcount reduction • Speed is essential to minimize disruption • Likely to have employee resistance
Geographic Expansion	Successful company expanding geographically — operating units remain local	• Keep successful structure • Need to address employee retention
Extend Product Portfolio	Acquisitions extend a company's product line or its channel coverage	• Focus on sales/marketing integration • Manage cultural/market issues carefully
Become the Market Leader	A company increases its size significantly to reduce the impact of competitors and gain significant supply chain leverage	• Manage huge complexity • May involve integrating strongly entrenched cultures • Need to establish clear leadership

CHART/TABLES: COURTESY OF TODD ANTONELLI the post-combination entity. If you can't, you can bet your competition will.

Clearly articulated market value propositions support "product, solutions, and services" road maps. Offerings are clearly communicated to the marketplace, internal efforts are aligned, and a clear branding strategy is in place.

Often confused with cost reduction, synergies are more closely related to business combination value optimization. The key premise of a synergy is that the whole will be greater than the sum of its parts. Simply stated, synergy refers to the phenomenon of 2 + 2 = 5. In mergers, this translates into the ability of a corporate combination to be more profitable than the individual parts of the combined companies.

Synergies include both cost-reduction and growth strategies and must be clearly identified. They should include cost and revenue; assign clear metrics/targets at the project level; and have strong project management in place.

There are two main types of synergy: operating and financial. The latter refers to the possibility that combining one or more companies may lower the cost of capital.

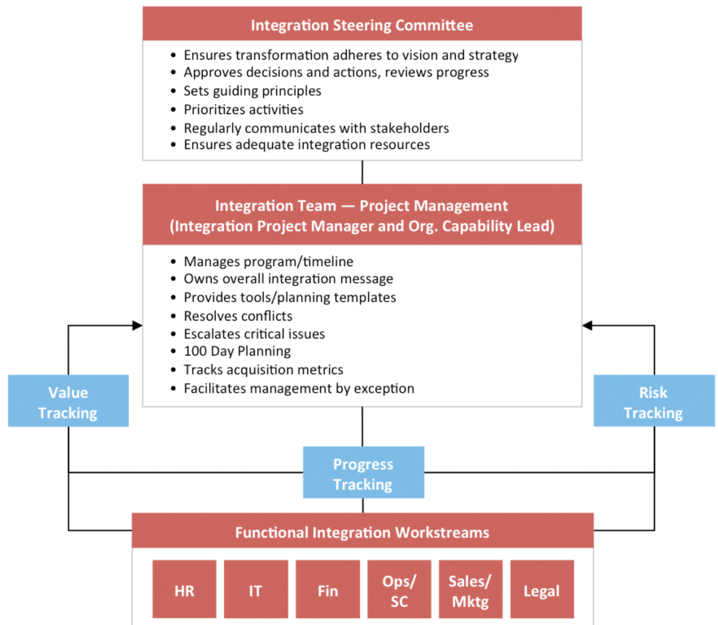
TAKING OFF ON DAY ONE

A focus on governance and Day-One organizational readiness will position the combined entity for integration success and create an efficient transition for both organizations and their stakeholders. Here are a few key success strategies that winning organizations use:

- Plans are in place for all functions, businesses, and locations
- Governance is clearly communicated

TABLE 3

Recommended Team Structure

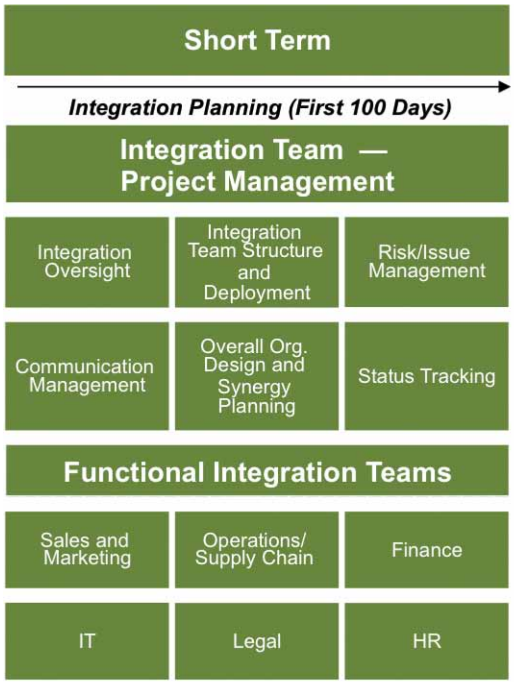


Functional team activities include:
- Confirm/document each side's business processes and approaches
- Identify best practices
- Develop recommended business processes going forward
- Determine resources required to execute work in each functional area

TABLE 4

Standalone	Partial Organization Integration	Fully Integrated
• Buy/invest under principle that the acquired organization is well-run with significant upside due to market conditions or potential demand • Leadership left intact • Systems, policies, and processes left to the discretion of leadership, often unchanged • Human capital strategies, programs, and culture are left to the discretion of leadership, often unchanged • Typical in joint ventures/acquisition of less than 50% ownership or acquisitions to expand geography	• Acquire under principle that targeted business areas (R&D, Sales) will remain standalone to preserve value, but some business areas (marketing, supply chain, etc.) and functions will be integrated to realize synergies • Leadership left intact for targeted business areas, all functional/ remaining business areas are typically standardized over time • Systems, policies, and processes are standardized over time • Human capital strategies, programs, and culture are standardized over time • Typical when strategic goal is extending product portfolio or geography or less 100% ownership	• Acquire under principle that value will be best derived by fully assimilating the acquired organization into the existing organization • Leadership — best placed individuals from Target and Buyer assessed to fill the roles • Systems, policies, and processes are standardized (typically based on the acquired company's practices) • Human capital strategies, programs, and culture are standardized • Typical when strategic goal is consolidation or to achieve synergies/critical mass and 100% ownership

TABLE 5



- The organization communicates effectively with stakeholders
- There is an unyielding focus on employees and appropriate retention
- Divergent operating principles are addressed
- The organization acts quickly and decisively

Short-term activities include those related to integration oversight and management and those performed by the functional teams (see Table 5).

The integration team's project management functions include:

- Managing the integration team kickoff and ensuring teams have all relevant tools needed to assist with the integration
- Providing teams with templates for tracking progress and issues (risk tracking template, issues tracking template, weekly status update template) and consolidating input from teams
- Reporting status to the integration steering committee
- Managing the communications plan and working with corporate communications and teams to develop companywide communications
- Incorporating findings and recommendations from function teams to create overall organizational design/ charts and synergy savings

The functional integration teams' activities include:

- Creating joint company/acquisition target team to assess the current situation (organization, processes and policies, and systems)
- Redesigning as needed to achieve the strategic goals of the acquisition
- Developing detailed plans for transitioning to the new design

CHART/TABLES: COURTESY OF TODD ANTONELLI

Long-term activities are mainly related to executing the detailed integration work plans developed in the integration planning phase (see Table 6)

During the organizational/cultural integration, the company should:

- Implement the new organizational structure
- Complete the cultural alignment
- Focus on employee retention
- Align compensation and benefits (as applicable)

During process implementation, the company should:

- Implement new processes for each function or subfunction, using detailed work plans developed during the prior phase
- Identify ongoing synergies and benefits

In total, the merger integration playbook on a page depicts the level of simultaneous work that must occur. Organizations fail most often because they do not follow routines, they repeat past mistakes, and they lose sight of the key strategies necessary for integration success.

Successful acquirers build their own acquisition integration playbook. These leading companies are realizing the benefits of strategic value creation, holding executives accountable for its achievement, and equipping their leaders with successful strategies and tools to get the deals done their way. AQ

Todd Antonelli is managing director of Berkeley Research Group, based in Chicago. He has more than 25 years of global experience in delivering, facilitating, and leading successful consulting practices and providing global consulting services.

TABLE 6