NEW COMPANY - NEW STRATEGY:

A Well-Defined Post Deal Strategy is the Key to Merger Integration Success

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A good strategy is the blueprint for business success. For many organizations, mergers and acquisitions are a critical component of their blueprint. Although the value drivers such as cost cutting, the promise of new channels and customers, and improved competitive positioning may vary from company to company, one thing is constant – after the deal is done, executives need to refresh their strategy and they need to do it fast.

UNCLEAR STRATEGY: CULPRIT FOR SLUGGISH INTEGRATION

Once the deal is done many executives rush headlong into the challenges of integration. Experienced deal makers know that extended integration efforts have significant impact on employees, customers, and the bottom line. Therefore, combining systems, rationalizing locations, merging product portfolios, optimizing channels, and designing the organization itself all become immediate priorities.

Take, for example, a deal expected to generate annual synergies of $30 million. Assuming these are all cost savings, every month added to the integration process defers $2.5 million of bottom line improvement. That's over $100,000 per day of profit pushed out into the future — some of which will never be recaptured (longer integrations tend to eventually be left undone). However, the primary cause of slow integration efforts can almost always be traced back to unaddressed strategic questions for the combined company.

In other words, turning a blind eye to the lurking issues created in a combination can actually slow integration efforts - not speed them up. In fact, experience shows that delayed decision making is often the root cause of sluggish integrations. And, decisions are most often slowed because of - you guessed it - unclear strategy.

We believe the most effective post-deal integration processes first identify a rapid way to clarify the emerging strategy. After this has been accomplished, it is appropriate to delve into operational integration issues.

THREE REASONS TO FOCUS ON STRATEGY AS PART OF POST-DEAL INTEGRATION

Number One: It's a New Ballgame

A new company requires a new strategy. After a deal, many (if not all) of the assumptions on which the original strategy was based have changed. This is true even if the transaction itself was part of the original strategy. At a minimum, the combined company is dealing with new customers, suppliers, and competencies - as well as a different set of assets (and often liabilities). Although the issue of post-deal strategy is more critical in deals where the two companies coming together are of like size, shifts in the underpinnings of strategy can also be significant for both firms in deals with parties of different sizes — for example, an acquisition in which a $1 billion acquirer in a slow growth, mature market buys a $50 million fast growth company with a technology that cannibalizes the acquirer's core business. This kind of deal should cause the combined firm to jointly revisit the underlying strategic assumptions for the entire organization.

Immediate attention to some of the more obvious strategic questions can get the newly combined firm quickly positioned.

For example:

- What is our new growth and profit plan for the coming years?
- What is the right organization model to support our goals?
- What is our target market?
- Which competitive differentiator should we rely on going forward -price, product, or service (or other?)
- What is our customer relationship and sales approach?
- What channel strategy supports our customer relationship and sales approach?
- What kind of changes in customer volume, average customer relationship size, pricing and product mix do we expect over the next several years?

Questions like these are best addressed through a rapid process before (or at least in parallel with) the operational integration effort - even if the "answers" are minor tweaks to existing positions. Not giving these questions any attention can cost weeks and months of integration benefits (i.e., millions of dollars).

Number Two: Avoid "It-Depends-on-Our-Strategy" Delays

How much does strategy really matter in integration? Plenty -- integration decisions are tough enough. But when the underlying strategy is undefined, these decisions can be downright impossible.

For example, in one large life insurance merger, the firms quickly set up an integration team structure, chartering a set of functional and business-based teams to develop detailed integration plans for both companies. As the plans unfolded, it became clear that there were underlying differences in the Group Life business strategies of the two companies involved. A sticking point for integration emerged: One firm had traditionally focused on customer intimacy, while the other had prioritized operational efficiency. When it came time to plan for integration of the combined companies' Group Life operations, decision-making was stalled. Should call center and back-office policy administration functions be centralized in a single location for efficiency? Or, should regionalized centers be maintained to stay closer to agents and customers?

For the integration team, these questions led right back to the same answer - "it depends on our strategy." To restore progress, the executive team was required to have a strategy discussion around this topic and develop a clear position for the combined firm. Although the integration proceeded, almost 6 weeks had been lost as the operational teams tried desperately to sort out the direction in the absence of clear guidance on the overarching strategy.

Number Three: There's a Team to Build

In most deals, the executive team that ends up running the combined entity has some new players added to the mix. This situation can be a bit awkward for even the most seasoned executives. Typically, the first few meetings between executives can be likened to dogs meeting on the street for the first time - both situations are characterized by tentativeness, some anxiety, and a fair amount of sniffing. While some may opt for a ropes course or casual dinners as the main path for building the new team, we believe there is no better way to solidify a new executive team than to focus on the challenges of strategy.

Putting "stakes in the sand" on key strategic issues serves as a foundation for the newly combined company and speeds the integration process. Just as importantly, it can give the new executive team a sense of joint accomplishment, relieve frustration, and eliminate misunderstandings. However, these kinds of strategy sessions are rarely easy. There is typically a high level of passion around the issue of strategy and opinions are varied and numerous. But when the conversations are well structured, the entire executive team has an enormous opportunity to learn about each other and how best to operate as a team.

GUIDELINES FOR ADDRESSING STRATEGY AS PART OF POST-DEAL INTEGRATION

Once a deal has progressed to the point where the transaction close is eminent, the reasons to level set on the strategy for the combined firm are indeed compelling. But still, few organizations manage to rally around strategic issues in the face of a looming integration. Below are a few guidelines that can help support a rapid, focused effort to make key strategic decisions and articulate the overall direction for the combined firm.

Make the Time

Most integration efforts are so hectic that those involved end up sleeping like babies throughout the process (that is to say, they wake up every few hours and cry!). This rapid pace often prevents executives from pausing and taking a step back to focus on strategy. However, as we've discussed, time spent on strategy will pay off by shaving weeks -- even months -- off of integration. For this reason, setting aside significant time to deal with strategy issues should become a priority.

One way to accomplish this is to schedule regular weekly meetings with an interim "Core Team" of five to seven key executives from the combined firm to address strategy and operational integration issues simultaneously. This core team is essentially the interim steering committee for the transition effort and the strategy team. Even if the eventual organization has not been completely determined, a properly chartered core team can play a significant role in building straw model decisions to present to a larger group of executives for review and discussion.

Structure the Conversations and Output

A concise and simple 10-to-15 page framework document (see inset) can serve as a repository for strategic decisions and a source document for communicating those decisions.

In order to achieve noteworthy decisions, it is important that the conversations are well-structured. One way to accomplish this is to have the strategy discussions facilitated by an objective third-party facilitator who can guide the conversations to meaningful conclusion and capture results. As mentioned, it is critical that the conversation framework address pressing operational issues related to the integration, as it is typically these issues that are top-of-mind for the executives involved.

The Strategic Framework

Think of a Strategic Framework as a 10 to 15 page document with each page dedicated to answering a key strategic question for the combined company. The questions addressed in a Strategic Framework document vary from organization to organization, but might include things like:

Who are we?
- What are our core values?
- What are our combined strengths and weaknesses?

Where are we going?
- What is our 5 year revenue growth plan?
- How many and what types of customers will we serve?

How are we going to get there?
- What are our potential sources of growth?
- What manufacturing and distribution approach best supports our growth goals?
- What are our priorities this year and what results do we expect from execution?
- Who is on the hook for these results?

Communicate Results in Real-time

Each time a strategic conversation is brought to conclusion and is appropriately vetted with the larger executive group, the information should immediately be shared with the integration teams working on the details of the operational integration. For instance, a manufacturing strategy discussion may determine that the correct approach is to locate some manufacturing capability close to the customers but augment this capacity with low cost centers in Mexico, China and Eastern Europe. This decision should be quickly communicated (maintaining the right confidentiality) to the appropriate teams developing facility plans so they can effectively plan for transition.

Because things can change so quickly during integration, all communications should include the appropriate caveats that the approach could change as more information is gathered and the economics of the final plans are assessed.

In the end, leaders in newly combined firms can reap tremendous benefits – both emotional and economic - if they can build strategy discussions into the integration approach from the outset. Emotionally, the reward is reduced frustration for both employees and executives working on the deal. Economically, the benefit comes from accelerated synergies, higher profitability and a combined value that far exceeds what could have been achieved prior to integration.

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