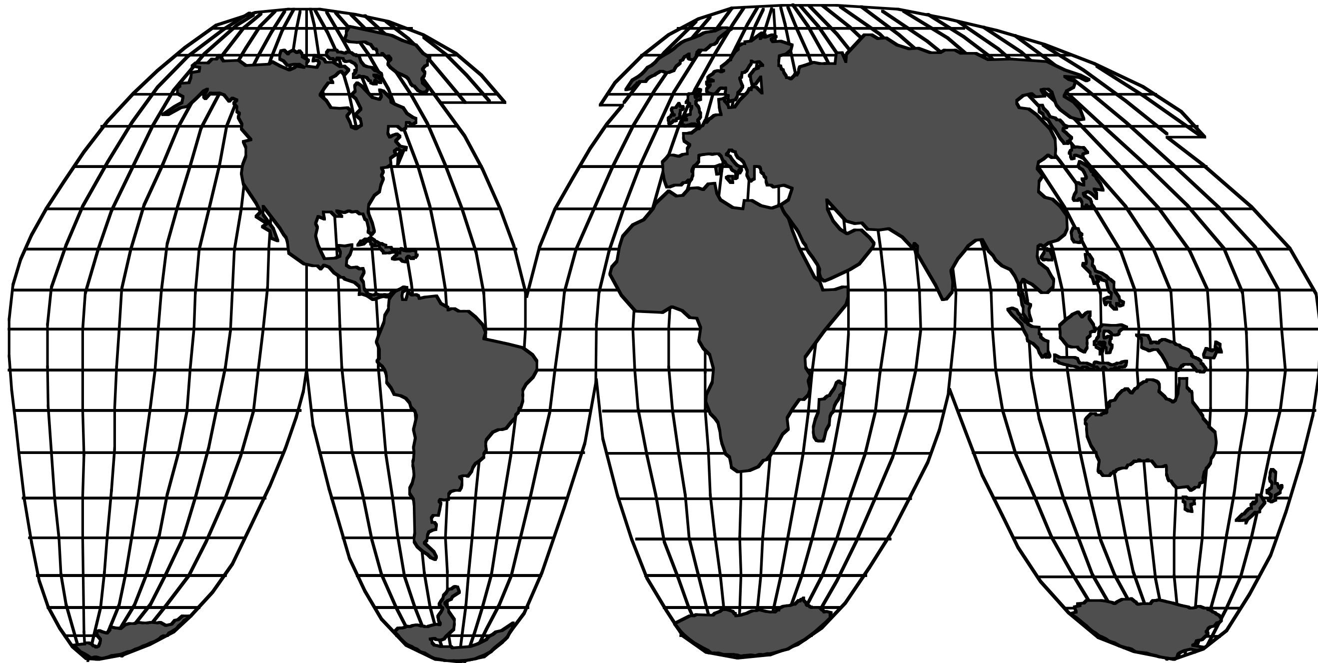
How to Make Successful Acquisitions



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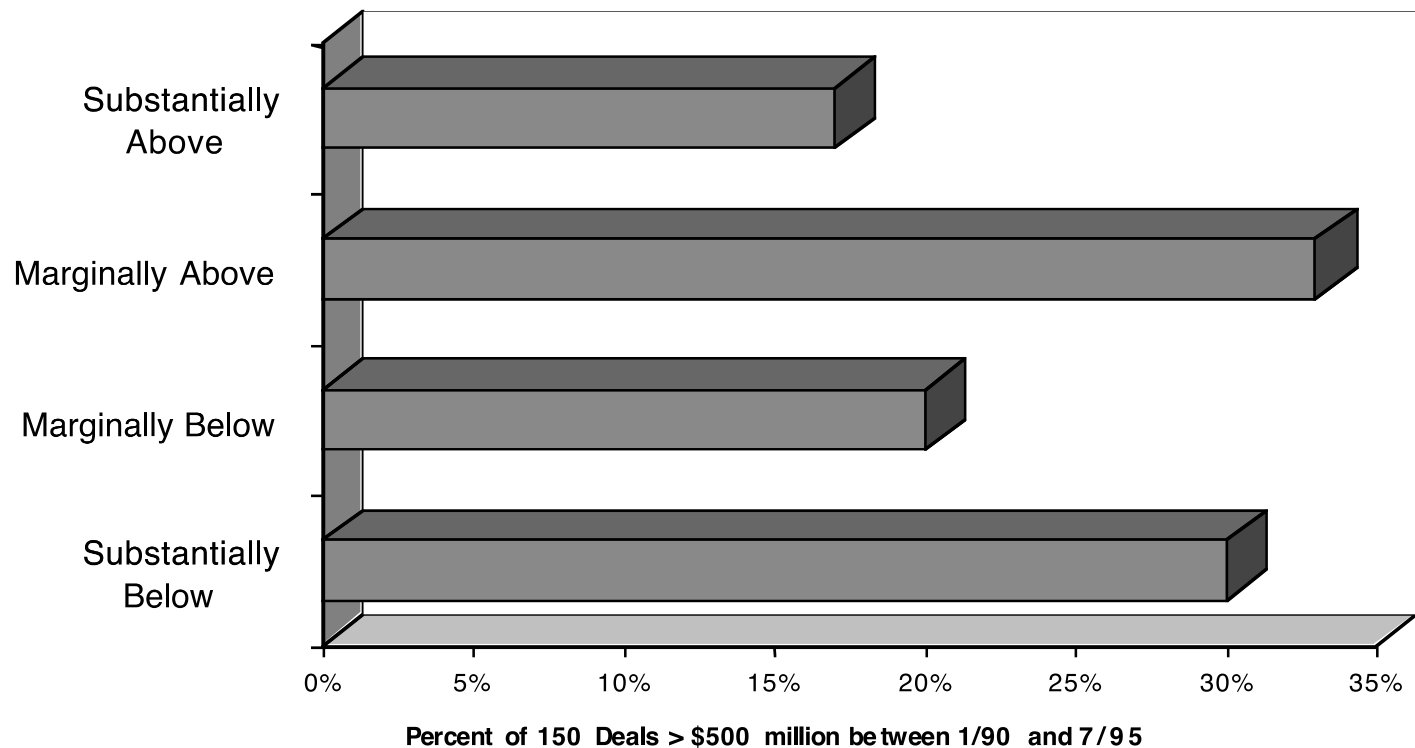
The Challenge

Data on Recent Mergers and Acquisitions Suggest Only Seventeen Percent of Transactions Create Substantial Economic Value for the Bidding Firm[a]

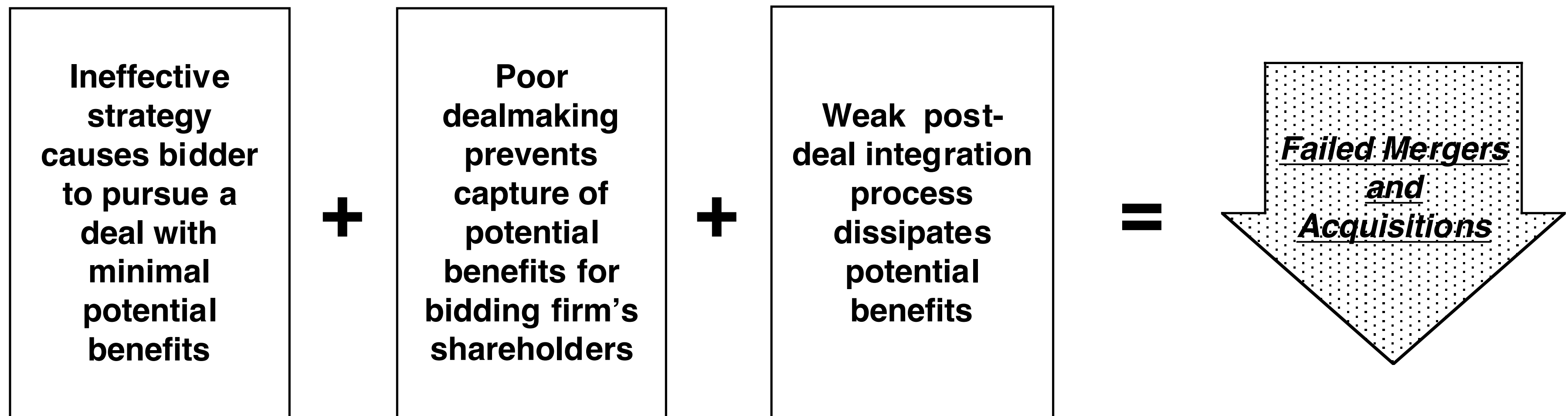
Incremental Returns Relative to Industry Index



Many academic studies have found similar results.

[a]Business Week, 10-30-95

Many of These Deals Fail to Create Value for Shareholders in the Bidding Firm for Three Reasons:



This presentation examines each of these causes of failure in more detail.

Strategy Issues

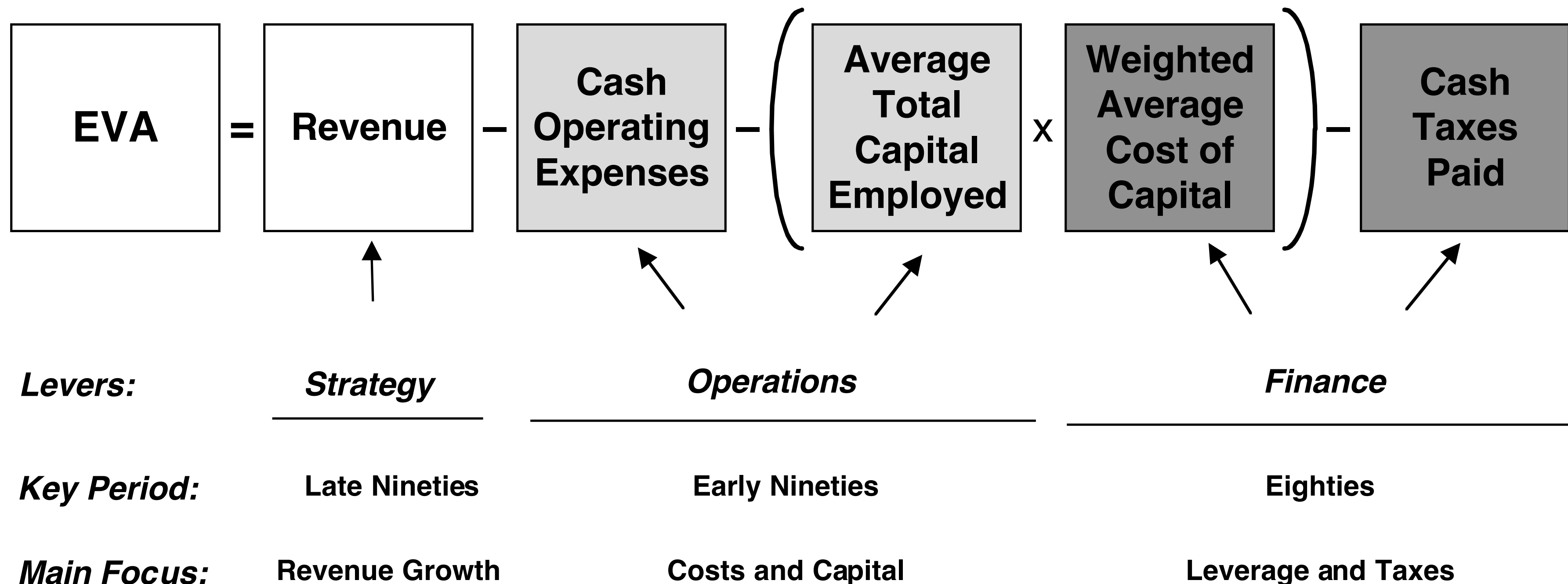
A Key Goal for All Companies Is Adding Value to the Capital Provided by Their Investors

- **The market value of a company's equity is composed of two parts:**
  - the book value, or the amount originally provided by investors
  - the difference between market and book value, which represents the value that management's efforts have added to shareholders' original investment (this is also known as Management Value Added, or MVA)
- **However, Management Value Added is a "present value" measure: it represents the discounted amount of the value that management's efforts are expected to add to investors' capital in all future years**
- **On an annual basis, the impact of management's efforts can be measured by the excess of cash profits over investors' required rate of return**
  - traditionally, this measure was known as "economic profit"
  - more recently, it has become better known as Economic Value Added, or EVA[a]:

EVA = **Revenue** – **Cash Operating Expenses** – (**Average Total Capital Employed** x **Weighted Average Cost of Capital**) – **Cash Taxes Paid**

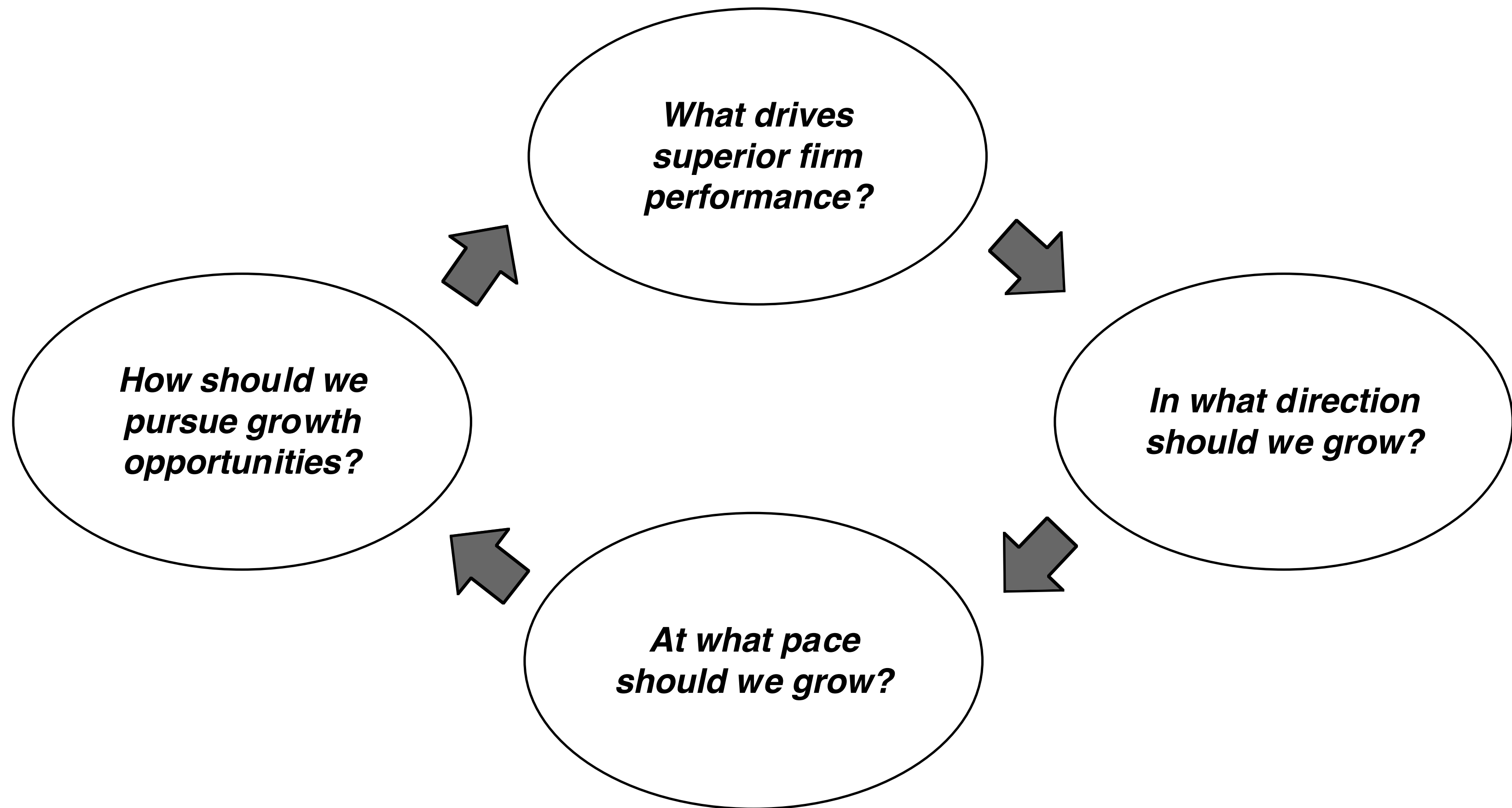
[a]for more information on EVA and MVA, see Quest for Value by Bennett Stewart

Over the Last Twenty Years, Companies Have Taken a Succession of Approaches to Increasing Their EVA



There are obvious limits on a company's ability to increase EVA through financial restructuring and operational improvement; eventually, all organizations must address the issue of growth.

Firms Attempting to Create Value Through Growth Must Reach Agreement on Four Key Strategy Issues



The Starting Point for Thinking About Growth is Management's Point of View About the Drivers of Superior Firm Performance

- One explanation of superior performance, typified by Porter's Competitive Strategy focuses on industry structure
- In this view, firms with strong vertical bargaining power (vs. customers and suppliers) in industries with high entry barriers (against new entrants and substitutes) should earn returns above their cost of capital
- This implies that managers setting the direction for growth should be concerned with seeking out industries with favorable structural characteristics, locating attractive strategic groups within them, and taking actions to further moderate competitive pressure
- This approach assumes that the key issue in strategy implementation is developing customer relationships and products; the assets and capabilities required to do this are assumed to be relatively easy for the firm to obtain

Sources of Superior Firm Performance (cont'd)

- However, more recent studies have shown that the differences in performance between firms in the same industry are up to eight times greater than the differences in performance between industries
- This suggests relative competitive advantage within an industry, rather than the structure of the industry itself, is the more important driver of differences in firm performance
- The nature of a firm's relative competitive advantages within an industry are usually easy to identify and quantify: lower costs, and/or differentiation along important dimensions that lead to an offering that is perceived by target customers to have superior value
- Thus, another approach to understanding sustained performance differences between firms focuses on the distinctive organizational assets and capabilities that give rise to these competitive advantages

Sources of Superior Firm Performance (cont'd)

- **Distinctive organizational assets and capabilities meet two key tests:**
  - they make a substantial contribution to creating an offering with superior value as perceived by customers
  - they are in scarce supply, for one or more of these reasons:
    - they are physically unique (eg., due to location, patents, mineral rights, etc.)
    - they can only be slowly accumulated through experience over time
    - they are embedded in a complex social structure and are based on a large amount of tacit rather than explicit knowledge (and are therefore difficult to transfer in a market transaction between firms)
    - competitors are deterred (eg., because of a company making a pre-emptive investment in new capacity in a slow growing market) from attempting to imitate them
    - it is not economic to use substitute assets or capabilities

- **This approach implies that managers setting the direction for growth should focus on:**
  - identifying the firm's current distinctive assets and capabilities;
  - identifying market opportunities (in both the current and in new businesses) where these distinctive resources, either singly, or even better, in a unique combination, will generate a substantial competitive advantage;
  - developing new distinctive assets and capabilities that will be critical to future success in the face of changing customer requirements, technology, and competition

In Practice, Managers Need to Combine Both of These Theories to Create Value

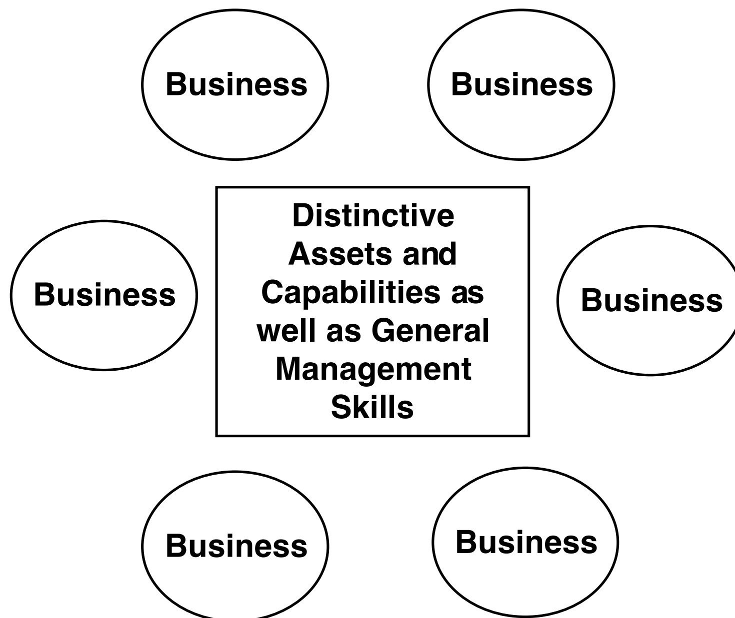
- They need to identify growth opportunities that will strengthen industry structure in their current business (eg., the horizontal acquisition of a competitor, or, in some cases, a vertical acquisition of a supplier or customer);
- They need to pursue opportunities for leveraging their firm's current distinctive assets and capabilities into new geographic, customer and product markets in their current business;
- They need to explore new businesses to identify those in which their current distinctive assets and capabilities could create competitive advantage;
- They need to renew their stock of distinctive assets and capabilities, to ensure their future success in their current business, and to add to their options for entering new businesses

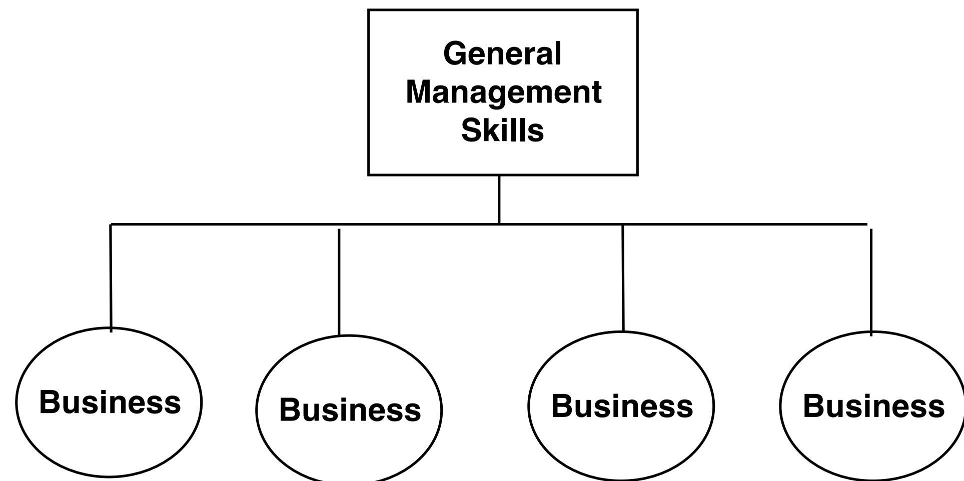
Moreover, this takes place through not one, but two processes: occasional formal top-down reviews and specification of the firm's intended strategy, and continuous bottom-up modifications of it as new threats and opportunities emerge.

The Major Constraint on the Growth Opportunities a Firm Should Pursue are Economic Limitations on Its Maximum Efficient Scope

- **On the one hand, a multibusiness firm has some potential advantages:**
  - shared access to distinctive assets and capabilities that cannot be obtained via a market transaction
  - cheaper borrowing costs due to larger size and coinsurance effects (if the cash flows of two businesses operating as part of the same organization are more stable than would be the case if they were independent; as a result, they can use more debt in their capital structure)
  - some cost savings on shared central services, such as finance, human resources, purchasing, public relations, and information technology
  - two or more businesses operating within a single organization may also benefit from being able to gain access to distinctive general management skills available at a corporate headquarters, particularly when these businesses are concentrated in a single or highly similar industries
- **Beyond a certain scope, however, these benefits will be offset by additional costs:**
  - the direct cost of maintaining corporate headquarters facilities and staff
  - the opportunity cost of compromise "corporate" solutions that are suboptimal for one or more business units (eg., in the area of human resources or I.T. policies)
  - the opportunity cost of slowed business responsiveness to environmental changes, due to:
    - business units not being in direct contact with investors;
    - to avoid information overload, corporate managers have to rely more on financial performance measures (which are lagging variables) rather than operational ones (which are often leading indicators) as the businesses under their control become increasingly unrelated to each other
    - additional information demands created by layers of bureaucracy

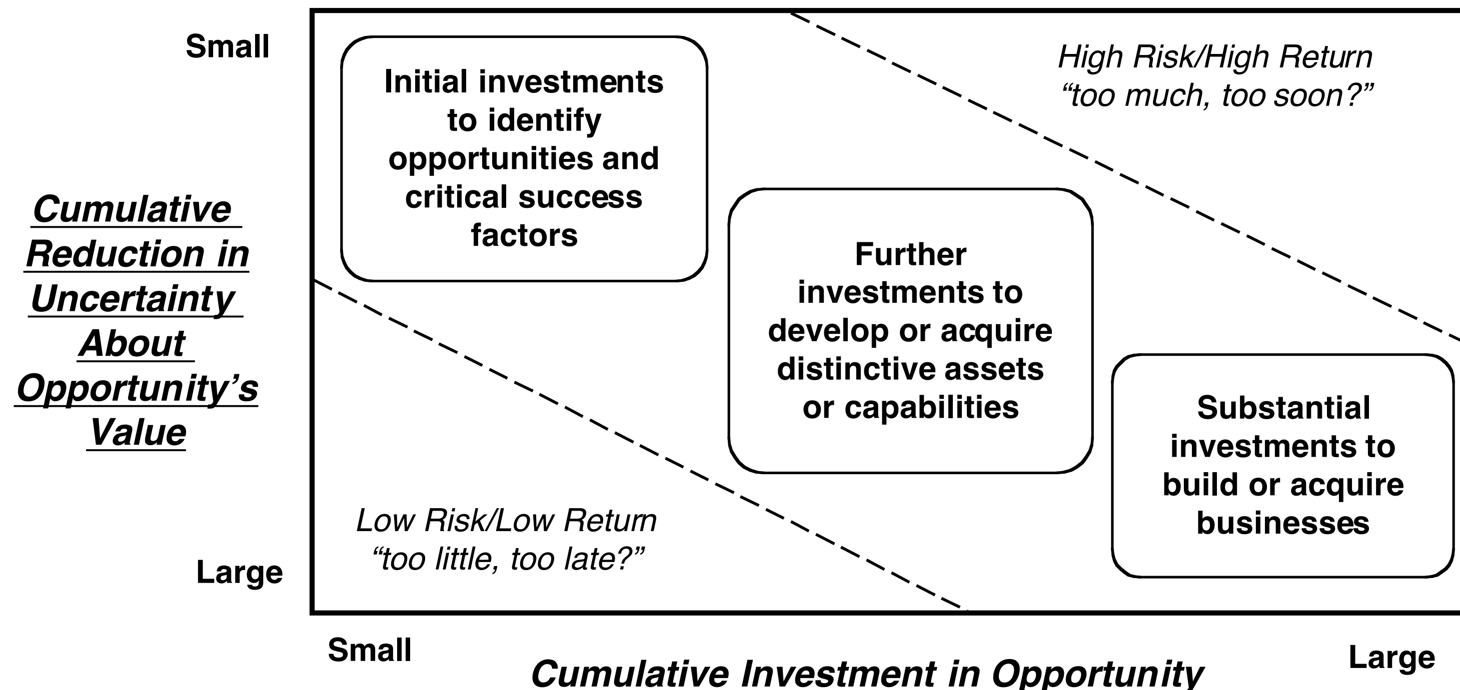
This Suggests That The Firms Most Successful at Creating Value Are Likely to Have Businesses That Leverage a Common Set of Distinctive Assets and Capabilities, Rather Than General Management Skills Alone





Academic research supports this conclusion.

The Right Pace of Investment in a Growth Opportunity is a Function of Uncertainty About Its Value and Corporate Tolerance for Risk



The goal isn't to eliminate uncertainty entirely; rather it is to invest appropriately in light of it. While uncertainty creates anxiety for managers making investment decisions, it also delays competitive imitation and thereby provides the basis for superior returns; it is the very uncertainty associated with a strategy that contains the seeds of its success.

Five Considerations May Cause a Company to Pursue an Opportunity Through an Acquisition or Joint Venture, Rather Than Internal Development

- **Industry Structure:**
  - where the impact on industry structure of added capacity or subscale entry into a new market will be significantly adverse, entry via an acquisition or joint venture may be preferable
  - similarly, entry via an acquisition or joint venture may provide additional benefits (eg., removal of capacity, achievement of scale economies)
- **Risk of Pre-Emption:**
  - where the first competitor to apply a distinctive asset or capability to a market will gain a disproportionate share of the potential benefits (eg., due to establishment of a standard, or other entry barrier), a company may choose to move quickly to pursue the opportunity via acquisition or joint venture
- **Uncertainty:**
  - a high degree of uncertainty about the potential value (to the bidder) of a target's distinctive assets and capabilities may lead a company to pursue it via a joint venture
- **Extent of Unrelated Assets:**
  - where a potential acquisition candidate would bring with it a large amount of assets unrelated to the bidder's business, and these assets could not be quickly resold at an attractive price and/or could not be resold without destroying the distinctive assets or capabilities that make the target company attractive to the bidder, a joint venture may be preferred
- **Top Management Team Complementarity**
  - where the top management teams of two companies have complementary functional skill sets (ie., one's strengths offsets the other's weaknesses) and similar management styles, an acquisition may be preferred; where the opposite is true, internal development or a JV may be a better approach

Summary: Strategic Sources of Acquisition Failure

- **Failing to identify and build strategy around distinctive assets and capabilities, resulting in opportunistic pursuit of deals whose potential net benefit is small or negative**
- **Making a substantial investment either too far ahead or too far behind an opportunity's "learning curve"**
- **Pursuing an opportunity via acquisition when another approach is preferable**

The cost of these failures takes two forms: the direct cost of completed deals whose strategic logic was weak, and the opportunity cost of potentially attractive deals that were never pursued.

Dealmaking Issues

As We Use the Term, Acquisition Dealmaking Has Three Principal Elements

- **Valuation of the target company, and choosing a bid price**
- **Deciding on the form of the transaction**
  - tender offer, merger, or proxy contest
- **Choosing the form of payment to the target**
  - cash or stock in the bidding firm

Valuation Is at Best an Inexact Science; the Most Common Techniques All Have Limitations

- **Using price multiples (eg., price/sales, price/book, price/cash flow, or price/earnings) to value a company assumes the market is efficient**
  - there is considerable evidence that suggests that this is not the case; rather, investors typically overreact to good and bad news
  - thus, price multiple techniques will tend to over and undervalue companies

- **Moreover, research has shown that price multiples differ in terms of their ability to produce long term gains for investors:**

Shares Purchased Based on:	Compound Annual Return, 1954-1994	Standard Deviation of Returns (Risk)	Return/Risk
Low Price/Sales	15.42%	26.17%	.5892
Low Price/Book	14.38%	25.63%	.5611
Low Price/Cash Flow	13.58%	25.53%	.5319
Low Price/Earnings	11.18%	24.67%	.4532

[a]from What Works on Wall Street by James O'Shaughnessy. Stocks used in analysis were those with inflation adjusted market capitalization of at least $150 million, as reported in S+P Compustat database

Valuation Is at Best an Inexact Science; the Most Common Techniques All Have Limitations (cont'd)

- **Finally, users of price multiple valuation approaches sometimes confuse a fair price with a good one**
  - a fair price is one which, by definition, does not represent an overpayment by the bidder to the target company's shareholders
  - in so far as the price paid by a bidder does not imply a price multiple greater than that paid by firms acquiring companies similar to the target company, it may be judged to be "fair"
  - on the other hand, a "good" price implies that the payment to the target company's shareholders is substantially less than the value of the acquired firm to the bidding company, which can only be determined by a detailed discounted cash flow analysis of the specific transaction under consideration

- **The other common valuation technique, discounted cash flow analysis (DCF), suffers from three critical technical limitations:**
  - cash flow projections often fail to fully capture the value of options a company owns (eg., its potential ability to use its distinctive resources to enter a new business)
  - similarly, DCF analyses often fail to capture the future opportunity cost of not taking a particular course of action (eg., the impact on future cash flows of a competitor gaining access to a new capability if we choose not to make an acquisition)
  - finally, most people apply the DCF technique by projecting "most likely" (modal) cash flows and using a single "risk adjusted" discount rate to calculate their present value. The mathematical logic of this is that risk increases geometrically over time, which often isn't the case in the real world

Moreover, the Assumptions Used in Valuation Analyses Are Often Biased in a Positive Direction, Leading to Bid Prices That Are Too High

- **To the individuals involved in their early stages, acquisition transactions often seem exciting and highly attractive; because of the amount of time they invest, the team working on a deal naturally wants to see it close**
- **This predisposition then combines with some of the natural flaws in the way human beings process information to produce biased assumptions**
  - we are naturally overconfident
  - individually, we form our initial opinions on the basis of relatively little data, but require substantially more information to change them; moreover, we tend to seek out data which supports our existing opinions, and screen out (or attach less value to) data which doesn't fit comfortably with them
  - collectively, we can become locked into a point of view by "group think" (particularly in high pressure situations, like an acquisition transaction)
  - we typically attach too much weight to information that is recent, or easily available (such as financials) instead of data about critical operating, competitive, or organizational uncertainties (eg., customers' perceptions of the company) that are more difficult to obtain and model
- **More specifically, the assumptions used in DCF analyses often underestimate the organizational obstacles to sharing resources and transferring skills between two firms, as well as the competitive obstacles to new market entry**

The Choice of Deal Structure and Form of Payment to the Target Company Are Also Associated with Bidder Returns

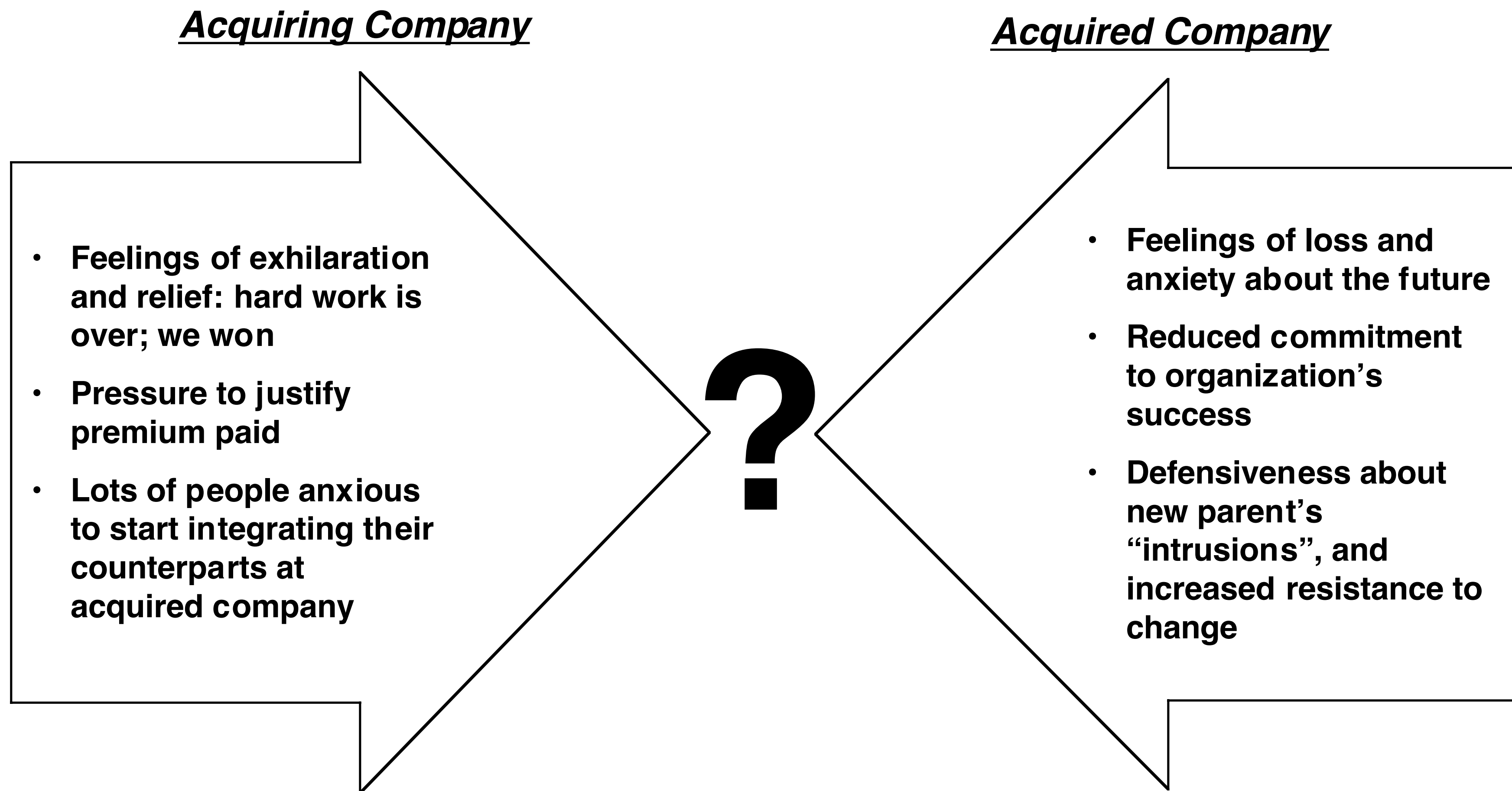
- **Most academic studies have concluded that tender offers lead to higher bidder returns than either mergers or proxy contests**
- **The form of payment to the target company's shareholders is also correlated with bidder returns, with cash deals outperforming stock deals**
  - some researchers have speculated that this is because use of stock signals investors that either the bidder's management thinks its shares are overvalued and/or they have a high level of uncertainty as to the value of the target and the deal
- **An important exception to this rule is when bidder company management owns five percent or more of the firm; in this case, the form of payment has no impact on returns**
  - in these firms, CEO rewards are most strongly correlated with total shareholder returns; in other companies, they are more closely tied to firm size

Summary: Dealmaking Sources of Acquisition Failure

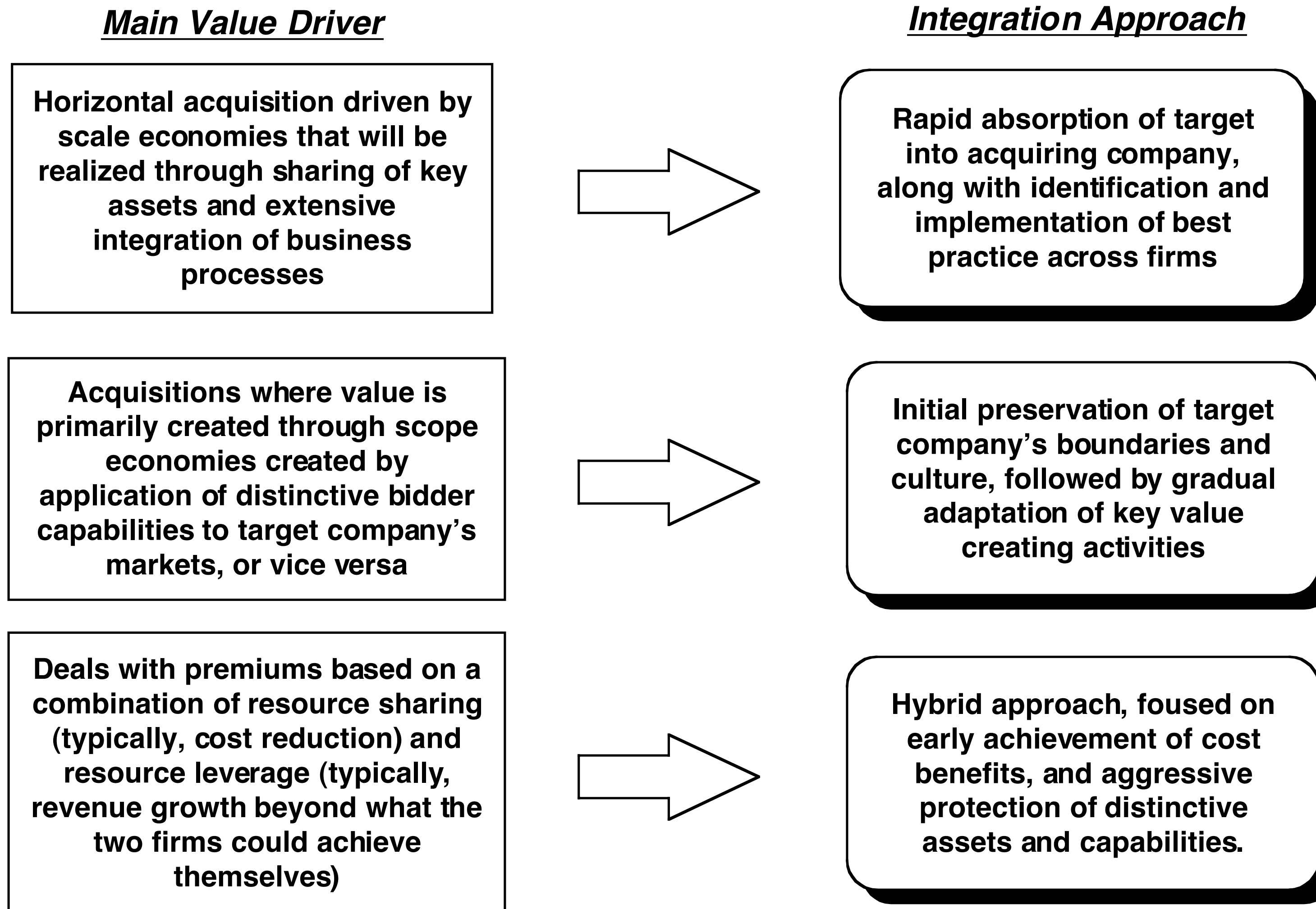
- **Failing to actively guard against normal upward biases in assumptions driving valuation and choice of bid price**
  - eg., by testing models to identify critical assumptions, and collecting external data about them before deciding on a final bid and/or reservation price
  - by explicitly incorporating organizational and competitive uncertainties into valuation models (eg., via use of a simulation approach)
- **Confusing a fair price with a good one**
  - as can happen "in the heat of battle", when one has a significant personal ego stake in the outcome of a contested bid
- **Relying too much on mechanical valuation models at the expense of business experience and judgment**
  - decision makers should always try to explicitly explain the causes of any discrepancy between their "gut feeling" about a valuation and the results of various models
- **Using a suboptimal deal structure**
  - using a cash tender offer as the starting point for structuring a deal seems to introduce additional discipline into the process

Integration Issues

Shortly After An Acquisition Closes, the Following Integration Challenge Usually Presents Itself



The Right Approach to Integrating Two Organizations Depends on the Strategic/Valuation Logic That Drove the Deal



Integration Through Rapid Absorption: Key Action Steps

- **Before the deal closes, key activities to be integrated should be identified, the size of their expected benefits quantified, and a tentative plan drawn up for realizing them**
  - this plan should highlight the sensitivity of the deal's economics to any delay in achieving each activities' expected benefits; the larger the premium paid, the bigger will be the impact of any delay
  - the plan also should include task forces for each critical integration area, including preliminary objectives and milestones, and tentative staffing from the acquiring company
  - note that task forces are not needed right away in all areas; integration of less critical activities can be delayed until later
  - task forces for communications and progress tracking/benefits measurement should also be formed

- **A transition team head should also be provisionally appointed**
  - this person should be an experienced general manager; using this role as a development experience is high risk
  - he or she needs to have sufficient power to control interactions between the two firms as the integration process goes forward, as well as sufficient leadership skills to have credibility in both organizations
  - he or she should also have a very clear understanding of the logic underlying the deal, its key value drivers, and the expected timeline for realizing benefits
  - after the deal closes, a senior executive from the acquired company should be appointed to work with the head of the transition team

Rapid Absorption: Key Action Steps (cont'd)

- **When the acquisition or merger closes the senior executives of the two companies should meet to review the key details of the deal, and agree on a shared agenda going forward**
  - purpose and goals of the combined organization
  - strategic logic of the deal
  - expected benefits, and timeline for realizing them
  - task force definitions, objectives, and staffing
  - process for making human resources decisions
- **The senior executives should also try to anticipate areas where problems may arise in the integration process, and how they can be avoided**
  - activities can be divided into four categories, using two criteria: (a) the importance to benefit realization of integrating the two activities; and (b) the extent to which the two organizations took different approaches to performing the activity
  - activities that are both critical and performed in a similar manner are opportunities for visible "early wins" that confirm the logic of the deal was sound
  - activities that are critical but performed quite differently are the ones that need to be most carefully managed
    - task force members should be carefully selected for their interpersonal and problem solving skills
    - the task force's decisions should be fact based, and not seen to be political
    - the "ground rules" for resolving conflicts on these teams should be agreed in advance (eg., resort to facts first; if this produces no clear conclusion, refer to transition team leadership)
    - neutral outside consultants can be used to support the work of these teams

Rapid Absorption: Key Action Steps (cont'd)

- **This meeting should be followed by communications to key groups: customers, suppliers, and employees**
  - this assumes that investors (analysts and large institutional holders) already received a communication when the bid was announced; if not, they should get one now
  - customers and suppliers need to understand the purpose of the deal, and its expected benefits for them
  - with respect to the business, employees need to understand:
    - the purpose of the combined firm
    - the logic of the deal (especially why change was necessary from both firms' point of view)
    - an outline of the integration process (stressing that its goal is identifying and implementing best practice, regardless of which firm it comes from)
    - the fact that all interactions between the two organizations will pass through the task forces (no "freelance" integration initiatives will be tolerated)
    - the need to continue to focus on achieving planned performance targets for the current year
  - from a personal point of view, employees need to be reassured that the process that will be used to make staffing decisions in the new organizational will be fair (eg., spell out the procedures to be used, stress that it will be fact based)
  - customers, suppliers, and employees should be provided with special 800 numbers and/or e-mal addresses to contact if they have any questions or concerns; these should connect with the transition team communications task force

The top 20% of each stakeholder group should get personalized attention from senior management.

Rapid Absorption: Key Action Steps (cont'd)

- **At the first meeting of the integration task forces, all team members should receive a clear briefing about the deal and their role in realizing its benefits**
  - this should repeat the information contained in the initial employee communication
  - it should also contain more information about the areas to be covered by each task force, including their objectives and expected timing, reporting procedures, and the expectation that, to the extent possible, facts will be used to make decisions and resolve disagreements
  - it should also be re-emphasized that all communications between the two organizations will take place through the task forces and transition teams, and that "free-lancing" will not be allowed
- **Task forces should be clear about the minimum goals they need to achieve, and the time frame they have available to deliver these results**
  - however, it should be left up to the task force to define how these benefits will be achieved
  - task force members should also be encouraged to identify other potential benefits that could be achieved in their respective areas
- **As the task forces undertake their work, they should regularly report progress to the main transition team**
  - these reports will provide important inputs to ongoing communications to employees

Integration Through Gradual Adaptation: Key Action Steps

- **Before the deal closes, a tentative interface reporting structure and organization for the new acquisition should be defined**
  - unlike the transition team used in absorption acquisitions, this interface organization should not be considered temporary (although, over time, it should be expected to gradually evolve, and perhaps eventually fade away)
  - the interface team should be led by an experienced general manager (to whom the head of the acquired company will report), supported by a small staff
  - ideally, all members of the interface team will have had previous “cross-cultural” experience (eg., working in different companies or countries)
  - in a multi-business firm, the acquiring company business unit whose assets and capabilities are expected to complement those of the acquired firm should also report to this executive

- **The interface team’s goal is to create an environment that will support the transfer of the distinctive resources that underlies the value creation logic of the deal**
  - until the organizational roots of these resources are better understood by the acquiring firm’s managers, achieving this goal initially requires that careful attention be paid to protecting the acquired firm’s boundaries and culture
  - rapid absorption of the acquired firm runs the risk of inadvertently undermining or destroying the strategic resources that lie at the heart of the deal

Gradual Adaptation: Key Action Steps (cont'd)

- **The leader of the interface team has four key objectives:**
  - keep his own organization from overwhelming the newly acquired company
  - reconfirm the acquired organization's sense of purpose
  - build reciprocal credibility between the two organizations
  - orchestrate efforts to understand and successfully transfer the strategic resources that drive the deal
- **The head of the acquired company has four objectives:**
  - continue to run the business, and deliver on existing performance targets;
  - help shield people in the acquired organization from the attentions of the acquiring firm
  - work with the head of the interface team to build reciprocal credibility between the two organizations
  - help facilitate the successful transfer of the strategic resources
- **The support staff assigned to the interface team have four objectives:**
  - help solve the acquired company's problems in a manner that is perceived as useful and not overly intrusive
  - be a focal point for questions and communications between the two organizations
  - work with the head of the interface team to build reciprocal credibility between the two organizations
  - help facilitate the successful transfer of the strategic resources

Gradual Adaptation: Key Action Steps (cont'd)

- **When the acquisition or merger closes the senior executives of the two companies should meet to develop a reciprocal understanding of each other's organization, review the key details of the deal, and agree on a shared agenda going forward**
  - organizational history, key achievements, purpose, recent performance, and goals
  - problems at the acquired company that the acquiring company can immediately help resolve
  - strategic logic of the deal, and nature of the new opportunities it enables the combined firm to pursue
  - expected benefits of the deal, and broad time frame for, and approach to realizing them (ie., reciprocal understanding and adaptation of both firms)
  - interface structure, staffing, objectives, and procedures designed to ensure protection of organizational boundaries

- **The senior executives should also agree on the minimum administrative changes needed to achieve the deal's purpose**
  - the acquiring company must avoid the temptation to ask for too much, too soon in the way of changes to reporting relationships, information flows, and decision authorities
  - the automatic imposition of the full range of the acquiring company's control system should be delayed until its potential impact on the acquired company's strategic resources can be assessed

Gradual Adaptation: Key Action Steps (cont'd)

- **This meeting should be followed by communications to key groups: customers, suppliers, and employees**
  - this assumes that investors (analysts and large institutional holders) already received a communication when the bid was announced; if not, they should get one now
  - customers and suppliers need to understand the purpose of the deal, and its expected benefits for them
  - with respect to the business, employees need to understand:
    - the logic of the deal, and how it enables each firm to further its purpose by pursuing new opportunities;
    - expected benefits of the deal, and broad time frame for, and approach to realizing them (ie., reciprocal understanding and adaptation of both firms)
    - interface structure, staffing, objectives, and procedures designed to ensure protection of organizational boundaries
    - the need to continue to focus on achieving planned performance targets for the current year
  - customers, suppliers, and employees should be provided with special 800 numbers and/or e-mal addresses to contact if they have any questions or concerns
  - the top 20% of each stakeholder group should get personal attention from senior management
- **The interface team's work should initially focus on three priorities:**
  - confirming the assumptions made about the acquired company before the deal closed (and revising benefits estimates as necessary)
  - helping to resolve short term problems in the acquired company, to put its operations on an even keel
  - facilitating the introduction of the parent company control system

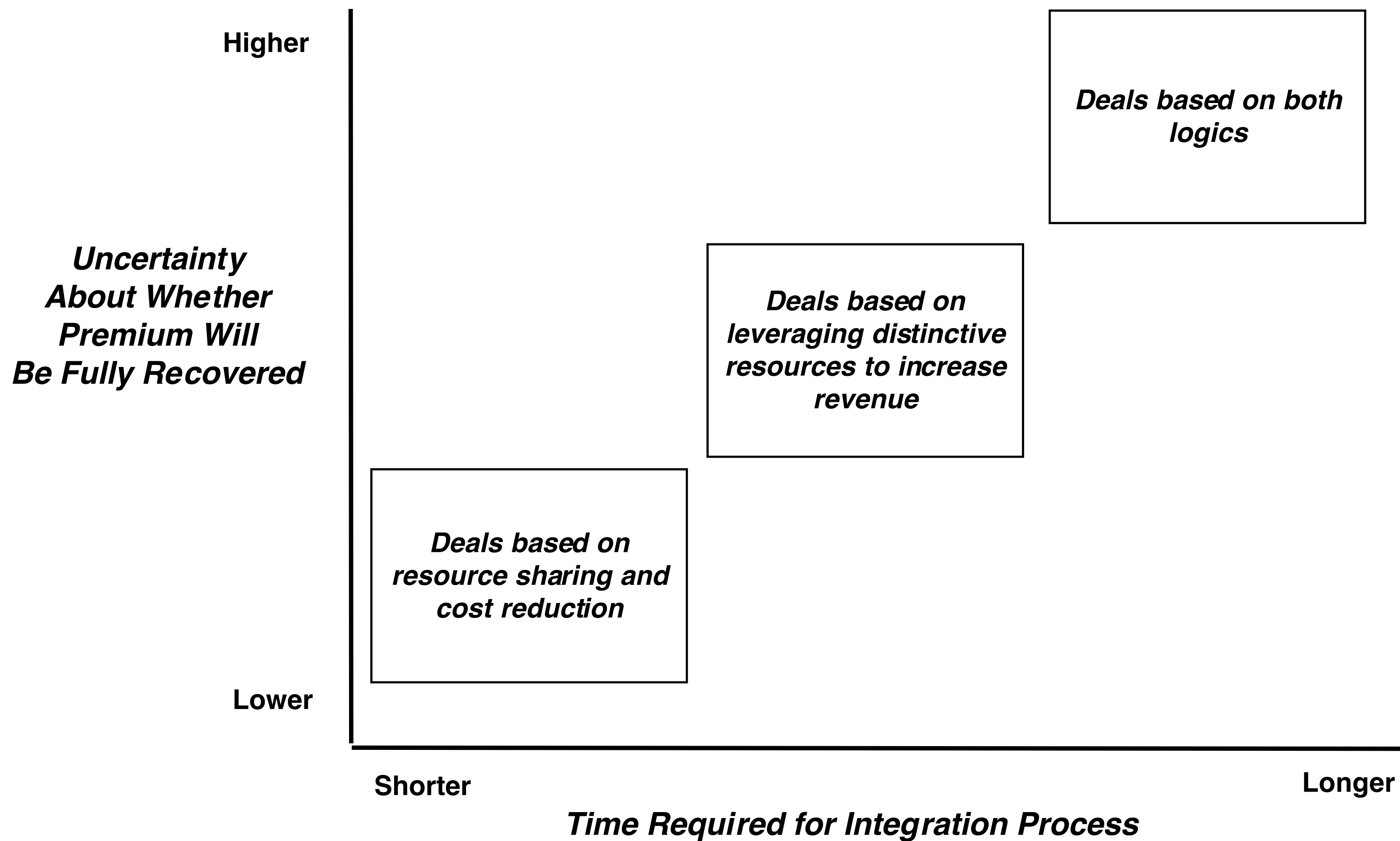
Gradual Adaptation: Key Action Steps (cont'd)

- **Once its short term objectives are achieved, the interface team should work with staff from the acquired organization to develop a better understanding of the strategic resources that underlie the deal's expected benefits**
  - it is critical to develop an in-depth understanding of the context in which these distinctive assets and capabilities exist, particularly the elements that are tacit and embedded in complex social structures
  - in order for this learning to take place, it is essential that sufficient resources be provided to the acquired company to enable staff to devote time and effort to this purpose
    - it cannot be seen by them as a distraction from their real job
    - changes in performance measures and rewards can help facilitate this learning
  - in the course of this learning, it is not unusual for other areas of potential cooperation and further benefits to be identified
- **Based on this understanding, the interface team can determine what changes need to be made in the acquiring company's organization to enable the transfer of the strategic resources and pursuit of new opportunities**
  - for example, responsibility for part of the acquiring company's business may be transferred to the newly acquired company
  - after these strategic resources are successfully transferred, the team may move on to identify other opportunities for integrating the activities of the two organizations

Integration Through a Hybrid Approach

- **When a deal's bid price is driven by both resource sharing (leading to cost reduction) and leveraging distinctive assets and competencies (most often leading to increased revenues, but sometimes leading to reduced costs), a combination of both approaches to integration must be used**
- **The starting point for determining the right mix of approaches is the balance between the two sources of expected value**
- **Where cost reduction is the dominant value driver, rapid absorption is the preferred means of integrating the two organizations**
  - simultaneously, however, aggressive efforts need to be undertaken to identify and preserve the organizational roots of the acquired company's distinctive assets and capabilities
- **Where revenue enhancement is the dominant value driver, a gradual adaptation approach should be used, but on an accelerated basis**
  - to quickly idenfity the organizational roots of the target company's distinctive assets and capabilities and allow cost reduction efforts to proceed

Differences in the Time Required to Complete Each Integration Process Affect the Risk Associated with Each Type of Deal



Summary: Integration Sources of Acquisition Failure

- **Choosing the wrong integration approach, given the value creation logic that underlies the deal**
- **In the case of absorption style integration, moving too slowly**
  - the benefits of additional information obtained as a result of taking one's time are likely to be small relatively to the additional costs created by deferring action (eg., higher employee anxiety, reduced attention to current performance, loss of key employees)
- **In the case of adaptation style integration, moving too quickly**
  - in this case the additional information obtained after the deal closes about the nature of the strategic resources involved, and what it takes to successfully transfer them, is likely to be critical. By moving too quickly, one risks undermining or destroying the organizational context that gives rise to these distinctive assets and capabilities
- **In the case of a hybrid approach, getting the balance or pacing wrong**
  - taking an adaptation approach to integrating a deal whole benefits are predominantly driven by cost reduction
  - taking an absorption approach to a deal whose benefits are predominantly driven by revenue growth

Conclusion

At First Glance, Acquisitions Seem a Very Attractive Way to Implement a Growth Strategy; However, They Also Present Many Opportunities for Value Destruction

- **“There is tremendous allure to mergers and acquisitions. It’s the big play, the dramatic gesture. With the stroke of a pen, you can add billions to size, get a front-page story, and create excitement in the markets.”[a]**
- **However, “buyers often stack the odds against success by rushing opportunistically into deals for the wrong reasons in search of synergies that don’t exist” . . .**
- **“To make matters worse, they often pay outlandish premiums that can’t be recovered even if everything goes right” . . .**
- **“They further compound the problem by failing to effectively integrate the two companies after the closing dinner toasts have been exchanged.”[b]**

Finally, most companies fail to systematically improve their skill as an acquirer by collecting, saving, and teaching the “lessons learned” from each deal they pursue.

[a]Michael Porter
[b]Business Week, 10-30-95

To Increase Your Chances of Making Successful Acquisitions, Keep These Rules in Mind

- Think about the strategy that will guide your future growth <u>before</u> you talk to your investment bankers -- and have a clear idea before the meeting of the acquisitions and alliance partners that will help you achieve your goals
- When it comes to dealmaking, take the time to reconcile your intuition with your numbers -- and remember that a fair price may not be a good one
- The riskiest type of deal to pursue is one where your bid price is driven by a valuation that includes benefits from both resource sharing <u>and</u> the transfer of distinctive capabilities between organizations
- Successful integration takes more time and resources than strategy and dealmaking

In other words, think ahead of time about why you're acquiring, the maximum price you're willing to pay, and how you're going to run things if you succeed.

Who is Bristol Partners?

- **We are a general management consulting firm, with substantial global experience helping clients to develop and successfully implement corporate and business unit strategies**
  - our staff have worked in consulting, investment banking, and/or line management in North America, Europe, Latin America, Africa and Asia
- **Our approach to the critical issues facing our clients integrates strategic, financial, and organizational considerations**
- **We work jointly with teams of client staff, and place a high degree of emphasis on developing their capabilities**
  - we teach leading edge concepts to the client teams with whom we work, coach them to practically apply these concepts to the critical issues facing their companies, and ensure the quality of the deliverables they produce
  - these client teams develop an integrated (cross-functional, cross-business unit) CEO perspective on their companies
  - we believe that long after our project is over, these new capabilities will keep on generating value
- **Most importantly, we put our money where our mouth is**
  - we work for only one client per industry, and, through a separate investment partnership, we invest an amount equal to no less than twenty five percent of our fees in our clients' common equity shares, which we hold for at least three years

Bristol Partners Offers Clients a Number of Services to Help Them Make Successful Acquisitions

- **Strategy Development**
  - assess distinctive assets and capabilities
  - develop future industry scenarios
  - identify, evaluate, and prioritize opportunity portfolio
  - assess internal development, acquisition and alliance alternatives for pursuing top priority opportunities
- **Dealmaking and Due Diligence Support**
  - identify critical customer, competitor, technical, regulatory and organizational uncertainties driving valuation
  - build simulation models to evaluate their impact
  - collect data to use in simulation model
- **Organizational Integration**
  - develop integration plan
  - project management, progress measurement, and benefits tracking
  - provide data collection, analysis, and process/decision support to task force teams
- **Lessons Learned**
  - design and implement lessons learned process

For more information, call (401) 453-4380, or e-mail us at busdev@bristolpartners.com.