

Selected summaries for the quarter ended December 31, 1993. Percentage changes are from the corresponding period last year. Results from discontinued operations are included. Amounts in parentheses are where applicable.

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Company	Revenue
Avon Products	\$1,363.5
Browning-Ferris Inds	1,292.8
Colgate-Palmolive	1,996.1
Grace W.R.	1,142.1
Halliburton	1,142.1
Illinois Tool Work	1,142.1
McGraw-Hill	1,142.1
Pitney Bowes	1,142.1
Gateway, Inc.	1,142.1

CURRENCIES

SOLVING THE MERGER MYSTERY

Maximizing the Payoff
of Mergers and Acquisitions



SOLVING THE MERGER MYSTERY: MAXIMIZING THE PAYOFF OF MERGERS AND ACQUISITIONS

Few events impact a company more than a merger or acquisition. Beyond the financial and legal implications, the organizational change it brings about is significant: Merging another company – its people, culture and business processes – can take years to complete and cost millions, perhaps billions, of dollars. All for an end-result that is, by no means, a guaranteed success.

So what goes into a successful merger or acquisition? A combination of Deloitte & Touche and Deloitte Consulting mergers and acquisition professionals asked that same question of executives from more than 500 companies around the world.

A third of our survey respondents can count themselves as successful acquirers. While the numbers in other surveys may vary, one fact holds true: The corporate graveyard is littered with companies that believed a merger or acquisition would help them win in their market space, but experienced something else altogether – failure.

Our objective was to uncover the key differences – and similarities – between companies that are successful and those that struggle to achieve benefits from their M&A activities. We looked at a series of acquisitions rather than individual transactions, because success is often the product of accumulated experience and discipline.

The result is this report: A look into the M&A experiences of hundreds of major organizations from virtually every region of the world – the best practices, lessons learned and causes of success or failure. More than just a survey, this report combines statistical data with our own subjective experience.

Our main takeaway? We found that the difference between success and failure hinges on companies taking a holistic view of the M&A process. Holistic in three ways: First, each merger or acquisition must be viewed not as a single transaction intended to grow the business but rather, in the context of an overall corporate strategy – whether it's a fast-track to growth or expansion into new markets; second, is the need to view each phase of the M&A transaction as an interrelated piece of a larger process, not just a discrete function; third, and equally important, because success or failure is often determined by how companies integrate their acquisitions.

This report goes beyond the simple reportage of survey findings to offer a prescription for M&A success that is relatively simple and workable. Based on our experience in hundreds of mergers and acquisitions – our own points of view – and our survey findings, this report will help companies achieve their M&A objectives. We hope it will help solve the merger mystery.

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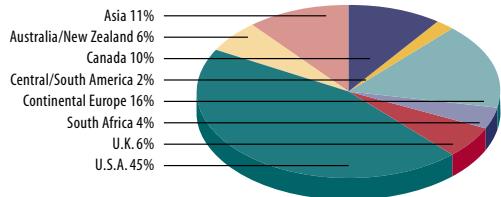
ABOUT THE SURVEY

The Deloitte Consulting/Deloitte & Touche Mergers and Acquisitions survey is based on the results of a 50-question questionnaire, organized into six main sections: Company Profile, M&A History, M&A Strategy, Acquisition Target Screening, Transaction Execution, and Transaction Planning and Integration.

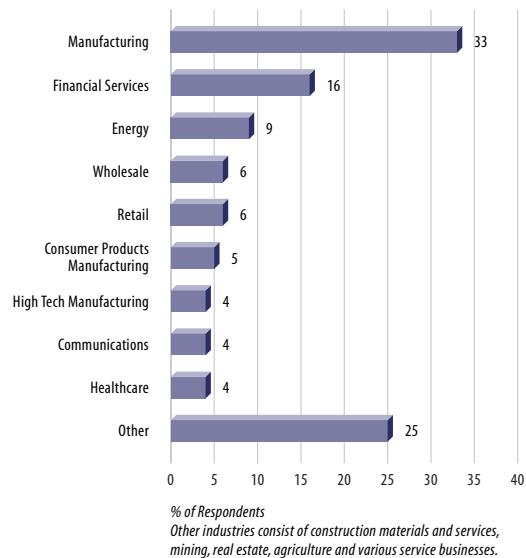
A total of 540 companies responded to the survey – representing most world regions and virtually every industry with an active M&A market. While the size of our participant companies spanned a wide range, more than half reported annual revenues of US\$500 million or more.

To measure the relative M&A activity of our respondents, we averaged the number of deals each company was involved in over the last five years (1995-1999) to reach a deals-per-year figure. The numbers – highlighted in the charts on the next page – ranged widely, from companies that consider literally dozens of deals a year to those that look at just one or two.

Headquarters Location



Industry Participation

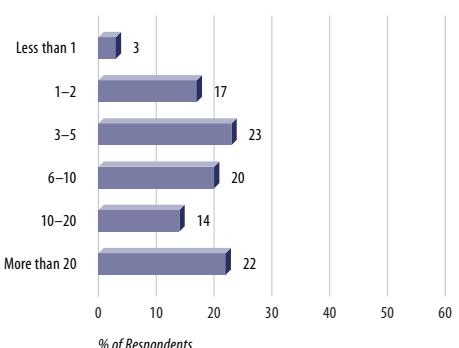


As we noted in our introduction, only one-third of our respondent companies that are active in the M&A market can be called 'successful' acquirers, based on our definition.

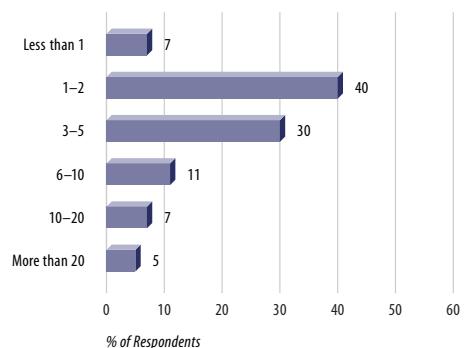
How did we arrive at that figure? We simply asked: "On a scale of one to 10 (one=rarely, 10=always), how often have your company's M&A transactions achieved their stated strategic objectives within the planned timeframe?" Companies that rated themselves an eight or better were identified as successful acquirers – a portion that totaled 26 percent of the full sample and 32 percent of the active acquirers. This figure is consistent with other studies on the topic.

Armed with the knowledge of which companies are successful versus unsuccessful, we were then able to identify the strategies and tactics that successful companies do differently in the M&A process.

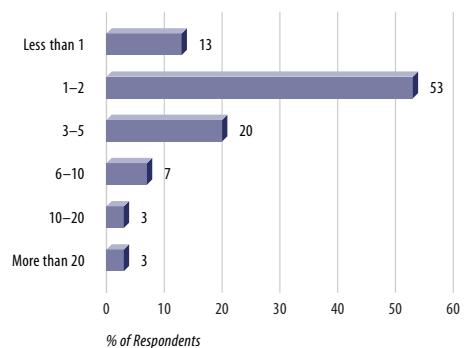
Average Number of Deals Reviewed Per Year



Average Number of Deals in Which Due Diligence was Conducted Per Year



Average Number of Deals Completed Per Year



EXECUTIVE SUMMARY

M&A: TAKING A HOLISTIC APPROACH

By the time a company finishes a merger or acquisition, it's often left asking the question: What was all *that* for? After all, when we asked companies how often their M&A transactions had achieved their stated strategic objectives within the planned time frame, only 32 percent of our active acquirers fit our definition of 'successful' acquirer. This finding is consistent with other independent studies, as well as our own experience.

With the odds seemingly stacked against them, the question remains: Why *would* a company choose to grow by merger or acquisition?

The answer is quite simple. When conducted holistically, within the context of a company's overall strategy, and following a disciplined process that applies a series of "success levers", a merger or acquisition can provide the means for a company to fundamentally change the dynamics of its market space. The survey results, coupled with our own experience, reveals several of these levers.

THE LEVERS OF SUCCESS

► Establish an M&A strategy that focuses on the sources of value

There are three main sources of value creation from any merger:

- *Efficiency*: Realizing economies of scale and scope, and maximizing cost controls.
- *Market Power*: Enhancing your company's brand reputation and securing the technical knowledge of a competitor – or complementary company – for yourself.
- *Reinvention*: Changing not only your company, but your industry – to your benefit.

By answering the question, 'what value will this transaction deliver to my company?', you've taken the first – and most important – step towards success.

► Stay true to your strategy

Any M&A strategy must be consistent with the overall direction of your business.

Are you looking to enter a new market or geography?
Want to bring a strong competitor into your corporate fold?
Those are valid reasons for pursuing a merger or acquisition.
But if you can't tie the transaction back to your corporate strategy, you need to ask yourself: Why are we doing this?

► Focus on synergies

The cost savings and revenue enhancements afforded by synergies between companies are perhaps the most-cited reasons for a merger or acquisition. So why do so many deals fail to deliver?

Several reasons: First, revenue and cost synergies should be precisely quantified – in numbers, time frames and milestones; second, companies must follow a structured approach that links synergies throughout the M&A lifecycle – from identification to realization, to measurement; third, each synergy identified must have an “owner” assigned to it – someone who is incented to achieve or exceed the benefits within a specific time frame; and finally, a rigorous measurement and monitoring protocol should be followed.

► Conduct thorough due diligence and link it to other

M&A activities

Due diligence reports are all-too-often focused on the legal and financial state of the target company. As a result, acquirers often overlook the strategic side of due diligence.

Effective due diligence should assess the strategic positioning, operational performance, management capability, competitive advantages, and even the technology infrastructure of the target organization. These are often the elements that can determine success or failure.

Due diligence should not be an isolated, pre-close event. It should provide a valuable link between the initial strategy and the ultimate integration phase of an M&A transaction.

It should also address a critical question: To what degree should the target company be integrated? Perhaps the newly acquired company should stand alone – or, conversely, it should be integrated completely.

Finally, it provides valuable insight into some of the less tangible factors that can impact a transaction. Things like people and culture. The earlier these issues are addressed, the better.

► Plan and structure for integration early on – and focus on speed

All things being equal, the faster a target company is integrated, the higher the probability of success. This is enhanced even more if the integration is well-planned and orchestrated, and begins early in the transaction – as early as the transaction analysis phase.

On the surface, planning and speed may seem mutually exclusive. But our findings and experience suggest that it's important for acquirers to identify an end-state for the newly merged company, and then create a roadmap that focuses on successfully executing small chunks of activity carried out by small, chartered teams.

Our research also suggests that a key best practice is to launch small teams that work on solutions for short periods of time, and are staffed by the very best people from both organizations. These teams are assigned tasks and monitored by a central coordinating group that sets tangible targets and milestones – all while monitoring performance.

► Focus integration on clearly defined drivers of value

There is a corollary to the need to focus and prioritize speed during the integration phase.

Companies often create encyclopedic lists of merger to-dos that implode on themselves – usually leading to failure. Our findings suggest that prioritizing merger activities based on the drivers of value actually *forces* companies to focus on speed and success. By creating a value matrix – identifying all the drivers of value and ranking them based on their potential impact – companies can prioritize the areas upon which they should focus most of their efforts.

Our findings suggest that this is a unique opportunity to set high goals – because such an “unfreezing” opportunity is quite rare.

► **Address retention issues early and often**

You can buy the greatest company in the world – the best manufacturer with the best customer list – but if you don’t address retention issues, all those positives are virtually worthless. The key to success here is to view retention across three dimensions: Employees, customers and suppliers.

Our research suggests that companies often do a good job of addressing employee retention – but fail when it comes to the other two stakeholders. It’s just one more example of the need to take a *holistic* approach to M&A. And again, it’s important for companies to address retention issues early on in the transaction. It’s also essential to recognize that retention can be impacted by tangible factors such as compensation and benefits, as well as the intangible – particularly corporate culture.

► **Align organizational roles and responsibilities**

A merger or acquisition can be tumultuous, to say the least. But our findings tell us that, as clarity around objectives and milestones improves, so does the likelihood of success. It’s also important to clearly define roles, responsibilities and incentives.

This is more than just creating organization charts – it’s defining how work will get done, what constitutes success and what the consequences of success – or failure – will be. And by defining these targets in the context of real business events – like quarterly sales figures – employees are better able to understand, and work towards, targets.

► **Communicate throughout the M&A lifecycle**

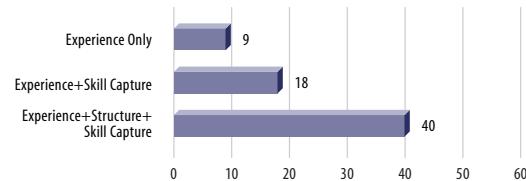
Communications is more than a series of ‘town hall’ meetings or memos and letters to newly merged employees, customers and suppliers. The communications mantra should read: Early, often, open and content-rich.

Sheer quantity of communications is no measure of success. Communications should be informative and focused on repeating key messages using multiple media – from videos, to letters, to personal visits. It should also be equally focused on employees of the acquiring company and the target organization.

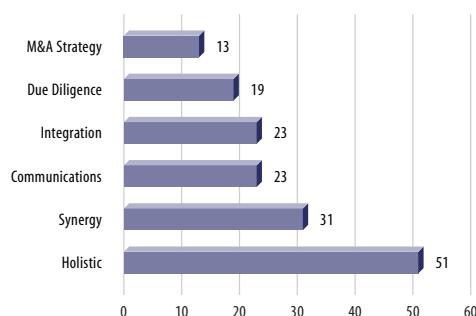
► **Keep in mind the importance of culture**

Our findings suggest that the first step toward solving the culture puzzle is to understand the differences and identify an ideal end-state.

Increase in Success Rate Due to a Structured, Experience-Based Approach



Increase in Success Rate Due to a Holistic Approach



CONCLUSION

A holistic and effective M&A process requires that companies ensure that all the levers work well together. The task may seem ominous, but consider the benefits. Our respondent companies that had a structured process throughout the M&A lifecycle – with a disciplined approach to synergy identification, achievement and tracking, as well as a strong emphasis on capturing the knowledge and lessons learned from each transaction – increased their likelihood of M&A success by a staggering 83 percent.

If your company is new to M&A and you're thinking, 'There's no way we can do all this the first time', take heart. We found that M&A experience, by itself, has little to do with success. Our research reveals that the chances of success were only a marginal nine

percent better for those companies that had completed five or more transactions per year over the last five years. However, when a more holistic approach is taken and the experience is combined with structure, discipline, and the prowess to capture new learning and skills, the success rate improves to 40 percent.

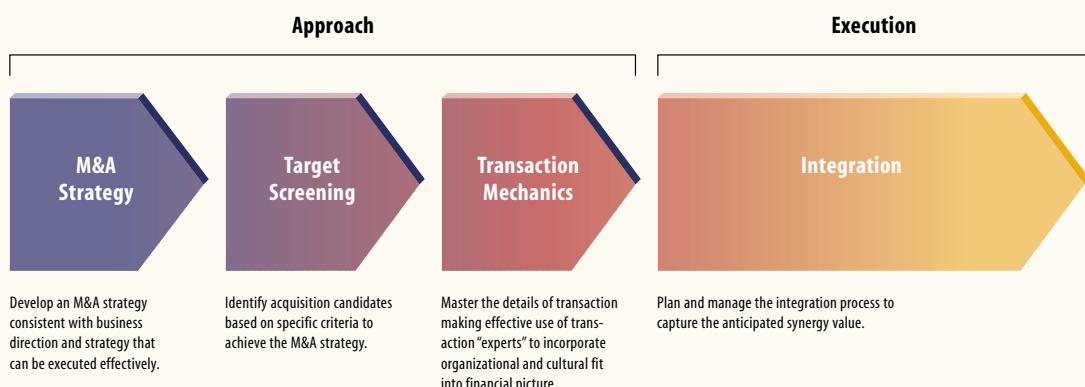
The lesson here? No phase – in fact, no one activity – in an M&A deal should be completed in isolation. It's comforting to know that, by doing a few things differently – by approaching M&A holistically – you can be successful. That you *can* solve the merger mystery.

6

THE FOUR PHASES OF M&A

Successful companies are those that effectively execute four main phases of M&A activity:

- ▶ They develop an overall M&A strategy that supports and enhances the direction of the business.
- ▶ They use specific criteria to identify suitable candidates.
- ▶ They execute the details of the transaction.
- ▶ They integrate the new company with the single-minded goal of capturing the value identified in the target screening phase.



KEY FINDINGS

Armed with a battery of survey data, we were able to identify several key differentiating characteristics for success versus failure. Look at these as prescriptions for success – the clues that can help any corporation, in any industry, solve the merger mystery.

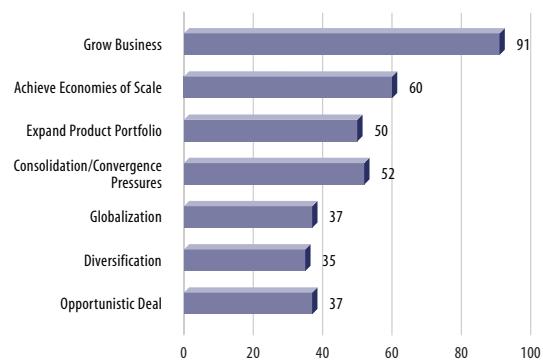
STAY TRUE TO YOUR STRATEGY

Our survey results revealed that all companies – successful and unsuccessful acquirers – cite identical reasons for their M&A activity. On the revenue generation side, there are objectives such as business growth, expanding the product portfolio, diversification and globalization. Meanwhile, on the cost-cutting front, companies look for acquisitions to help them achieve economies of scale and consolidate activities. Not surprisingly, growing the business – for all its promise of increased shareholder value – dominates the category.

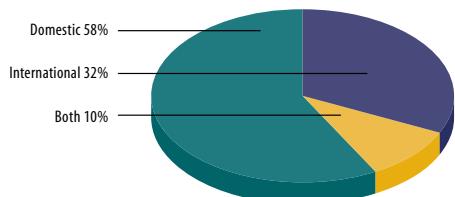
While most companies are focusing their efforts on growth through acquisition in their domestic markets, our experience – and growing anecdotal evidence – reveals that cross-border transactions are quickly catching up as companies seek to globalize and take advantage of liberalized trade barriers. According to the Organization for Economic Co-operation and Development, for example, cross-border mergers rose 47 percent in 1999 over the previous year.

No matter *what* the reason for an M&A transaction it must be viewed as part of the overall strategic direction of the enterprise. This has implications for two key stakeholder groups. The executive team and the M&A team – both – must continually ask themselves one question: Does our M&A strategy further the overall corporate objectives of our organization?

Reasons for Engaging in M&A (Successful Companies)



Geographical Focus of Respondents' M&A Transactions



Successful acquirers are those that do four key things differently from their unsuccessful counterparts:

- ▶ They *document* their overall M&A strategy;
- ▶ They *articulate* it clearly throughout the organization;
- ▶ They *link* it with downstream activities such as due diligence and integration; and,
- ▶ They *monitor* its success and make adjustments to the strategy when necessary.

Documentation is having the discipline to actually write down the company's M&A objectives, the target criteria and decision criteria (and how those criteria are chosen), and the supporting evidence gathered at every step of the decision-making process.

This basic, but vitally important, documentation process has several key benefits:

- ▶ First, it helps the organization capture assumptions and decisions taken at every step of a transaction, as well as their justification. This increases the efficiency of the M&A process by helping the team minimize revisiting the same issues, and reminding them what the overall M&A strategy is – and why it exists.
- ▶ Second, the written document can be passed from the leaders and team members working on one phase of the transaction to those working in subsequent phases. This helps subsequent teams follow the strategic rationale, and it helps improve their level of buy-in to the overall objectives of the transaction.
- ▶ And finally, the documentation helps leaders and team members of future M&A transactions – with other targets – avoid the pitfalls experienced by their colleagues who went before them, while capitalizing on the lessons learned.

Too often, a small coterie of people – usually the CEO, CFO and their advisors – develop an M&A strategy, complete with benefit expectations, and simply hand it over to an M&A team that took no role in the strategic discussion.

The executive suite should, at the very least, communicate the strategic intent of each transaction to the target screening, due diligence and integration teams. At best, these teams should be included in the strategic discussion – perhaps working with the executive team to agree on the sources of value creation, or the critical size of an acquisition that would deliver economies of scale. A workshop – bringing together executives from key operational areas such as procurement, information technology and marketing – is one way companies can facilitate this kind of information sharing.

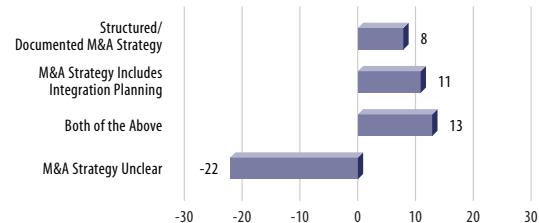
Including these functional areas in the goal-setting phase is the first step in the process of monitoring the success of an M&A strategy. Key areas of operational synergy can be defined and concrete targets and milestones set out. And, once an acquisition target is identified, these can be included in the performance feedback mechanism that should be constantly communicated to the strategy development group.

Our survey results confirm that this kind of disciplined, inclusive approach is invaluable. Our analysis revealed that documenting a company's M&A strategy leads to an eight percent higher success rate. Going one step further – by creating an explicitly planned and documented M&A strategy process – is an even better guarantee of success. By initiating integration planning during the *development* of an M&A strategy, the success rate of our respondents rose by 11 percent. And when both were combined – documentation plus early integration planning – the success rate jumps by 13 percent.

Even more importantly, our research identified a major pitfall in the strategy phase: Not clearly articulating the strategy to the due diligence teams. This can lead to the due diligence teams focusing their efforts on the wrong sets of strategic priorities. That's why we see companies that fail to articulate their M&A strategies decreasing their success rate by 22 percent.

In today's communication-rich business environment, there are plenty of support tools to document and communicate a company's M&A strategy. Corporate intranets, videoconferencing and webcasts are some of the more recent developments that can spread the word quickly and widely. Meanwhile, the ongoing success of the strategy can be measured using checklists, shareholder value modeling techniques and balanced scorecards. And, strategy support software tools – such as Deloitte Consulting's StrategyPrint™ can link the strategy development, documentation and performance monitoring activities into one seamless, end-to-end package.

Increase in Success Rate Related to M&A Strategy



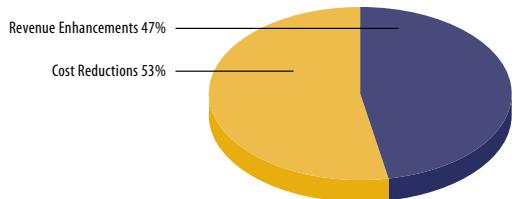
FOCUS ON SYNERGIES

Click on CNN to watch the latest merger news and chances are, when the CEO of the acquiring company is interviewed, he or she will talk about synergy. Our survey results indicate that nearly two-thirds of companies – about 63 percent – say that achieving synergies between the two companies is an important element in the M&A decision-making process.

Our analysis and experience indicates that there is no greater likelihood of success between companies who state that synergy achievement is a critical integration priority and those who do not. The same is true of companies that screened targets for potential synergies and prioritized the identification (and/or clarification) of synergies during due diligence. Clearly, managing synergy analysis discretely in each phase is not enough to ensure M&A success.

What *can* contribute to success is the development of a structured approach that links together all phases of the M&A lifecycle and is grounded in the *pre-deal* stages of the M&A process. A structured approach in the pre-deal phase identifies revenue enhancement opportunities, quantifies cost reductions and estimates realignment costs.

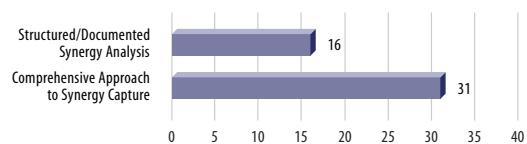
Allocation of Synergistic Benefits (Successful Companies)



For companies that followed this kind of structured approach in the pre- and post-deal stages of a transaction, the success rate improved by 16 percent. It jumped even higher – by 31 percent – for companies that followed a comprehensive approach to synergy capture: Screening targets for synergies; identifying and clarifying synergies during due diligence; prioritizing synergy achievement during due diligence; and, tracking the realization of planned synergies, post-merger. Synergy benefits don't happen by accident. They're the result of a comprehensive and deliberate effort.

We also found that companies with a less structured approach toward synergy analysis often suffer the kinds of challenges during integration that their better structured counterparts do not. The most frequently cited complicating factors include: A lack of focus on value-creating activities; overly optimistic synergy assumptions; and, failed buy-in of synergy estimates by the integration teams.

Increase in Success Rate Due to Focusing on Synergies



LINK DUE DILIGENCE TO OTHER M&A ACTIVITIES

The due diligence phase of a transaction holds tremendous opportunity to add value to the overall M&A investment. Companies can maximize this value in three ways:

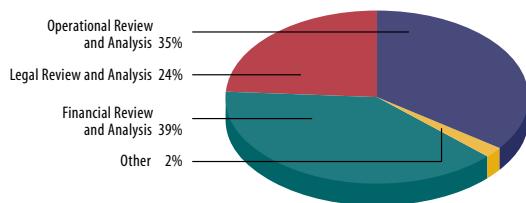
- ▶ Provide the due diligence team with a more business-focused, strategic and forward-looking mandate.
- ▶ Ensure that the due diligence effort is comprehensive – that is, it covers everything from legal and financial issues, to matching the company's overall strategy. Due diligence teams can also provide valuable insight into a company's management and culture – insight that could save time and effort during the integration phase.
- ▶ Leverage the due diligence outputs in post-deal integration efforts.

It might seem common-sensical that companies would want to know *what* they're purchasing before completing an acquisition – that is, they would perform adequate due diligence. And yes, senior leadership and Boards of Directors see the due diligence process as a security blanket – a guarantee that the company they're acquiring is in good health.

But the *real* value of due diligence is less self-evident than examining financial performance and unsettled lawsuits. That's the *what* of an M&A transaction: What are we buying? The real value of due diligence lies in its ability to answer the *why* question: Why is – or isn't – this company an attractive target?

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Focus Areas for Due Diligence

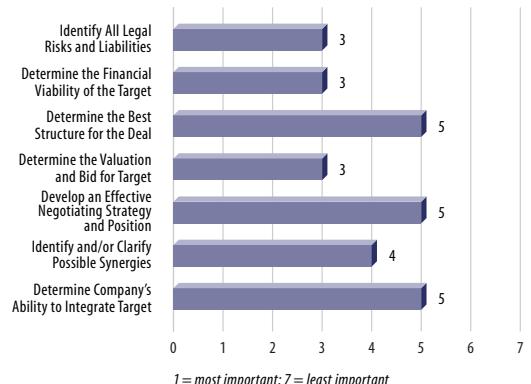


The all-too-frequent weakness of the due diligence process is self-perpetuating. Accountants and lawyers are informed of a pending deal, and they proceed to the due diligence location. Once they arrive, they're given limited time in a data room to sort through mountains of information in an effort to assure themselves there are no smoking guns. The charts below illustrate the key areas upon which most due diligence efforts focus.

The breakdown of due diligence focus areas for both successful and unsuccessful acquirers was virtually identical. Moreover, both types of companies reported nearly identical rankings with respect to their reasons for conducting due diligence.

The due diligence process is a whirlwind of data requests, breakout meetings, nightly debriefs and executive presentations. While the information it uncovers is, without a doubt, an essential component of the overall M&A process, the fact is that it usually ignores the more qualitative, strategic issues that would enable the acquiring organization to rapidly focus on the value drivers of the transaction.

Average Ranking of the Reasons for Conducting Due Diligence (Successful Companies)

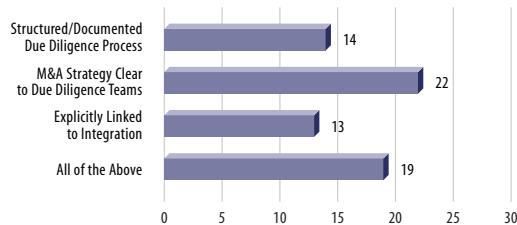


A company can supercharge the value of the due diligence process by linking it to other phases of the M&A process. For example, reviewing the M&A strategy with the due diligence team prior to kicking off the effort increased the likelihood of M&A success by 22 percent. If the due diligence team can go into the project with an understanding of the growth objectives of the merged company, for example, it can evaluate any impediments to achieving those objectives. All too often, however, the due diligence team is charged with creating a final report designed and written for lawyers and bankers – not business leaders.

As our survey results suggest, there is a strong correlation between the success of a deal and linking due diligence with the integration effort. Our own experience tells us that due diligence often *does* provide that effective bridge between strategy and integration. But too frequently, companies commit a critical mistake: Filing the due diligence report away, then forming integration teams whose first order of business is, ‘get to know the other company’.

The result? Integration teams go about discovering precisely the same kind of information that was analyzed during the due diligence process – things like customer and product data, operational performance and financials. And it’s often more difficult for the integration team to uncover this kind of information because the effort is more decentralized once the deal has been closed.

Increase in Success Rate Due to Linking Due Diligence to Other Activities



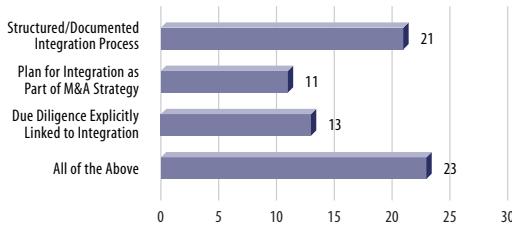
The ideal strategy – one that we have witnessed at several best in class companies – is to leverage the due diligence process to help define the integration team structure, jump-start the integration planning, and ensure that synergy opportunities uncovered during due diligence are pursued. In short, with an approach that directly links the due diligence to both strategy and integration, companies can save time and money, focus the analysis and integration initiatives, and increase their odds of achieving the very benefits they expected when screening the target.

The key lesson here? Due diligence is not an isolated event. Companies that fluidly link their due diligence process with their M&A strategy and with implementation planning are on the fast track to success.

STRUCTURE AND PLAN FOR INTEGRATION EARLY

A successful integration ties together all aspects of the merger lifecycle: From strategy, target screening, and due diligence, through to integration planning, and post-integration measurement and tracking. Our research indicates that a coordinated, well-planned integration is among the most significant factors for success. For example, companies with a structured and documented integration process were 21 percent more likely to succeed than those without. Moreover, the success rates for companies that explicitly linked due diligence to integration and those that planned for integration during the M&A strategy phase, were 13 percent and 11 percent higher, respectively. Put all these factors together and the success rate jumps by 23 percent.

Increase in Success Rate Due to Structured and Early Planning for Integration



The expression, "A plan is nothing, planning is everything" holds very true when it comes to successfully navigating the M&A waters. So what are the components of a robust and well-planned integration? Our research and experience from hundreds of M&A projects has identified the following critical components:

1. Clarifying top management's roles and responsibilities

After a merger or acquisition announcement, both organizations face tremendous uncertainty and change. The first step in addressing this uncertainty is to announce the executive leadership team and clarify their roles, operating principles, and decision-making processes. This group needs to demonstrate teamwork, as well as understand what incentives are in place, so they know what is expected of them and what they will be measured against.

Once this key step is complete, the organization can address critical retention issues throughout the rest of the organization, as well as begin managing the inevitable performance dip that occurs after announcement. When a merger or acquisition is announced, employees understandably begin to question their own role in the new organization (after all, it's often said that the first two letters in merger are "*me*"), and until this component is addressed, uncertainty will keep the integration from truly making progress.

Until the organization is clear on *who* is steering the ship and *how* it will be steered, it is highly unlikely to have a willing and effective crew. This results in the ship either not being able to leave the dock, or if it does depart, wandering aimlessly – oftentimes with disastrous consequences.

2. Chartering a transition team

Chartering a dedicated transition team allows the organization to rapidly mobilize the integration effort. Dedicated does not mean large and bureaucratic, it means an empowered team with a high level of authority and accountability that is focused on results. It should be comprised of well-respected, senior leaders who will have an ongoing interest in the new company and are motivated by the proper incentives and concern for their own career path.

The transition team is responsible for developing the planning and implementation phase of the integration, including identifying critical decisions, sequencing the work with an overall milestone plan, and ensuring consistent communication themes. Team members should focus on identifying and capturing, or in some cases creating, quick wins to help build and sustain momentum.

Many times this group can be coordinated through a program office concept, which then coordinates small, rapid, and iterative integration teams. It is critical that these teams are focused on results, not process – and on moving faster rather than slower.

3. Committing to a results based process

A results-based process begins with the end-state in mind, and is focused on the value drivers for the merger. It consists of the following key components:

Synergy Identification and Realization: By using the information from due diligence, integration teams can establish synergy targets, and then create an environment that helps exceed those targets. It includes not just identifying synergies but also ensuring organizational buy-in of the results and the ultimate measurement process.

Day One Readiness: This ensures a smooth and effective transition. It includes identifying and prioritizing critical day one focus areas, assigning leaders to critical projects, and developing bridge strategies if necessary. As one of our respondents stated, "...not everything on day one has to be pretty. It just has to work!"

Implementation Planning and Risk Management: Those projects with a longer-term implementation horizon must be identified and planned for appropriately (i.e., should there be a high-level plan or detailed activity plan?). They also must secure the necessary organizational support and buy-in, and consider the corresponding risk by completing a formal risk assessment.

Organizational Buy-In: This ensures that the integration planning is gaining support from the organization throughout the integration process. It also prevents a failed hand-off where the proverbial synergy ball gets dropped. An ongoing synergy tracking and measurement process must also be built to ensure the value from the merger is actually realized. Finally, it considers the importance of cultural similarities and differences and develops plans to overcome organizational resistance.

4. Continuing to deliver on operating commitments

It's critical for the merging organizations to continue delivering on their operating commitments. During a merger, many organizations fall into the trap of thinking that the integration *is* the organization's strategy. This not only clouds what the merger truly is – one component of a larger strategy – but it also results in a prolonged, internally focused, and ultimately unsuccessful integration.

By having a dedicated transition team, the rest of the organization can focus on what it does best: Being externally focused on critical business needs such as customer satisfaction, quality, innovation, and delivering on operating commitments. Flawless execution of the first four components can all come crashing down if the company focuses all of its energy on integration. After all, there's still a business to run!

5. Communicate, communicate, communicate

Communications need to reinforce all of the key themes explored in this section. Wherever possible, communication should be face-to-face and provide opportunity for an open dialogue. When the face-to-face approach is simply impossible, communications need to be content rich, address stakeholder concerns, and be targeted specifically for each key audience – whether it's employees, customers, suppliers or analysts.

ADDRESS RETENTION ISSUES EARLY AND OFTEN

Attention to human resource issues – particularly staffing and retention – dominates the integration phase of any merger or acquisition. Sixty-five percent of the successful companies in our survey indicated that they placed a high priority on human resource challenges, and 39 percent identified “change” issues as a key integration priority. As employees from both organizations compete for – in most cases – a reduced number of positions, it’s essential to put forward a fair selection process in order to keep the employees that are most valuable to the organization. After all, if they’re attractive employees to you, chances are they’re attractive to your competitors, too.

Retention, meanwhile, is about helping people deal with uncertainty. As unsettling as the messages may sometimes be – particularly around retention, selection and severance processes – frequent communication during every stage of the merger helps give employees a sense of ownership in the process.

Once the deal has been closed, the newly merged organization needs to work quickly to announce changes and leadership appointments. Day One is expected to be chock full of change and big announcements – so the more time passes *without* change, the more likely people will attach themselves to the pre-merger status quo.

Our research also identified the resolution of cultural issues as a very important integration challenge. Half of our survey respondents believe that underestimating the impact of cultural issues can be a significant integration pitfall. Culture is, by its very nature, an intrinsic value – one so ingrained in a company that it’s invisible to those who live it, but readily apparent to outsiders. It’s also the most subjective and least quantifiable issue that companies have to deal with during an integration – making it one of the most difficult hurdles to overcome.

We found that some companies tackle the cultural challenges by linking the issue back to the target screening phase of the M&A lifecycle. Companies with a structured integration process that screened for potential cultural issues – within the larger context of a structured and documented integration process – had a 32 percent higher success rate than companies that do not. Unfortunately, screening for cultural issues ranks near the bottom of all screening criteria prioritized by survey respondents.

Screening for cultural issues can alleviate the pain of clashing cultures. It is also the first step towards creating a shared, new culture. Tactics such as site visits, employee interviews and surveys, and third-party assessments can reveal much about a company’s “personality”. The leadership of an organization is another key source of information. By interacting with the executives at the target company, an acquirer can gauge the cultural fit between the two organizations.

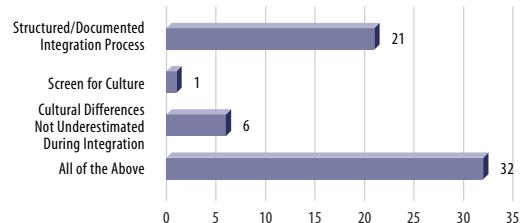
The second step is to develop an ideal cultural end-state. Again, this should tie closely to the strategic objectives that drove the merger or acquisition in the first place. Finally, cultural change should be initiated around specific business events. Business events and outcomes can be used as a means to model and reward desired cultural behavior.

Integration Priorities (Successful Companies)



Cultural fit: The fact remains that it's one of the key challenges organizations face when creating a merged entity. Perhaps that's why – in the face of more concrete issues like financial performance and legal obligations – it's where many mergers fall down.

Increase in Success Rate Due to Careful Attention to Cultural Issues Before and During Integration



COMMUNICATE THROUGHOUT THE M&A LIFECYCLE

Communication is more than an integration activity – it's one of the few threads that weaves itself from the strategy phase of an M&A transaction right through integration. It's also a key to success. Among our respondents, companies that clearly communicated their M&A strategy to line personnel were 21 percent more likely to be successful than companies that did not.

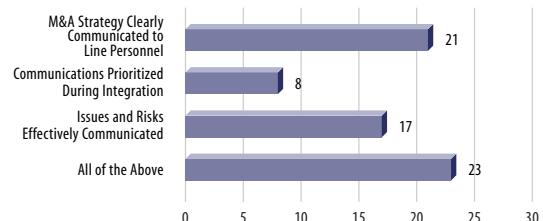
Effective communications – frequent, timely, open and respectful – shouldn't have the appearance of having been 'spun' in a transparent attempt to be overly optimistic. Truth is, most employees know the score. They can see what's really happening – and will treat any attempt to package the truth with disdain. Tough messages – around potential layoffs, job changes and the like – can be effectively delivered if placed in the context of a larger economic and industry-specific reality, and the strategic rationale for the merger or acquisition. The more change is happening *outside* the organization, the easier it is for people to deal with *internal* change.

To be effective, any message a company communicates must be validated. Besides placing it in context, successful companies will implement a two-way feedback mechanism – a demonstration that management is willing to listen to concerns and engage in a dialog with line employees.

Each message also needs to be repeated – as frequently as possible – through multiple channels, such as e-mail, webcasts, memos and face-to-face meetings. The alternative? Employees will follow their natural tendency to go into denial around the swirl of change. Messages will fall on deaf ears, or be ignored as employees wait for the merger integration to blow over.

It's interesting to note that companies with communications and/or investor relations professionals formally assigned to M&A activities were no more – or less – likely to succeed than those that did not. The lesson here is that communication should not be the responsibility of any single person or group, but is the responsibility of everyone involved in the acquisition process.

Increase in Success Rate Due to Structured and Early Planning for Integration



CONCLUSION

So, how does this story end? It's clear that the four phases of the M&A lifecycle are inextricably linked. That knowledge sharing, effective communication and an unwavering focus on linking M&A to corporate goals are all keys to successful transactions.

Although easier said than done, our research – and experience – has shown that, with the right processes and best practices in place, companies *can* derive significant value from their M&A activities. These are measures by which every M&A professional – every executive – should hold each transaction accountable:

- ▶ Establish an M&A strategy that focuses on the sources of value: Increased efficiency; improved market power; or, corporate reinvention.
- ▶ Stay true to that strategy: Ask yourself why you're in the game. And if you can't come up with a justifiable answer, don't play.
- ▶ Focus on potential synergies: Actually *quantify* the cost savings and revenue enhancements you expect to achieve. And don't waver.
- ▶ Link due diligence to other M&A activities: Don't look at it simply as a legal and financial exercise. Effective due diligence can have a tremendous impact on your ability to integrate the new organization.
- ▶ Plan and structure for integration early on: From day one, you should be planning to minimize the pain and maximize the benefits of integration. Because even the best deal can fall down based on how well you integrate.
- ▶ Focus on a quick integration – because speed matters: Define your end-state and plot a roadmap with clearly defined – and immovable – deadlines for tangible results.
- ▶ Focus integration on clearly defined drivers of value. Create a value matrix – one that identifies all of the drivers of value – and prioritize your activities based on what will deliver the most benefit.
- ▶ Address retention issues early and often: The meshing of two corporate cultures can make or break the success of a transaction. Focus your efforts on creating a *shared* culture.
- ▶ Align organizational roles and responsibilities. Reward the people you want to keep on board – and resolve to make the difficult decisions about people who might *not* work in the new organization.
- ▶ Communicate throughout the M&A lifecycle. Telling your story the way *you* want it told prevents others from telling it the way *they* want to tell it. Control your message – and communicate it often.

The key lesson is this: The difference between success and failure isn't the work of lawyers, accountants or senior management working in isolation. It's the work of a cohesive team – and a holistic approach. One that works together, communicates and involves everyone who has a stake in the success of the transaction. And that includes everyone – from the CEO, to the shop floor, to the mail room.

These are the success levers that can help you solve the merger mystery – and help you maximize the payoff of M&A.

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