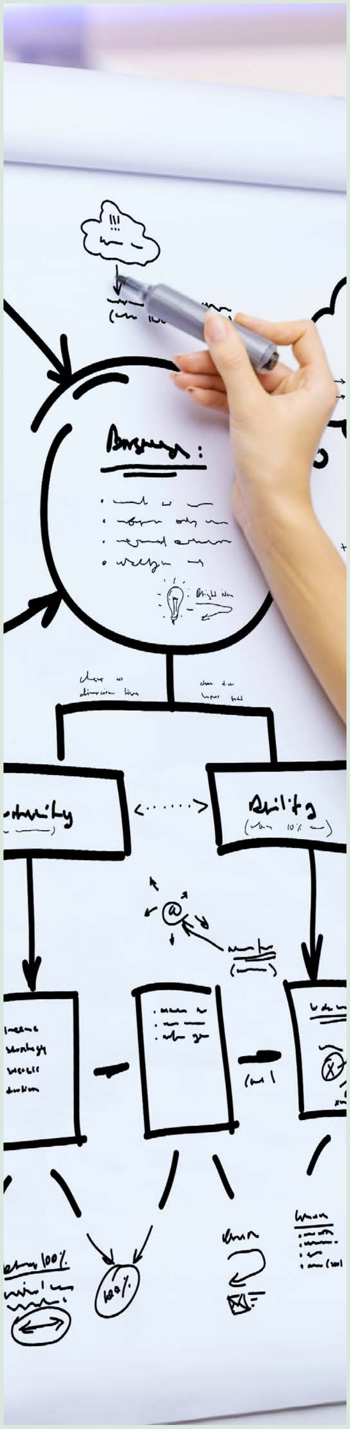
WHITE PAPER



PLANNING TO ACQUIRE? BUILD A MERGER-READY ORGANIZATION TO REALIZE THE BENEFITS OF ACQUISITION

Abstract

It isn't surprising that a majority of acquisitions fail to achieve their projected growth objectives because of the unique challenges associated with merging an acquired enterprise. Organizations with outward bias do not comprehend the internal ground work and preparation required to ready themselves to meet these M&A challenges or worse, simply choose to ignore them.

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To respond to the fast-paced and changing business environment, and competitive landscape, organizations are increasingly looking at growing through acquisitions. Leveraged as a mechanism for diversification, the acquisition route provides organizations a faster way to increase market share, acquire new assets, or expand in new markets. Though a successful acquisition results in improved market position and increased shareholder value, acquisitions are widely considered risky and demanding events. Most independent research indicates that M&A activity has an overall success rate of 50%-60%. With such a low success rate, the consequences of failure are significant for a mid-market organization growing through acquisition.

However, there are a few key steps that any executive considering an M&A strategy can undertake to prepare his / her organization for a successful acquisition:

1. Identify and communicate objectives, expected synergies, and associated KPIs
2. Build a futuristic and scalable enterprise and business platform
3. Leverage strategic objectives as the prioritization framework to make tradeoff decisions
4. Select the right team to manage the integration
5. Invest in building a dynamic organizational culture

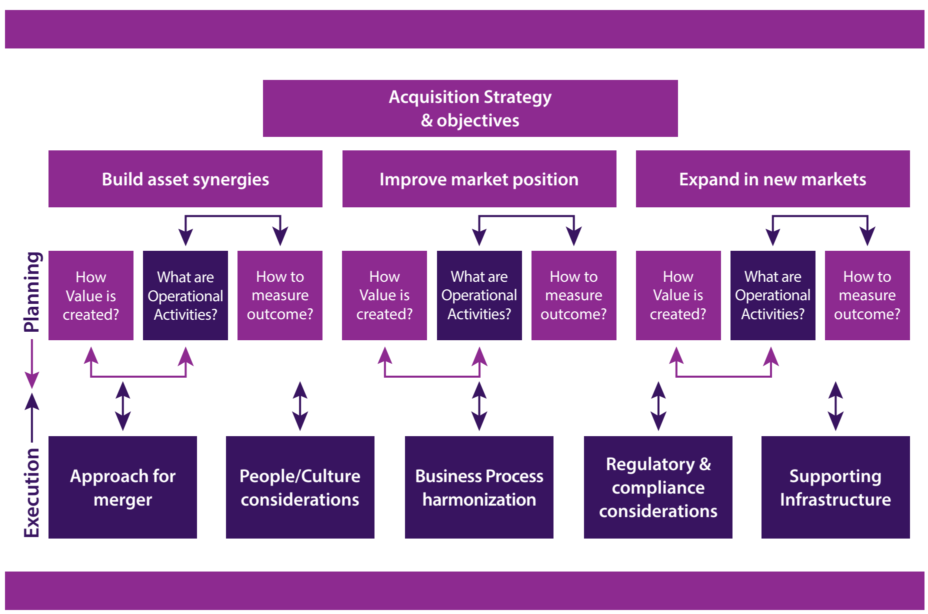
Building a merger-ready organization is an ongoing and continuous effort, and following these five steps will result in a strong platform to realize the benefits of merger and acquisition.

Identify and clearly communicate business objectives and expected synergies

Most senior executives spend considerable effort in developing the rationale and considerations for a potential acquisition. While in many cases, these considerations align with the business objectives strategically, little attention is paid to identifying meaningful operational sources that will ultimately deliver the anticipated value.

Instead the leadership must translate the M&A strategy into an actionable plan that identifies key focus areas for integration and gives clear direction for execution. The leadership should also communicate existing challenges and gaps that could pose roadblocks to integration. For example, consider a consumer goods company trying to buy assets to expand into a new market segment through acquisition. The sales and marketing leadership needs to understand the impact of the merger on its own brand and customer perception, and identify synergies and gaps in alignment with its business model with that of the acquired company. With this information, the executives can now build a plan to address any mismatch in customer perception including proactive marketing campaigns or brand repositioning efforts.

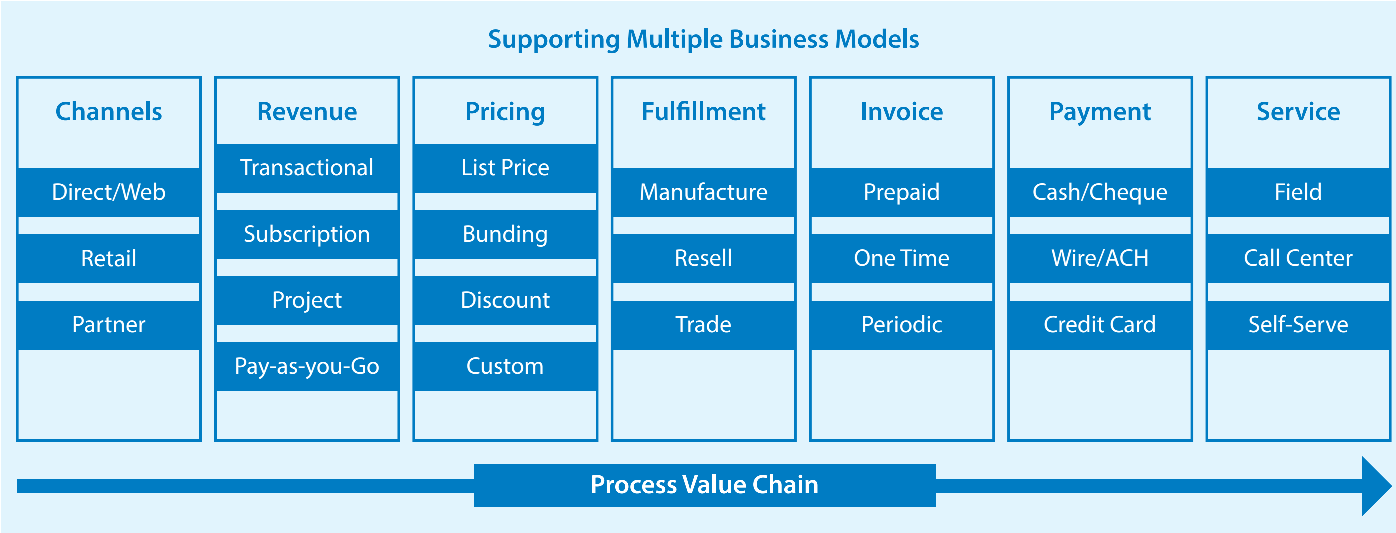
Successful executives ensure that quantifiable measurements (KPIs) are associated with action plans to achieve the desired outcomes. These measurements also provide clarity to managers regarding the focus areas and metrics to be used in the evaluation of their performance relative to integration of the acquired company.



Build a scalable enterprise business platform

One common thread running through the profile of companies achieving successful acquisition is that they were able to bring on board new business models in an efficient manner.

In an acquisition, functional agility is the predominant capability that helps an organization to thrive amidst the constant flux of business dynamics. Functional agility can be achieved through building business processes and supporting systems in a modular way to support transactions of different types. Leading organizations are often thinking about changing market trends and operating models to support future revenue streams. They intentionally invest in building business capabilities that enable and support multiple sell-side, fulfillment and customer service models.



To promote business agility, organizations are moving towards flexible technology architectures that provide for easily configurable and adaptable systems. In addition to providing a short and agile development cycle, these systems leverage the cloud-computing architecture supporting XaaS (anything / everything as a service) business models. More importantly, they enable multiple functional and service models with each primary function having several pre-defined, standard options that the business can choose from. The models can be used by the acquiring company based on the needs of the target company's customer groups and services offered. The availability of service models avoids significant business change management effort and results in improved adoption. However, merely adopting new technology architecture is not a guarantee of agility unless the business leaders foster appropriate organizational culture, policies and structure.

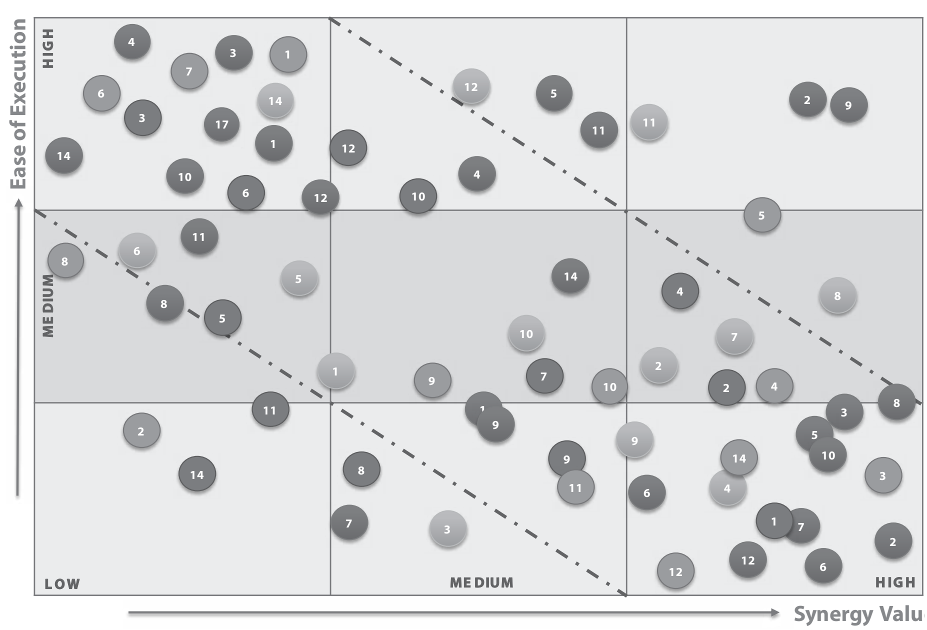
Leverage strategic objectives as the prioritization framework to make tradeoff decisions

Executing post-merger activities successfully in a newly formed fluid environment requires more than just good governance and implementation rigor; it also requires understanding of the valuation of each activity / project with respect to shared objectives and synergies associated with the merger. Limited resources and time often force the integration team to make tradeoffs, and evaluating the direct impact of the outcomes of these tradeoffs on the overall success of the merger is crucial for decision making.

A simple decision framework based on strategic objectives can provide an analytical step-by-step approach

to gather and prioritize merger activities. Further simplification is possible by grouping activities into value themes that deliver a specific business benefit. Senior management can then determine strategic priority ranking / rating for the value themes to signify their relative prioritization. This construct provides a clear indication of which activities are most critical to realize the desired benefits.

The decision framework also builds confidence around decisions being made as they are based on qualitative and quantitative analysis that can be substantiated. Another benefit is mitigation of decision risk through reduced time to close complex decisions, improved quality of decisions, and fewer revisions. It also creates broader ownership and commitment to decisions through multiple levels of the organization.



Select the right team to manage the integration

A common practice for most acquirers is to deploy a corporate strategy and development team not just to get the deal inked but also to oversee and execute integration activities. This arrangement could lead to two detrimental outcomes – the potential benefits expected from the deal are not aligned with realities on the ground, and the line managers are unlikely to embrace their synergy targets as they were not part of the objective setting process. To avoid these pitfalls, successful organizations tend to involve the functional leaders very early in the process to identify synergy opportunities, to develop a realistic valuation, and to plan the integration process and timelines. This also ensures that clear accountability for successful integration is established well in advance during the due diligence process.

The acquisition lifecycle demands different sets of skills, expertise and seniority at different stages of the process. Individuals driving this process should be capable professionals who are experts in functional areas, business integration, and managing cultural change. They should be able to clearly define the vision for the future operating model to achieve the benefits. This team of people will design and implement the processes and organization for the combined entity. Organizations need to precisely determine the appropriate candidates to fill these critical roles, how to involve them in the acquisition process, and when to leverage their expertise. It is also crucial to build and continuously nurture this team of individuals that serve as a conduit for the transition.

In today's competitive environment, most organizations operate a lean organization and hence, investing in key individuals who will drive the acquisition and transition activities comes at a cost. Moving people away from their day jobs to work on these activities requires either back-filling their roles or asking people to work extended hours. It is important that organizations put together a compelling incentive plan for these people to drive the motivation and deliver results. In addition to monetary benefits, the incentives could include better career prospects owing to their M&A experience.

Invest in building a dynamic organizational culture

By its very nature, a merger entails new organizational culture, processes, and experiences for the people involved. Ensuring the adoption and acceptance of this new entity in the hearts and minds of employees is always more challenging than purely implementing processes and systems. As the speed of business integration ramps up to realize the acquisition benefits, the pace of changes can produce proportionately higher resistance. Another problem that occurs during a merger is uncertainty about their future pushes employees to disengage themselves from their jobs. Such withdrawal may make them impervious to change management tools and techniques, adversely impacting productivity, and ultimately, the success of the acquisition.

A nimble and agile organization provides a strong foundation for change management. Agility cultivates people's readiness to adapt quickly to achieve the strategic and synergy objectives of an acquisition. Support for developing this agility needs to start at the leadership level. Leaders should act as primary change agents by creating a vision and by setting up a learning organization. They should embed learning principles into employee goal setting and rewards, and should recognize change-ready behavior. Giving people as much empowerment and control over their work as possible and involving them in decisions that affect their work is also important. Lastly, organizations that focus on continuous improvement are likely to be more adaptable in embracing change.

In summary, our experience reveals that the most successful acquisition integrations are built on a strong foundation of merger-ready, flexible and scalable organizations. The five principles discussed prescribe the set of transformational activities that will shape the organization, people and its culture to make them ready to garner the benefits of merger synergies.

About the author

Deepak Pajankar is an associate partner in the Management Consulting practice of Infosys for Energy, Communications & Services industries and has extensive experience in leading M&A and business transformation programs.