Case Study: Mergers & Acquisitions

Initiation and management of a new service offer development for Cap Gemini entitled 'Integrating Mergers & Acquisitions', involving the following main elements:

a) Research M&A activity to determine the strengths and weaknesses of integrations, past and present, in order to determine how best Cap Gemini could leverage its own core competency and expertise to most effectively support its clients

b) Review Cap Gemini group's core competencies and capabilities to determine the most suitable market entry and ongoing strategy in its consulting business and its major core competency of information systems management

c) Mobilise and manage a team to build the necessary collateral and material to bring the offer to market

"an obvious leader...a real force in our team... delivering large projects on time and providing support through difficult negotiations. A real asset for Cap Gemini..." Brian Martin, Associate Director and Head of Consulting HR, Cap Gemini

Working for Cap Gemini, an impact assessment of UBS/SBC merger on the euro programme...

Leading the team supporting the Business Manager responsible for preparing SBC Warburg Dillon Reed's Global Equities Division for the euro. This division was continually recognised internally as being the most advanced in its preparations and the many of the processes designed were used to support all other divisions within the euro programme.

Working for Cap Gemini, management of the team responsible for delivering a strategic analysis for Natwest Market's equity business being acquired by Bankers' Trust which required delivery in a very tough 5-week deadline in order for Bankers' Trust to determine its strategic approach to acquiring and integrating Natwest Markets. The objectives included:

a) Identify the strategy and minimum business requirements required to meet the timetable for conversion to the euro in each of its locations;

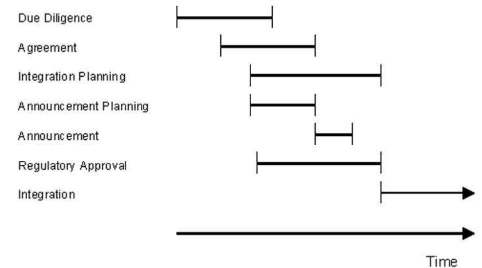
b) Mobilise the project teams, including multiple, targeted staff training sessions;

c) Produce the workplans required to successfully integrate the implementation process into the Bankers Trust programme;

d) Establish the high-level man-day effort and cost estimates to deliver the integration

Taken from "Euro: Impact & Reality – Business risks and practical responses to the challenge of the euro", by Chris Charlton [Namaste Management MD], published by Financial Times Management, 1998.

Mergers and acquisitions always heat up the management atmosphere. There is so much to do at once and so much at stake, it is crucial to proceed with a clear sense of priorities, and this calls for a carefully structured approach. A merger or acquisition represents a highly charged political climate where people operate with very different personalised agendas. There are so many pressure points (including sagging morale, low level of trust, and declining productivity), conflicting points of view (largely due to widespread uncertainty and culture clashes), and management distractions (most frequently centering around personal goals, politics and positioning). Unless you employ a carefully orchestrated project management approach, it is almost impossible to get through the integration without damaging the potential of the deal.



Whenever a company asks whether it wants to grow or shrink, buy or build, keep or sell, integrate or manage separately, it must always ask the questions: when and where. In making these choices, company managers should rely on their collective wisdom and experience, as well as ever-changing information.

Sizing up your targets. There are many methods, tools and processes used to identify company strengths and weaknesses and in finding acquisition candidates that can supplement and/or complement your existing business. All of these are simply about getting managers to decide on the right company as a merger partner.

There are two fundamental processes required during the premerger phase. Firstly, the acquirer must engage a thorough due diligence review of the target to detect any legal, financial, and business risks that the buyer might inherit from the seller. Secondly, a strategic review in which the acquirer determines what synergies there are and how it will take advantage of them. Both these reviews should include the state of euro preparations where appropriate. Eventually, the acquirer (often in consultation with the acquired firm) will have to write up this review in the form of a postmerger integration plan, the subject of the next section.

Identifying synergy can often be a complex process and has often led to unrealistic expectations by management. There are some basic questions, however, that you can ask to determine whether or not you are likely to be successful:

- Does the buyer bring something unique to the deal, so that competitive bids by other companies cannot push the purchase price tooo high?
- Is the merger or acquisition consistent with sound strategy with respect to diversification and other key issues?
- Has the acquirer attempted to make accurate forecasts of the seller's business? For example, has the buyer assessed the seller's technology?
- Can the acquirer handle an acquisition of the target's size? What proportion of the acquisition can the acquirer fund without issuing new debt or equity?
- Is there good operating and market synergy between buyer and seller?
- Is the new parent committed to sharing capital, markets and technology with the acquired company?
- Do the buyer and seller have reasonably compatible cultures?
- Do the buyer and seller share a clear vision of the newly combined organisation, and is this vision based in reality?
- Will the acquirer strive for a rapid pace of integration in implementing the new company's vision?

There are two basic types of merger or acquisition: financial and strategic. Untapping the potential available through financial restructuring in a financial-type acquisition rarely requires significant integration. Indeed, it may actually be harmful to integrate. Typically the acquired company is treated as a separate entity.

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A strategic acquisition, however, where the value-creation opportunities of the deal lie in the synergies between the companies, requires a much greater degree of integration. Here the acquired company often adds value to the acquiring company by integrating with the buyer's existing operations and often involves combinations of companies in the same or related industries, such as banking. Frequently, performance improvement is targeted through reducing costs (usually by reducing headcount) and / or increase revenues (usually by increasing the customer base).

Strategic acquisitions are generally more demanding on organisations, principally because the integration required to achieve the desired results have a far greater human resource requirement including management skill. Strategic acquisitions can also include strategic alliances, where companies agree to share the risks and rewards of a specific project or set of projects. Alliances may be sealed through a contract such as a cooperation agreement to share a resource or funding, through cross-shareholdings, or through shared ownership of an incorporated joint venture. In some cases, alliances may function as a trial "merger" under controlled conditions, unless the reason for the alliance was a regulatory barrier to merging). Overall, however, the integration requirements are generally lower for alliances than full-blown mergers or acquisitions.

There are three basic types of strategic acquisition:

- Horizontal – buying a competitor
- Vertical – buying a current supplier or customer
- Diagonal – buying into a new market, typically a new product or service line that can be marketed through current channels

Each type of strategic merger or acquisition requires a different integration strategy, though there are common elements to all three. Experience helps enormously. This was the central finding of a 1995 Mercer/Business Week study that compared experienced acquirers (an average of six or more deals per year) to relatively inexperrienced acquirers (one to five deals per year). The experienced acquirers, which constituted 24% of the acquirer group, did much better than the inexperienced ones at rising above their industry peers in total return to shareholders during the three years following the deal. In the small, experienced group, 72% had returns above industry averages, compared to 55% for the large, inexperienced group.

Whilst creating the strategy and preparing the plan is vitally important, most mergers fail to deliver expected results due to ineffective integration management. A review of leading studies from the 1980s to the present shows the many factors affecting postmerger performance. Researchers examined the impact of mergers on the long-run perforamcne of companies (typically three years or more). The key to value, it seems from the research, lies in postmerger management. This is driven from a realistic, rather than overoptimistic, identification of positive and negative synergies in the pre-merger stage.

Skimping on the investment in the integration effort is often the root cause of poor integration management. Companies often invest heavily in due diligence, then get remarkably stingy in terms of their willingness to spend on the integration effort. The economics argue strongly in favour of allocating sufficient resources to support a sophisticated integration process.

Good integration management is characterised by discipline, focus, and dedicated resources. A project group should be formed to manage the transition. This organisation needs to be adequately resourced, with people's responsibilities clearly defined. Key management challenges include:

- Meeting aggressive deadlines
- Achieving tough financial targets
- Restructuring quickly with limited information
- Merging a variety of systems applications and architectures
- Retaining key employees
- Maintaining adequate communication
- Managing relocations and consolidations

A large, complex merger takes time to integrate fully. However, it is generally recognised that integration basics should be managed quickly if the merger is to be successful. Whilst integration is generally seen as a postmerger activity, it should not be forgotten that integration cannot be divorced from any of the other phases, including due diligence and agreement. There are important analyses and decisions being made that have an important impact on integration. Notably, the success of a deal is usually predicated on being able to carry out certain integration actions. Whether it is the consolidation of facilities in a particular region, the transfer of technologies needed to get a new product to market, or the enhancement of margins through increased purchasing power, these objectives need to be well documented from the outset. This helps create a common theme throughout all of the major phases, and that is an important step in preparing for the many management challenges sure to come.

A successful integration strategy is principally dependent upon the motivation for the merger or acquisition. Typical motives include:

- Operating Synergy – achieve economies of scale by buying a customer, supplier, or competitor;
- Strategic Planning – accomplish strategic goals more quickly and successfully;
- Inefficient management – realise a return by buying a company with less efficient managers and making them more efficient or replacing them;
- Market Power - increase market share;
- Financial Synergy – achieve lower cost of capital by smoothing cashflow and increasing debt capacity; obtain a more favourable tax status
- Undervaluation – take advantage of a price that is low in comparison to past share prices and/or estimated future prices, or relative to the organic investment cost.

You should understand these motives and exactly what the integration is setting out to achieve. Whilst high-level expectations will already

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have been set in the premerger phase, it is at this stage that you can prepare the detailed plans for achieving all those synergies and most importantly account for the other major programmes currently under way in your organisation.

The integration will necessarily encompass all the resources, processes, systems and responsibilities of the merger effort, both domestically and globally, ensuring that the integration fits with the company's overall strategy and culture. As with any major change programme, it is important for the entire organisation to be involved. The shared sense of purpose can help employees embrace rather than resist the inevitable changes. Your integration strategy may encompass the integration of a wide range of factors including:

- Human resources
- Financial and tangible resources e.g. balance sheets
- Processes
- Management systems – organisation structure, controls
- Compensation plans
- Reputational and other intangible resources e.g. branding, mission statements
- Information Technology
- Corporate responsibilities
- Commitments to customers and suppliers
- Commitments to shareholders, bondholders, and lenders
- Commitments to employees

Hence the postmerger plan must outline exactly when and how the major resources, assets, processes, and commitments of the acquiring and acquired company will be combined in order to achieve the strategic goals of the newly combined company. Although one individual may be assigned to make sure that a plan gets created and respected, the best postmerger plans are ultimately created by groups. These groups should consist of senior managers and key employees from both companies, as well as external advisors including investment bankers, accountants, lawyers, and consultants.

It is useful to be aware of the value that different groups of advisers can bring to the table. Often the easiest way to assess the benefits and drawbacks of different groups of advisors is by looking at how they are paid.

If advisors are paid on a contingency basis (a common practice for investment bankers), they may be overly optimistic about how much synergy a deal contains and how easy it will be to achieve. Such advisors may have much valuable expertise to impart when it comes to financing, marketing, and structuring a transaction, but their enthusiasm should be taken with caution, especially with respect to the actual implementation process.

If advisors are paid on a sliding scale depending on the amount of time a transaction takes, whether or not it ever closes successfully (a common practice when it comes to lawyers, who typically bill by the hour). Such advisors might be tempted to take an overly pessimistic view about a transaction, finding liability exposure under every turned stone.

Consultants are generally immune to these pressures, though there are two common issues that may arise. Firstly, there may be a temptation to overload the company with consultants during the implementation process, which may not be the most cost-effective resourcing alternative; and secondly, consultants may be tempted to take over the decision-making role of managers, which is never good.

Ultimately, managers should use consultants and others to help them make decisions, not to make their decsions for them. In addition, consultants can be particularly useful when acting as an impartial group facilitator. A facilitator essentially acts as an independent third party who helps a group identify problems, find solutions, and make decisions. This is most useful in sensitive decision-making which may be subject to dominance or deadlock.

Key considerations for your postmerger or integration plan include:

- Are plans consistent with the intrinsic logic of the deal?
- Are the budgets clear and assigned?
- Are there written plans to cover both the short-term and long-term?
- Do short- and long-term plans mesh?
- Has the planning process involved both senior managers and employees most affected by the plans?
- Do the plans take into account the operational and cultural realities of the two companies involved?
- What decisions are being based upon the plans?
- Are the plans supported by appropriate resources?
- Do the plans specify measures and milestones of progress?
- Who is accountable for achieving the plans? Establish clear, well-defined reporting relationships and lines of authority.
- Have the plans been distributed to all appropriate parties?
- Is there a programme for communicating the plans internally and externally?
- Don't underestimate the time and planning effort required in the merger process.
- Be aware of the limitations of your resources, particularly in the acquired company where motivation may decline.
- Communicate more than usual. Keep people informed as everyone is hungry for information. Remember that mergers and acquisitions cause the communication channel to grow longer, as more people are involved and the distance from decision centres increases
- Tell them how it is. Don't promise that things will stay the same in either company.

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