Beyond the Deal Newsletter

Mergers and Acquisitions that Achieve Breakthrough Gains

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Quote of the Month:

"Information is not knowledge"

Albert Einstein

In this Newsletter

The topic of this October issue's commentary is: The Return of the Mega Acquisition. The vast amount of cash is that has been sitting patiently on the sidelines is now coming into play in a series of mega acquisitions. Companies that know that they must reframe and reposition themselves to remain competitive feel confident enough in the economy to get into acquisition mode. They have enough cash built up so that credit availability is not the deciding issue. The question is, "Will these be game changing acquisitions or exercises in bulk generation?"

Also in this Newsletter is Part II of the Newell Rubbermaid Conversation with Buddy Blaha and Alan Cranston on their rich experience in operating the various aspects of their integration arena. One side of acquisitions that is less discussed is divestitures. Newell Rubbermaid had to make a number of very difficult decisions and divestitures to get itself back on track in move towards being a fully integrated enterprise. Divestiture is more often than not a very necessary part of redefining the mission and vision of the company as well as reducing onerous debt, witnesses the just announced divestiture of its theme parks unit by Anheuser-Busch InBev as it continues to digest its $53 billion in costs from the 2008 merger.

The complete transcript of this conversation is found at:

www.beyondthedeal.com/Newsletter.html.

Coming in November:

The November Newsletter will have a conversation dealing with how culture and values are part and parcel of effective integrations. Our focus is on understanding the dualities that must be resolved in the course of achieving a successful integration. This is a significantly different framework than the linear approach that is usually used to deal with thorny culture issues - issues that can undermine an integration.

In This Issue:

The Return of the Mega Acquisition

This past month continued to see an upswing in major acquisitions and divestitures. These are far different from the shotgun acquisitions of last year's financial institutions (Wells Fargo/Wachovia, Bank of America/Merrill Lynch and JPMorgan Chase/Washington Mutual). These new acquisitions indicate that the economy is in a new phase and that companies are actively seeking to reposition themselves with game plans that include strategic acquisitions. While, of course, each of this new group of acquisitions is unique they all require an overall effective framework for integration to be successful.

One strategic question is the degree that the acquirer will seek to integrate the acquired organization and how that will take place. In some instances, the initial approach is to plan that the acquired company will be a stand alone business unit. That decision may hold up but it also may be radically revised due to any number of factors. Hewlett Packard originally thought that the EDS acquisition ($13.8 billion) would be far less integrated but now HP is on course for a much fuller integration. HP already had developed a significant consulting/service function which makes a fuller integration much more sensible.

On the other hand, Dell does not have that same type of ground to build upon in its acquisition of Perot Systems ($3.9 billion), nor does Cisco Systems in its acquisition of Norway's Tandberg ASA ($3 billion). While Cisco has had significant success in serial integration of smaller companies it has had notable difficulties in integrating larger acquisitions. In fact, it appears that the Tandberg acquisition can be viewed as a reverse acquisition since Tandberg will be absorbing the Cisco effort at video conferencing. Tandberg is simply better at what it does than Cisco. Tandberg will keep its organization in Norway, with very few Cisco management people taking the lead there. This is a very different way Cisco to operate since it usually acquires smaller companies that are geographically close to its home office area and in rapid fashion those acquired companies come to operate according to the Cisco model.

A critical factor that will drive the success of all of these cases is how cognizant and sensitive the acquiring organization is to the culture and experience of the acquired organization. The fact is that only in a distinct minority of cases does the acquiring company actually know what is going on inside the acquired company and very often the acquirer simply does not care. In smaller acquisitions the damage from this lack of awareness is limited. In larger mega acquisitions, as seen in the Daimler Chrysler debacle, the consequences for damage are vast. Without a necessary sensitivity and active partnering acquirer does not gain the kind of access the embedded intangible knowledge that has been built up over years and decades. This is the key intangible asset that what makes the acquired companies worth the sizable acquisition premiums that are paid over market value.

While these mega acquisitions are a unique opportunity for creating unprecedented value there is just as good a chance that a less than adequate approach characterized by misperception of risk management, a check-the-box procedures cook book model of integration, and faulty execution will result in value destruction.

In contrast, a sound approach recognizes that accessing the core capabilities of both organizations to leverage the possibilities for greater growth synergies (as well as achieving cost synergies) is critical for these mega acquisitions. These mega acquisitions are game changing events with unique possibilities for unprecedented gains and must be treated as such.

Keep an eye on these mega acquisitions over next one through three years. See how well the acquirers have mobilized these six Key Integration Capability areas:

- Strategy Making and Agility
- Market Agility
- Organization Building
- People Management
- Project and Process Management
- Learning and Leveraging Knowledge

The degree that these capabilities are cultivated and shape the integration process will be the degree that the acquisition will create the ground for a quantum leap creation of value. (For more information on core integration capabilities, visit the July Beyond The Deal Newsletter.)

A Conversation with Hartley "Buddy" Blaha, President of Corporate Development and Alan Cranston, Vice President, Integration of Newell Rubbermaid: *Part II*

Newell Rubbermaid is a global marketer of consumer and commercial products with $6 billion in annual sales. Its portfolio of brands is categorized into three Groups: Home & Family; Office Products; and Tools, Hardware & Commercial Products.

Establishing an Approach to Integration

JC: What kind of approaches and tools have you incorporated to grow your capabilities for effective integration?

BB: The primary thing we did was that we established a head of integration and built the tools for integration around him. The biggest step and the biggest change in Newell Rubbermaid as an acquirer is our mindset around integration and the capability to run integration.

AC: Recently one of our strategic objectives has been growth, especially over the last few years. We are looking to purchase assets that are growing. In terms of integration, what we are trying to do is institute a rigorous project management approach to integration so that the businesses can focus on their business. The last thing we want to do is get the back office integrated and have sales drop twenty percent. From the first moment we get involved in looking at an asset, we have a strategic rationale as to why we would want to do that transaction.

Once we get involved in negotiations in due diligence, we start building in a direct alignment of the strategic rationale for the value capture opportunities that we will go with after once we sign the deal. That sets up our ground to take into account things like whether an asset may have good sales channels or operate in a good geography. Some of our value capture plans directly relate to how we interact with that business. If they have a complementary geography we can take our products into their geography. They may be strong in Germany and we are strong in Western Europe. We then might consider taking their products into Western Europe.

We get direct alignment between the strategic rationale of the deal and the value capture activities that we are going to go after during the integration. We make the distinction between value capture activities, which are supporting the strategic rationale of the deal and the enabler functions. We found that if we focus hard on the value capture, we accept that something may well go to go wrong somewhere and we might lose a customer here or there but we position ourselves to overwhelm significant losses with significant gains based on the strategy of the deal. As far as processes and systems go, we set up the acquisition process so that we have a direct line of sight from the strategy down to the execution of what we are doing on the integration.

JC: Do you have a playbook that you use as a base to adapt to any particular acquisition?

BB: We do have a "loose" playbook. I talk to other people in the integration industry and I have seen some of the different tools and playbooks that are available. They tend to be very exact and very structured. Sometimes they have a web base for people to log in and items to check off on a check list.

We have a very strong shared function that we have developed over a lot of these deals and we have experience carrying over from deal to deal. We have a tremendous amount of that on the back office side and from the global business unites (GBU's) on the front side. We do have a lot of continuity there and do a kind of loose playbook that the GBU's can use on their plans. On the front side we are looser. We are more into giving them an outline of the different deals that we have done and the different value capture projects that we have taken on. We try to get them to adapt that to the specific circumstance.

Capturing the Knowledge Capital that Enables Growth Synergies

JC: How do you capture the ideas, concepts, and values from the acquired organization for growth synergies and how do you involve people from the acquired company as partners with you in the new business units?

BB: We certainly all have trouble with that in terms of transactions from what I have heard in the industry. One of the things that we have done is that have found is that if we put it as a value capture project, and we assign someone to it, put in the expected milestones, measure against it, it will happen. Our head of R&D will goes to the acquired organization to understand the projects they have in the pipeline and what to work on moving one or two up or one or two down. If we have that deep due diligence where he has the knowledge of it he will have an understanding of what we want. If we have taken that and put it into the value capture approach, we feel that is how we drive that behavior.

If we just say from a strategic standpoint that the acquired company has great R&D and we say "integrate", nothing really happens. It is very difficult to pull learnings from a target company back to the acquiring company. That is something you really need to push and focus upon to get done. Otherwise they will be integrating just to tread water, rather than integrating to achieve of best of both of the companies.

AC: We do get an initial pop out of the acquired companies because we are usually much bigger and broader in terms in terms of distribution. Our experience has been that we do get a pop out of the gate extending distribution by having a much larger sales force focused on the acquired company.

Creating Value with the Newly Acquired Company

JC: Do the acquired companies look at you as an opportunity to become more of what they could be than if they stayed on their own?

AC: A lot of times that is the perception of the target company. The more recent deals we have done have been with companies that have folded well into a GBU. We have not gone out and acquired a new platform, or a new line of business. A lot of times we do have a lot of assets that the target can use to grow their business and to invest in their business. We have become a business focused on brands. We have a lot of expertise in that area and we are continuing to develop it. A lot of times we may buy a business that is successful for other reasons. It has a great product or great technology. We can leverage our existing skill sets to take them to another level.

Keeping and Communicating Strategic Discipline

JC: Newell Rubbermaid has made a determined effort to reinvent itself since 2005 with its emphasis on becoming customer-centric. How has that affected how you shape your acquisitions and integrations?

BB: On the acquisitions side, we are very focused on a strategy. Historically, I don't really know if we were focused on a strategy as a global company, with pillars to that strategy. The strategy driven focus has driven is a much better focus on capital allocation and an acknowledgement that these businesses are competing for capital. It is an acknowledgement that some businesses are not going to compete. It is no longer that "something popped up" or "we got a book and this looks kind of interesting", or "we have some cash sitting around, let's take a look at it."

Things will come up but now we say, "No, that is not going to happen." I have had conversations with GBU presidents and say that I understand the reason and rationale. I tell them, "Don't waste your time on this. You are not going to win here. When we compare this to everything that we could use capital for your proposal is not going to make it."

We have a gotten a lot more disciplined around that and we have developed a system of evaluating new opportunities on our dynamic list. When we have companies on that list, we use a set of criteria by which we evaluate them that has sixteen attributes.

Criteria for Evaluating Acquisition Candidates

JC: What are some of those attributes?

BB: One is brand. That is not necessarily the company's brand that we are buying. It is also whether the product or business fits under one of our brands. Others are channel, geography, the synergies with Newell, the strength of the management team, and of course financial results. We look at not just how this business performed financially but historically if is it cyclical and is it a low gross margin business. We have a goal of driving towards a forty per cent gross margin so that gets scrutiny there.

Another criterion is difficulty in integration, both physical and cultural integration. We ask "How difficult is this integration going to be?" We take a number of things into account and have a disciplined way of preparing opportunities and coming up with a decision of how are we going to prioritize these.

Cultural Integration

JC: How do you evaluate the cultural integration issues?

BB: We don't have a cultural diagnostic tool that we use. We tend to spend a lot of time thinking about a transaction before we move forward, so we have an idea of what we think the cultural issues may be. We try to confirm that during due diligence. We assign that to the HR person, but we have the entire leadership team of the GBU out there trying to understand what the differences might be. I think we do an OK job with that. I think we have adapted some methods pretty well. If the business is culturally a small, fast growing business that is culturally very casual we try to rig things so that it does not have to interact with the larger organization with its many different parts and people. That could be very confusing to them. We give them one point of contact for a lot of things.

Dealing with Integration Issues

JC: In your transformation, are there any particular challenges that you have overcome and how have you done that?

BB: We spend a lot more time during due diligence on brand and understanding what it means. Years ago, during due diligence we might have thought that we had complementary geographies. We might have said, "Let's take our product and slam their name on it and sell it in the German market. It's going to be a big win." Now, on any particular integration we started to get a lot of push back on, "What does that brand mean. Does that product live up to the brand?" In that case it did not. We had to change our value capture plan. From that learning we take that into account ahead of time. We try to get the brand studies work done. After signing, if there are changes in the value captures we can get them in and have an appreciation for that aspect.

People issues continue to be a challenge. It's hard to have a big organization dealing with the mentality that we need to be flexible on the people issues because as much as we want to them to be part of our culture, we can't go in and say, "You don't a culture. You'll have ours now." Instead, we combine the cultures.

There are also rules in a big company. When you are buying a company you have to understand that they were paid something for that company and that is where you start,

The other people issues are that I always want every employee to know what is going to happen to them very quickly. Whether that is to assure them that all of the individuals have jobs or something as simple as, "Here is your benefit plan." I want them to know that on Day One so that our new employees are not wondering what their benefits are. Those things do not always happen as quickly as I would like to see them happen.

Lessons Learned

JC: Are there any lessons learned that you would like to share?

AC: The first lesson learned is that you have to start as early as possible. You can underestimate the benefits of having the continuity of leadership from the looking at potential candidates all the way through the integration. People who separate the M&A and the integration are missing the ball there.

We focus a lot on project structure and project management. That allows us to focus on exceptions and the fires that come up during integration as well as focus on risks. Aside from our value capture teams, we also list out our risks and we assign people to those risks. If we don't have project management we can't get over the hump to get to risk management. For us a key learning is that as much as we can button up and nail down the more we can focus on the things that are going to come up in the different risks.

JC: Any particular adjustments in your work that were brought about by the current economic downturn?

AC: Economic conditions turned so quickly and so hard that we are not really in the market right now. The evaluations have come in have will come in and stay in. There's also cycle timing that we will probably think about more in the future. When we are at the top of the market perhaps we should be more patient.

The other thing is that we have purchased a number of companies. This has been a good period sitting back and seeing how they have fared through this downturn. It is a good time to ask, "What would we do differently?" We can get a perspective that will allow us to prove out an acquisition in a particular business unit or we can start out looking for the next one. We can look at all of these and see they performed and what has been good and what has been bad. We have been using this as a reassessment period.

Winning or Losing with Integration

JC: What do think are the four or five things a potential acquirer needs to know about acquisitions and integrations?

BB: The first thing is you win or lose with integration. That's number one.

Communication is the next thing. We have a very robust process of communication. We have a Monday morning call that everybody is involved in our deal business, including our legal people, group presidents, accounting, tax and my team. This has people from different geographies. We talk about what is going on, what transactions we have out there and what we are seeing. That rhythm of the Monday morning call keeps everyone up to speed. They don't have to be on every Monday but they can be on it. That allows everyone to know what is going on.

On integration, Alan does a weekly call with everyone involved in value capture. You have to talk about what you have accomplished and where you are in front of your peers. That aids accountability and helps solve problems.

The other thing I tell everyone when we are buying something is to have empathy for the other side - for what they are going through, what they need and what they want.

Final Thoughts

JC: Any final thoughts?

BB: Ours is a hard story to tell. Certainly, when I got here this wasn't a company that if we started with a blank sheet of paper we would have ever created. Newell made about forty-five acquisitions that began in 1990. We were lucky and good at a few things. One was selling the things that we sold quickly. We got rid of a lot of real weighty anchors. We also reduced our manufacturing footprint significantly by about eighty facilities between then and now. We sold seventeen businesses between 2003 and today. These were very important moves. Without those changes and the other changes that have been taking place over the last five years - had we not begun that process and actively pursued it, we would have been a headline making disaster.

All in all we have done a pretty good job with the hand we have been dealt. To get proper valuation as a company though, we have to prove consistency of results and top line growth. I think we will get there. It is a lot longer road than I expected.

JC: Many thanks to both you and Alan Cranston for sharing your valuable experience and insights with us.

Hartley (Buddy) Blaha - President of Corporate Development at Newell Rubbermaid

Buddy Blaha joined Newell Rubbermaid in 2003, bringing with him a long history of global mergers and acquisitions experience. Under his leadership, the company has significantly transformed its portfolio of transactions that augment the company's strategic objectives. Prior to assuming his current role, he spent 16 years at Lehman Brothers and was managing director of mergers and acquisitions.

Alan Cranston - Vice President, Integration

Alan joined Newell Rubbermaid in 2002 and has split his time between the Business Planning and Analysis group and Corporate Development. In 2005 Alan led efforts to integrate Dymo into Newell's Office Products Group. Since that project Alan has led the integration function for Newell Rubbermaid and has successfully led the integrations of CardScan, Mimio, Pelouze, Endicia, United Receptacle, Teutonia, Technical Concepts and Aprica. Alan has redefined the way Newell Rubbermaid approaches post-merger integration developing the strategy by which all integrations are handled within Newell Rubbermaid.

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

All the best,

Jay Chatzkel
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Jay L. Chatzkel is coauthor of the *Beyond the Deal book,* and editor of the Newsletter. He is Principal of Progressive Practices (www.progressivepractices.com) 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).