

MAKING MERGERS AND ACQUISITIONS WORK

From Strategy and Target Selection
to Post Merger Integration

MAKING MERGERS AND ACQUISITIONS WORK

From Strategy and Target Selection
to Post Merger Integration

BY

MARKUS VENZIN

Bocconi University, Milan, Italy

MATTEO VIZZACCARO

SDA Bocconi School of Management, Milan, Italy

FABRIZIO RUTSCHMANN

Prysmian Group, Milan, Italy



United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2018

Copyright © 2018 Emerald Publishing Limited

Reprints and permissions service

Contact: permissions@emeraldinsight.com

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78743-350-2 (Print)

ISBN: 978-1-78743-349-6 (Online)

ISBN: 978-1-78743-454-7 (Epub)



ISOQAR certified
Management System,
awarded to Emerald
for adherence to
Environmental
standard
ISO 14001:2004.

Certificate Number 1985
ISO 14001



INVESTOR IN PEOPLE

CONTENTS

<i>A Definitive Guide to the Creation of Your Own M&A Playbook</i>	viii
1. Introduction	1
Do We Need an M&A Playbook?	13
Do We Need a Dedicated M&A Team?	21
Which Stakeholders Have to Be Considered During an M&A Process?	23
What Are the Main Phases of M&A?	33
2. Strategy	37
M&A Is a Means Not an End	38
Improve Target Company Performance through Business Portfolio Optimization	38
Consolidate to Remove Excess Capacity (Market Power)	40
Accelerate Market Access for the Target's (or Buyer's) Products	46
Access Skills and Technologies Faster or at Lower Cost	47
Pick Winners, Help Them Develop, Stop Them from Serving Competitors	49
Buy Cheap	50
Transformation	51
Financial M&A	51
Executing M&A across National Borders Is Substantially More Complex	58
We Usually Develop Ideas for M&A Internally Instead of Being Driven by External Advisors	63
We Always Explore Strategic Alternatives before Rushing into M&A	66
We Have a Method to Assess Opportunities for Divestment	67

3.	Target Selection	81
	We Have a Method to Assess Strategic Fit	81
	We Take Organizational Compatibility Seriously	84
	We Consider Existing Business Partners First When Evaluating Targets	87
	We Maintain a Prospect Portfolio	89
	We Manage Our Reputation as Acquirer	91
	We Try to Understand the Seller's Implicit Goals and Emotions	92
4.	Due Diligence	95
	We Recognize that Due Diligence Processes Reveal Information the Target Company Wants Us to Have	96
	We Get a 360° Perspective of the Target to Mitigate Risks	103
	We Have a Methodology to Understand Culture	108
	We Have a Methodology to Understand the Organizational Structure and Processes	113
	We Involve Future Managers in the Due Diligence Process	115
	We Adapt Our Due Diligence Process When Going into Emerging Markets	117
5.	Negotiation and Deal Closing	123
	We Distinguish between Market and Intrinsic Value Valuation Is an Art Supported by Science	124
	We Get an Agreement with Managers before Our Lawyers Takeover	127
	We Make Sure the Acquirer Gets the Larger Share of Synergies	131
	We Recognize that Emotions Come with a Price Tag	134
	We Consider Payment Alternatives to Retrieve the Maximum Value	139
	We Protect Our Firm from Contingencies	144
	We Carefully Manage Timing and Speed of Acquisition	147
	We Identify and Manage Potential Deal-Breakers Early	148
	We Actively Manage Post-Closing Risks	149
6.	Post-Merger Integration	152
	We Know How to Create Advantage from Multinational Presence	155
		157

Our Headquarters Have a Clear Task Profile	167
We Have Adequate Control Mechanisms to Align Interests between HQ and Subsidiaries	169
We Have a Methodology to Set the Right Level of Integration	174
We Recognize the Hard Truth of the Soft Side of Integration: That It Can Make or Break a Newly Merged Company	179
Cultural Integration Takes Longer, and Is More Complex than Anyone Expects	181
Successful Integration Takes Leadership with a High EQ	183
Earning the Trust of the Acquired Entity Requires Physically Showing Up to Their Plants and Facilities	187
Integration Does Not Mean Total Absorption	188
We Don't Try to Force Fit	189
We Have a Methodology to Set the Right Speed of Integration	193
We Make People Decisions Fast	201
We Feel the Need, the Need for Speed	204
We Balance Speed with Precision	205
We Accept that There Is No Perfect Organizational Chart	207
We Protect Our Existing Business	209
We Communicate, Communicate, Communicate	211
We Make Engagement of Our People a Priority	212
We Signal Our Common Vision to the Outside World	214
We Think Globally but Execute Locally	218
A Strong Branding Campaign Can and Must Be Internalized	222
Communication Requires Investment in New Systems and Platforms	223
One Plus One Must Equal Three	228
<i>Bibliography</i>	233
<i>Index</i>	251

A DEFINITIVE GUIDE TO THE CREATION OF YOUR OWN M&A PLAYBOOK

In many industries, M&A is a central tool to be used in strategic objectives like market entry, technological leadership, or efficiency in production and distribution. But the success rate of most merger and acquisition deals is low. Flawed strategizing, unrealistic synergies, poor target selection, cultural clash, and, most of all, weak post-merger integration processes pose huge challenges which can lead to costly failures. Still, the lack of organic growth opportunities for many firms — especially in mature markets — leave them little choice. They must acquire or risk stagnation.

This book addresses the salient question of how to make M&As work. We offer the unique possibility to embark with us on the journey to reflect upon the past M&A activities of Prysmian — the global leader in energy and telecom cables — by sharing its real-world experience and carving out a manual for success in a mature industry that requires high levels of integration between operating companies. Co-author Fabrizio Rutschmann, Chief Human Resources Officer (CHRO) will, together with his colleagues, offer you a deep, insider perspective — another rarity in publications on this topic. (Rutschmann is the other half of the narrative voice, although he will be referring to himself in third person throughout this book for clarity's sake.)

Throughout, as we refer to Prysmian, you will notice a slight shift in tone, particularly in the latter half of the book, where we discuss in detail the post-merger integration process, an area that has been much overlooked by the previous literature, and where

Prysmian's example shines. This less formal approach is reflective of our intimacy with the case, and our desire to bring you into the company at a more granular and personal level.

"Certainly, one of our greatest strengths is our openness," observes Andrea Pirondini, Chief of Operations for Prysmian Group. "In fact, we are so candid about many of the most contentious issues in business that, in any other company, we would be thrown out of the boardroom!"

Prysmian's management team has afforded us a unique opportunity, and one that we intend to exploit fully, particularly in the later chapters where Prysmian executives divulge their greatest post-integration challenges.

That said, the M&A story will not only be told from the Prysmian perspective. The invaluable insights from Prysmian will be complemented by numerous case illustrations from other companies operating in a wide range of industries.

This revolutionary playbook is organized into five main sections, corresponding to the complete M&A process:

1. strategy;
2. target selection;
3. due diligence;
4. negotiation and deal closing; and,
5. post-merger integration.

We base our intensive study on over 50 M&A deals and the relevant academic literature. In order to save the readers' time, we summarize the key messages of the book as propositions: if you agree with what we propose and already run your M&A processes as summarized by the statement, you may either decide not to read these specific sections or skim for insights that expand upon your knowledge base.

However, if you disagree with our recommendation, and see potential in getting a different viewpoint or a way to implement change in your company, you may invest time to carefully study what we have to say and adapt to your own unique circumstances. This is how you create your own M&A playbook. Think of this as your customized guide, complete with a series of codified steps that will increase the likelihood that your next acquisition creates long-term shareholder value. It's an investment of time that will pay off greatly in your company's future.