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Stacking the Odds in Mergers & Acquisitions

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The Facts:

Data generated by mergers for S&P firms between 1995 and 2001 indicate that of the total mergers concluded, excluding the aberrations of the bubble which occurred later, almost 65% of these mergers actually destroyed value for the investors within the first 24 months. Furthermore, 80% of the mergers failed to produce the promised return of the original expectations.

With this data in mind, why are mergers considered by thoughtful and experienced business leaders? All of the acquired assets, technologies and talent can be developed internally given time. The basic answer is TIME. In time markets move on, in time investor expectations rise, management wants better results and time is running out.

The answers to “why mergers” are many but come down to a core of the following:

- Top management does not believe that growth can be achieved organically.
- Conditions in the marketplace are deteriorating and acquiring is a viable option.
- Mature market conditions and available capital create the timing for industry roll-up.
- Internal core technology is being overtaken.
- Expansion to create mass is required to achieve a dominant position.

How can management manage these risks?

Within the same data above, 62 % of mergers that met the original expectations, had a written and *implemented* post merger integration plan.

Guidelines to reduce risk using a Post Merger Integration plan:

Sensitivity to the lessons in due diligence, focus on the strategy, timed to be completed in the first quarter and communication at a personal level are four of the most important components of a plan. Making the acquired parties part of the integration team, sends an important cultural message. Broadcast that message of their being involved and recognized for their value in ensuring the synergies are realized. Keep it personal.

Review early and often applies here too. The minute your integration plans drifts off schedule a review is needed. Studies indicate that integration plans drifting past the first 100 days causes employees, both old and new to wonder what is going on. Delays feed rumors and create deep anxiousness. Management credibility erosion soon follows. You must let the people know where they stand so they want to get back to work.

(turn over please)

An Easy game, but there is a Problem

These guidelines make sense but who knows how to accomplish this in the time frames expected? Integration experience is required but with an inexperienced staff this is just the wrong time for “on the job training”. Secondly, mergers do not happen every day and every one of them is significantly different. No template applies very well..

Food for thought:

What occurs directly after a merger closes? The excitement is over, plans are in gear, you have more work than ever before and you still have a day job. Additionally, the staff is lean, the Board more demanding and the “street” or investors watching intently.

Management wouldn't think of doing a merger without experienced legal and financial advisors and now the most critical work lies ahead. This is a time for hands on, experienced people to be involved with your team in the day-to-day integration. You feel you could use experienced hands-on professionals who join the team and do the work in a focused and efficient manner. They could focus on the overriding strategy, remain focused on the work with management to make the integration fit the plan and understand that the most valuable assets can walk out the door on two feet.

An additional value that cannot be understated is the employee's realization that the outside integration people have no ongoing agenda and can be approached to voice concerns, desires or ideas. Competent third parties can be very advantageous at a time like this.

Therefore: Phase I - with a time line of approximately 90 working days
Assign an integration team leader from key management.
Form a dedicated team to support the key integration leader.
Integration teams MUST include individuals and owners
Objectives are developed and adhered to
Teams must have access to both employee groups
Time lines are established and reviewed
Top management must be involved in reviews and adjustments

And then: Phase II - deliverables
Produce product road maps and mileposts
Follow on time-lines and actions by market / department
Longer term focus on future synergies for significant returns

Post Merger Integration plans and timely implementation
“stack the odds in your favor”.

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Entrepreneurial Resources Group is available for presentations on Post Merger Integrations