

The growth machine

Why it pays to build an in-house M&A capability

By Ana Dutra, Donna L. Peters and Jill S. Dailey

At more and more companies, acquisitions are fueling future growth. To ensure that every deal captures and preserves optimum value, acquisitions must be managed like any other mission-critical function—with processes and platforms that span all stages of the deal lifecycle.

Call them serial acquirers: The companies responsible for more than half of 2005's top 50 M&A deals had bought at least two other companies in the preceding five years.

Plainly, mergers and acquisitions are firmly established as a core growth strategy for many companies. But just how good are serial acquirers at making these deals pay off?

A pivotal assumption in merger-driven growth strategies is that acquisitions will both preserve and create value during the integration phase. Yet many acquiring companies lack the requisite integration capabilities. Indeed, fewer than half of the 420 participants in a recent Accenture and Economist Intelligence Unit survey said they were confident of their ability to derive value from either domestic or cross-border deals.

If acquisitions are to fuel a company's future growth, they should

be just as much a part of business operations as IT, marketing, finance or any other mission-critical function. Their management, moreover, requires in-house processes and platforms with the scalability to support multiple acquisitions—a sort of M&A “machine” that can capture and preserve optimum value from each deal.

Building such a machine shouldn't involve reinventing the wheel. Some elements of a merger integration capability—specialized environmental and legal due diligence, for exam-

ple—can be handled more effectively (and cheaply) by outside parties.

However, for any merger to succeed, the in-house M&A machine must span all stages of the deal lifecycle—from identifying target acquisitions, through strategy development and cultural due diligence, to carrying out the integration and evaluating its progress. The machine must work whenever needed, and generate predictable, repeatable results. What's more, it must mesh directly with the company's overall M&A strategy and

thus, of course, align with corporate strategy as a whole.

Accenture's experience with companies that have built successful inorganic-growth machines shows that the first critical step is to decide what the machine is designed to do. For instance, there's no point investing in capabilities that will support a series of small, bolt-on domestic acquisitions if, for instance, your M&A growth strategy is to focus on big and relatively infrequent overseas deals. Nor should the machine be overly complex; it might simply reflect the degree of integration likely to occur: full, partial or limited.

Whatever its purpose, certain skills and processes, covering all the parts of a deal's lifecycle, are common to all M&A machines. They include:

Target identification

There are a number of different aspects to successful target identification. One important emerging need is to identify acquisitions in overseas markets. Acquirers must be able to assess the acquisition from the target's point of view, as well as from their own.

But understanding the regulatory and competitive environment in another country can be complex and time-consuming. Thorough due diligence, using local advisors, is critical to understanding the local market. It can identify challenges and ensure that they are properly reflected in synergy estimates and integration plans (see "Lost in translation," *Outlook*, May 2006).

Microsoft uses the enormous resources of its extended enterprise to identify potential acquisitions. The business groups take the lead, looking within their own and related markets for opportunities. Ideas also come from

venture capital relationships in both the United States and Europe, as well as through the company's alliance and partner community.

Acquirers must also be able to identify and capture new skills in the companies they buy. Cisco Systems—often known as the "acquirer of choice" by target companies—is an outstanding example of success in this regard. The maker of Internet networking equipment emphasizes that it acquires people and ideas, not just technologies. The leadership and talent of the acquired company must be committed to seeing the acquisition and the integration of the company work. It is not the first version of a product that becomes a billion-dollar market, Cisco argues, but the subsequent versions. Cisco needs the acquired company's talent to stay and build those next versions.

Synergy identification

The nuts and bolts of valuation are becoming increasingly well understood—and often efficiently and effectively outsourced. But identifying real, achievable synergies from transactions is another matter.

Each merger presents its own unique set of negotiation challenges regarding the competitiveness of the deal, the structure of the deal or pressure from the board to follow a specific course of action. Any one of these factors can compel a buyer to accept concessions with downstream implications.

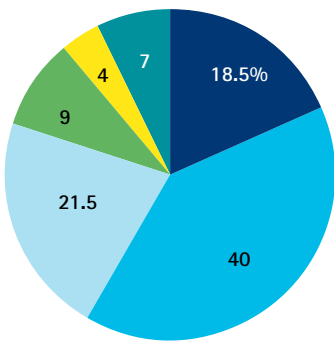
Many organizations fail to align the vision and rationale of their deal makers with the operational and organizational realities of their business—very often because the roles of deal maker and integrator reflect different career paths within the company.

Not there yet

Only slightly more than half of the companies we surveyed thought that they were skilled at target identification and conducting due diligence in cross-border M&A deals. Even fewer had confidence in their ability to manage cultural differences and organization design programs.

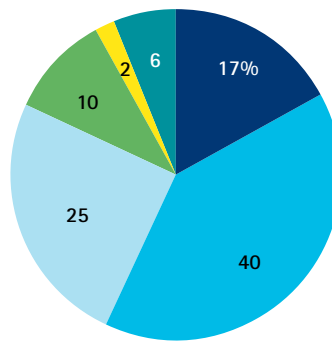
Target identification

Identified specific companies that would be attractive



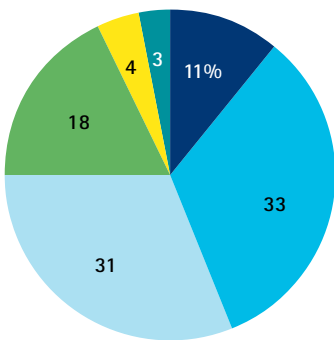
Due diligence

Conducted rigorous and accurate due diligence



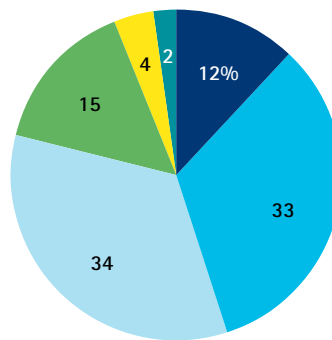
Cultural differences

Skilled at understanding and managing cultural differences with acquisition targets



Organization design

Able to plan and implement effective organization design and change management programs



Source: Accenture/Economist Intelligence Unit survey

Deal makers often accept overly aggressive assumptions about the time and resources required to forge two complex organizations and cultures into a single entity, or the degree of integration that will unlock value in the acquisition. Similarly, operational leaders may fail to appreciate the challenges faced upstream by the corporate development team. This is because they are often not included in the acquisition process early enough to provide expertise about the implications of decisions.

Some successful acquirers have elevated the office of “integration manager” to a coveted position within the company so that up-and-comers see the post as a senior management spot.

Successful companies, by contrast, holistically link these operations, giving the teams responsible for implementing a deal a significant voice in its valuation. One serial acquirer, a large apparel manufacturer, put the heads of its business units in charge of determining target synergy valuations. Another—a big insurer that pursues a growth strategy of small, bolt-on acquisitions—ensures that business unit leaders sign off on all synergy targets. The upshot for both: significantly smoother integrations.

Synergy capture

Some companies already have shown that this skill can be institutionalized. They not only place experienced practitioners on their due diligence teams, they also ensure that successful, established practices can be leveraged from one deal to the next.

At Centene Corporation, for example, which is a major player in Medicaid

managed care in the United States and which averages three to five bolt-on deals a year, the CEO keeps only two or three legal teams on retainer across multiple transactions. Thanks to their close interaction with Centene’s CEO, the legal teams are able to anticipate what deals he will or will not approve—or what requires his attention. The CEO’s time is freed up for more strategic decision making, and the transaction process runs more efficiently and with less redundancy.

The composition of Centene’s due diligence teams, however, varies according to the dynamics of each individual deal. People with IT knowledge are pulled in when IT is a particular challenge, for instance. Thus, key employees boost their particular skill sets, and the company gains fresh perspectives from each new deal—perspectives that can be leveraged in future deals as well.

Assuming that a company intends to fully integrate an acquisition, two more skills play an especially important part.

Cultural assessment

A company must not only be able to determine if its own culture will mesh with that of the acquisition. The new, single culture must also serve strategic needs better than either of its predecessors.

Hungarian oil company MOL, faced with entrenched national rivalries when it took over Slovakia’s formerly state-owned Slovnaft, tackled the problem by recasting the merged entity as an international company and requiring all managers to learn English.

Many acquirers confront similarly complex cultural issues. And cul-

Quantifying culture

An objective, quantifiable approach to measuring the culture of a target or acquisition can help an acquirer develop specific action plans to ensure smoother integration. When Harrah's Entertainment acquired Caesars Entertainment in June 2005, for example, the gaming company used the Accenture Culture Value Assessment tool to evaluate the existing cultures at both companies.

The Harrah's–Caesars merger encompassed dozens of properties and two exceptionally decentralized organizations. So the acquirer used the results of a CVA survey to identify how far each of Caesars' properties differed from its norm. The survey helped Harrah's decide what to prioritize when creating the merger integration plan.

The CVA tool also played a key role in Accenture's own, April 2005 acquisition of the North American health consulting practice of Capgemini. Cultural missteps could have prompted former Capgemini professionals to leave, taking the source of the deal value—their intellectual capital and client relationships—with them.

The process revealed some important findings. Overall, employees from both companies felt that the merger was beneficial, but Capgemini employees wondered if their shorter tenure with Accenture would delay their career advancement.

Armed with this insight, the Accenture Products/Health & Life Sciences North American industry group recommended action plans, including a peer-to-peer calling campaign and mentoring program, that gave the Capgemini consultants a professional sounding board and a chance to jump-start their networking within the new company. Targeted training courses served to clarify expectations and educate new arrivals about how Accenture does business. A team of Accenture consultants also created a quality assurance team that counseled former Capgemini project leaders on Accenture practices and policies.

As a result, by early 2006, 61 of the 64 Capgemini senior executives affected by the acquisition ranked among the leaders of the expanded practice. And almost 90 percent of non-senior executives had stayed on with the new Accenture unit.

tural assessment can be daunting, especially because questions that can reveal key elements of an acquisition's culture—relative intangibles like teamwork, competition, rewards and power—don't usually appear on due diligence lists. In such cases, a systematic assessment can help (see sidebar).

Building on lessons learned

Like any other core business function, merger integration should be monitored and measured—and, of course, improved. This means building attainment of the required skills into human resource metrics and incentive systems. It also requires an honest assessment of current skills. Some successful acquirers have elevated the office of “integration manager” to a coveted

position within the company so that up-and-comers see the post as a senior management spot.

Others use report cards to monitor the various elements of deal success, as well as the various performance indicators of the integration process: Was it on time and on budget? Were all synergies identified and achieved?

One leading insurance company has established a systematic process for capturing lessons learned, holding monthly sessions for members of the integration teams to review the progress of all mergers, both completed and in progress. The company also makes the overall merger integration approach available to the organization as a whole on a database on the web.

Getting it right

Knowing what kind of M&A machine to build will be critical to its success. Answers to four key questions will help guide the process.

1. Which skills are more important?

If you need to integrate a big acquisition relatively quickly, you'll require a different set of skills than if you are acquiring smaller companies and letting them operate more or less autonomously. Big deals require individuals with strong program management and decision-making skills.

2. Which skills should be centralized?

A rule of thumb is to build then centralize skills that are going to be needed across integrations—HR, for example. Those in this centralized group should be virtual members of your integration team and serve as the key point of contact when the integration gets under way.

3. Which skills should be internal and which external?

If an activity is a specialized “utility,” it is probably best handled by an outsider—unless, of course, it also happens to be a specialty that gives you a competitive advantage. In issues where intellectual property is involved, especially, for example, in China, local legal advice is critical. And in cross-border acquisitions, local firms are almost always essential, both for effective due diligence and as actual participants in the integration process.

4. Who will make which decisions?

If the deal is within a business unit, the unit head, as the person ultimately accountable for financial results, should be involved in authorizing the deal as well as in the integration process. If it's a corporatewide deal, managers need someone senior enough to call the shots—throughout the M&A lifecycle—so that decisions are timely and they stick.

Mounting pressure to seek alternative avenues of growth is turning M&A and the challenges of merger integration into mainstream corporate issues. Indeed, the ability to acquire and integrate is fast becoming a competitive differentiator. Building an in-house M&A capability now can help ensure ongoing competitive advantage. Failure to do so could jeopardize future growth—or worse. It's a challenge no company can afford to ignore.

About the authors

Ana Dutra is the managing partner of the Accenture Organization Strategy group. She has spent more than 15 years in management consulting working with Fortune 1000 clients across multiple industries. Recently, Ms. Dutra oversaw Accenture's acquisition of Hagberg Consulting Group, a strategic consulting company specializing in the assessment of organizational culture and its alignment with corporate strategy. Ms. Dutra is based in Chicago.

ana.dutra@accenture.com

Atlanta-based **Donna L. Peters** is a senior manager in the Accenture Organization Strategy group. She has extensive international experience in global M&A with capability building, operating model strategy and organization design emphasis, including an extensive background in designing and implementing change programs for sales and marketing processes, post-merger integration and product launch.

donna.l.peters@accenture.com

Jill S. Dailey is a senior manager in the Accenture Corporate Strategy/Mergers & Acquisitions group. With more than six years of strategy consulting experience and four years of product management experience, Ms. Dailey has worked with senior managers on critical aspects of growth strategy, merger integration and marketing. She is based in New York.

jill.s.dailey@accenture.com

