Beyond the Deal Newsletter

Mergers and Acquisitions that
Achieve Breakthrough Gains

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Dear Jay,

Quote of the Month:

"The future never just happened. It was created."

Will and Ariel Durant

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Commentary: And Now for the Tricky Part ...

We are now seeing the possible merger of United Airlines with different, rival carriers: US Airways and Continental Airlines. This is still a very plastic situation where there are even unresolved questions as to which company will be the acquirer and under what conditions, as well as consideration of an array of strategic alliance options. There are continuing pressures for consolidation in the airline industry. Continental and United held significant acquisition talks in 2008 but those talks were broken off when Continental developed doubts about United's financial strength. Seeing that as an opportunity, the US Airways CEO set his sights on a United acquisition. His interest sparked a new, parallel round of acquisition talks between Continental and United.

There are many reasons to have questions about the promise of any of these merger combinations. One is that US Airways has spent the last five years working through the integration issues of its last acquisition, an integration that has been fraught with serious labor union controversies. United's unions have come out adamantly against a US Airways/United merger based on that questionable history. Second is that while Continental may have strong reasons to reassert its interest in United so as to consolidate more profitable intercontinental flight routes, it appears to be returning to acquisition talks as a reaction to the US Airways move so that it would not wind up a distant fourth in size of US carriers behind a new US Airways/United combination. It is worth noting that, despite the troubled conditions airlines are encountering, Southwest Airlines has based its growth almost entirely on an organic basis and does not see itself at a disadvantage in its unaligned strategic position. The point here is that it may be better to concentrate on building the strengths and capabilities of company rather than acquire a troubled firm, even in a well priced "deal". Acquisition is a strategic option for growth, but not the only one. All relevant factors must be adequately evaluated before such a major action is initiated. The requirements for a successful integration cannot be discounted. Northwest Airlines and Delta Airlines fashioned such a comprehensive approach to their post integration that broke new ground by proactively including its employees in the integration process. While not a perfect process it is a very credible effort to move the newly combined airline forward in a expeditious and healthy manner.

Even without resolving potentially thorny anti-trust concerns, there is the issue of whether any of these potential acquirers is sufficiently ready to take on the full gamut of legal, financial, cultural, organizational and related integration challenges. Only when that is accomplished will a potential acquirer know if has a markedly advantageous position after an acquisition for both the short and long term. Continental has a better history of remaking itself and has won a number of awards for outstanding performance, so perhaps its capabilities and processes are more robust. US Airways has recovered somewhat from its serious customer satisfaction and operational integration problems but is still hampered by its unresolved union contract issues.

The interesting thing is that the topic of readiness and capabilities is marginally mentioned at best in current commentary about these potential recombinations. In the end it will be a combination of the best strategic deal coupled with the levels of core capabilities that can be mustered that will determine whether any of these acquisitions will be healthy, growth moves or catalysts for unwelcome bankruptcies that are in the not too distant past of each of these companies. A serious evaluation of capabilities of all of these firms would provide a more reliable lens to gauge if this is comes down to whether this is a "deal just to make a deal" or if any or all of these possible combinations will "fly."

Guidance Factor #1: Focusing on the Primacy of Your Customers

Every acquisition needs a critical guidance system for keeping the integration process on track, on time, appropriately targeted and yielding the extraordinary gains that the acquisition promised. The first success factor to consider when integrating an acquired company is a focus on the primacy of the customer.

Although many companies say that the "Customer Is King" the reality is often the opposite. As pressures accumulate from the intense work of integration, companies often orient themselves inwardly, focusing on internal reorganization, and customer concerns slip into a secondary priority. Customer primacy is also often undermined as part of indiscriminate cost cutting. This is also the exact, same period of time when customers are experiencing extended periods of uncertainty about the company and in some cases lack of interest from it. Customers may feel they do not know who will deal with them, what the array of offerings will be or even it they will have a reliable supplier at all.

Therefore it is an imperative that an acquirer looks at the integration from its customer's point of view. There are may ways to shape an active relationship with each of your customers as part of a continuing communications strategy.
Some communications are one way, such as email, print ads, and other mailings. Other vehicles are two way or networked, including social media and surveys, as well as putting your sales force to work in the key role as a primary conduit and sensor in both directions of communications, both to transmit news and gather responses/inputs. All of these communications need to nurture your ability to inspire confidence that the newly combined company will be better able to serve its customers than ever before.

Customers need to know that you are making their needs and concerns a priority as you integrate to form the newly combined company. To achieve the desired outcome here, you have to do three things:

- Maintain continuity with your own customers
- Reach out to the customers of the acquired organization, and
- Determine how you can establish relationships with potential customers

A cautionary example of the cost of losing customer focus took place when Sprint merged with Nextel. After the merger, service centers were slashed and poor service became the norm. As a result unhappy customers deserted in droves and profits evaporated. Herculean efforts have subsequently been taken to restore customer relations but the damage may have already been too severe for a successful recovery. This may be a more extreme example, but since acquisitions and integrations are both complex and potentially highly disruptive, variations happen more often than not.

To deal with this challenge, we advocate a "from the outside in" perspective. This approach starts from your customers' point of view. The effect on the customer is considered in every decision you make in terms of the way your newly combined company will operate. This approach provides a clear, easy-to-grasp perspective that offers a core set of reference points for planning your integration.

The opposite and predominant view is the "from the inside out" perspective, where the acquiring company believes it can rightly dominate any set of decisions simply because it made the acquisition. The hazards resulting of this viewpoint can easily be (1) extensive distortion of asset allocation, (2) slower and poorer customer service, and (3) lower gains from taking on the acquisition.

If you have not honed your customer relationships before an integration, then developing an effective customer relations capability during the integration is going to be a particular challenge. Whatever your current capability, you have to start where you are at. However, if you look at the acquisition as an opportunity to reorient your firm, you can begin to shift towards a customer primacy viewpoint, which will improve the integration at hand, and at the same time prepare your company for future acquisition and integration successes.

The May Newsletter will continue with the next factor in this guidance series: *Creating a Strong - But Flexible - Business Plan.*

Book Review: ***The Social Media Bible***

In the March Newsletter we discussed the innovative role of social media and networking in facilitating acquisitions and integrations. The size and significance of these acquisitions make it a continuing challenge to rapidly capture and leverage all of the possible value to be found in these newly combining companies.

Unfortunately, social media has been subject to a great deal of hype. Also, the majority of social media efforts have been targeted to primarily marketing. Yet, while marketing is an obvious opportunity and offers a good deal of low hanging fruit, it is only one area of opportunities that social media offers.

The Social Media Bible: Tactics, Tools and Strategies by Long Safko and David K. Brake (Wiley, 2009, www.socialmediabible.com) explores a much fuller range of possibilities of social media and, importantly, does so from a strategic perspective.

The authors see three rules to transform a organization into a social media enabled enterprise:

- Social media is all about enabling conversations
- You cannot control conversations, but you can influence them, and
- Influence is the bedrock upon which all economically viable relationships are built.

The Social Media Bible provides an accessible introduction to social media and its many dimensions, maps out a strategic framework, gives an overview of a broad array of tools and has a set of exercises to determine readiness and a step by step process to cultivate a social media capability in an organization. Most likely you and your organization are already involved in a number of social media already, with many more on the drawing board. These may include: web pages, podcasts, Facebook, YouTube, to Twitter, blogs, wikis among others. With the transformation of the web and the accompanying rapid rise in social media, this is an opportune time to develop a strategic perspective and more holistically mobilize your stakeholder networks to generate the value so that enables you to stay ahead of your competition. The Social Media Bible can be guidebook for navigating down that path.

Correction: Master's in IP Management and Markets

program at IIT Contact Information

Please note a correction to the contact information for Jacqueline Leimer, program director for the new master's degree in intellectual property management and markets at Illinois Institute of Technology (IIT). Use this link: ***Jacqueline Leimer*** (jleimer@kentlaw.edu).

In addition to having the Newsletter sent to you directly, you can access the Newsletter and article library at: http://www.beyondthedeal.net/Newsletter.html

Please send in your comments, contributions and suggestions to Jay Chatzkel, editor. They are important to making the newsletter as relevant to you as possible.

You are welcome to forward this newsletter on to a colleague or friend.

All the best,

Jay Chatzkel
Progressive Practices

Jay L. Chatzkel is coauthor of the *Beyond the Deal*, and editor of the Newsletter. He is Principal of Progressive Practices where he assists organizations in transforming themselves into knowledge-based, intelligent enterprises. This includes working with organizations to develop skills and practices in the areas of merger and acquisition integration, intellectual capital, knowledge management, leadership and collaboration, business process management and performance measurement.

He is also author of *Knowledge Capital: How Knowledge-Based Enterprises Really Get Built* (Oxford University Press, 2003) and *Intellectual Capital* (John Wiley & Sons, 2002).