Conversation with Buddy Blaha, President of Corporate Development and Alan Cranston, Vice President, Integration of Newell Rubbermaid

By Jay Chatzkel, Progressive Practices, for the Beyond the Deal Newsletter

Newell Rubbermaid is a global marketer of consumer and commercial products with $6 billion in annual sales. Its portfolio of brands is categorized into three Groups: Home & Family; Office Products; and Tools, Hardware & Commercial Products.

Turning the Soil Through Extensive Divestitures and Integrations

JC: *Newell Rubbermaid is a company that has grown by acquisitions. How does your approach to integration work to support achieving Newell Rubbermaid's strategic goals?*

BB: My first two years with the company concentrated on selling businesses. When I got here we described ourselves as twenty six divisions. It was a company built through serial acquisitions primarily serving mass merchants. Our divisions were not structured in the same way, nor did they look the same. My observation was that in the classic sense of integrating a business nothing had been really integrated. There were a lot of silos, a lot of different structures and a lot of fiefdoms.

We began by selling a number of businesses with revenues totaling over $1 billion in revenue. We went from 26 divisions to 13 global business units (GBU's). These GBU's essentially look the same. They are integrated businesses that we have categorized into three groups. We have done a lot of integration after the fact.

When I was in banking I realized that the successful transactions were by people who were looking to see what would happen after the deal, i.e., integration. What are we going to do? How are we going to bring these organizations together? And those people that had a plan and implemented it rapidly, within 30, 60 and 90 days achieved successful deals. The target employees quickly assimilated into the new organization. Changes were made quickly and roles and reporting lines were clear. The juxtaposition of that was that you almost knew a deal was going to fail when the focus was on getting the papers signed, after which the buyer was spiking the ball. Over time I began to realize that if the interest of the client was in getting the deal signed, they were in trouble.

JC: *Do you mean that you reworked these fairly autonomous units after they had been acquired?*

BB: Yes. Many units were silos, based on geography, customers, management or other factors. They might not have been talking to each other on a global basis, even though they were making the same product.

As we were doing this unwinding, it stuck with me that if we start buying we have to be great integrators and understand what that means. The one simple way I describe it is that we start integration the day we get a book. We start it at the very beginning of a process. Alan Cranston, who runs integration, starts with that deal team and follows it through the entire integration process.

Our definition of integration is that you have to have a plan and you have to have a reason for that plan. The answer may be that we are going to leave this business alone for some period of time, or forever, or we are going to the flip side of that and we are going to consolidate everything, including facilities. Our definition of integration is having a plan and a reason for that plan that drives the creation of value from that acquisition, and to hold people accountable for that value creation.

We got into the business of buying in 2005, and that was our focus. Our first big deal was Dymo. Alan worked on the integration of Dymo. He was part of Office Products at the time. Immediately following that we appointed him to head of Integration. He works on integration for everything we buy.

The Relationship of Corporate Development and Integration

JC: *What is the distinction between what you do (BB) and what Alan Cranston does?*

BB: There are blurry lines. I am focused much more on strategy, deal origination and deal execution. That means indentifying opportunities, prioritizing them, running the business diligence process, coordinating external and internal teams such as legal and accounting, forming an opinion on value, modeling the target, and executing deal strategy in terms of what we are going to bid, how we are going to play it, what we are going to trade off in the contract, and how we are going to get this done or walk away.

Whereas Alan's focus, starting from day one until we are done integrating, is on the fit of the acquisition within our organization, identification of the value capture initiatives, who is responsible for them and how we are going to run that.

AC: I think it works because by having an integrated deal team we have some folks who are focused on the transaction, specifically the evaluation and negotiation of the deal and getting this across the finish line, but also under the same roof we have people who are focused on the integration of the business. This continuity helps in terms of the health of the business because we have the perspective within the negotiations as to how this business is going to proceed moving forward. We have that continuity of leadership from the transaction through the integration that helps maintain the strategic focus as to why we did this transaction, and are we executing on the things on which we wanted to execute on when we signed the deal.

Closing the Gap between the Decision to Acquire and Integration Implementation

JC: *How have you dealt with the tendency to have a gap between leadership and execution – where somebody makes a decision to go forward and other people are brought in to pick up the ball at that point?*

BB: We try to marry all of that together so that the leader of the business has to ultimately step up and own this. It is not a decision from the top and us calling them and saying "We are buying you a business."

If they are not enthusiastic about this business and prepared to own it, then it is not something for us to do. At the same time, we want to hold them accountable on, "What are you going to do to create value" and "Let's make sure every week that we are heading in the direction that we said we are going to head in." Part of our integration is to take on the day-to-day management of that process. A business unit president still has to run his or her business as well as a new one. He or she leverages us to ensure that the specific tasks are getting completed often by people that are not direct reports or may even be outside of the business unit. Alan drives this accountability throughout the process.

AC: Buddy's transaction team coordinates the confirmatory due diligence, we (the Integration office and the Business) hit hard on the business due diligence and from that we have our strategic rationale for the deal. We then build out value captures, which is our synergy plan. We are getting to a pretty detailed level of planning on those so that we can provide input back into the financial model to help with the continued negotiation. For us, it is hard to imagine that some people don't have that level of planning and get to a successful signing.

BB: There is another benefit to that. Since Alan starts Day One, by the time we get a deal done he's known these people and has been working with the target management team for six months, yet he's not their new boss. He gets a lot of feedback post closing of "Look Alan, this is not going so well. This is the problem in this particular area." We get that information because Alan becomes a trusted person to go to. We can call an "audible" if something is not going right or at least we have that information to make some changes.

Integration as a Core Capability

JC: *Would you say that there is an integration capability that you have developed over time for Newell Rubbermaid so that it both has the readiness and a whole set of capabilities that come together? Is it primarily the two of you and then the team of people from the business unit that are the ones that are the acquisition/integration team?*

AC: We have a small team, but we subscribe to the theory of having common systems, processes and learned knowledge available to the Business. A couple of recent deals have been in a GBU that has already successfully integrated, so they have certainly increased their ability in this area. Yet for our first sizable deal we hired AT Kearney as external consultants to help us with acquisition integration. We have taken advantage of those processes and those systems by refining them over the years so they are compatible with all of our businesses. Essentially we went out and bought a good base line but we have continued to focus on refining and structuring it, and we use the same process, reporting systems and project plans today. We work to continuously improve them over time.

JC: *Would you say that now you have a repository of capabilities that you can bring into play in any new opportunity?*

BB: That is correct. If you think of Alan and me as being part of the team, we also have a high level of consistency on the internal legal side, internal tax, internal accounting and internal operations on transactions. There is a lot of expertise and processes in those organizations as well. So that when it is a GBU buying, they have access to a lot of experience and process.

Keeping Priorities for Acquisitions Clear to All

JC: *Do you communicate your plans to the GBU leadership so they can better link up with you as these opportunities emerge?*

BB: Yes we do. We are pretty open to where we will deploy capital and how we rank opportunities. That is one area in which we have really improved. However, we are obviously in a pretty tough environment so we are not deploying capital externally right now - but out of 13 GBU's, we have 6six GBU's that we will spend in.

We have gotten into a discipline so that even if a GBU president is strongly suggesting we look at a deal and it is not one where Newell Rubbermaid has a priority in right now, we will stick to our prioritization of where we want and do not want to put capital.

We have a dynamic list of what is interesting to us that we keep. We talk about those companies all of the time and we prioritize that list. For instance, our last large transaction was Technical Concepts in our Commercial Products GBU. It closed on April 1, 2008. That was number one on our list for two years. We knew we were going to participate in the auction when that company came up for sale. We prepared for it. We talked about it frequently, and we were ready for that. When we talk about opportunistic acquisitions, I always like to say that opportunistic only dictates timing. We are generally not surprised by an asset coming to market.

JC: *Who does the active scan of potential acquisitions that would benefit the organizations? Is that under strategy or is that under Corporate Development?*

BB: That is under us. The business units have their strategies and we do strategic priorities every year. Our best ideas always come from the business units. Once in a while we find other ideas, third parties give us good ideas that we will take to business units, but it is a dialogue. It doesn't come from any one place. We are the repository. The executive team is the group that ranks that list, or places the priorities on that list of putting capital against a particular GBU.

Preparing Global Business Unit Leadership for Integrations

JC: *How else do you prepare GBU leadership for making acquisitions and divestitures part of their strategic thinking and operations?*

BB: Within the areas in which we want to invest, there may be some areas that we invest in more than once. So, we do have some of that capability that we build normally.

We run a gamut in terms of capability or experience within the GBU leadership. What we try to do is prepare them by giving them the tools to get them through this. We will take on a lot of the work that they don't have to be concerned with – in terms of the negotiation and valuation. We try to focus them on the things that are important in terms of business diligence and planning the transaction. We try to stay as close to them as we can on a daily basis when we are in a transaction mode. There's a lot of dialogue around any unresolved issues in an acquisition, including any people issues. We emphasize their need to be flexible with an acquired company. With the acquired company the acquisition is one of the most stressful things that is going to happen in that group of employees' careers. We try to emphasize the need for empathy. We need to put ourselves in their shoes and be sensitive to what they are going through.

Establishing an Approach to Integration

JC: *What kind of approaches and tools have you incorporated to grow your capabilities for effective integration?*

BB: The primary thing we did was that we established a head of Integration and built the tools for integration around him. That is the biggest step and the biggest change in Newell Rubbermaid as an acquirer -- the mindset around integration and the capability to run integration.

AC: The approach we have taken for effective integration has been to focus on both Value Capture projects as well as enabler projects. Recently one of our strategic objectives has been growth, especially over the last few years. We are looking to purchase assets that are growing. In terms of integration, what we are trying to do is institute a rigorous project management approach to integration so that the business leaders can focus on their business. The last thing we want to do is get the back office integrated and have sales drop twenty percent. What we have done is that from the first moment we get involved in looking at an asset (during due diligence), is to develop a strategic rationale as to why we would want to do that transaction, and we are translating that strategic rationale directly into value capture projects. These are separate projects from the back office, finance, IT, HR projects, and allow us to project manage the growth initiatives and ensure the focus.

Historically we found that if we focus hard on the value capture (as separate projects) we accept that something may go wrong somewhere and we might lose a customer here or there but we position ourselves to overwhelm any losses with significant gains. As far as processes and systems go, we set up the acquisition process so that we have a direct line of sight from the strategy down to the execution of what we are doing on the integration.

JC: *Do you have a playbook that you use as a base to adapt to any particular acquisition?*

AC: We do have a "loose" playbook. I talk to other people in the integration industry and I have seen some of the different tools and playbooks that are available. They tend to be very exact and very structured. Sometimes they have a web interface for people to log in and items to check off on a check list. We do not have that formal of a process.

We have a very strong shared knowledge that we've developed over a lot of these deals and we have success carrying over from deal to deal. We have a tremendous amount of that on the back office side and from the businesses on the value capture side. We do have a lot of continuity there and do a kind of loose playbook that the Businesses can use for their plans. On the value capture side we are looser. We are more into giving them an outline of the different deals that we have done and the different value capture projects that we have taken on. We try to get them to adapt that to the specific circumstance.

Capturing the Knowledge Capital that Enables Growth Synergies

JC: *How do you capture the ideas, concepts, and values from the acquired organization for growth synergies and how do you involve people from the acquired company as partners with you in the new business units?*

AC: That is a great question. We certainly all have trouble with that in terms of transactions from what I have heard in the industry. One of the things that we have done to capture ideas, concepts and values from the acquiree is we put it as a value capture project, and we assign someone to it, put in the expected milestones, and measure against it. An example would be, our head of R&D will go to the acquired organization to understand the projects they have in the pipeline and what to work on moving one or two up or one or two down, and how these projects could interact with ours. If we have done the deep due diligence where he has the knowledge, he will have an understanding of what we want to do. We have taken the goal of "cross pollination" and put it into the value capture approach, we feel that is how we drive that behavior.

If we just say from a strategic standpoint that the acquired company has great R&D and we say "integrate", cross pollination doesn't really happen. It is very difficult to pull learnings from a target company back to the acquiring company. That is something you really need to push and focus upon to get done. Otherwise they will be integrating just to tread water, rather than integrating to achieve the best of both of the companies.

BB: We do get an initial pop out of the acquired companies because we are usually much bigger and broader in terms of distribution. Our experience has been that we do get a pop out of the gate extending distribution by having a much larger sales force focused on the acquired company.

Creating Value with the Newly Acquired Company

JC: *Do the acquired companies look at you as an opportunity to become more of what they could be than if they stayed on their own?*

AC: A lot of times that is the perception of the target company. The more recent deals we have done have been with companies that have folded well into a GBU. We have not gone out and acquired a new platform, or a new line of business. A lot of times we do have a lot of assets that the target can use to grow their business and to invest in their business. We have become a business focused on brands. We have a lot of expertise in that area and we are continuing to develop it. A lot of times we may buy a business that is successful for other reasons, such as a great product or great technology. We can leverage our existing skill sets to take them to another level.

Keeping and Communicating Strategic Discipline

JC: *Newell Rubbermaid has made a determined effort to reinvent itself since 2005. You have worked at realigning values and practices, and emphasized becoming customer-centric. How has that affected how the company operates, including how you shape your acquisitions and integrations?*

BB: On the acquisitions side, we are very focused on a strategy. Historically, I don't really know if we were focused on a strategy as a global company, with pillars to that strategy. The strategy focus has driven a much better focus on capital allocation and an acknowledgement that these businesses are competing for capital. It is an acknowledgement that some businesses are not going to compete. It is no longer that "something popped up" or "we got a book and this looks kind of interesting", or "we have some cash sitting around, let's take a look at it."

Things will come up but now we say, "No, that is not going to happen." I have had conversations with GBU presidents and say that I understand the reason and rationale. I tell them, "Don't waste your time on this. You are not going to win here. When we compare this to everything that we could use capital for, your proposal is not going to make it."

We have gotten a lot more disciplined around that and we have developed a system of evaluating new opportunities on our dynamic list. When we have companies on that list, we use a set of criteria to evaluate them that has sixteen attributes.

Criteria for Evaluating Acquisition Opportunities

JC: *What are some of those attributes?*

BB: One is brand. That is not necessarily the company's brand that we are buying. It is also whether the product or business fits under one of our brands.

Others are channel, geography, the synergies with Newell Rubbermaid, the strength of the management team, and of course financial results. We look at not just how this business performed financially but historical trends such as cyclicality as well as gross margin sustainability. We have a goal of driving towards a forty gross margin so that gets a lot of scrutiny.

Another criterion is difficulty in integration, both physical and cultural integration. We ask "How difficult is this integration going to be?" We take a number of things into account and have a disciplined way of preparing opportunities and coming up with a decision of how are we going to prioritize them.

Cultural Integration

JC: *How do you evaluate the cultural integration issues?*

AC: We don't have a cultural diagnostic tool that we use. I know there are some out there in the marketplace. We tend to spend a lot of time thinking about a transaction before we move forward, so we have an idea of what we think the cultural issues may be. We try to confirm that during due diligence. We assign that to the HR person, but we also have the entire leadership team of the GBU out there trying to understand what the differences might be. I think we do an OK job with that. I think we have adapted some methods pretty well. If the business is culturally a small, fast growing business that is culturally very casual, we try to rig things so that their people do not have to interact with the larger organization with its many different parts and people. To avoid confusion we assign a singular point of contact to "herd" and prioritize the requests, meetings and interaction.

We don't have a formal process but we recognize that is an issue out there.

JC: *The literature from Newell is strong on saying that there is One Newell Rubbermaid and it is customer-centric, etc. Does that might mean a significant amount of reorientation for the people of a newly acquired firm to take that on?*

BB: Some people take longer to adapt to that than others but when we make the business case for that culture, it makes sense to them. People come towards it, rather than move away from it.

The other thing we try to do is have the acquired business participate in the integration. If it is a difficult cultural integration, I like to put the question to them. I say, "Here's our organization. How best can you use the organization to enhance your business? What do you think the opportunities are? This allows them to become part of the process.

We prefer to start with the acquired business having some of their leadership on our integration steering committee. We also have line leaders partnering on the value capture. That conversation goes pretty deep within the organization. It often goes one or two levels below the senior leadership.

Dealing with Integration Issues

JC: *In your transformation, are there any particular challenges that you have overcome and how have you done that?*

AC: There has not been anything particularly challenging, but there have been instances where we worked through some key issues. We spend a lot more time during diligence on brand and understanding what it means. Years ago, during due diligence we might have found that we had complementary geographies. We might have said, "Let's take our product and slam their name on it and sell it in the German market. It's going to be a big win." Now, on any particular integration, we focus on, "What does that brand mean. Does that product live up to the brand?" In the case that it does not, we have changed our value capture plans. From this learning we take that into account ahead of time. We try to get the brand work done earlier in the process. After signing, if the output of the brand work dictates changes in the value captures, we can get them in and move on with the process.

People issues continue to be a challenge. It can be hard in a big organization, but we need to be flexible on the people issues because as much as we want them to be part of our culture, we can't go in and say, "You don't have a culture. You have ours now." Instead, we combine the cultures.

The other people issue that I think is key is for every employee to know what is going to happen to them very quickly. Whether that is to assure them that all of the individuals have jobs or something as simple as, "Here is your benefit plan." I want them to know that on Day One so that our new employees are not wondering what their benefits are. Those things do not always happen as quickly as I would like to see them happen.

JC: *Do you have your Human Resources people work with you to develop that communications strategy and set of structures?*

BB: We generally put an HR person on site to answer those questions. Something we learned to do over time is that on our Day One when we close, we need somebody there because everyone has questions. In the acquired business people want to know, "What's in it for me." We had better be able to answer that. Most times we have a resource on-site for significant periods of time after Day-One. Often we have both a HR person and a project resource person there.

Lessons Learned

JC: *Are there any lessons learned that you would like to share?*

AC: The first lesson learned is that you have to start as early as possible. You can't underestimate the benefits of having the continuity of leadership from looking at potential candidates all the way through the integration. People who separate the M&A and the integration are missing the ball there.

We focus a lot on project structure and project management. That allows us to focus on exceptions and the "fires" that come up during integration as well as a deep focus on risks. Aside from our value capture teams, we also list out our risks and we assign people to those risks. If we don't have project management we can't get over the hump to get to risk management. For us a key learning is that as much as we can button up and nail down the more we can focus on the things that are going to come up and the unexpected risks.

JC: *Any particular adjustments in your work that were brought about by the current economic downturn?*

BB: Economic conditions turned so quickly and so hard that we are not really in the market right now. Valuations have come down and will stay down for a while so we're hoping to participate in this end of the cycle at some point. This raises the issue of cycle timing, and we will probably think about that more in the future. When we are at the top of the market perhaps we should be more patient.

The other thing is that we have purchased a number of companies. This has been a good period of sitting back and seeing how they have fared through this downturn. It is a good time to ask, "What would we do differently?" We can get a perspective that will allow us to prove out an acquisition in a particular business unit or we can start planning for our next move. We can look at all of these and see how they have performed and what has been good and what has been bad. We have been using this as a reassessment period.

The Key: Winning or Losing with Integration

JC: *If you were asked "What are the four or five things I need to know about acquisitions and integrations?", what would you say?*

BB: The first thing is **you win or lose with integration**. That's number one.

Communication is the next thing. We have a very robust process of communication. We have a Monday morning call that everybody is involved in our deal business. That includes the legal people, group presidents, accounting, tax and my team. This has people from different geographies. We talk about what is going on, what transactions we have out there and what we are seeing. That rhythm of the Monday morning call keeps everyone up to speed. They don't have to be on every Monday, but they can be on it.

On integration, Alan does a weekly call with everyone involved in value capture. You have to talk about what you have accomplished and where you are in front of your peers. That aids accountability and helps solve problems.

The other thing I tell everyone when we are buying something is to have empathy for the other side – for what they are going through, what they need and what they want.

JC: *Any final thoughts?*

BB: Ours is a hard story to tell. Certainly, when I got here this wasn't a company that if we started with a blank sheet of paper we would have ever created. Newell made more than fifty acquisitions from 1990 to 2001 that either had to be integrated or sold. We were lucky and good at a few things. One was selling a number of businesses quickly. We got rid of a lot of real weighty anchors by unwinding about 45 prior acquisitions from 2003 to 2006 through 17 divestitures. We've also reduced our manufacturing footprint significantly - by about eighty facilities - since 2001. These were very important moves. Without those changes and the other changes that have been taking place over the last five years – had we not begun that process and actively pursued it – we would be in a tough spot today.

All in all, I think we have done a pretty good job with the hand that we were dealt. To get a proper valuation as a company though, we have to prove consistency of results and top line growth. I think we will get there. It is a lot longer road than I expected when I took the job.

JC: *Many thanks to both you and Alan Cranston for sharing your valuable experience and insights with us.*

Hartley (Buddy) Blaha, President, Corporate Development, Newell Rubbermaid

Buddy Blaha joined Newell Rubbermaid in October 2003, bringing with him a long history of global mergers and acquisitions experience. Under his leadership, the company has significantly transformed its portfolio while building an exceptional organizational capability to source, evaluate, execute and integrate potential transactions that augment the company's strategic objectives. Prior to assuming his current role, Buddy spent 16 years at Lehman Brothers in both New York and London and was most recently managing director, mergers & acquisitions.

He holds a degree in commerce from the University of Virginia.

Alan Cranston, Vice President, Integration, Newell Rubbermaid

Alan joined Newell Rubbermaid in 2002 and has split his time between the Business Planning and Analysis group and Corporate Development. In 2005 Alan led efforts to integrate Dymo into Newell Rubbermaid's Office Products Group. Since that project Alan has led the integration function for Newell Rubbermaid and has successfully led the integrations of CardScan, Mimio, Pelouze, Endicia, United Receptacle, Teutonia, Technical Concepts and Aprica. Alan has redefined the way Newell Rubbermaid approaches post-merger integration developing the strategy by which all integrations are handled within Newell Rubbermaid. Alan has a BA in Economics from the University of Rochester, and an MBA from Loyola College.