

Beyond the Deal Newsletter

*Mergers and Acquisitions that
Achieve Breakthrough Gains*

www.beyondthedeal.net

November 2010

Quote of the Month:

Corporate America Sitting on \$1 Trillion

Nine hundred forty-three billion dollars, in the form of cash and short-term investments, is burning a hole in the collective pocket of non-financial US companies, according to research from Moody's Investors Service. A significant portion of the nearly \$1 trillion, dealmakers hope, will find its way into the M&A market.

Ken MacFayden, *Mergers and Acquisitions*

In the November Newsletter:

Thanks to all those who participated in the Newsletter Survey. A highlight summary of responses is included in this issue, as well as an exploration of the challenges that Southwest Airlines will need to undertake to create the greatest value gain in its integration of its AirTran acquisition.

- [**Newsletter Survey Highlights**](#)
- [**Dealing with Southwest's AirTran Integration Issues**](#)
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Newsletter Survey Highlights

Thanks to all those who responded to the October Newsletter survey. Here is a short summary

of the results:

- Most respondents said they read the Newsletter frequently or always, and two thirds of respondents read at least half the newsletter
- 85% of respondents are satisfied or very satisfied with the Newsletter
- The most valued topic is 1) Acquisition and integration strategy, closely followed by 2) Core capabilities in achieving successful integrations, 3) Integration technology issues, 4) Integration process and management tools, 5) Culture/values issues, 6) Conversations with thought leaders and practitioners and 7) Using social media in communications and integrations
- The section of the Newsletter that respondents would like most improvement was Acquisition and Integration News. We will be providing more of that in future issues
- 85% of respondents found the Newsletter "somewhat" to "very relevant"
- Almost all respondents are interested in providing content to the Newsletter

We appreciate all of the responses and comments. We will use them to guide revisions in the Newsletter. One of the goals of the Newsletter is to have as many people involved in it as possible.

We are especially delighted that so many people are interested in contributing articles. Whoever would like to contribute please get back to us to on what topic you would like to write about.

If you did not have a chance to participate in the survey, we would be happy resend the survey to you. Please send your email and we will forward you the survey. The more people participate, the better we can provide you with information that is most useful to you.

Dealing with Integration Issues in Southwest's AirTran Acquisition

Southwest Airlines is moving beyond its strategy of organic growth with its acquisition of AirTran. It went as far as it could go with the strategic model that it first sketched out in 1970. Recently it needed to consider the kind of changes that would allow it to move to its next stage of development. The result was a major shift in strategy will soon enable its customers to stay on Southwest aircraft to travel to major airports across the US. It also means that Southwest will now compete more broadly and directly with legacy carriers in the US as well as the Caribbean, anywhere and everywhere, as it becomes a significantly fully national and international carrier.

- Virtually all M&A media and reviewers have focused is on an array of factors that have to be worked out in the acquisition and its integration, particularly that Southwest must:
- Deal with a business model that is keyed on: 1) Fast turnaround using regional and smaller

- airports and 2) using a single model of aircraft
- Bring two cultures together.
- Add 8,000 new faces to its 33,000 employees at all levels of the organization. This is not just a numbers issue. Southwest must take on difficult union/non-union, seniority and wage differential issues, all while keeps its planes flying. Further, one of Southwest's great strengths is that it has a personnel policy based on hiring for attitude and training for skills. Will it have to revamp that criteria and approach in this new set of circumstances?

Looking at Southwest's challenge from a different perspective yield a significantly better outcome. This core integration capabilities approach takes the concerns raised by analysts as real but deals with them as related concerns that are part of the overall integration process. Developing this set of core integration capabilities supports the integration in every phase and aspect of the acquisition process in a way that actually enhances Southwest's ability to deal with these thorny issues, such as seniority of flight officers. It should be noted that these are issues that no other airline has, as yet, successfully resolved.

There are six core integration capabilities that Southwest needs to bring to bear to achieve unprecedented gains from this acquisition. These are all capabilities that already exist in varying degrees at Southwest and Air AirTran as well and now need to be seen from the perspective of the acquisition.

1. **Strategic agility:** Southwest has shown the ability to create strategies and shape action plans that take advantage of market opportunities and strengths. This is not a one-time action since that strategy has to be continuously renewed with every significant change of circumstances. One framework for instilling strategic agility is to adopt the rapid prototyping model described in the January 2010 issue of the Beyond the Deal Newsletter. Also look at the Beyond the Deal book for extensive discussions of strategic agility, as well as the other five core integration capabilities.
2. **Market agility:** Southwest needs to be able to respond to the changing dynamics of the marketplace and uncover new possibilities to serve customers. The opportunities created by the acquisition are huge if Southwest can keep to its core values and present a viable and enriched value proposition to customers in comparison to what its competition (other legacy carriers) offer.
3. **Organization building:** Southwest needs to build on its current capabilities to be able to nurture the right culture, implement the right leadership principles, build trust, forge robust processes, and incentivize the engagement of those involved in the company.
4. **People management:** Southwest needs to draw on and enhance its tradition of recognizing talent, building on strength, select people quickly and make sure that people are placed at the right level of challenge, neither underestimating nor overestimating their abilities.
5. **Project and process management:** Southwest needs to put the right integration plan in place and to implement that plan effectively.
6. **Knowledge management, learning and innovating:** Southwest needs to be able to share knowledge throughout the newly combined company to ensure that rapid learning and deep,

experience-based knowledge continually sharpen its acquisition and integration practices.

This acquisition is a unique window of opportunity to bring about significant change. One comment was that the challenge to Southwest in this acquisition is that it remain "Southwest". When done well, growth does not mean losing what is of value, but transforming it at a higher level, with a more powerful set of offerings, opportunities and direction.

We will continue to follow how well Southwest is taking advantage of this major acquisition as an opportunity to dynamically renews itself, while preserving its essence, which has been carefully cultivated at Southwest since its beginnings.

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/.

How strategically using social media can vastly speed up and improve performance and outcomes of your integration processes

Using social media for advantage in an integration is new to just about everyone. Yet, it has the promise of being a major accelerator of speed and quality in integration outcomes. Take a few minutes and learn about this "strategic approach of social media" across the range of action areas involved in integrations.

Click on this link to the [Social Media Strategy to Transform Integrations](http://www.beyondthedeal.net/PresentationSocialMediaStrategytoTransformIntegrations.pdf) (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](mailto:jaychatzkel@progressivepractices.com) or [Euan Semple](mailto:euansemple.com) 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](mailto:jaychatzkel@progressivepractices.com) (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).

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