

TAMING THE HIDDEN COSTS OF POST-MERGER INTEGRATION TO ACHIEVE FINANCIAL OBJECTIVES FOR MANAGEMENT AND SHAREHOLDERS

By Susan C. Felix

A variety of strategic and tactical objectives drive mergers and acquisitions.

However, key objectives in employing a corporate strategy reliant on M&A typically include

- Increased shareholder value
- Increased revenues and profits
- Expanded market share

To achieve these objectives, companies must focus on activities designed to reduce the risk and cost of acquisitions:

Due diligence. Comprehensive due diligence reduces the risk of the acquisition by uncovering

- Legal issues, such as pending law suits or intellectual property protection.
- Financial issues, such as unacceptable methods of revenue recognition; and
- Product and service issues, such as intellectual property ownership and retention of key knowledge resources.

Issues uncovered in each of these areas can adversely impact the bottom line of the company both at the time of the acquisition and in the future.

Right-sizing the new organization. Often, as a result of the analysis done during due diligence and guidelines set forth by the company, immediate changes are made to:

- Eliminate unnecessary costs, such as multiple facilities within the same city;
- Reduce redundant costs, such as staffing in internal service groups; and
- Maximize economies of scale, such as volume inventory purchases.

These actions reduce costs and position the company to move forward on a stronger foundation.

Hidden Cost Drivers

There are many hidden costs associated with acquisitions that often do not surface until after the transaction is closed and the integration processes are well under way. These hidden costs impact several areas related to

- Cost of revenues or cost of goods sold
- Operating expenses
- Sales and marketing
- Research and development
- General and administrative

The hidden costs can quickly mount up to millions of dollars if not tamed.

The key drivers behind the hidden costs include:

- Lack of clear strategy and direction
- Too little communication
- Unhappy employees
- Dissatisfied customers
- Unsettled internal operations
- Unclear sales and channel programs

Well-planned integration programs can head off these issues and the resulting increased costs.

Taming The Hidden Costs Associated with Generating Revenues

Acquisitions often create immediate opportunities to

- Cross-sell products to a broader customer and prospect base
- Up-sell and close opportunities with prospective buyers
- Introduce new products or services into previously untapped markets
- Offer a broader product array to existing customers

To get the most out of these opportunities, it is important to take action quickly. Delays can result in substantial opportunity costs, lost revenues, and reduced market share as competitors eagerly target the company's customers and prospects.

To limit unnecessary costs and accelerate success in increasing revenues, integration plans must

Delays can result in substantial opportunity costs, lost revenues, and reduced market share.

1. **Establish clear corporate strategy and direction.** Ensure key executive involvement and buy-in so that a common direction is enabled across the organization.
2. **Establish clear product strategy and direction.** Ensure that product strategy is tied to the corporate strategy and that key product team members are involved and buy into the company's new direction.
3. **Establish programs to communicate the strategies and directions to all stakeholders.** Ensure a consistent flow of information to support market acceptance of the deal and resulting corporate changes.
4. **Maintain or initiate customer satisfaction programs.** Ensure customer satisfaction remains high and issues are addressed promptly.
5. **Create unified short- and long-term marketing programs.** Stay focused on benefits to customers and prospects, clarify branding, ensure marketing programs are well targeted, and communicate new directions.
6. **Refine sales and channel programs.** Align the programs to reflect the company's revised strategy and direction and remove channel conflicts. Ensure materials, training, compensation programs, pricing, and other fundamental information is readily available to the sales teams.
7. **Cross-sell products and services to all customers and**

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UNDERSTANDING HIDDEN COST DRIVERS

Lack of Clear Strategy and Direction

The more uncertainty that is present following a merger or acquisition, the less successful the staff and the company's partners can be in meeting the corporate goals. Crystal clear strategy and direction enhances everyone's focus on meeting goals, increases productivity, and reduces opportunity costs. Clearly communicating strategy and direction early also enhances the speed with which the combined organization can move forward.

Too Little Communication

It is often said that more communication is better following a merger or acquisition, particularly in geographically dispersed organizations. Communication is important not only to keep everyone in the company abreast of what is happening, but it is paramount to keeping shareholders, customers, the press, analysts, key industry spokespeople, and partners on board. External stakeholders are critical to ensuring market acceptance of the change.

Unhappy Employees

M&A introduces substantial change for employees. Cultural issues, inability to make things happen in the new organization, uncertainty regarding position and career, and the numerous productivity distractions that result during major corporate change can quickly de-motivate employees resulting in millions of dollars being lost until employee focus returns. These conditions often lead to the resignation of key employees.

Dissatisfied Customers

Customer relationships are sensitive during M&A as products and services they have come to rely on might be changed or discontinued. Unhappy customers can result in

losing a strong base of recurring revenues and potential for new revenues. Acquiring new customers can be substantially more costly than building relationships that result in new sales to existing customers.

Unclear Sales and Channel Programs

Uncertainty can be the death of a previously lucrative sales channel. To keep the sales channels pumping during M&A, channel conflicts must be resolved quickly, clear focus and direction articulated, and all of the necessary decisions, marketing identity, and materials (e.g., brochures, white papers and product roadmaps) made available to bring the sales force and prospects up to speed quickly.

Unsettled Internal Operations

Consolidating companies puts significant added pressure on internal operations (e.g., IT, HR, finance, and legal). They are often the first to be downsized due to duplicate resources. Any unresponsiveness towards employee, customer, and partner needs increases the time to get even the simplest activities accomplished (e.g., payroll). As a result, productivity declines, frustrations rise, and the cost of doing business increases.

Targeted Competitor Strategies and Programs

While the company is focused on sorting out various aspects of integration, competitors stand ready to jump on the first opportunity to instill fear, uncertainty, and doubt in prospects and customers to increase their own market share and revenues. This has proven to be a successful competitive strategy. Any misstep on the part of the acquiring company in removing the fear, uncertainty, and doubt inherent in the M&A can be extremely costly and recovery difficult.

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prospects. Seek out opportunities to sell additional products to satisfied customers and expand each new sales opportunity to include additional products that address the prospect's needs. Strengthen sales of the products in new markets introduced by the acquisition.

- 8. Sell new products.** Leverage the strengths of each company and the synergies between them to identify, develop, market and sell new products.

Taming Hidden Expenses During M&A And Beyond

The hidden costs within the operating environment can quickly amount to millions of dollars. Here are nine steps to tame these costs.

- 1. Convert corporate and product strategies into specific goals, objectives and budgets.** Take action to enable employees, customers, and partners to look ahead to their roles in the combined company. Reduce extraneous

costs associated with lost productivity and wheel spinning as participants try to decide where best to focus their efforts. Align corporate goals, objectives, and budgets with customer needs.

- 2. Initiate ongoing internal and external communications programs.** Inform employees, customers, and partners about changes that affect their ability to do business with the company in the "old way." Ensure they understand their importance to the new company to avoid wasted time spent speculating on the future and to encourage more time spent on selling, supporting, and purchasing products.
- 3. Make staff-related decisions and take action quickly.** Communicate all changes that impact the staff quickly and completely, including changes to benefits, compensation, reporting structure, how to make things happen in the new organization, and future career opportunities. Understand that satisfied employees are the best ambassadors to other stakeholders, such as customers, partners, analysts and the press.
- 4. Notify customers of changes and strengthen relationships with key customers.** Be up front with customers on any changes that might affect the way they do business with you during and after the transition period. Eliminate the added costs of recovering customer relationships

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soured by change.

5. **Notify and work with partners to assimilate changes.**

Identify partners who will join the company and define their roles. Communicate key decisions and make available critical information in a timely manner to eliminate confusion. Communicate both verbally and in writing to ensure information is available to key players and to avoid the need for repetitive responses.

6. **Integrate marketing and sales programs.** Eliminate redundancies in sales and marketing programs; review and consolidate programs quickly to avoid unnecessary costs. Ensure adequate attention and investment is spent on establishing consistent corporate and product

Celebrate short-term successes to validate expectations within the new organization.

messages, branding, and information that will enhance the comfort level of prospects and customers in moving forward with the company.

7. **Develop a joint product and services roadmap.** Quickly identify product overlaps and opportunities to leverage synergies (e.g., common technologies) that can reduce costs and create more

competitive products and services that meet the needs of the target markets.

8. **Meld together internal operations and strengthen their service attitude.** Evaluate both customer-facing internal operations (such as customer service and billing) and employee-facing internal operations (IT, HR, accounting) to determine how best to meld together the solutions used by the companies prior to the merger. Instill a service-focused attitude in all internal operations groups to increase satisfaction.

9. **Highlight short-term successes and position for long-term success.** Revitalize the organization to avoid experiencing the stall factor that results as everyone tries to figure out how to successfully do business in the new environment. Celebrate short-term successes to validate expectations within the new organization. Continually seek opportunities to highlight successes and reinforce a corporate culture based on common values.

Enhancing Profitability And Shareholder Value

Strong M&A integration programs that rapidly tame the hidden costs of mergers and acquisitions set the company on course to realize the anticipated value of the transaction. Reduced costs and increased revenues set the stage for improved profitability, which translates into enhanced shareholder value. ☞

About the Author

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