AFTER THE MERGER: THE FIRST 100 DAYS ARE DECISIVE

AN EXECUTIVE SUMMARY

Abstract

As post-merger integration becomes a disciplined skill, companies wishing to achieve high performance through inorganic growth need to develop a new ability to act more rigorously across both the pre- and post-deal phases. Integration planning is rarely contemplated at the outset of an M&A Transaction. But companies embarking on a merger or acquisition should recognize that poor integration planning can lead to harsh results, from weak decision-making to a lost focus on everyday operations.

A smooth integration depends on identifying, prioritizing and measuring synergies long before the deal goes through. Companies that succeed in maximizing long-term value frequently plan for integration and synergy capture at the due diligence stage. This head-start allows them to plan for not only short-term issues, such as keeping the business running, but for long-term issues as well, such as how to transform the newly created entity.

Merger and acquisition implementation is an art, not a science. Each situation is unique and presents its own set of problems and potential solutions. Through post deal management to success. First the hard, then the soft factors They all knew it: the Titanic would not sink. Yet we all know what happened. In the fatal encounter with the iceberg, the problem was not what the crew saw but what they did not see.

Many companies, when acquiring or merging with another company, face a very similar fate. After the merger they notice the facts that could have been interpreted better. Under the surface of what is visible – such as due diligence, balance sheets and cash-flow projections – disaster awaits.

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How Integration Can Make or Break a Merger or Acquisition

Many M&A Transactions fail to realize the synergies that are often highlighted when a transaction is first announced. After a company has developed its M&A strategy and executed the deal, the bottom line comes down to successful integration. Management's ability to integrate two organizations into an effective and streamlined operation is where transactions ultimately succeed — or fail — to deliver the much- anticipated synergies. A successful integration begins with a plan that will enable those synergies to start taking effect on Day 1.

In today's dynamic M&A marketplace, corporate transactions are frequently characterized by unprecedented speed. The ability to make and implement decisions rapidly is crucial to maintaining a competitive edge. Even after a deal closes, speed remains key, as organizations work to realize the synergies identified. This is not a secret but acknowl edged fact. Yet more and more companies take the apparently uncontrollable risk of merging with another company upon themselves. They undertake a merger for good reasons: to reduce the costs of buying, sales or production, to extend the strategic market position or to gain knowledge or capabilities. Whatever the objectives are, it is only after the merger that the company's value can be increased.

The most important thing is – and it can't be overstated – to lead the new business into a new phase of continuity. During this time, management is under particular pressure. As the acquisition price is often above the market value and includes a premium, which takes into account an increased value through the merger, the company is forced to exploit existing synergies consistently. This is rarely achieved through staff reduction alone, even if this is often sold as the first step to success. What really counts is that the company rapidly returns to earning money – on a new level. However, a merger and the subsequent integration process remove considerable management power away from the daily business.

The realization of synergies and good will aside, fights between departments, job haggling and competition are common. But if a merger or an acquisition is well prepared, precisely planned and consistently translated into action, there is a high chance of success. If the right things are done at the right time, then the chances are good that the new whole is really more than the sum of its parts. On the way to success, however, there are many hurdles to tackle.

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They are well known. If they can be managed successfully the merger will be a financial success.

The Time Factor is Critical

Our experience shows that a merger's success or failure is decided within the first 100 days. Our experience has shown that all failed mergers have one thing in common: the companies have, after the merger had taken place, hesitated too long with the integration. Indeed, the preparation of a merger takes time. The daily business is neglected and the work piles up. After the merger has taken place there is often relief and the feeling: 'We have made it. Time to get back to the daily business.'

No matter how understandable it is to pay attention to the peak of the iceberg only and therefore focus solely on the merger, it is and will be wrong. The first 100 days are absolutely critical for the integration. It is often said mergers fail because the employees are boycotting, torpedoing or undermining the project. And indeed, one has to take into account resistance, especially among 'mergers of equals'.

However, our experience shows a totally different picture: many managers and employees expect change as logical consequence of the merger. And due to this attitude they are prepared, at least in the first weeks and months, to accept change, take their own chances and support the new business with their own behavior. The starting signal for change programs must take place immediately after the merger. Then a clear vision and goals must be communicated. In addition, the processes to achieve these goals must be implemented immediately.

A successful merger is a competition against time. No athlete starts to prepare for a competition at the starting signal. The detailed search for synergies and cash-flow analysis, and the development of a financial plan, an implementation plan and a communication plan must be ready before the merger. However, the time and resources required are often underestimated. This is where external resources can add value.

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Preparation of the Strategy

The first hurdle has to be overcome even before the official completion of the contract. It can be eased by setting up teams that prepare the post deal phase and run in parallel to the preparation of the merger. These teams make sure that immediately after the merger, a rigid program is carried out: A detailed program and project management for the merger must be established. Cost reduction programs must be consistently implemented to realize synergy potential

The substantial cultural and organizational integration of the business must be carried out. Costs must be adequately budgeted for. The demanding post-deal phase must be accurately prepared. In the buying company a team prepares the merger; among other tasks, it is responsible for the preparation of the due diligence. At the same time, however, another 'task force' team should already prepare the post-deal phase. Ideally, sub teams work onsite in both companies. Well before the merger is taking place the results must be analyzed and a joint implementation plan developed. The 'task force' team is responsible for the planning and implementation of the post-deal strategy, the preparation of financial decisions, personnel policies and communication, customer management and IT integration. Contrary to public opinion, which says cultural aspects should be considered first, our experience shows that the hard factors must be dealt with first. Clear strategic and tactical directions must be defined.

1. Check the synergies

An important task of the post-deal team is to review and detail synergies which have been identified in the pre-merger phase – also because there are information gaps concerning the acquired company. Our experience shows that some of the synergies expected before the merger turn out to be unrealistic. Companies should therefore pay great attention to this review and feedback process.

Scenario Systems distinguishes three types of synergies which can be difficult to identify. First, universal synergies are easily identified in the pre-deal phase, eg. business process redundancies, purchase advantages, over-capacities and cost overlaps. Second, specific synergies are usually accessible to task force teams if they are in the same business: unexploited branding advantages, new technologies and unexploited sales advantages. Only experts will be able to discover the third type, unique synergies, such as the combination of complex technologies or the packaging

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of a product addressing a special consumer segment or (even) the knowledge and assessment of the market value of a new high-tech product. Such synergies can only be identified after the merger.

The preparation of an exact inventory of synergies in the post-deal phase is the first opportunity to create value. The advantage of exploiting the synergies is on average four times higher than time and cost. The more information that is available on the acquisition partner, the more precise the cost-benefit calculation will be – but only at the beginning of the post-deal phase. If potential synergies have been identified and exploited consistently, the market will consider the merger a success.

2. Develop the financial plan

With the exact identification of synergies as a basis the estimated cash-flow analysis is much more precise. The exact calculation of profit figures shows to what extent the merger can increase company revenue. The financial plan will also benefit from an exact analysis of synergy potentials. Future profit distributions can be estimated more accurately and shareholder trust will be ensured. Core teams from both companies should jointly develop a cash-flow analysis and a financial plan.

3. Design the program and project management plan

Now is the time to design a program and project management plan for consistent and continuous implementation. In both companies a program manager should be responsible at a very early stage for the management of the integration process. The implementation should be divided into clear phases. It is absolutely necessary to install a monitoring system to ensure goals are achieved on time and to a high standard, including the provision of resources necessary to implement the integration plan. Such steps are all the more important during a period when employees face dramatically increased demands.

4. Develop the communication plan

After the signing of the agreements, stakeholders and shareholders must be accurately informed about the reasons for the merger, about the resulting changes and about which steps must be taken. An open information policy will

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inspire the merger internally and externally – as soon as the employees support the merger, they act as internal 'catalysts'. If managers and employees are well informed, if there is clarity about the future vision, they are more prepared to commit themselves to the company goals. Customers and suppliers also need to be informed. This is more than just a minor diversion: a merger is a fantastic chance to extend business relations and to face competitors more successfully which have hitherto only been lying in wait for a decline of performance. Making use of opportunities is one side of the merger, the other is to minimize the risks which often become a manager's nightmare: rumors abound, employees waste their time speculating rather than doing their daily business, expectations and concerns run wild.

Of course, this process is top-down. Even in football it is the coach who decides the team's strategy and line-up. Time and time again fans notice how their team's performance drops, when players are unclear or do not accept a particular strategy. It is not hard to imagine what happens if a newly formed football team is not thoroughly briefed about objectives, strategies and roles. Not only do they play badly, their most important players and young talents leave the team, and uncertainty and lack of concentration mean that the remaining players do not give their best. The same applies to mergers. Vision, strategy and goals must be communicated early in the process. In addition, all news, and especially every success, should be published on the Intranet or in special editions of the company magazine.

Direct communication plays a very important role, especially in meetings or road shows where the top management must demonstrate their commitment. Further, for personnel departments the pre-merger phase is a challenge as they must respond to questions and concerns and try to prevent talents and highly qualified employees from leaving the new company. This point is often neglected and leads to painful experiences particularly if young, energetic and highly trained employees leave through frustration.

A Merger Needs Staying Power

Like the decathlete, companies must master several disciplines. After clearing the sprint hurdles, the decathlete must also have the staying power to run the final mile. Likewise, in addition to the first- 100-days-strategy, companies need long- term planning. This phase, which can easily take five years, can be shorter depending on different factors: the complexity of company goals, different technologies, geographical distances to cover, even totally different product

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ranges play an important role. The highest hurdle, however, over which a company can tumble on the way to success, is the integration of different cultures.

There Can Only Be One

Over the long-term, there always remains one key issue: company culture. It is true that mergers fail because the employees cannot be persuaded to support the integration process. However, in most cases they cannot be blamed. Often they only receive sparse information about the cultural characteristics and sensitivities of the other company. Above all, hesitant and insufficient communication leads to irritations, uncertainties and finally to a mute boycott of measures. Furthermore, mergers fail because of the persistency with which top managers defend their own positions in meetings. If the top managers can reach an agreement the first hurdle is already overcome. The most important thing with culture change is not to combine but to integrate or better assimilate cultures. Multicultural co-habitation may function well in private life and may indeed enrich this life. Yet in a company nothing is more damaging than the parallel existence of two different cultures. Teams whose players adopt different and even conflicting behaviors during a match never win the game. In a company there can only be one culture. In most cases it is the ‘stronger’ partner who takes the lead and sets most of the standards.

As there can only be a joint future, consent – or at least acceptance of necessary changes – should be preferred to conflict. This can only succeed if the responsible parties on both sides come together and discuss problems. Here, the neutral authority of external consultants has proved worthwhile. Another solution is to give responsibility for the integration process to a manager of the acquired company. In any case, a ‘corporate mafia must be avoided.

Clearing the ‘Cultural Fog’

To develop a clear vision and strategy for the cultural integration it is necessary to clarify the term culture:

Communication: there must be total consensus about communication, its contents and the choice of media. Of importance is the quality of the work environment: How open is communication? What is communicated? Which company magazines, which events, meetings etc. will exist in future?

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Structures and processes: working methods and organizational structures shape the behavior of the employees and not last but not least the company's success. Responsibilities must be assigned, roles clearly defined. Above all, companies with different hierarchies and working methods need to prepare cultural integration thoroughly

Leadership: the new business definitely needs a standardized leadership culture which should be adapted to the specific situation after the merger and can change from control to co-operation.

Managing performance: another issue that needs to be clarified in the post-deal phase is the issue of performance management – objective setting, bonus schemes, promotion and assessment criteria as well as trainee program. This is where companies have the opportunity to send the right signals, e.g. by assigning project responsibilities so that employees see the merger as a chance rather than a threat.

The more similar the cultures are, the faster they will converge. A company that wants to be recognized as risk oriented and fast reacting must consider its situation carefully before merging with a company favoring stability and trying to avoid risks. If there are still good reasons to carry on with the merger the cultural integration must be care fully planned.

In the worst case it can take years before the new cultural elements are accepted and the mourning has stopped for the old one. To avoid this, the highest priority must be given to the new business. The top management must not only steer the process but lead the company as soon as possible into a phase of continued and increased productivity and live the new culture. Management and employees must therefore free themselves from well- established and comfortable work processes.

The most significant milestones on the way to a successful merger are the thorough preparation of the post-deal phase before the merger, the immediate implementation of structural measures to realize critical synergies and the long-term integration of the cultures. Neither hesitation nor self-satisfaction nor overestimation will help the process as the Titanic disaster very clearly showed. The history of company mergers is full of Titanics – but nobody is con-

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demned to repeat this experience …mergers can be realized!

Keys to Post-Merger Integration Success

To maximize the value of a transaction, companies should take steps to ensure an effective integration process:

•Establish buy-in for post-merger integration activities at the executive level

•Assign senior staff with decision-making authority to the integration team

•Stay in front of change management issues

•Be sensitive to the 'rumor mill'

•Communicate regularly with employees, clients, investors and the market

•Continuously update and review the milestones set out in the integration work plan to measure performance

•Maintain focus on the existing business operations

•Plan for and test key IT integrations for Day 1.

•Anticipate and mitigate the unexpected

27 N. Wacker Drive
Suite 517
Chicago, IL 60606

www.ssccorporation.com
1.800.975.9413

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