

# MERGERS, ACQUISITIONS, JOINT VENTURES AND INTERNAL INTEGRATIONS

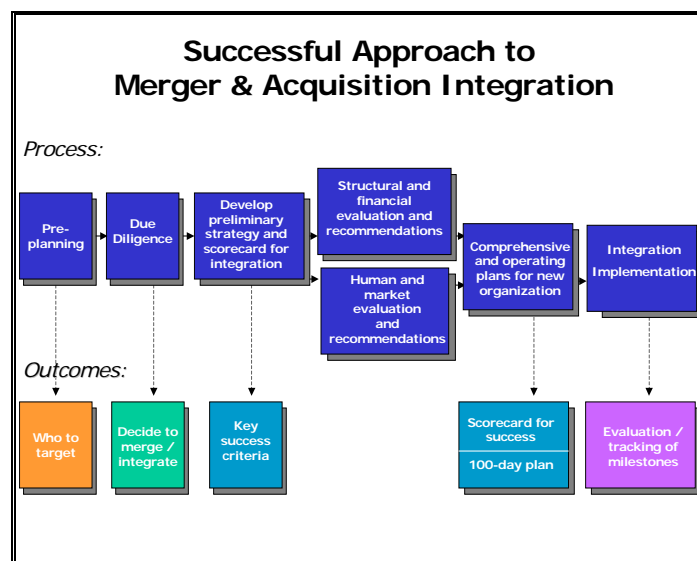
## SUB-ISSUES:

- Culture integration/measurement
- Talent assessment
- Speed of integration
- Strategy integration
- Customer service and systems integration
- Supply chain synergy

## KEY ISSUES TODAY

Most M&As fall far short of their expected returns due to shortfalls in five critical ingredients. The number one factor cited by numerous press accounts has been incompatible cultures. The others include inadequate talent audit, lack of an integrated go-forward strategy, failure to analyze, understand, and address customer and market issues, and lack of cost savings expected from process integration, eliminated positions, and economies of scale.

Beyond M&A failures, many of these same factors contribute to gaps in internal restructurings as well. Many fail for political and cultural reasons; others fail because of redundant activities and overlapping or ineffective processes that chase customers away rather than enhance their loyalty; and still other restructuring efforts are victims of weak strategy implementation.

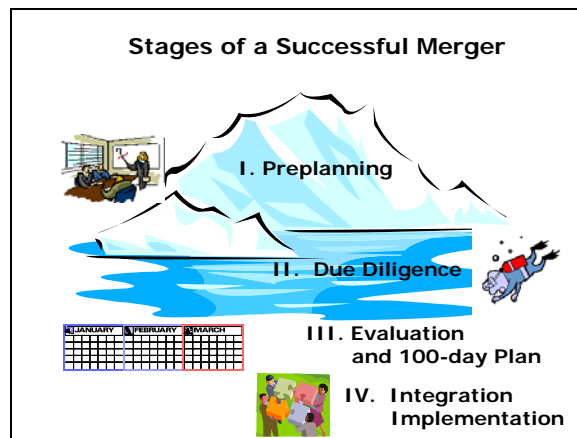


The model depicted in the adjacent diagram captures the critical elements of an effective integration strategy. Metrus' approach is a major advancement over the traditional approach to M&A management in which market, supplier, and people issues are addressed far too late to ensure success. The approach seeks to ensure that the five ingredients above are addressed by creating riveting focus, realigning the organizations, generating high self accountability for results, creating leading indicators of success, and using a process that maximizes learning.

There are four stages in a merger, acquisition, or internal integration that can make or break the outcome:

- (1) preplanning
- (2) due diligence
- (3) the after-close evaluation and integration planning
- (4) integration implementation.

Many of the success ingredients described above need to be considered during merger and integration planning and during due diligence when there is still an opportunity to say NO.



While all of the success ingredients carry risk when not addressed effectively, the least analyzed—and frequently overlooked—element is culture fit. While not all mergers require culture integration, for those that do, our experience and considerable research and case studies have found that culture fit can make a decisive difference in the length of time it will take to reach the targeted objectives of the integration.

The most frequent, and often the most costly, M&A failure is the inability to achieve the M&A objectives (financial, market, customer, product) in a time interval that makes the deal (or restructuring for an internal situation) worthwhile from an economic or market view. Too often, because of a lack of leading indicators, measurable milestones, and clear success criteria, little can be done except slash costs, steal from more successful sister product or business lines, begin asking for unattainable performance numbers that generate cynicism and doubt about leadership, and force margins through untimely price or inventory manipulation to somehow hit acceptable results. Usually the cause of this failure occurs at the planning or due-diligence stage.

## THE SOLUTION

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### **Stage 1: Preplanning for a merger, acquisition, or other structural integration.**

The key is more effectively identifying target M&A candidates that will fit on multiple important dimensions of success, not only financial ones. Metrus has worked with clients on target profiles that include financial, market, customer, product, technology, and culture. Again, the culture fit is the most neglected of these areas. For example, Metrus used a cultural profiling technique with a well known health-care company that had experienced numerous failed acquisitions, enabling it to reject likely failures and realistically estimate the speed of integration of successful candidates.

### **Stage 2: Capturing Information.**

During due diligence, many organizations gather far too little information regarding culture, leadership, organizational capabilities, and customers. Surprisingly, there typically exists a plethora of information available about the human capital, hidden cultural black holes, management talent, leadership strength and philosophy, customer focus, and values that goes well beyond the financial and market data that is being analyzed. This information provides the foundation on which the closely studied financial information must be built. Lack of key leadership skills, loss of talent, or a major culture misfit can derail the financial benefits originally projected.

### **Stage 3: Evaluation and 100-Day plan.**

The first 100 days after the close of a deal or the announcement of an internal restructuring are crucial. New information is being discovered and conflict over assumptions, resources, style, and roles is frequent. Process integration needs to begin, and customers must be protected. Metrus has a proprietary process for working with senior management during this crucial period. Metrus specializes in the development of an integration strategy—which should be started before the 100-day period—and the development of an integration scorecard that measures all of the important elements that must be tackled during this period, with clear success targets, accountabilities, and monitoring. It is also important during this period to quickly assess the cultures of the different organizations to develop a plan for leveraging the commonalities of the different cultures, and actively anticipating and managing the differences that will lead to conflict.

This period is also one of the highest risk periods to customers. Many will have negative experiences due to systems' conversions, changes in client relationships due to downsizing or location changes, a lack of clear customer policies across the organizations and many more reasons. Service recovery, communication of policies, and setting correct expectations will be paramount for success. Metrus' process includes a special focus on customers and other key stakeholders that can have a dramatic impact on the success of the new strategy.

### **Stage 4: Integration implementation.**

The last stage can also create problems. For those who have missed targets in earlier stages, there may be a chaotic state, with people trying to manage hundreds of initiatives, tripping over each other in a frenzy of activity. For those who are on target, there may be a lull during which momentum is lost. Some of the hard decisions have been made and plans

executed. However, the customer, process and culture integration is rarely complete at this point.

Clear strategic metrics, such as customer loyalty, employee commitment, core process cycle times and so forth are critical to ensure that the limited resources of the organization are focusing on the really important activities—activities that produce value in the new context. Ongoing monitoring of these metrics, and integration tracking are essential to efficiently and effectively complete the integration with the expected value.

For example, Metrus has worked with a worldwide pharmaceutical in an ongoing tracking process to provide biweekly feedback on integration process effectiveness, specific business issues, and reactions to integration decisions. This information enabled them to make quick course corrections. Rumors were dispelled, critical information was directed to areas in need, policies were communicated where there had been none or confusion, and process integration was accelerated in key areas.

## **BENEFITS**

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The benefits of this new approach are substantial, and include:

- Greatly enhanced speed of integration, which translates into significant financial impact. Metrus has had integrations that have been successfully completed in as short as 60 days!
- Fewer employee and customer defections and less dissatisfaction
- Creates a positive mind-set from the start—organizational walls don't get built and a strong buy-in to the integration process is developed
- Skills that are needed to complete the integration successfully are identified and focused
- The installation of an early warning system of information that can be used to avert disasters, make course corrections, and predict important results
- A common mind-set is created among members of the new leadership team
- An excellent base is forged for clear, concise communications with impact
- Enhanced ability to walk away from deals with a high likelihood of failure
- Information is put in the hands of the new owners to monitor progress toward implementation and to assess the validity of the business strategy, test the health and capabilities of their new venture, uncover hidden blind spots, and identify inherited cultural baggage

## **INFORMATION**

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### **PUBLICATIONS**

The following articles may be of interest in understanding more about this subject:

1. *Ten Myths of Managing a Merger* by Kent D. Fairfield, [Across the Board](#), May 1992
2. *Organizational Change: Lessons from a Turnaround* by William A. Schiemann, [Management Review](#), April 1992, pp. 34-37

3. *Creating the Measurement-Managed Organization* by William A. Schiemann, 2002 Handbook of Business Strategy, Pg. 207-219
4. *Organizational Change Starts with a Strategic Focus* by William A. Schiemann, Journal of Business Strategy, May 1994

## **DIAGNOSTICS**

The M&A self diagnostic. Challenge yourself to evaluate your most recent merger, acquisition, joint venture or internal integration. Click here for a self test you can complete online. Metrus will provide you with scoring against best practices. Metrus is currently developing benchmark norms that will be available in the near future for comparison.

Metrus Group offers a complete diagnostic that includes two sets of assessments that can be used separately or in concert:

1. A full internal self-assessment survey that can be administered to key stakeholders to determine the effectiveness of your ongoing or most recent integration. This survey comes with interpretation of the results and recommendations for improvement. Click here for more information.
2. An on-site audit of your planned, current, or past M&A or other integration efforts. This audit can be completed in three weeks. It includes a review of your current process, feedback from key stakeholders including members of the leadership team, integration team players, and customers of the process (internal and external), comparisons to best practices, and recommendations for improvement. Click here for more information.

## **EDUCATION/TRAINING**

Metrus offers custom training for internal members of your M&A, joint venture, or integration teams based on specific needs.

## **CONSULTATION**

Metrus offers a range of consulting services and tools that support M&A efforts, which include:

- Target company profiling
- Cultural assessment of target or acquired companies
- Leadership assessment
- Strategy review
- Integration scorecards
- Integration tracking
- Customer satisfaction and retention
- Key employee commitment and retention
- Investment scorecards for managing newly acquired businesses
- Turnaround strategy and scorecards
- Financial valuation of proposed or new mergers