

Beyond the Deal Newsletter

*Mergers and Acquisitions that
Achieve Breakthrough Gains*

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July 2011

Dear Jay,

Quote of the Month:

Comments on Microsoft's \$8.5 billion acquisition of Skype

"Certainly Microsoft will be buying a fast-growing, well-positioned global asset with an unbeatable brand. But that's what eBay thought when it bought Skype in 2005 for \$2.6 billion. The devil is in how that asset is managed, and whether it can integrate with existing products and services. eBay blew it on both counts. If Microsoft does the same, we could wind up writing this story again with different names -- or maybe with some of the same ones -- a few years from now."

Kevin Manley, Fortune and CNN Contributor

In the July Newsletter:

The July Newsletter focuses on the role of a strategic communications plan to positively connect with all stakeholders during an integration. We look at how Southwest Airlines is leveraging its inflight magazine's 40th Anniversary edition to update its passenger customers on its integration of AirTran as well as many other company issues in an informative and entertaining way. While every company has its own personality and culture, Southwest's approach is a standout, and its operating principles and values are well worth considering. We then explore a broader, Beyond the Deal framework of how to manage both internal and external communications during an integration. The integration period is a time of high uncertainty and widespread anxiety on the part of many stakeholders. A well thought out and executed strategic communications initiative is part of the critical glue that keeps all stakeholders informed and positively linked to the integration and how the newly emerging company is working through the issues that are of greatest impact and concern to them.

- [**Southwest Airlines Communicates about its Integration with AirTran**](#)
- [**Managing Internal and External Communications**](#)

Southwest Airlines Communicates about Its Integration with AirTran

Communication is a reflection of culture

Southwest Airlines used the occasion of its fortieth birthday to give its customers a window on how it is moving forward with its integration of AirTran and what they can expect as the integration continues. Southwest's culture supports its practice of transparency and sharing the extent of the integration in a way that its customer shareholders can easily access and understand.

Celebrating its fortieth birthday is the centerpiece in its June 2011 "40th Anniversary Special" edition of its Southwest Airlines "Spirit" in-flight magazine. Southwest has a very open style of communication and nurtures the idea that it knows how to have fun but at the same time is serious about what it needs to be serious about. One of the things that it is serious about is providing a certain kind of experience for its stakeholders. A feature article in the Anniversary Special is "Welcome to the Herb and Gary Show", a back and forth conversational/banter interview between former CEO Herb Kelleher and current CEO Gary Kelly. They both were very much enjoying themselves doing the session and it shows in their informal, yet substantial conversation. The session is a platform to inform its Spirit readers on issues that are both important to the airline and to its passenger/customers.

At one point Kelleher asks Kelly: "What do you think is our biggest challenge in integrating AirTran - provided the Justice Department approves the acquisition?"

Kelly responds: "AirTran is a really high quality operation. They just ranked No. 1 in the annual airline quality study. They're not broken in the sense that we have to rush in and fix something. That allows us to focus on their people and the melding of our two companies. We'll want the Southwest Airlines culture to not just survive this but to be the result of this marriage. And what I think I would ask our Southwest folks to do is to truly and genuinely embrace these new family members, just like they would any new employee, respecting the fact that AirTran brings a lot for us, and we'll be able to prosper more because of the acquisition of AirTran. I think we are off to a wonderful start. We'll have a lot of exciting new destinations to add to the Southwest route map, and it'll really position us for some exciting growth opportunities in the future."

Benefits of a strategic communications approach for all stakeholders

Kelly clearly gives credit to AirTran, which has had a troubled past, as not being broken but as a value creating partner. Also, see how he encourages his current Southwest team employees to extend themselves to AirTran employees as "new family members." This is emblematic of the Southwest culture and driving operating principles. Following this path is making a difference in the integration. One of the thorniest issues in an airline integration is combining pilot seniority lists. US Airlines is still working through this issue three years after America West acquired it. Yet with Southwest, the Southwest Airlines Pilots Association and the Air Line Pilots Association reached an agreement in principle on an "integrated seniority list and transition plan for its pilots. The agreement governs how AirTran pilots will be placed in Southwest's pilot seniority list, something crucial to pilots since it determines pay and bidding for schedules and routes. Similar agreements need to be made with flight attendants and mechanics. As Southwest COO, Michael Van de Ven put it, "The unions and company

negotiating teams have accomplished a task that is rare in the industry", resolving seniority issues without going to outside arbitration.

A strategic communications strategy has many benefits, including financial ones that are frequently overlooked. Southwest demonstrates that as a values based company it can have the edge in carrying out a complex integration, including real dollar value that supports the company's bottom line. It is aggressively implementing its communication strategy throughout all dimensions of the integration process. Creative use of values can cut the cycle time for working through integration issues, increase performance levels and make Southwest a more attractive airline for passengers and therefore investors as well. Unfortunately, the norm is to ignore this powerful engine and concentrate on the mechanics and cost savings aspects of an integration, often a too narrow approach. Companies focus primarily on cutting financial cost cutting synergies and domination of the acquired company are less successful in their integration outcomes, and also tend to be haunted by long term unresolved conflicts that drag on for many years thereafter.

What does this mean for You?

Potentially a great deal. Find out by comparing Southwest's communications strategy with its competitors that are going through their own integrations now: United/Continental and Northwest/Delta. You will see noteworthy differences. Ask which airline is doing a better job with its integration approach and how it is dealing with its stakeholders. Then follow up with a comparison of Southwest's approach with your own corporate communications strategy for implementations.

Pass your thoughts and learnings back to the Newsletter. We would like to use them to continue this conversation going into the future, looking at different kinds of companies in different sectors, different sizes and different extents of integrations are fashioning and implementing their integration communications strategies.

Managing Internal and External Communications

The challenge of communicating on issues, status, and goals of such a complex undertaking of a major integration to multiple stakeholder audiences is daunting. However, you want your stakeholders to believe that they have a valued relationship with your new company. You need to ensure that each and every one of them feels that your company has made an honest effort to apprise them of any significant change that could be of relevance to them. From the beginning of the integration and onward, you want to show all of these stakeholders that you have a positive story. At the same time you don't want to overpromise. Therefore, you must be consistent, active in maintaining contact, and authentic in your communications.

In any large, complex acquisition there will be conflicts of interest among stakeholders. The new company has to anticipate what these arrays of interests are and be prepared to address them starting on Day One. Here are a few of the areas that different stakeholders want to continuously receive communications about:

- Employees are concerned about employment security and advancement opportunities.
- Customers want to know if they have an assured supply of goods and services, if the service levels will be maintained, and if there will be any differences in pricing or in the products or services offered.

- Suppliers want to know if they will continue to have a relationship with the new company and if there will be any changes in demands or terms.
- Financial analysts want know if the acquisition will lead to significant cost cutting and higher profit margins.
- Regulators have requirements that need to be satisfied so they need to know that your company can meet those requirements.
- The local communities in which your company operates want to know if your company will continue to operate its business there, what demands may be placed on them by your new company, or what new prospects might unfold.

It has repeatedly been said the secret of success in an integration implementation is that a company cannot communicate too much, too often and through too many vehicles. If good communication does not take root, poor communication becomes the de facto norm, as was the case during the US Airways, DaimlerChrysler, and Sprint Nextel integrations. Poorly planned and executed communications lead to distrust, undermine collaboration, and result in low levels of performance. Your new company can never afford poor communication, but you especially cannot afford it during the stressful and rapidly changing integration implementation period.

Subscribe to the Beyond the Deal Blog

Link to the Beyond the Deal Blog, with continuing updates on the changing world of Integration 2.0, with additional articles and commentary. You can subscribe to it at: www.beyondthedeal.net/blog/.

Using Social Media to Speed Up and Improve Performance and Outcomes of Your Integration Processes

Is social media a fad or is it a viable set of tools for advantage in an integration? Social media is now mature enough to be a major accelerator of speed and quality in integration outcomes. Click on this link to the [Social Media Strategy to Transform Integrations](#) PowerPoint presentation to see how you can start developing this capability in your organization now. See how you can develop and implement an effective social media strategy in your firm. Contact [Jay Chatzkel](#) or [Euan Semple](#) to make arrangements and for further information.

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).