

How can M&A create value? V3

What is the purpose of this article?

- 1) Enable the board of directors, C-Suite, and investors discuss how to achieve value from M&A.

What are the critical learnings in this article?

- 1) More than half of all deals destroy value for investors.
- 2) Focus on creating long-term value for the merged company's ecosystem members, especially customers.
- 3) Create the VCO (Value Creation Officer) role. The VCO's focus is on value creation.

What are the five types of companies doing M&A?

- 1) Traditional operating companies that will integrate talent, processes, technology, etc.
 - 2) Private Equity firms, which control their companies, acquiring portfolio companies or add-ons to portfolio companies.
 - 3) Venture Capital firms, which will be actively involved in the portfolio companies.
 - 4) Financial investors, who will be passive and not actively involved.
 - 5) SPACs (Special Purpose Acquisition Vehicle) and Search Funds.
- Some of the comments below apply to every type of M&A, some apply only to some of the types.

More than half of all deals destroy value for investors.¹

The root causes of M&A failure at the deal stage are:

- 1) The M&A target does not fit the business strategy and future business model.
- 2) Synergy estimates (both revenue and costs) are optimistic. Relevant external benchmarks are not used. No bottom-up analysis.
- 3) Weak due diligence.
- 4) Those accountable for delivering the benefits are not involved at the deal stage.

The root causes of M&A failure at the integration stage are:

- 1) Taking too long to put in place the leadership accountable for delivering results.
- 2) Poor change management.
- 3) Poor planning and execution.
- 4) Limited ongoing communications with stakeholders.
- 5) Losing customers.

The value of the integrated company must be greater than the value of the standalone companies.

I have had the luck to be at a board of directors meeting at which the newly appointed CFO presented the results of the company's past acquisition to: the board and the newly appointed CEO. The combined sales and profits after the merged company were significantly lower than the pre-acquisition sales and profits. I assume this is what led to appointing a new CFO and a new CEO.

Why are you doing M&A?

- 1) Support the purpose of your company.
- 2) Provide increased value to the members of your company's current ecosystem and the future merged ecosystem. These members include: customers, employees, investors, suppliers, partners, the broader public etc. Some members may be negatively impacted (e.g. employees let go due to cost cutting). You'll also have the challenge of allocating value creation among the members.

How will you create long-term value?

#1 Increase the capabilities of your company's talent pool to drive long-term value growth. Talent includes everyone in your company, starting with the board of directors. It's possible you may have to exit inappropriate talent.

#2 Enable more customers to achieve more value from your company.

- 1) More customers with more problems and needs they are willing and able to pay to address.
 - 2) More customers perceive your competitively differentiated value proposition.
- You may have to exit some unprofitable customers.

#3 Enable key members of your company's ecosystem to achieve value.

#4 Increase the ability of your new pool of assets to provide value.

- 1) Your assets include: Processes, technology, intellectual property, partner, suppliers, channels (marketing, sales, distribution).
- 2) Your new pool of assets may require a number of changes and exits. Duplication should be reduced. Assets which are obsolete or provide little or no value must be eliminated.

The M&A process may also require divestitures of: assets, business functions, business units, subsidiaries, etc.

What will be your synergy targets?

Only 58% of acquiring companies publicly announce synergy targets. Of those that do announce synergy targets, only 29% update investors regarding progress against targets. Successful acquirers have higher internal targets than what is externally communicated.¹

What are your next steps?

Your next steps depend upon what type of company you are what type of M&A you are contemplating. In all cases, you need the VCO (Value Creation Officer) role, which is focused on the achievement of long-term value from M&A. The VCO recommends the structure, processes, talent, and decision-making principles required. The VCO has no decision-making authority. If your company decides to ignore the advice of the VCO, you increase the chances of failure.

Some of the things the VCO will consider include

- 1) As soon as you start thinking about M&A, create the VCO (Value Creation Officer) role. The VCO is focused on creating long-term value from M&A.
- 2) The VCO will: outline the overall stages and journey of M&A, ranging from first considering M&A through to the eventual achievement of value; outline how Value Creation should be built into the M&A process; not be a decision maker but will suggest the decision-making process and criteria (utilize existing governance structures as much as possible); be a temporary role, and without any direct full-time reports.
- 3) Help define the decision-making principles, process, and participants for each stage of the overall M&A process. Decisions will have to be made regarding the allocation of value creation, and value destruction, to the members of your company's ecosystem.
- 4) Outline the purpose of your company and of the post-merger company.
- 5) Document the purpose of M&A.
- 6) Describe the ecosystem members of the merged company and the impact on them of the merger. Model how much more value will be created by the merged company compared to the standalone companies.
- 7) Describe your approach for creating long-term value.
- 8) Describe why you'll be able to create more value than competing bidders.
- 9) Help determine the maximum amount you are willing to pay. This will depend upon the terms and conditions.
- 10) Outline the various teams e.g. deal team, integration team, talent team, due diligence team. There may be multiple teams e.g. the talent team addressing changes to the board of directors may be different from the team addressing the C-Suite which may be different from the team addressing customer contact centre. Each team is accountable for the creation of their plan and achievement of the benefits arising from plan execution.

The scope of the plans may include changes to: board of directors, C-Suite, talent throughout the company, the organization structure, processes, technology, channels, partners, etc.

The talent team(s) considerations include the following:

- 1) Outlining the CEO, President, Chief Operating Officer, C-Suite and C-suite direct reports roles and organization structure for the merged company.
- 2) Assigning accountability for the roles, within the merged company, which will be accountable for achieving value. Set the targets for each role. If the people occupying the roles will not commit, then replace those people. If the people who will occupy the roles will come from the merged company, then determine their commitment to targets as soon as possible.
- 3) The people accountable for value achievement are also accountable for the plans to achieve that value.
- 4) Those who will be accountable for creating and achieving value must have a degree of involvement with the due diligence.
- 5) Before exiting talent, consider their improvement or reallocation potential, if they had advisors, coaches, or trainers.
- 6) The two critical ways of looking at talent are; the value of the role and the value (current and potential) of the person in the role.

Who is the VCO?

The VCO may be a part-time or full time role for someone already part of your company OR may be a temporary outsider. Who might the VCO report to?

- 1) The controlling shareholder (if a private company);
- 2) The board chair; or
- 3) The CEO.

Footnotes

¹ “The real deal on M&A, synergies, and value”, Boston Consulting Group, BCG Perspectives, 2016

<https://www.bcg.com/en-ca/publications/2016/merger-acquisitions-corporate-finance-real-deal-m-a-synergies-value>

Further reading

Do you understand your customers? V2

<https://koorandassociates.org/understanding-customers/do-you-understand-your-customers/>

Do you understand your company's external ecosystem?

<http://koorandassociates.org/strategy-and-strategic-planning/do-you-understand-your-companys-external-ecosystem/>

Is your company planning to fail?

<https://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/>

“The six types of successful acquisitions”, McKinsey, 2017 May

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-six-types-of-successful-acquisitions>

“Change management in merger integration” Bain, 2017

<https://www.bain.com/insights/change-management-in-merger-integration/>

2023 Global M&A Report – Bain

https://www.bain.com/globalassets/noindex/2023/bain_report_global_m_and_a_report_2023.pdf