Pre-Merger Diagnosis for Post Merger Success

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Before Picking Up the Phone, know what You Have to Achieve

The "Achilles Heel" of most business combinations is post-merger integration. The more we know about potential partners before contacting them, the better we can assess how to make the approach and determine our negotiating strategies.

The Pre-Merger Diagnosis begins when the idea of a business combination first comes to mind. A number of steps should be completed before we pick up the phone to make that all-important first call to a prospective partner.

Time spent researching background information, even if only public sources, will be well rewarded.

"It looked great on paper"….. what went wrong?

When mergers are assessed after the fact, more often than not, the original objectives were not met. Share price declines, failure to capture cost savings or to realize gains in market share are, disturbingly, an all too common result.

Regardless of the legal form of the business combination – merger, acquisition or simply asset purchase, there has to be some level of integration. Incorporating new assets into a business is one thing but integrating people and cultures is infinitely more complex.

The desire to complete a business combination increases as discussions build and can be so seductive, that the strategic requirements are eclipsed. The dangers are self-evident.

A **Pre-Merger Diagnosis** is an important step in assessing the likelihood two companies can be successfully combined and is an important consideration in determining which approach is likely to succeed and in formulating negotiating strategy. That means a number of decisions must be made up front.

Identifying integration issues at the outset tempers negotiations. Non-starter issues are known up front. Early agreement is reached on critical decisions.

When all parties give integration issues top billing, the prospects of long-term success are greatly enhanced.

There is no such thing as "get to know you " meetings when business combinations are being discussed. Negotiations are underway! It only makes sense to have thought through where stumbling blocks may arise.

What is a Pre-Merger Diagnosis, and why should I be interested?

A Pre-Merger Diagnosis answers five critical questions before we decide to make that initial call.

In measureable terms, what specifically should be achieved and which business structure will work best?

What risks can we manage up front?

Are the cultures of each organization similar enough that we can actually work together?

Given the key outcomes identified, what post-integration issues are likely to arise and how can we best deal with them up front?

Should we simply go it alone?

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Question 1 – What Must A Business Combination achieve To Make It Worthwhile?

Business combinations must add value. It's imperative that "hard value add" targets are established at the outset. Engaging in discussions on an exploratory basis, without firm targets can switch the discussion from value accretion to doing a deal for the sake of doing a deal. That's dangerous.

Hard targets ensure focused discussion.

*Aligning Business and Deal Structures to Outcomes

	$ Return	Market Share	Innovation	Diversity
Buy Assets				
Buy Control				
Full Control				
Soft Acquisition				
Avoid – Go it Alone				

* Source – Upturn Consulting Pre-Merger Diagnosis

Specific targets can only be met if the structure works. Certain operating structures may work better to achieve certain objectives than others. Diversification of product lines may be achieved by simply buying assets. Achieving overall improvements in efficiency ratios may not occur unless decisions can be made quickly and forcefully in which case a control position is needed.

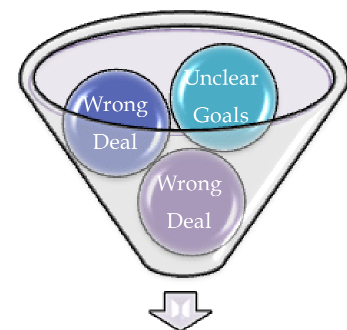
Business objectives are reliant on operating structures. Operating structures are driven by deal structure. Knowing which structures will work vs. those that will not ensures negotiations are targeted and allowed to proceed only if they will lead to hard targets being met.

Integration – Always in the Forefront

Those who have been on the firing line agree that integration should be completed as quickly as possible. If not, the capacity to achieve the objectives set at the outset is diminished and may be lost completely. Focus can only be trained on integration for about six months and then it must be returned to customers and shareholders.

The question is therefore not can we achieve a business combination, but can we ensure fast and effective integration.

The best time to begin to think about integration issues is before we pick up the phone to place the initial call.



Failed Integration

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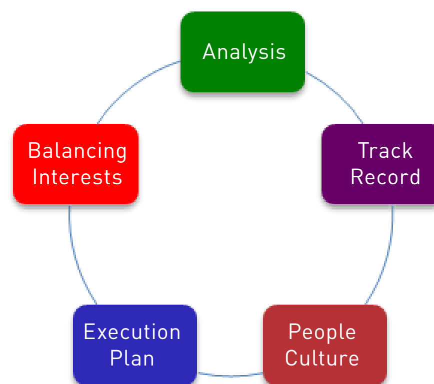
Risk Mitigation – Do As Much As Possible Prior To Starting Negotiations



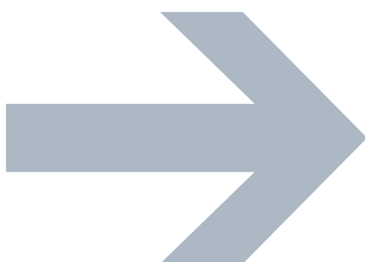
Risk is, simply stated, uncertainty. Mergers and acquisitions are complex undertakings fraught with risk. Upside risk – opportunity if you will, suggests that if value can be added through business combinations, then prospects are worth considering. A lot can go wrong.

Risk management is an important consideration and the earlier it's brought on to the agenda, the better. Doing so will help to identify risk mitigation opportunities up front and ensure that the negotiating strategy takes risk into account.

The probability of a successful combination is improved if the following decisions can be made up front.

The initial **Analysis** must be sufficiently comprehensive, and based on reliable financial information. Key objectives must be exhaustively tested and the question – can we actually achieve the desired outcomes within a workable time-frame – answered affirmatively. The business model must be proven and assumptions regarding customers, sales, and efficiencies tested rigorously. In short, the deal should be proven and stress tested before discussions with partners commence.

Managers and professional advisors with a proven **Track Record** negotiating terms and conditions and managing post merger integrations should be brought on board to help plan, not only the approach, but the negotiating strategy. They should be asked to develop an integration plan and to identify where potential pitfalls may lie. Having a clear understanding of these issues will ensure that protective features are factored into merger or acquisition agreements.



People and Culture issues can complicate even the most well considered plans. Confirmation of the senior management and integration teams, staffing adjustments, decisions on systems and locations reduces the possibility key people will leave. Equally important, the mandate to integrate will be in place as soon as the deal is announced.

The **Execution Plan** should be based on decisions and delivery of outcomes to within as short a time span as is workable. Then, process and staffing decisions can be made. It is important that difficult decisions are implemented early to allow staff time to internalize these changes, reconcile their feelings and then to refocus. Changes to collective bargaining agreements, policies, procedures, IT conversions and geographic repositioning may take place over time but should be announced up front to resolve uncertainty.

Investors, customers and regulators don't go away just because a business combination is occurring. Each has requirements, and each must be taken seriously. **Balancing Interests** through the integration process is a significant challenge. The better these challenges are identified up front, the more likely they can be managed.

Assessing Cultural Fit

Assessing cultural fit is as much an art as a science. It's important to compare policies, pay grades and organizational history. Unfortunately it does not give much insight into how a combined organization will function. An examination of past decisions, strategies and operating practices can help.

*Decisions and Practices Assessment

	C-Suite	Operations	Sales	Finance	IT
Innovation/Risk Taking					
Attention to Detail					
Outcome Orientation					
People Orientation					
Team Orientation					
Aggressiveness					
Need for Certainty					

*Source - Upturn Consulting Pre-Merger Diagnosis

It's difficult to get a sense of how an organization functions without having a due diligence agreement in place. Examining annual reports, reviewing past decisions, combing the internet and social media sites, examining press releases and other sources can provide a basis for comprehensive assessment.

Differences in operating styles and decision-making should not inhibit discussing a business combination. Understanding where differences may lie, and their consequential impact on post merger integration can be helpful in early negotiations. Although it is unlikely potential partners will welcome a critique of their business operations, negotiators can ensure that post integration problem areas are taken into account, and pitfalls avoided.

Differences in core values can pose much greater problems. If it is determined early on that gaps in values simply cannot be reconciled, then further discussions may not be warranted.

Assessing Cultural Fit

Integrating operations effectively is an essential ingredient to realizing objectives that spell success or failure. Giving early consideration to the manner in which the new organization will function helps to identify those areas that will need to be reorganized. Here again, this is information worth considering prior to launching negotiations with potential partners.

*Decisions and Practices Assessment

	Hard Targets	Combined Entity	Opportunities Highlighted	Issues Highlighted	Plan to Optimize	Negotiating Position
Income, Capital, Liquidity						
Risk Profile and Tolerances						
Customer Outcomes						
Regulatory Considerations						
Sales and Market Share						
Geographic and Product Mix						
Strategic and Competitive Positioning						

*Source - Upturn Consulting Pre-Merger Diagnosis

This analysis can add a great deal of clarity and identify new opportunities for cost savings and revenue enhancement once integration is complete.

Uncovering key information and assessing whether a business combination has real potential can't wait until due diligence assessments are underway. Business combinations are a tempting opportunity but they only work if the right partner has been identified and there is a good understanding of what needs to be negotiated to ensure success.

A Pre-Merger Diagnosis ensures an effective assessment is made from the outset.

UPTURN Our Approach to Pre-Merger Assessments

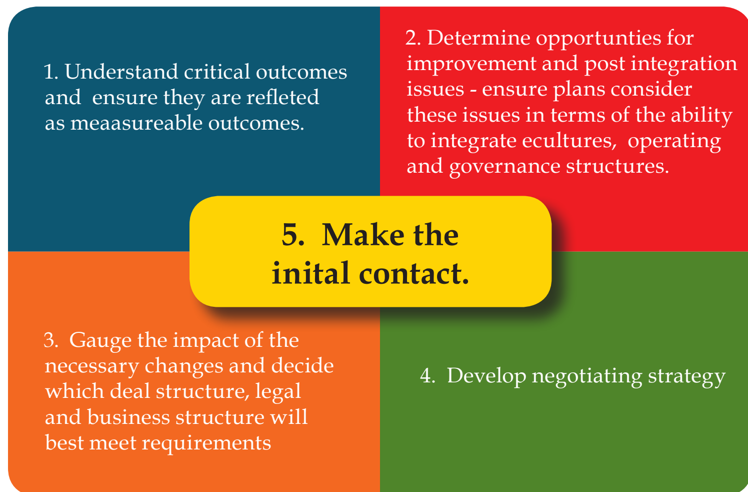
Our experience with business combinations and post merger integration is significant.

It is our view that a number of important decisions must be made prior to engaging potential partners. A full analysis with hard measure outcomes stated up front, helps ensure negotiations are guided effectively.

It is sometimes argued that this approach may undermine a co-operatively spirited investigation of the advantages of business combination. In fact, the reverse is true.

Stating requirements and intentions up front is supportive of win, win negotiations by removing the potential that either of the parties have not fully disclosed their agenda. If the requirements for a sound business combination are simply not there, then it is better to know it at the outset, and to seek other partners.

Our role is to make sure that all factors that should be investigated are identified, that changes to organizational structure and the business model are known and that a solid plan is then built. We ensure that the organization has assessed its findings adequately and has established a clear, effective negotiating strategy.



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Upturn Consulting Ltd. serves a range of clients from its offices in Victoria, British Columbia, Canada. Clients include financial institutions, regulatory bodies, universities, agri-business and government.

Areas of consultancy include corporate governance, risk management, strategic assessment and business reorganizations – including mergers and acquisitions.

Prior to accepting an engagement, Upturn determines client requirements and makes a determination of the outcomes that must be delivered to add value to its clients. Client requirements and value added outcomes form the basis of the agreements that are reached before engagement letters are signed.

Upturn provides on-site management for client projects if required