WP Advisory

Insights

Ten Steps to Prevent Merger Failure

WP Advisory provides best-in-class management consulting services to middle market companies.

Focus

We are a small team of senior executives focused on helping middle market companies achieve performance goals and realize the maximum value from merger and acquisition activities on the buy and sell side. Our mission is to help you drive synergies, create value, and outperform.

Team

We are a team of executives who come from varied and diverse industries who have led our organizations through acquisitions, divestitures, and corporate transformation.

Size

Our boutique size gives you access to our leadership and the entire team. Our services are highly personalized and built on relationships.

Ten Steps to Prevent Merger Failure

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1. Stress Test the Rational for the Deal

It is important to challenge whether a merger makes sense not only in the current business environment but also under stress conditions. Longevity of operations does not insulate a business from failure. Thomas Cook was a 178 year-old travel agency before it announced bankruptcy due to past mergers which added too much debt that it could not service in a market disrupted by online bookings.

Companies planning on merger activity should evaluate worst case scenarios which would cause a merger to no longer make economic sense prior to doing a deal.

Management should set forth:

- Rationale for the deal
- Goals for the merged company
- Targets for financial growth and synergy capture under optimal and worst case conditions
- What disruptive factors would cause the merger to fail

2. Start Integration Planning Early

Planning for the integration should begin even before the deal is announced. Once it is announced, identify everything that must be done prior to close. Make as many of the major decisions as possible, so that you can move quickly once the deal is closed.

- Establish a vision for the combined organization. The vision provides the direction for all integration activities and needs to be simple, clear, and motivating.
- Set up a "Clean Room" team - a group of individuals operating under confidentiality agreements and other legal protocols who can review data that would otherwise be off limits to the acquirer.
- Agree on integration principles and the approach to be taken.
- Plan for Day 1 readiness and develop the Day 100 integration plan.
- Ensure the plan fits in with the core business and prioritize with other initiatives.

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3. Create the Right Integration Team

The merger integration team should be a dedicated set of people from both organizations who can focus on this full-time. It's tempting to have the best people run the integration and day-to-day operations at the same time, but the risk is that neither gets done well.

Your integration lead should be a senior leader who is known and respected in both companies and has experience driving change. Build a strong core of high-performing staff around her/him who bring enthusiasm to the process and can positively influence skeptics and blockers in the organization.

Set up cross-functional teams to handle communications, change management, synergy tracking, and workforce management. Appoint operational line managers who will be accountable for realizing the benefits.

Be sensitive to cross-cultural or geographic issues and appoint teams that can help manage across offices.

4. Maximize Your Synergies

Set goals for synergies during due diligence – then stretch them.

Identifying synergies often happens using high-level, top-down assumptions built into valuations. Bottom-up analysis is a useful way to test top-down assumptions to confirm them and start to track progress.

Include people from the due diligence team in the integration team so they can be involved in any bottom-up analysis and to validate top-down assumptions that were built into valuations.

Structure the integration team around realizing the synergy targets. Clearly articulate the financial and non-financial results you expect, and the timelines. Empower your integration team to make the decisions and take the actions necessary to reach your goals.

Clearly articulate the financial and non-financial results you expect

5. Engineer Quick Wins

Once the merger has been announced, plan for some quick wins. Early success will create momentum and help convince the naysayers. Don't wait to start integration as productivity and profitability can suffer. Quick wins can include:

- New organization structure
- Infrastructure integration e.g. common email system, one corporate intranet
- Common job titles
- Alignment of compensation and rewards
- Branding and corporate identity
- Communication to customers about new company products and service
- Canceling initiatives which are no longer required

6. Communicate with All Stakeholders

Communicate early and often with all stakeholders, including customers, employees, investors, and suppliers/ vendors. Explain your vision, outline the timing for key actions, and be clear that some answers aren't available, but will be.

Communicate early and often with all stakeholders

Use multiple communication channels e.g. intranet, town halls, newsletters, email, web casts, and one-on-one meetings. Use focus groups and surveys to find out what employees want and need. Provide a feedback mechanism for people to air their concerns so that you can address them in an open and honest manner.

Even when news is bad, people appreciate being told the truth or that you don't have all the answers yet. Share the process of how decisions will be made and within what timeframe. Acknowledge employees' feelings and the stress that comes with change. Avoid platitudes that can erode trust.

7. Win Hearts and Minds

Mergers and acquisitions make people on both sides of the transaction nervous because they are uncertain what the deal will mean to them.

Successful mergers start with a strong business case but depend on winning hearts and minds which is about connecting people emotionally to the merger and drawing them into the vision.

A positive, motivated staff will bring the dedication and hard work needed to make closing and integration work. Skeptics can undermine the whole merger.

How you communicate to everyone can affect morale and shape the foundations of your culture. Be as honest and inspiring as possible with those who gain from the merger and with those who don't. Share progress openly, and support those whose time it is to move on. Be fair, above all.

8. Shape the Culture of the Combined Company

Every company has a culture – a set of values, behaviors, processes and communication styles that shape what it is and how it operates. Blending cultures in a merger can be challenging.

It's tempting, as the acquirer, to push down your own culture on the new organization. Without fully understanding the cultures that exist, you might miss the chance to adopt the best pieces of the company you're acquiring.

It's tempting, as the acquirer, to push down your own culture

Commit to the practices and behaviors you expect in the new organization, then structure objectives and rewards to reinforce the behaviors you're hoping will persist.

Create working sessions so that managers can talk about their organization, products, people, and plans. Focus on opportunities for improvement, change, and growth. Get people working together to start breaking down cultural barriers.

9. Design Your New Organization – Fast

Mergers create uncertainty for staff at both companies. Reassuring them early that you've thought about their future, have planned the new organization, and will be fair and transparent about roles can help allay their fears.

When issues of security are not addressed immediately, productivity and customer service deteriorates rapidly as employees focus on their own needs rather than those of the company.

Set ambitious deadlines for filling roles; tough people decisions only get harder with time. The sooner you select the new leaders, the quicker you can fill in the levels below them, and the faster you can retain talent.

Selection of the senior leadership team sets the tone for the new organization. How positions are filled is just as important as who fills them.

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10. Keep an Eye on Operations

Mergers can be exciting and distracting. It's easy to focus on integration and lose sight of running the business. Getting one team to do both can jeopardize performance and upend operations.

You should allocate the majority of time to the core business and maintain a focus on existing customers with a dedicated team to manage the integration. Appoint a trouble-shooting team to monitor operations and identify and resolve issues before they destabilize the business.

To make sure things stay on track, monitor the core business closely throughout the integration process. Focus on leading indicators like sales pipeline, employee retention, and customer complaints.

About the Author

Andrew is a leader in the firm's merger integration practice and has extensive and diverse experience spanning 25+ years across capital markets, insurance, technology, and aerospace. He is a leading authority on delivering "change" across large scale, international organizations.

His expertise is in business and finance transformation, operating model design, risk management, and process optimization. Andrew has extensive international experience of operating in global organizations, across cultures, and business functions. He has lived and worked in Europe, Asia, and the US.

Previously he held executive positions at AIG, HSBC, Credit Suisse, and Goldman Sachs managing large scale transformations associated with finance re-engineering, business performance improvement, regulatory change, and control enhancements.

Andrew holds a D.Phil from Oxford University, M.Sc/DIC in Control Systems from Imperial College, and a B.Sc in Mathematics from Manchester University.

He is also a Finance Risk Manager (FRM), Certified Change Management Professional (CCMP), Prince 2 project management practitioner, and Black Belt in Lean Six Sigma.

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