Issue 1

The CEO Files

CEO Europe
Management on demand

The CEO files: Each month, CEO Europe shares its expertise and presents you an expert synopsis of a specific topic.

The initiation of an M&A Program

M&A are a crucial step for an enterprise. Many of them actually fail because of inappropriate preparation. M&A are an economic adventure but also a human adventure, in which each member of the enterprise has a part to play. CEO Europe offers enterprises (which are willing to succeed) the experience of top managers, who have already succeeded in the achievement of several M&A. Experience is a key factor in this field.

A/ The Myth

Conventional wisdom is that most merger and acquisition (M&A) transactions fail. Or put another way, only about 20% of all mergers really succeed. Yet M&A activity is prevalent. Why? Because the reality is that M&A does succeed on average. M&A clearly pays for shareholders of target firms, especially if they are shareholders of private firms acquired by public firms. And most studies of targets and buyers combined indicate that these transactions create net value.

B/ initiation of an M&A Program

Successful companies develop critical core competencies that drive their competitive strategy. In order to increase the chance of success in the M&A game, successful companies must also develop core competencies that make them superior acquirers, something that is difficult to do when each acquisition is considered a unique event. When companies announce they are undertaking a series of acquisitions in pursuit of some strategic objective, generally their share price rises significantly. The stock market's systematic positive response to such announcements suggests that most corporate M&A programs tend to create value over the long haul.

C/ The three key factors to a successful M&A Program

Strategy

All else being equal, acquisitions of companies in related fields ("focusing acquisitions") is the most likely path to the discovery and exploitation of synergies and generally provides a better return than an acquisition strategy that does unrelated diversification. Furthermore, focusing acquisitions should only occur when it advances the overall strategy of the company in compelling ways. It is essential to ensure the transaction is in alignment with the company strategy. Always question the strategic rationale of each transaction. If the strategic rationale is wrong it doesn't matter how well the deal is executed or integrated, it is still a bad deal. But if the strategic rationale is right you still can fix a bad deal or a bad integration. Having a sound strategic rationale defines the purpose of a transaction. There should be absolute clarity within the organization on the purpose of the acquisition and why it's important. Not only is this critical to motivating employees and shareholders, but an acquisition justification can serve as a beacon to point the way during problems, complexity, and confusion that inevitably occur during integration.

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Sponsorship

To ensure success of an acquisition, the deal must be sponsored by the head of the business unit (the "BU"). The CEO or the deal team can manage the transaction but if it doesn't have a sponsor after the transaction closes to ensure that the details of a successful merger are addressed, the transaction will fail to meet expectations. And the BU head must be accountable and rewarded for performance. It is essential to have a stakeholder that is willing to spend the political capital to make sure the transaction is a success. If it is a new area for the company without an established BU head then the CEO must appoint a BU head, generally from the acquired company. Using an earn-out structure in this circumstance can help ensure the BU head from the acquired company is working for the good of the combined company. Furthermore, the BU head must have the bandwidth to put in the required time and effort as making synergies happen is not without cost - time spent on coordination and interaction to realize synergies, additional training and relocation costs, and additional travel time.

Integration

It is easy to lose one's focus when the deal is closed but that is when the work begins. You must have someone, a program manager, who can stay attentive to the details. Start preparing for the unexpected. Laying out the first integration moves in advance frees up management time to deal with the issues and problems that could not have been anticipated in advance. Probably the most important of these items is to ensure that the first payroll does not have any problems. There is no better way to signal to employees of the acquired company that you don't care about them than to mess up their first paycheck. Each integration plan must address the following four basic principles:

1) accountability-individuals must be made accountable to oversee and direct the integration effort;

2) specific action steps must be created -a specific time frame for completion of integration must be created and followed;

3) communication-internal and external procedures and processes must be addressed;

4) measuring success-for each acquisition the company should establish benchmarks of performance with provisions for evaluation, control and corrective action.

D/ To conclude : nothing replace experience

If there are any basic principles to succeed in M&A, experience is definitely the key factor (to success). There are so many variables to master that a theoretical or purely economic vision cannot resolve the different problems. **CEO Europe provides a vast number of top managers who have succeeded in achieving M&A. They can intervene in an autonomous way or assist you directly in this vital step for your enterprise. For a temporary mission or for a permanent job, they will allow you to take advantage of your business opportunities in the best possible way.**

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