Beyond the Deal Newsletter

Mergers and Acquisitions that Achieve Breakthrough Gains

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June 2011

Dear Jay,

Quote of the Month:

"Integration is not just about cutting costs... I think the real integration is how do you energize the (newly combining) company and get the two companies to work together with one common goal, to put aside their ProLogis and AMB jerseys and really work well together."

Hamid R. Moghadam, Chairman and Co-CEO, ProLogis

In the June Newsletter:

What is particularly fascinating about the recent combining of two of the largest REIT companies, AMB and ProLogis, is not only that they tackled the tough issues of their integration in an effective and systematic way, but perhaps more importantly that both Co-CEO's are outspoken in their view that there is more to an integration than getting the new company in operation - "getting the trains to run" as they put it.

What is taking place with ProLogis is a good lead-in to the intriguing report issued by Boston Consulting Group (BCG) that identifies the key drivers for successful outcomes in the over 26,000 acquisitions it has followed since 1988. Our commentary on this just released report looks at highlights that are definitely worth having at your fingertips.

Finally, we examine the critical role of articulating the vision for the new company. This living vision becomes the context for all decisions, both large and small at all levels of the company. It frames the company's integration planning as well as the implementation of the integration plan that kicks off "Day One". More successful combining companies incorporate this way of working in their transformation and, quite simply, the less successful ones either do not bother to go down this road or pay it lip service at best.

- **More to an Integration Than "Getting the Trains to Run"**

More to an Integration Than "Getting the Trains to Run"

The recent combining of two of the world's largest REIT companies, AMB and ProLogis, is a fascinating example of how the changes in our global economy were a catalyst for an acquisition that had been considered unthinkable only two or three years earlier. The considerably larger ProLogis got caught in the economic downturn and the smaller AMB turned out to be in a relatively stronger position. While the resulting entity is called a "merger of equals", it pragmatically seems to be an acquisition by AMB. Regardless of the words, the change appears to be a sound and healthy move for both, and a well executed one at that. This is pretty good for two large companies that do not have extensive experience in major acquisitions. One indicator for success for this venture is that both Co-CEO's are outspoken in their view that there is more to an integration than getting the new company in operation - "getting the trains to run" as they put it. That perspective gives the newly forming ProLogis a leg up as it moves forward to both consolidate its vast holding as well as to break new ground.

Keys to Successful Mergers & Acquisitions Identified in Analysis of Over 26,000 Transactions

The Financial website brought to our attention a new report by the Boston Consulting Group (BCG), entitled *Riding the Next Wave in M&A: Where Are the Opportunities to Create Value?* This report analyzed over 26,000 transactions from around the world since 1988. It found that although only a minority of acquirers had positive results, this set of acquirers had a particular group of drivers in common that produced these successful outcomes. The critical issues these acquirers were more effective at addressing were:

· The selection of targets
· The timing of bids, and
· Cultivating excellent capabilities to support managing of the M&A process

"The pattern for the successful companies was to buy what they know when they know it will deliver optimal returns, then standardize their M&A processes, with clear lines of responsibility and robust performance measurement. Practice really can make perfect," according to Jens Kengelbach, coauthor of the BCG's report.

Contrary to expectations, one significant finding was that acquirers are more likely to create value when they buy targets abroad - "even though this is usually seen as riskier than making domestic acquisition. Less surprising is that long term returns are higher on average when acquirers buy targets in their core sector, and lower when they diversify into new ones."

As for timing, it is better to launch a bid just before an economic recovery and in the early stages of an M&A wave in an industry. Not a surprise here: There is less competition during these periods from other bidders and a better range of target choices.

The global recovery that began in 2009 continued into 2010 enabling achieving the best value levels, with positive returns on average for acquirers. This success has stimulated more players to become active again. This includes private equity firms as well as an increasing numbers of Asia Pacific companies that are involved in M&A's in other regions. These Asian firms accounted for one in five deals in 2010, a sizable shift in itself.

Another unexpected finding is that serial acquirers generate lower returns from M&A's than infrequent acquirers. On the other hand, serial acquirers outperform infrequent acquirers in three types of acquisitions that involve greater complexity: (1) distressed deals, (2) acquisitions of private companies - because they are better at evaluating and negotiating with them, and (3) acquisitions on other continents - since they have better capabilities in managing global complexity
.
As expected, returns of serial acquirers are found to be higher when they buy relatively small companies rather than companies that have higher sales than that of the acquirers themselves. Serial acquirers also have shown that they are better at timing, with 39 percent of their deals occurring in the first stage of an M&A period as opposed to 28 percent for single acquirers.

Prospects: Despite the wide range of risk factors the report states that, "the world economy may be in a prerecovery period in which companies should be able to make higher returns on acquisition than in earlier years of the downturn...However, this window of opportunity may not remain open for long, given these risk factors. If prospective acquirers want to benefit from a new M&A wave, they should be ready to ride it," commented Axel Roos, a BCG partner and the other coauthor of the report.

These findings provide us with additional food for thought as companies are considering or already underway in ramping up their acquisition initiatives. The report is another confirmation that building readiness in conjunction with cultivating core acquisition and integration capabilities does make the difference. And further, these actions are even more critical in the fast moving and more volatile economic era in which we operate.

Articulating a New Vision

Surveys of CEO's show that "engaging employees in the vision" is a key management and marketplace issue. Although values are at the core of a company, the vision fulfills the need to shape and articulate the company's aspirations in a way that allows all its members to see the role they have in realizing this desired future.

Vision has a special significance in the newly combined company that is emerging from an integration. It galvanizes the new company by inspiring people to a higher level. It leads people to commit to a compelling strategic direction. It also shows that the new company is moving in an uncompromising way toward a significant and promising future. A vision needs to be convincing to everyone in the new company, from the leadership to the front line. It is equally critical to actively communicate your vision to your customers, your

marketplace, and the local communities in which your company operates. Your stakeholders can then assess how your company's vision fits with their own goals and provides a supportive environment.
The time when the new company is forming is one of intensive change. A vision is especially important at this point to keep everyone's attention directed toward its new possibilities.

Articulating a vision is much more than a vision statement. It is a collaborative process. An attractive, catch vision that does not resonate with the whole of the company will fall short of its mobilizing role. The vision must be lived by the company's leadership and validated by the company's actual achievements. In a quantum leap company, the company's strategy and practices are part of its effort to fulfill its vision. In that way, the vision generates stretch goals that are measurable.

The process of forging a vision begins when new possibilities are explored during the acquisition process. It becomes more fully delineated during the integration planning stage to become a vision that can be communicated the day the newly combined company comes into existence. The process is carried still further as the integration team gets a better grasp of what is possible for the new company. When you select the leaders of the new company, senior management takes that vision to the next stage with the involvement of every member of the company.

The new leadership team generates a working draft of the company vision, as well as the major strategic thrusts related to that vision and a core set of objectives that flow from those strategies. This draft version of the vision will have the major elements of what the new company aims to achieve. The leadership group can then refine its strategic package over the following months, involving employees and getting feedback from different levels of the company as well as from external stakeholders. It is key that the leadership initiate the process, recognizing that the vision will evolve over time with broader organizational participation.

Without the framework based on this vision, decisions will continue to be made on the basis of the ground rules from the legacy company, which are no longer pertinent to the aspirations and strategies of the new company. Remember, the vision will not be "perfect" the first time round. This is an iterative process where everyone learns by doing, feeding their new understandings into the visioning process and recalibrating that vision and the actions that flow from it.

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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.

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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).