Beyond the Deal Newsletter

Mergers and Acquisitions that Achieve Breakthrough Gains

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June 2010

Dear Jay,

Quote of the Month:

Any approach to strategy quickly encounters a conflict between corporate objectives and corporate capabilities. Attempting the impossible is not a good strategy; it is just a waste of resources.

Bruce Henderson
Founder, Boston Consulting Group

In this Newsletter:

1st Anniversary Newsletter Edition

It has been a year since the first Beyond The Deal Newsletter came out. Time to break out the champagne: Maybe a bit... What we have discovered along the way is that the Beyond the Deal book lays out an excellent ground for integrations and the Newsletter complements that by continuously exploring the themes in the book, keeping its ideas and approaches renewed and ever growing in value.

Quite a lot has changed in the course of this past year and yet much has stayed the same. Let's take a look:

In the months preceding the first Newsletter the tumult of a downwardly spiraling economy led to a number of unanticipated, unprecedented major acquisitions at fire sale pricing. Many of these remarkable acquisitions were in the financial sector. We saw Bank of America acquiring troubled Countrywide and then Merrill Lynch, Wells Fargo took over Wachovia, and JP Morgan Chase acquired Washington Mutual. At the same time, transactions in other sectors were disrupted or aborted as valuations were in turmoil and what had been solid financing became troubled or fell apart (i.e. Dow's acquisition of Rohm & Haas).

Flash forward to June 2010: Significant transactions are taking place but many of these appear to be due to defensive sector consolidation or related financial pressures rather than the seeking of breakthrough opportunities (as seen in Oracle/Sun Microsystems, Delta/Northwest, and United/Continental acquisitions). Companies are still seeking firm footing in this newly emerging economic reality. Nonetheless, companies need to create opportunities for themselves and acquisitions remain the major way for potential growth and positioning firms for strategic advantage.

What has not changed is the continuing focus on "the Deal", with the integration phases of acquisitions coming in a distinct second in attention. Yet the challenges of integrating complex acquisitions are perhaps greater than ever due to the stresses on coming up with more robust sources of value and for reducing the vast amounts of debt that were necessary to take on in these transactions.

Once again though it is the better integrators that are emerging with superior outcomes. Dow's highly developed integration capability has been at the center of managing the Rohm and Haas integration, while that same custodial capability is also being called upon to support the reshuffling of major Dow assets, things that are keeping Dow's corporate ship strategically on target and financially viable. Wells Fargo and Delta have also recognized the importance of integration with differing degrees of effectiveness, and Continental Airlines' experienced leadership may bolster a similar integration capability in the United/Continental transaction. Meanwhile, Bank of America and others may find the going more difficult, lengthy and less profitable. Cultivating key integration capabilities is again showing how it makes the critical difference for achieving a successful outcome as "the deal" dust starts to settle.

The articles, interviews and case studies in the Beyond the Deal Newsletter over the past year have highlighted many of the themes, issues and new opportunities that are key in shaping winning integrations. Newsletter articles have included: interviews with leading practitioners covering a wide spectrum of acquisition and integration issues, case histories, looks into a new generation of integration support tools, explorations into how to leverage and resolve thorny cultural issues, appreciating the role of intangibles in acquisitions and finally learning to effectively use social media to speed up and grow breakthrough value in integrations.

With our new year ahead of us, we appreciate your continued readership. Your suggestions and feedback this year have helped guide our journey. As always, we seek your input about what is most important to you in working through your M&A integration issues. That is the centerpiece of our effort.

Integration Guidance Factor #3: The Need for Speed

Speed is a primary issue for companies as they enter an integration. Moving with speed enables all of the following benefits:

- It facilitates a seamless transition for customers
- It promotes framing a company's new vision
- It gives momentum to the changes that have to take place
- It initiates new business strategies
- It accelerates establishing new brand awareness

An acquisition integration provides an exceptional window of opportunity for a newly combining company. People, practices, and culture are uniquely open to change during an integration. In fact, this is the time people expect change. But this opening only exists for a limited period of time. Speed is essential to take advantage of this special set of circumstances.

While speed is critical to the success of the integration, the caution is seeking "speed for speed's sake". You need to do all the things you do well <u>while</u> you are doing them quickly. The best way for an acquiring company to achieve a value-creating type of speed in an integration is by starting with a good business plan, sorting out as many issues as possible before the close date, and establishing the principles that will guide decision-making and the integration so that your company does not have to go back to the basics at every turn.

If your company takes the attitude of speed for speed's sake you risk creating a conquistador type of process, characterized by a view that say's "We are just going to put in our systems, our people and our processes, regardless of the quality of the company being integrated, because this will be faster, and we know what to do." This distorted approach to speed may yield short-term gains, but it will undermine your ability to create long-term value and quantum leap growth.

Moving forward rapidly, but not recklessly gives the new company a chance to implement cost <u>and</u> growth strategies that could save millions of dollars and use those savings to invest in creating augmented value for the company. Extending an integration excessively does the opposite. It infuses a costly drag effect into the new company, draining its energies, and misdirecting resources into efforts that no longer align and often conflict with achieving the strategic goals of the new company.

Another key reason for focusing on speed is that a speedy integration process cuts down on uncertainty and disruption on the part of all stakeholders by moving decisively through the various steps of the integration process. Employees, suppliers, customers, and strategic partners can experience that the integration actions are appropriate to achieve desired outcomes, and this accelerated approach counters tendencies towards malaise and paralysis that can easy settle into organizational practices. Further, if carried out well, the integration staff can allow for mistakes (and they will happen in complex integrations). Review for mistakes, acknowledge then, learn from them, correct them and move on. Fear of making mistakes inexorably slows down the process, leads to avoiding necessary risks and hampers those involved from carrying out their missions.

Remember, your competition is not resting while you are integrating. Incorporating speed into your integration builds the new culture, moves people into their new jobs, and brings new updated offerings to customers. All of this is part of building an augmented capability that gives rise to an increasingly responsive, high performance and value-creating organization.

The July Newsletter will continue with the next factor in the integration guidance series: "Partnering with the Company You are Acquiring."

"Value Creation" Integration Breakthroughs Presentation

The core principles for the Beyond the Deal approach to how to create value during acquisition integrations are brought together in the ***Beyond the Deal: "Value Creation" Integration Breakthroughs*** (http://beyondthedeal.net/PresentationValueCreationIntegrationBreakthoughs.pdf) presentation. This presentation walks you through the fundamental points and practices of the Beyond the Deal framework, providing a quick reference to compare and contrast with any organization's current integration practices. Download it and review the elements involved in shaping and implementing a strategic, winning integration.

Learn more about how to set up and implement a social media strategy for integrations:

Progressive Practices, partnering with Euan Semple, a leading practitioner in social media, offer a strategic approach of social media across the range of action areas involved in integrations. Click on the link for the ***Social Media Strategy to Transform Integrations*** PowerPoint presentation (http://beyondthedeal.net/PresentationSocialMediaStrategytoTransformIntegrations.pdf) to get a strong picture of a strategic approach and 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).