ELLICE CONSULTING

James Berkeley's Profitable Growth Notes

The Merger and Acquisition Rule Book

I have recently spoken with some of the most successful architects of acquisitions in the global insurance, financial services and professional services sectors. Here is what I have come to learn through their insights and my own experiences, what I term "The Rule Book":

1. **Investment "Smell Test":** Ego kills value creation. To get a "pass", at a minimum, the investment thesis needs water-tight strategic reasoning on how the new firm's current and future customers are better served.
2. **Beware "Deal Exuberance":** Extracting yourself from a potential deal can be harder than consummating a deal. All the participants become so absorbed in the completion process that they can readily lose sight of the original investment parameters.
3. **Line up powerful exemplars and avatars in both firms early for the deal logic.** Strong and dynamic leaders create strong and dynamic business combinations, overcoming inevitable takeover or merger obstacles.
4. **Set aggressive and challenging goals**. The business and key people must be pushed and have visible targets with a transparent integration route and accountabilities.
5. **Momentum is critical in accomplishing integration results (stronger brands, greater synergies, enhanced market share).** It is largely self-directed unless you choose to sit in the passenger seat.
6. **Key Question: be clear what the people in the new firm need to thrive**. The answers are often varied and are rarely found in the design of the new organisation.
7. **Key Supplemental Question: what does the newly formed organisation need**? Identify best way to organise to achieve these objectives and charge!
8. **Think before you act.** How relevant is the acquired firm's current structure fundamental to its' future success and growth? Abandon it, if the answer is "largely irrelevant". Tread very carefully if "highly relevant".
9. **Demand cultural clarity.** You must know how prepared people are to change attitude and behaviour? How willing and able the leaders are in both firms to steer others to new attitudes and behaviour? This is one case where perception is often reality.
10. **Honesty precedes results.** There are three types of acquisitions, you need to be honest about the situation you are in: (1) A true acquisition - larger firm operates a "buy and build" strategy, integrating the acquired business and hiring the best people with transparent profitable growth goals; (2) Merger upon equals – a very delicate balancing act with a high level of risk. Most mergers aren't mergers. There is inevitably a winner and loser in most cases. (3) Financial acquisition - minimal integration of organisations and people, sole motive to operate separate units and brands for a common purpose. Anything else is set for failure.
11. **Beware "mergers upon equals".** Often a platitude (face-saving for established execs) hiding a million sins (demanding compliance not commitment to the deal logic). You

must have hard evidence or strong anecdotal information that everybody is "open for change" otherwise you can have a storm brewing in a nano-second.

12. **Keep the focus on the customer.** Look where the time and resources are being deployed internal vs. external in the post-merger integration. Is that consistent with the investment thesis? In many cases, excessive focus is given to internal issues resulting in the competition making hay while the disruption continues.
13. **Small isn't beautiful, most of the time.** Small deals only make sense (time and disruption) where they are truly "tuck in" deals i.e. an "add on" to an existing operating platform, leadership and team, who are able to hit the ground running.
14. **Be bold.** You are going to have disruption to pretend otherwise is a fallacy. Better to make sweeping changes in a very brief time period and then focus on improving your clients' condition than tinker with incremental changes over a long time period.

Most acquisitions (70-80%) fail to deliver the promised benefits. In most instances, the deal logic is not the problem. It is the implementation that goes awry. The reasons are largely that implementation requires talented people with the skills and volition to make it work in the real world.

Equally most businesses cannot ignore M&A as an accelerant to their growth strategy. They just need to get good at it, learning from their mistakes and at a minimum, not breaking any of the above rules.

If you would like to discuss this personally, contact us at telephone: +44 203 440 5072 or email: james@elliceconsulting.com