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The Six Dimensions of Successful Post M&A Integration Plan

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We always read that most mergers and acquisition fail to meet the objectives for which they were initially set up. Despite the best intentions, many M&A deals fall short to live up to the expectations that the management promised to the shareholders at the time of approval for the deal. Many a times the acquirer is left thinking at the end of a few years after the acquisition was it the right deal? Why are we not able to meet the shareholder targets set at the time of purchase of the target? And so on.
Empirical studies conducted indicate that one of every two post-merger integrations efforts fares poorly. This shows that an M&A deal has a success rate of about 50%- a toss of a coin. Most deals look good in a power point presentation and on paper. But very few pay attention to the steps post the signing of the deal i.e. the integration process on how the deal will be executed.
Based on various studies, the integration plan needs to be discussed and drafted as soon as the due diligence is completed and should be put forth to the target company management to see if it is viable or there will be a resistance across some of the stakeholders of the company. The level of integration depends upon the amount of independence that the target company would be felt with. If the target company would give up its existence over a period of time, the integration would across all functions and in details across all lines of decision making. The integration plan primarily focuses on Operations, Finance, Marketing and Human Resources. Each of these functions needs further analysis on the level of integration that the acquirer desirers.

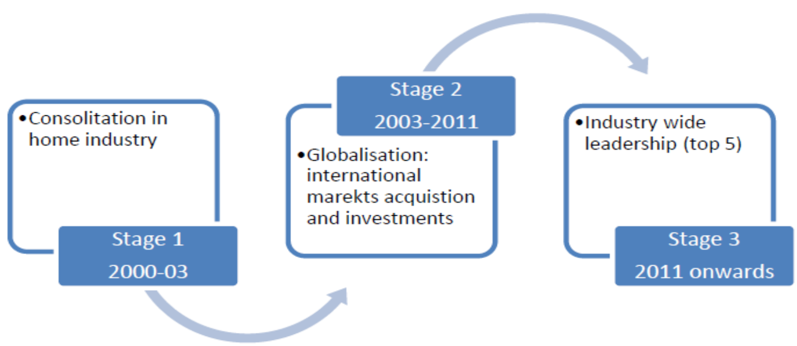
The above are just some of the questions that need to be asked at the time of deciding of going ahead with the purchase of the target. If at any point of time, there is a concern from the target on any of these issues. It is important to tackle this immediately rather than wait till the deal is closed. Most of the companies follow the following integration plans across the domains mentioned above. However the success does not depend on what we do in the above domains but on how we execute the plans in each of these domains.

Based on many research articles, some of the common steps for an integration plan are:

1. Set the clear goals of the integration plan and define the integration strategy.
2. Goals should be measurable and achievable. Focus on decisions that drive value
3. Take fast action
4. Ensure frequent communication with all stakeholders
5. Develop tight process controls with clear line of authority
6. Address employee issues at the earliest

Taking the case of Crompton Greaves acquisition of Pauwels Group in 2005, we can see that the acquisition put Crompton greaves on the global map and its success depended majorly upon the above six tenets.

Background of the deal: the name Crompton Greaves has become synonymous with electricity in India for the past 70 years. It is India's largest private sector enterprise, extensively engaging in designing, manufacturing and marketing high technology electrical products and services. It has been related to fields like power generation, transmission, distribution as well as executing turnkey projects. In 1999, the company was facing great difficulties and was a loss making company for three consecutive years. In 1999-2000 they recorded a loss of ₹ 147 crores. All-in-all the company was going through a phase of complete downturn. As they were looking at a restoration plan, they had a three pronged strategy



Once the company corrected its internal issues and gain ground in the home country, it started to focus on expanding its business globally. Pauwels group was an opportunity to acquire. It has a low material cost and a share of 2.8% of the world transformer market with products complementary to Crompton greaves. It was an international brand with a very wide distribution network. With Pauwels, Crompton greaves could address 75% of the world transformer market. It could be among the top 10 transformer manufacturers of the world. Crompton greaves entered into the agreement in Feburary 2005 to acquire entire stake in Pauwels for Euro 28.25 million. The synergies that could be bought were in the following areas :

- Design and technology
- Purchasing
- Manufacturing engineering.

Integration plan: using the above 6 tenets, the company had the following 100 days game plan:

1. Set the clear goals of the integration plan and define the integration strategy.	"Best of both and transformation process". 7 Cross functional teams of HR, Quality, R&D across various manufacturing locations were setup for further integration of the synergies between the two groups
2. Goals should be measurable and achievable. Focus on decisions that drive value.	There were small targets to be achieved over 100 days
3. Take fast action.	Immediate action was taken streamline all the systems across the Pauwels group in line with that followed by Crompton Greaves in the area of Production, Finance, Quality, Marketing and HR.
4. Ensure frequent communication with all stakeholders.	The MD Mr. Trehan has direct meeting with the employees and major customers and vendors, who gave him direct feedback on the process
5. Develop tight process controls with clear line of authority	Performance and creative lead was given to the employee.
6. Address employee issues at the earliest	The key management of Pauwels continued to remain with the company at the time of transition to Crompton greaves which gave comfort to the existing employees of Pauwels and helped in implementation of the integration plan

The above acquisition was only a start, with this and as well as the other acquisition of Ganz, these international operations added ₹ 23,322 million to the top line, more heartening is the improvement in profits of over 58% to ₹ 1,493 million in 2006-07. All of this was achievable in a span of 2 years due to the integration on time and as planned.

At the other end we have the example of Sprint and Nextel merger was a disaster and the result was a write down of billions of dollars.

Background of the deal: In 2005, Sprint bought Nextel for $35 billion in a deal that was classified as a merger of equals. The CEOs of the two companies believed that their respective strengths complemented each other. Sprint was a leader in wireless data communications and had consumers as its primary customer base. Nextel had been a pioneer in the walkie-talkie service and had a stronger presence in the business segment. The deal was expected to create a $70 billion firm with a stronger customer base and generate cost savings with a present value of $12 billion. However, the benefits failed to materialize largely due to a culture clash. Nextel had an informal, aggressive, entrepreneurial, customer-centric culture that valued flexibility and the ability to respond quickly to market changes. In contrast, Sprint had a formal, bureaucratic, top- down, number-driven culture. These sharply different cultures led to mistrust and clashes in everything from cellphone technologies to advertising strategy. When the combined entity decided to use Sprint's number-driven approach, service quality dropped dramatically, and many subscribers fled out of frustration about customer service quality. By 2008, Sprint had written down 80% of Nextel's value. In late 2010, Sprint announced it would totally shut down the Nextel network by mid-2013 Based on the above cases, we can see that a disciplined approach will always bring about success to the deal. The critical factors should include focusing on the key value drivers, proper communication, proper planning. The integration team that is diligent in the above tenets will have better odds at building momentum, gaining support, and instilling confidence in stakeholders.

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