

Delivering value through acquisitions

The current economic downturn has resulted in a significant fall in the values being put on companies and provides an opportunity for those organisations looking to grow through acquisition to pick up some bargains. Bargain hunting or opportunistic acquisition isn't a new phenomenon, indeed the dot-com mania worked in BP Amoco's favour in March 2000 when it acquired Burmah Castrol. The Daily Telegraph reported that "it is probably also taking advantage of a weak Burmah share price that probably has much to do with the fact that pouring cans of lubricant into people's engines is as "old economy" as you can get. That is clearly out of fashion compared with the dot-com stocks".

While there are without doubt opportunities for acquisitions in the current market those considering such acquisitions would do well to remember that once the media hype often created by such deals has died down the financial markets and investors will measure success by how well the value is delivered and not by how good the deal looks or sounds. Now more than ever management must focus on creating value so that they can not only deliver on their promise but surpass expectations. So what should acquirers be focusing on to ensure they deliver value through their acquisitions? To answer this question and assist those considering acquisitions in the current climate we have analysed what tasks are common amongst the best serial acquirers such as Cisco, BP Amoco, CRH and Kerry. So here are the 'Seven Steps for Success' that have emerged.

1. Create a burning platform for change

Ensure there is a clear and compelling argument for integration that is understood in the organisation. This clarity will assist in creating the right atmosphere and appetite for change. Staff will undoubtedly be nervous when an acquisition is made but they should also be excited about the opportunities that the acquisition provides. These opportunities may be about entering new markets or simply improving the ways things are done.

2. Manage the intangibles

In growth environments real value generally resides in two perishable assets – People and Culture. The best acquirers will rapidly gain an in depth understanding of how these assets will deliver value and put in place retention strategies for both. Many companies fail to realise the importance of people and customers and often pay a high price for this failure (add Datalex example). In contrast companies such as Cisco will have people and customers constantly at the front of their minds. According the John Chambers, CEO of Cisco, "Most people forget that in a high-tech acquisition, you really are acquiring only people. That's why so many of them fail. At what we pay, \$500,000 to \$2 million an employee, we are not acquiring current market share. We are acquiring futures"

3. Put the right management in place....this means making tough decisions

A key prerequisite of success is for management to have the resolve to make the hard choices at the right time. This will include tough decisions that need to be made around location, future culture, the level of integration and the areas for change. However, top of the list of hard decisions that need to be made at the outset will be selecting the right management team and not shying away from removing inappropriate management. It comes down to developing two lists – the stayers and the goers. Making decisions about peoples futures is always difficult but it is important to remember that having the right management team is fundamental to the success of the

acquisition. Analysts and investors will pay particular attention to the credibility of management and for good reason, as it is ultimately management who are expected to deliver on the promises made.

4. Look beyond the obvious synergies

Leading acquirers spend a significant amount of time identifying the overlaps between the two organisations, generally these are people and location, and quantifying the anticipated cost reductions that can be achieved. Crucially they take a broader view by looking for the gaps between the organisations and identifying the opportunities that emerge from the deal. They look to bridge these gaps and leverage the opportunities to drive revenues through cross selling, re-branding or simply fully utilising new channels to market that are now available. For example Cisco ensure that all the acquired companies products are available through their sales channels from day one. Indeed the majority of the serial acquirers will look beyond the basic $1+1=3$ created by cost reductions and will try to create a new unique proposition, often by changing the rules of competition, that makes $1+1=4$. (Need example)

5. Reduce the uncertainty

A degree of uncertainty is inevitable during any acquisition but serial acquirers will work hard to minimise it and the dysfunctional behaviour that generally goes with it. Three vital elements are required to ensure stability and continuity both internally and externally and provide a growth platform for the business.

- Put the new organisation structure in place early

Internally this provides the basic certainty that staff require around what their role is going to be and who they will be reporting to. Companies such as Cisco and BP Amoco will have high level structures in place by the time the deal closes, the next level down determined by day 1 and will aim to have all positions confirmed within the first 60 to 90 days.

- Communication

It is absolutely essential that communication both internally and externally provides clarity. All recipients should know what is going to happen and when it will take place. Agreement in advance on the content, method and timing of all communication ensures that a clear and consistent message is delivered. And remember no integration has ever failed because of too much communication.

- Managing people and cultural issues

The culture of the new combined entity that will be adopted going forward needs to be determined. This entails identifying the specific differences between the two cultures and determining which elements of the distinct cultures will be maintained. Clarity on the issue of culture is hard to arrive at given that most of a companies' culture is unwritten and exists below the surface. Culture is epitomised by the saying "the way we do things around here" and it is important to ensure the right behaviours are embedded to enable integration objectives to be achieved.

6. Identify the key projects to deliver value

The majority of change achieved from acquisitions comes from projects initiated in the first quarter of the acquisition, while 90% of value will be delivered from six to ten vital projects. Therefore it is critical to avail of the short window of opportunity for real change that exists by identifying, scoping and properly resourcing the high impact projects early.

7. Plan early and manage the integration as a programme

Commencing integration planning early helps in identifying possible synergies, adopting the right approach and anticipating future problems. An integration director should be appointed to lead the integration effort and draw on the expertise available to build a integration team around him. By putting a full time dedicated and focused integration team in place plans can be developed to provide clarity on what need to be done and who is going to do it.

While we have identified the 'Seven Steps for Success' in delivering value through acquisition that serial acquires follow there are some common factors that run through all seven steps. Serial acquirers all act with speed and look beyond the obvious in creating value. However most importantly of all they see the integration of acquisitions as mission critical and have therefore invested to build the capabilities and put in place the structures required to ensure they do it well.