Mergers and acquisitions and failed integrations…a seed bed for turnaround work: a corporate executive's prescription for avoiding pitfalls in corporate M&A strategy

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To begin, let's face it, in the strategy development realm we stand on the shoulders of thought leaders such as Drucker, Peters, Porter and Collins. Even the world's top business schools and leading consultancies apply frameworks that were incubated by the pioneering work of these innovators. Bad strategy, misaligned M&A, and poorly executed post merger integrations fertilize the corporate turnaround industry's bumper crop. This phenomenon is grounded in the ironic reality that it is the turnaround professional that often mops up the work of the failed strategist, often delving into the bailout of derailed M&A. As corporate performance experts, we have learned that the process of developing strategy must account for critical resource constraints—capital, talent and time; at the same time, implementing strategy must take into consideration execution leadership, communication skills and slippage. Being excellent in either is rare; being excellent in both is seldom, if ever, attained. *So, let's talk about a turnaround expert's view of proper M&A strategy and execution*.

In our opinion, the essence of corporate strategy, involving both organic and acquisition-related activities, is the pursuit of profitable growth and sustained competitive advantage. Strategic initiatives require a deep understanding of strengths, weaknesses, opportunities and threats, as well as the balance of power within the company's ecosystem. The company must segregate attributes that are either ripe for value creation or prone to value destruction such as distinctive core competencies, privileged assets, and special relationships, as well as areas prone to discontinuity. Within these attributes rest potential growth pockets through "monetization" of traditional tangible assets, customer relationships, strategic real estate, networks and information. The company's potential essentially pivots on both capabilities and opportunities that can be leveraged. But regaining competitive advantage by acquisitive repositioning is a path potentially full of mines and pitfalls. And, although acquiring an underperforming business with hidden assets and various forms of strategic real estate can indeed transition a company into to untapped markets and new profitability, it is best to avoid buying a problem. After all, a bad business is just a bad business. To commence a successful strategic process, a company must set direction by crafting its vision and mission. Once the corporate identity and congruent goals are established the path may be paved as follows:

- ✓ First, articulate growth aspirations and understand the basis of competition
- ✓ Second, assess the life cycle stage and core competencies of the company (or the subsidiary/division in the case of conglomerates)
- ✓ Third, structure an organic assessment process that evaluates markets, products, channels, services, talent and financial wherewithal
- ✓ Fourth, prioritize growth opportunities ranging from organic to M&A to joint ventures/partnerships—the classic "make vs. buy" matrices
- ✓ Fifth, decide where to invest and where to divest
- ✓ Sixth, develop an M&A program with objectives, frequency, size and timing of deals
- ✓ Finally, have a seasoned and proven team ready to integrate and realize the value.

Regarding its M&A program, a corporation must first recognize that most inorganic initiatives do not yield desired shareholders returns. Given this harsh reality, it is paramount to approach the process with a spirit of rigor; in other words, the M&A process should involve a series of disciplined and

unwavering steps. Specifically, each transaction needs to strengthen a company's basis of competition through cost position, brand strength, customer loyalty or ownership of a distinctive set of assets and capabilities. There are five necessary ingredients for M&A success:

- ✓ First, an investment thesis tailored to a company's strategic priorities
- ✓ Second, the right list of targets, which may be categorized concentrically as: (1) Direct Opportunities in the Core Market; (2) Direct and Indirect Opportunities in Adjacent Markets; and, (3) Thematic Opportunities
- ✓ Third, targets must be further evaluated for "appropriateness" of strategic fit, "attractiveness" of improvement potential (i.e., potential for revenue enhancement, cost reduction and financial engineering), and "feasibility" of acquisition
- ✓ Fourth, the target's investment yield must justify the acquisition premium and cost of implementation founded on a legitimate corporate hurdle rate
- ✓ Finally, a well-prepared team must be ready to act quickly and execute

It is important never to assume that conventional mergers and acquisitions are the only options; when capital is scarce or cultures are too difficult to bridge, joint ventures and alliances can be effective. At the same time, in the recurring effort to re-channel assets, divestitures can also be game changers.

If the company is relatively strong strategically and financially it can make moves to capture market share in a downturn, seize M&A opportunities, and improve its competitive position through partnerships in a recession. These bold moves, prudently evaluated and skillfully executed, can enable a company to emerge from the downturn both strong and flexible.

A savvy corporate M&A team can extract solutions from the enterprise through many mechanisms. Frameworks and analytical tools help plan the strategies, but research, mining, canvassing, workshops, suggestion conduits and lead-user feedback spark the solutions. It is important to foster a keen sense of customer service to the business units and reach well beyond senior management as the primary consumers.

Finally, implementing strategy is an eventful and never-ending process. In our experience, acquisition strategy often derails due to three oversights: first, when capital and talent and organization culture constraints are not properly considered (i.e., they are the trusses that support the strategy); second, when foreboding clouds of alternate technologies or substitutes are overlooked; and, third, when synergies are essential for closing performance gaps and justifying the deal.

We have reaffirmed this perspective and approach through our many decades as private equity professionals, portfolio company managers, investment committee and board participants, M&A professionals, and parachute executives charged with realigning and executing strategy in transformative situations across a range of industries. With better M&A, the world would have far fewer turnarounds!