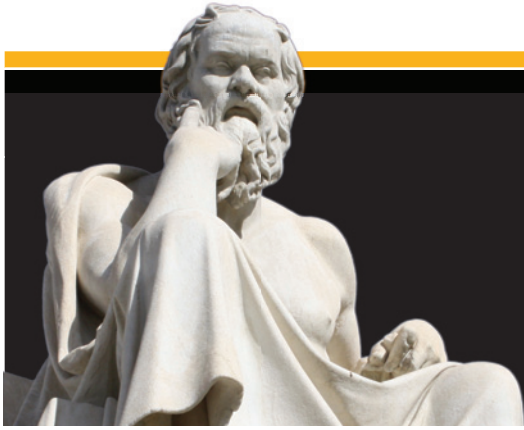

Alexander Proudfoot
Global Advisory Board

An article from the board that merits your attention

Achieving Success with Mergers and Acquisitions:

Seven members of the Alexander Proudfoot Global Advisory Board share their experience

Context: Alexander Proudfoot as a firm has assisted its clients in the pre-and-post deal phases primarily in identifying and capturing the synergies, and integrating the systems, customers, management, suppliers, processes and employees into an integrated new enterprise with clear direction and purpose.

The history of merger and acquisition activity in the past twenty years, is replete with more failure than success. Examining the real-world experience of top executives who have done numbers of these deals seem to show that the failure is related more to managing poorly the pre and post-acquisition phases, than the underlying strategic business case. The vision of the executives who conceive these marriages, and the fit, which appears so perfect, at the conception level, seem to break down at multiple points during the execution phase. From a number of studies on the topic, one can see that planned outcomes fall well-short of their targets:

- Synergies are not achieved in nearly 80% of the cases.
- Only 42% of companies outperform their peers in shareholder value.
- Only 29% of companies realize an increase in aggregate profitability
- The loss in enterprise productivity during the first year, is estimated to be in the range of 50%
- The loss in executive talent runs as high as 75% by year two

....resulting in billions of shareholder value lost

The Life Sciences sector has seen a lot of merger and acquisition activity in recent years. Hank McKinnell, former CEO of Pfizer, the world's largest pharmaceutical company, says that "Everyone wants to know how this affects them personally, especially in the acquired organization. Don't be afraid to say, "I don't know", but, be sure to add, that "you will know as soon as I know". A veteran of over 20 such deals, he says that "A classic example was when Pfizer and Warner Lambert agreed to merge, I was asked if the new company would have the same summer hours. I replied, as I mentioned above. While summer hours would seem to be a minor issue in the overall scheme of things, the loss of productivity can be enormous, if several of these types of issues are allowed to linger and fester". McKinnell adds, that "speed is critical, in that uncertainty and complexity paralyzes". Finally, he says that process matters a great deal, and that the goal should be to be ready on day one. Order entry, accounting, payroll, compliance all need to be merged and optimized.

Hank McKinnell
Pfizer

"Speed is critical, uncertainty and complexity paralyzes…"

Bernard Attali, former CEO of Air France, joins with McKinnell in highlighting the risk of moving too slow. “Staff is anxious, every executive is positioning for the future of his own silo, and the markets may also become impatient”. Even if it takes time to properly meld the two cultures, select the right people for the right jobs and get everyone working off the same set of goals and objectives.

“The risk of moving too slow…”

Bernard Attali
Air France

Michael Miles
Cathay Pacific

The clash of cultures is mentioned repeatedly in discussions with those who have experience in this area. Michael Miles, former Chairman of the Swire Group and Cathay Pacific Airlines in Hong Kong and current Chairman of Schroeders plc in London highlights the clash of cultures, along with the loss of talent from mergers, and, the failure to deliver promised synergies as the three primary risks.

“Clash of cultures, loss of talent and failure to deliver promised synergies…”

Ray Wilcox, former CEO of Chevron Conoco Chemical Company, lists the three greatest challenges as people, communications and organizational structure and alignment. “I am a big supporter of merger integration teams, at multiple levels, and they should include key members of both companies/organizations. They can and should move quickly, but, without them, there is a huge risk of getting a lot of things wrong and suffering years of inefficiency and mistrust. The best way to gain peoples trust is to have people involved in the decisions.” He adds that people are the biggest asset, and they want to know, what’s in it for me, and can the new organization be trusted. Echoing the comments of Hank McKinnell, Wilcox says that good communication is essential. “people want to hear and see their leaders and want to know what the vision for the new merged company going forward is There is no such thing, as too much communication. It should be clear, crisp, consistent, and continuous.” He says that getting the organizational structure and alignment right is key. The merger integration team demands senior people who understand the assets, people and geographical challenges of the merged company. This team needs to be identified with the office of the CEO, and be seen as having access, and speaking with the authority of the ‘top deck’. Finally, he says that getting the metrics, enterprise measuring data, analytical systems, email, financial systems, inventory, scheduling, etc. “It is frustrating and demoralizing to have two systems operating in parallel.”

Ray Wilcox
Chevron Conoco

“People are the biggest asset, and they want to know what’s in it for me…”

Paul Manduca, past CEO of several UK-based fund management businesses, says that the lack of honesty about management structure, and the compromises that are made along the way to satisfy ego requirements, can seriously impede the success of the new enterprise. He adds, “not many companies are experienced in takeovers, and integration, and there is often a reluctance to get the external help required to deliver success.”

“Not too many companies are experienced in takeovers…”

Paul Manduca
Aon UK

Warren Holmes
Hudbay Minerals

The work done in the pre-deal phase is key. Warren Holmes, former CEO of Hudbay Minerals, and, a veteran of several large mining companies, and, also, experienced in mergers and acquisitions highlights the need for a very detailed due diligence exercise on the company being targeted. “Understand your own company, and be sure that its characteristics fit well with the target.” He cautions to show flexibility in the period when price is being negotiated. “Don’t let a few cents get in the way, but, be prepared to back away, if it does get too expensive.” Assuming you have a successful financial transaction, the work has just begun. Be sure to: 1. Define the objectives of the combined entity well; 2. Give clear direction, and move with speed and determination. “Each organization is different, with its own culture, beliefs, practices, policies, etc.; and people will waffle until clear direction is given.”

“Give clear direction and move with speed and determination…”

Pierre Bilger, the former Chief Executive of Alstom, a company that has made over 30 acquisitions since the mid-1980s, offers four primary thoughts as guideposts:

Pierre Bilger
Alstom

1- First, a prerequisite: before the start of the acquisition process, spend enough time and involve enough competent people in reviewing in-depth the strategic rationale of the acquisition. If this condition is not clearly satisfied and even if the merger process is perfect, the return will remain uncertain. Conversely, if the strategic logic is sound, the acquisition could be a success in the long run despite initial execution difficulties (price slightly too high, unexpected adverse findings, people issues...).

2- Generally insist on the need of serious and professional due diligence. The problem is that, through this process, it is extremely difficult to scrutinize the heart of the business, the quality of the technology, the efficiency of the sales organization, the reputation among the customers...Trying to circumvent this difficulty is not easy, while necessary.

3- Concerning the merger process itself, there are two schools: Some recommend a progressive and step by step approach with plenty of time devoted to consultation and debates, relying on the work of a lot of merger integration teams. Others consider that speed is of the essence, even at the cost of imperfections and loss of people. The choice will depend mainly on the profile of the companies or units present. Nevertheless, from my experience, speed remains a must.

“…from my experience, speed remains a must.”

4- Even if it is trivial, it is necessary to underline, once again, the importance of people management in a merger process. Maybe it is the area where speed should be applied as a priority. Key people at all levels should be advised as quickly as possible of their future in the new merged entity. Not only the people of the acquired Company, but also those of the Company which acquires it!

Takeaways

Based upon the considerable expertise of these top executives combined with the lessons derived from Alexander Proudfoot's experience, a successful merger should consider at minimum:

- Have a clearly defined process, for the pre-and-post deal phase
- Have a strong central integration office
- Communicate clearly and regularly
- Have realistic and achievable synergy goals
- Move quickly and resolutely in the execution phase
- Always keep the customer impact in mind

Because there are so many errors made in the merger process, it is always tempting to write about the negatives, and the things to avoid. However, if you follow a good pre-deal due diligence process, and lead with clear direction, speed and deliberation, capped off by good communications, you significantly increase the chances of success.

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