MANAGING THROUGH A MERGER

By Tony Callahan

Companies merge with or acquire other companies for economies of scale and scope, and to gain access to new markets, innovation, assets, intellectual property, and even skilled workers and management talent. Mergers are exciting and are a proven business strategy to quickly gain market share. In my business, I help companies perform due diligence on potential acquisition targets. I've also helped companies salvage bad acquisitions. I've seen mergers and acquisitions done well and I have seen them derail organizations. Managing through a merger requires careful planning, getting people involved, making the most of the new organization's aggregated spend, putting the best staff in the right roles, and having a continuous improvement mindset and a passion for getting things done. Here's why all of it is important.

1 PLAN CAREFULLY

Hard work and analysis during due diligence should be implemented post-merger.

There were clear reasons why your company merged or acquired. Maybe it was to vertically integrate, to grow market share, or something else altogether. Whatever the reason, share it with your employees—all of them. People who understand the plan are less likely to resist it. Your planning should include capitalizing on the consolidated purchasing volume, system integration, policies and procedures, and budgets down to a department or plan level. It's the little undiscovered things that have the potential to cause big problems. For example, I recently converted a builder client to a new roofing material supplier, and the supplier then merged with another company. No one thought to provide the truck drivers with new gas cards. When the old cards were canceled, deliveries were late because trucks couldn't get the fuel they needed.

2 INVOLVE YOUR PEOPLE AT ALL STAGES

Planning must include the human resource element.

People from both companies will feel a great deal of uncertainty, and that's normal. Have a strategy to address this and use it before implementation begins. Make sure that every employee knows what he or she must do to make the merger a success. Mergers are a great way for staff to demonstrate their ability to operate at a higher level. If you are an employee with a company that's involved in a merger, let management know that you're excited about the merger and want to do all you can to make it a success. Then offer specific areas in which you can help. Make it clear that you're interested in doing more, learning more, and growing with the company. That will set you apart from those who take a pessimistic view of the merger. With any merger, there is opportunity for growth, but the new company may have redundancies that result in some layoffs. Your attitude will be a key factor in determining your future with the new and expanded entity.

3 MAXIMIZE AGGREGATED SPEND

A new organization should be able to improve its purchasing power with a major acquisition.

Revisit every category that's not under contract. Leverage the spend of the entire expanded organization to immediately start saving. If the merging company is under contract but the company being merged is not, reach out to the supplier under contract. See what the supplier will offer for the increased volume, but don't extend the length of the contract. If the supplier provides a reasonable discount for the increased volume, roll the business into the legacy agreement—but don't do it unless you get a reduction. Once the agreement expires, send the consolidated volume out to competitive bid. This should be a priority: Create a matrix of all categories and require your department head of purchasing to report on progress each week. He or she should know that you have an acquisition to pay for and that you're counting on them to start saving money with the new volume you have given them.

4 PUT THE BEST PEOPLE IN THE RIGHT ROLES

Conduct a skills assessment and consider a 360 review of key people.

Just because a person works for the acquiring company doesn't

OR ACQUISITION

There are lots of reasons why they happen. Here are six essential elements of good merger management

mean that they're the most qualified to run their functional area in the new, larger organization. Get feedback from that person's supervisor, peers, and direct reports. Interview them for the position. One of the greatest benefits of a merger or acquisition is access to talented people. Identify the best in the newly combined organization and put them to work toward their highest and best use. That said, be open and honest about the process. The last thing you want to do is to lose good people—there are a lot of employment options these days. Treat the new people with respect, keep them informed, and do all you can to help them see the opportunity at hand. Make sure they have the tools and information to make good decisions, and then get out of their way.

Consider assembling a cross-functional steering team to tackle complex implementation issues. Sometimes decisions are made at the department level without a full understanding of how the issue affects the larger organization as a whole. Focus on getting departments to work together to optimize the entire organization. The last thing you want is department heads creating fiefdoms with no concern for the broader organization.

You want to optimize the entire organization, even if it means suboptimizing an individual department. Organizations are a sum of their parts, and synergy between those parts can make or break a company. Make sure department heads regularly meet. The better they understand one another's function, the better they'll be able to work together toward a common organizational goal.

5 ENSURE A CONTINUOUS IMPROVEMENT MINDSET

Use the merger as a chance to look behind the former competitor's curtain.

A company will be able to see detailed cost information from the acquired/merged company, and management should look at everything as an opportunity to improve upon the status quo. This can yield many benefits because no one has the lowest cost on everything. Even the smallest company, worst purchaser, and least sophisticated organization may have a better cost on select categories. Knowing these opportunities will help the acquiring company focus its efforts, but it requires an open mind. If the acquiring company believes it's superior to the company it acquired, not much will be learned from the acquisition. However, if the acquiring company views the acquisition as an opportunity to learn more and improve every part of its business, it will learn a great deal.

To realize the full benefits of an acquisition or merger, the company must be open to the opportunity before it. For example, in the case of a home builder, extensive comparisons at a cost code level on comparable or unitized pricing should be done. A comparison of trade and supplier performance metrics, capabilities, and builder costs should also be made. A willingness to change suppliers and trades (currently serving one of the builders but not both) that can better serve the new and larger enterprise will be needed. An open mind in looking at different ways of doing business will enable a builder to improve its best practices and capture more benefits of the merger or acquisition.

6 SHOW A PASSION FOR GETTING THINGS DONE

Lead by example, instill a sense of urgency to get things done, and expect your leadership team to drive results.

Today is better than tomorrow, next week is better than next month, and next year is often too late. Every day that goes by is a lost opportunity. I'm not suggesting a ready, fire, aim approach; rather ready, aim, and fire. Companies too often spend so much time aiming that they get eye fatigue. The debt you took on to acquire another company will come due before you know it. Promptly implement all the benefits identified in your due diligence. There may be another acquisition opportunity around the corner. You don't want to miss out on it because you're still muddling through the last one. **PB**

Do you have questions about managing through a merger? Write me at tonyc@callahancg.com.

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