Mergers and Acquisitions (M & A) Experiences:
An Operational Perspective

M & A: Building Growth or Broken Dreams?

Are you sitting down? According to most academic and consulting surveys over the past 10 years: **66 to 90%** of mergers & acquisitions (M & A) plans have failed to live up to investor and management expectations. *(please see HBR, March 2011).* With all these relationships ending in disappointed grumblings of missed opportunities, mutually hurt feelings, and perhaps, a few tears of exasperation, M & A is not for the faint of heart or sensitive of stomach.

Whether firms are looking to leverage acquired company assets for synergies (such as customer acquisition, cost reductions, product development, production capacity, and distribution channels) or grow new capabilities by acquiring novel business models (such as higher margin products & services, innovative technologies, and new go-to-market capabilities), the anticipated returns have not materialized with the speed and magnitude expected by most investors.

Reflecting on our own experiences, most companies do a fantastic job with financial modeling, plan their asset utilization strategy to precision, and put in the quality time thinking about who's going to run the firm when the dollars settle; however, M & A implementations get tripped up by missing details found in the day-to-day execution. It's the heavy lifting housed within the internal workings of the new firm— taking care of customers, designing new services, making revenue-generating products, and coordinating supply chain permutations — that can make the deal a darling or a dud.

Clients work with us to move beyond pristine models unblemished by reality and get down, way down, into the details of how their firms make money, where their fixed and variable costs will continue, and how to ensure the right team stays on post-merger.

Context: M & A Landscapes Traversed

All of our experience with M & A resides squarely on the operational side rather than on the finance and accounting components of the deal. There are numerous very talented, venerable firms specializing in deal structure who can more than take care of this end of the challenge. Instead, our clients expect us to draw upon our operational improvement results, provide upside potential through operational due diligence (ODD), develop a well-rounded Assimilation Roadmap with new management, put in the heavy lifting to ensure the new business is up and running faster and smoother than the majority of M & A cases. We build capabilities allowing new owners and managers to know with data-backed certitude that their Assimilation Roadmap implementation

MERGERS AND ACQUISITIONS

Synopsis:

- Whether kicking the tires in the consideration stage or making the right moves after the deal is done, make sure your mergers and acquisitions create a beautiful, growth-oriented team. Ensure your new firm silences the doubters by minding these 12 operational building blocks of M & A success

Past M & A Client Profiles:

- **$3+** billion post-acute care services group
- **$2+** billion business services provider
- **$1+** billion healthcare insurance administration services provider
- **$500+** million equipment manufacturer
- **$250+** million food processing firm
- **$60+** million health products manufacturer and distributor

Catalyft's M & A Experiences:

- **10%** on operational due diligence only
- **70%** on post-acquisition implementation only
- **20%** on both operational due diligence and post-acquisition Implementation

Operational Results:

- **17%** reduction in employee attrition
- **25%** increase in production uptime
- **25%** improvement in upselling and cross-selling activities
- **32%** increase in project milestone achievement
- **40%** higher employee engagement survey scores

Financial Results:

- **26%** improvement in revenue per employee trend
- **32%** reduction in recurring technology costs
- **10%** increase in EBITDA growth
- **33%** improvement in cash flow

is paying off as expected.

Our own historical profile with M & A clients have lined up as **10%** on the ODD side only, **70%** getting us heavily involved with their post-acquisition integration needs, and **20%** engaging us early for ODD but also for post-acquisition implementations. If we're working on the ODD side, we're helping our clients see the up-side performance potential, uncovering risks emanating from the current operating model & organizational structure, and collaborating on the Assimilation Roadmap needed to leverage new resources or help cultivate multiple business models now under one roof. While most of our M & A experience has been concentrated in Manufacturing, Business Services, Food & Beverage and Healthcare, we consider the forthcoming list of crucial success levers germane to most industries. You be the judge, though.

12 M & A Focal Points: Building Blocks For Accretion

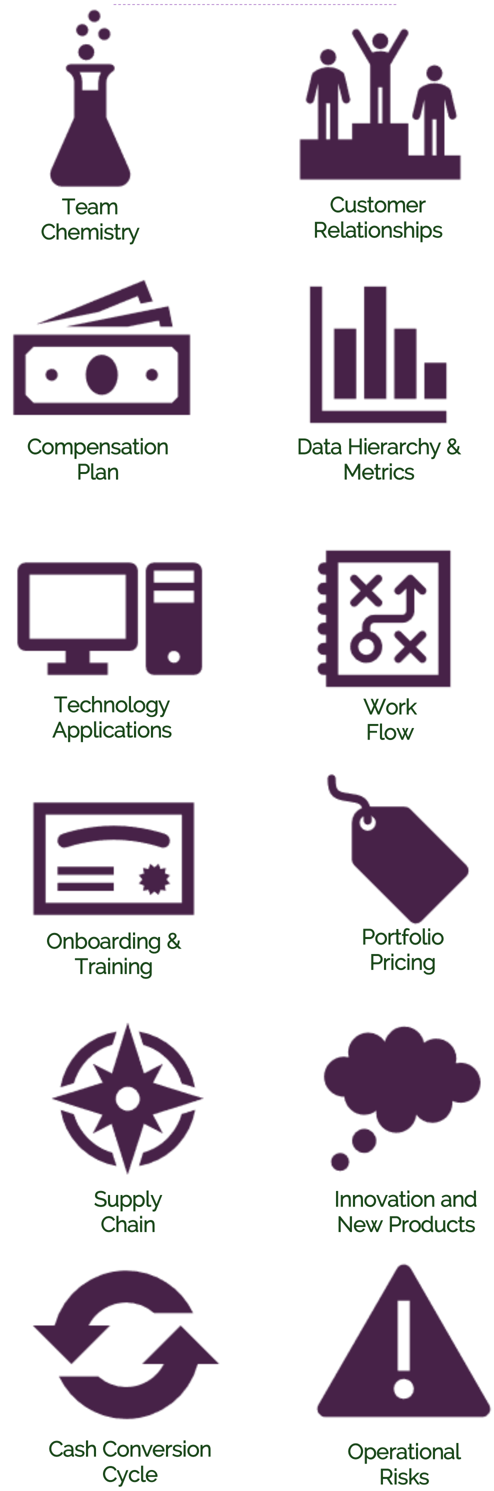
New Culture, New Team Chemistry: Where Does Every Employee Fit? — as the old adage goes, the team dynamic changes every time a person is added or subtracted from the team. Now, start talking about hundreds of new team members and the permutation dynamics start to get very interesting. The new management team will be in flux. Whether directed by investors or self-selected, **over 50%** of management will move on one year after firms are combined. (Please refer to *ResearchGate, November 2014*).

Merging company cultures takes immense planning and <u>over-communication</u> because the new team members have their own perspective around the motivation behind the merger, long-held aspirations for their own personal careers, questions about their future place within the firm, and a deep need to understand the on-going larger contribution the team provides the market and society they've taken care of up to this point. Your newly-formed team must understand the M & A vision, what core tenets of their former company will be untouched, how new employees fit into the plan, and most importantly, where their own specific place is in the new firm.

Even something as seemingly innocuous and mundane as management meetings have their own cultural imports, preparation expectations, leadership style, cadence, and outcomes. Over-communication of the M & A vision is of paramount importance. Providing your nervous team with a sense of enthusiasm about all the possibilities cannot be left to informal chats. It must be orchestrated by your Leadership Team. Defining a shared sense of success must be laid out initially with progression milestones revisited along the way.

The first few weeks are crucial to ensure the in-house talent you have so carefully cultivated all these years sees the vision, agrees it still aligns with their own professional aspirations, and keeps them enthusiastic about contributing their talents to the new firm (rather than doubling their efforts finding a new home).

12 Focal Points:



In the end, you want to be able to reflect on this moment and tell the team: we did what we said we would do!

Hard-Won Customer Relationships — the fact that you're in business today and in a position to contemplate a better business through M & A is a testament to your team's demonstrated ability to create a product or service appreciated by customers. Perhaps, the new acquisition looks promising for their customer base, or perhaps, for a completely new go-to-market model. You see cross-selling and up-selling potential amongst contiguous markets, complementary offerings to your current customer and the potential to bring them into your family without adding even a speck of angst to your customer base (current or future).

Whatever the motivation, your M & A activities must be planned with contingencies in mind. Customers will not be as enthused as your team is about consolidated offices, Customer Relationship Management (CRM) upgrades, combined customer interaction points, new logos, and shared distribution centers. They just want the level of quality and care they have come to trust from you to continue and would not mind a bit if the merger provided new ways of taking care of their needs with an even higher standards of service. As a team, you must understand the new avenue for customer experience, the new relationship touchpoints, how to integrate CRMs for best results, and have customer service contingency plans in place when customer snafus comes to light. Make sure the bumps and disappointments don't generate customer flight.

Two Motivating Words: Compensation Plan — while your newly-formed firm might now boast more robust business capabilities, a more diverse customer base, and even better coffee options, these positive steps will not keep the attention of your new team. While this may bring a smile to the crowd, the nods will be fleeting. The true concern floating around the room will be about an ancient concern crossing all eras and exchange tables — employee compensation.

Yes, most people value other aspects of their work (contribution to society, sense of accomplishment, collegial atmosphere, intellectual curiosity, etc.) beyond the money but the common denominator most employees share will be compensation. Your team has to get this right in the new firm. If folks don't get paid on time with expected amounts, then all well-intentioned vision statements and the very Executives shouting them in town hall meetings get shellacked with labels of inauthenticity and short-sightedness. Your team must truly understand the nuances combining compensation plans, reinforce what's changing and what stays the course, and understand mishandling this aspect of your team's livelihood will be paid by losing talent to your competitors. Run the compensation models. Structure the compensation plan to respect legacy commitments but forge a path to your new, ambitious goals. Make sure the go-forward structure is motivating the behaviors needed to take due care of your team and your customers.

Painful Considerations:

- Over **60%** of post-acquisition plans have not met expectations
- Over **50%** of Managers move on after the first year — team may face increased vulnerability from key relationships being severed due to crucial employees moving on to other opportunities
- Pre-acquisition financial models may not match up with post-acquisition day-to-day activities and outcomes
- Current customer base could become increasingly at risk of switching during M & A transitions
- Current IT infrastructure may not provide adequate transparency to daily operating problems and gaps in performance - with information flow becoming even more complex post–acquisition
- Post-merger compensation structures may not be in alignment with pre-merger expectations
- Employee onboarding and skills training may not be aligned with the new organization's goals and may not adequately incorporate individual professional aspirations after the dust settles
- Combining organizations may create further information breaks along with unneeded licensing expenses and redundant IT systems
- Inherited, archaic work flows may not support your new post-acquisition business model
- Aggregated pricing and products & services portfolios may not be aligned with new markets and elevated financial expectations
- Newly-combined Supply Chain may inject more stock-out risks while escalating procurement, transportation, and inventory holding costs
- Innovation pipeline may be inadvertently halted during the transitionary period
- New Cash Conversion Cycle (CCC) may be more complex and stubbornly resistant to past controls

Data Hierarchy and Operational Metrics — your team fought hard to corral rows of unruly data and transform it into actionable business intelligence replete with dashboards even Rembrandt could love. Don't allow your decision-making lifeblood to degenerate into a stream of suspect, mixed messages by losing connection and flow with performance baselines, daily key performance indicators, credible trendlines, and ultimately, clear translation into your firm's financial statements.

Your new company must provide the key metrics your Sales & Marketing, Operations, Supply Chain, Information Technology, and Finance & Accounting teams rely on at this point. Merger or not, you must ensure the team has the right metrics at the right time to get their job done. If your team is hampered with multiple unconsolidated data sources, information — and hence, decisions — will not flow with the timeliness and conviction your team needs to be successful.

And getting the data sources lined up is just the beginning. Your team needs to worry about normalization of baselines, defending against adopting so many key performance indicators on the new dashboards that "key" becomes lost, and ensuring your new team knows how to interpret the numbers. The overarching data hierarchy not only provides visibility to the day-to-day management of the business, it also allows all stakeholders to see the week-to-week orchestration of your M & A assimilation. What gets measured, gets managed. Garbage in, garbage out. You get the idea.

Onboarding Your Onboarding and Training Programs — getting your new team comfortable and aligned is tough enough; and yet, you must also think about setting up future employees for success. Most employee surveys whole-heartedly affirm the power of training programs, refer to an expectation of employers helping the team to sharpen their skills, and back up the notion that robust training programs help customers plus staff retention.

However, our experience tells us most pre-M & A training programs are already hindered with outdated content, misaligned use of training media clanging against workforce learning needs, and too few trainers tasked with educating too many employees. These energy-draining missteps are exacerbated with M & A activities because near-term priorities take hold, old programs are neglected, and some very good people leave. With the new company, you now must worry about updating content to new company standards, covering past due training for a larger staff, and figuring out how to get this done while keeping the throttle wide open. Consider your onboarding to-do's. A new company calls for new procedures to be implemented, shifting roles to be clarified, and overlapping Human Resources and Recruiting talent from the prior firms to be re-deployed in the best manner. Train your trainers for your customers, your team, and your firm's ongoing evolution.

Technology Applications and Systems Proliferation — every business benefits from thoughtful technology implementations driven

Brand Management Experience Case

A Brand Management Company providing Graphics Services, Pre-Press, Advertising Materials, Packaging, Catalogs, and Printing Services acquired its largest competitor. Now combined, the organization was more than 4,000 people across 13 US locations.

The resultant set of applications software used to build and deliver customer products was deeply customized and maintained by 13 pockets of technical expertise using different coding tools and products. The combined infrastructure architecture was widely disparate. Additionally, there was no depth of either applications or infrastructure support.

We were engaged to develop the plan to reduce the risk of loss of revenue due to technical failure and overall cost of technology support.

We completed a skills assessment of the technology staff at each location, inventoried the applications software and hardware, plus tied it to product, client, and required support. With this information, we developed a three-phase plan that would yield the following return on investment (ROI) from capacity planning and productivity improvements:

- Phase 1 5.6 to 1
- Phase 2 8.2 to 1
- Phase 3 10.9 to 1

The board approved the plan and the internal technical staff implemented the plan without losing any clients due to a technology failures.

by use cases emanating from your team. Whether your team is utilizing internally-developed or highly-customized systems, massive big-name Enterprise Resource Planning (ERP) systems, and / or Software as a Service (SaaS) applications for specific needs, your new firm must comb through all the options with a good, old-fashioned cost-benefit analysis to make sure the best technology applications stay with the new firm, employee training is consistent, and inherited technology partners are vetted.

Without this analysis, we've seen new teams saddled with underperforming IT systems, excessive licensing costs, and the most painful information silos since the advent of the Pony Express. M & A time is an excellent time to make sure your team has the technology they need and Finance has the return on investment they cherish.

Work Flow: Some Assembly Definitely Required — work can flow to your teams (or remain expensively stuck in line and unloved) in many diverse ways. Whether work assignments pop up on-screen, arrive backed up in trucks at a shipping dock, or come barreling down an assembly line, the architecture of the work flow must be re-engineered to match your new business model (or models). Irrespective of the type of work, your new team needs to have their consolidated resources matched with evolving work volumes, tight quality standards embedded into the process, and work flowing to the most qualified team members with capacity to get the job done while meeting discerning customer expectations.

Our experience tells us M & A time is the best time to implement creative destruction of past underperforming, inefficient work flows. Floor layouts may have been inherited from days long gone. New technology-enabled solutions may be a better fit for your new firm than the old-time, informal work flows that limped along just fine back in the day. Now, your business is much more complex and your customers have unprecedented options. Care must be taken to ensure work flow is precisely orchestrated given your company's more sizeable, complex configuration. Perhaps, your team has to assign work across more regions, or maybe to a couple more countries, or even across an unprecedented global reach.

Now is the time to leverage newly-available, innovative software applications to efficiently assign work, collaborate across teams, and ensure customers and team members alike are so very happy. Time to fix flows now — without breaking the one's working well for your team.

Products, Services, and Pricing Portfolio Scrutiny — most likely, your team is just as enthused as you are about adding new products and more comprehensive services to the revenue stream — now made possible by your new division or acquired company. Amongst all the priorities competing for time and resources during your transition time, your team must also make sure the newly-infused portfolio does not have any nasty, expensive surprises

Insurance Experience Case:

A Third-Party Healthcare Insurance Administrator acquired five smaller companies over one year resulting in a company that now had the ability to offer third-party administration services to every type of payer (employer sponsored, government, and private insurance) healthcare plan including fee for service, health maintenance organization (HMO), and preferred provider organization (PPO),

Each company brought with it a salesforce, an active client base, and custom software solutions. We were engaged to develop and implement a plan to integrate applications, manage the development of the integrated solution, and transition the six companies to the integrated solution. We worked with the technical leaders of each of the companies to match the functionality of current applications to the total lifecycle of benefit plan management, then reviewed the capabilities of each application as a team. From this, we developed a future state solution that would integrate the required functionality and a plan for implementation to reduce current maintenance, improve speed to market, and increase plan administrator's capability to analyze their plan results.

The team vetted the proposed solution with all functions within the organization including sales, marketing, and operations to ensure this solution would meet both client and internal requirements.

With the organization aligned, we were able to implement the integrated solution over eighteen months with a **32%** reduction in recurring technology costs and contributing to **10%** annual growth in EBITDA in Year Two.

like cannibalized sales, redundant offerings, overpriced showpieces, or underpriced superstars. You've always had to get the balance of supply and demand right. Now complicating matters, you must also contend with team members looking to preserve pet products or defend their past work efforts to carve out some comfort in their newly transitioning employer. M & A time is the right time to objectively analyze the go-forward portfolio and pricing path without hidden agendas.

Culling products and services no longer in alignment with your new vision is a must. Initiating a few tough but necessary conversations with your stakeholders around pricing, go-forward products & services, and brand portfolios can pay off in margin growth.

Frankensteinian Supply Chain — your newly-amalgamated Supply Chain may harbor some unwelcomed features if it does not get the attention it needs. Nefarious, expensive surprises like unplanned stock-outs, disappointed customers, dejected vendor partners, and ballooning expediting costs. Perhaps, your team must now resign themselves to the fact that some divisions have better ways of ordering, transporting, receiving, storing, and delivering than other divisions.

M & A time is the right time to find those pockets of strength and make isolated better practices the comprehensive backbone of your new Supply Chain. Your new network architecture should rise above old legacy conventions, incorporate the nuances of daily business, and energetically support your new business models.

Just take a few moments and ponder all the interconnections with other companies and relationships developed when considering modes of transportation to get your goods & services, customers, patients, and employees in the right place to do business. Next, add in all the relationships and opportunities involved with procuring your organization's goods & services. Considering all your team's existing Supply Chain processes and new EBITDA-impacting opportunities alongside the multitudinous points of failure across your network can get uncomfortably complex — even viewing from on high can be tough, right?

Supply Chain wins wars and wins new customers. This aspect of your business has so many implications (customer expectations, safety concerns, environmental impacts, cost of goods sold, employee frustration levels, vendor relationships). It's a wonder anybody gets a chance to go to sleep when contemplating a M & A move.

Our experience tells us technology will be a major contributor to optimizing your new Supply Chain. However, technology is unquestionably necessary—but not sufficient—to take care of your customers, your team, and your financial statements. Our Supply Chain experiences coalesce around making sure technology applications turn data into information — empowering your team to mitigate risks, contain costs, and maximize customer euphoria.

Airline Catering Experience Case:

An international Airline Caterer had a significant loss of revenue due to the elimination of meals in Coach and reduction of food service in First Class. The company's survival was dependent upon reinventing itself as not only an airline caterer but also as a company who provided high-end catering to other international transportation services, home meal replacement for grocery store chains, and a variety of fresh packaged sandwiches to convenience stores.

To accomplish this, the caterer purchased five specialty food companies who excelled at working with large customers and highly-customized recipes.

We facilitated the development of an integrated automation infrastructure, data communications, and help desk concept operating model. Additionally, we implemented the transition plan, reengineered new business processes, and managed the comprehensive Assimilation Roadmap without business interruption, on time and within budget.

Works Cited:

"The Big Idea: The New M & A Playbook" by Clayton Christenson, Richard Alton, Curtis Rising, and Andrew Waldeck, March 2011, Harvard Business Review

"Latest Trends In Mergers and Acquisitions Research: The New Pattern of Globalization" by Iulian Warter and Liviu Warter, November 2014, ResearchGate Net

Innovation, Intellectual Capital, and Your Next Money-Maker — we've all read about (and marveled at) companies so attuned to building in creativity and innovation, they build it in as an expectation and even designate timeslots within the weekly schedule. Excellent!

However, most companies don't offer such latitudes and must rely on customer feedback, astute sales & marketing departments, inspired engineers, structured research and development centers, and entrepreneurial employees to point them in the right direction toward their next commercial success. Whatever means your company has channeled inspiration in the past is not as important as the way innovation occurs today— and how great ideas will be captured and leveraged tomorrow.

Your new team needs to know how good ideas turn into commercial successes. This process might have to be more formalized than the wistfully nostalgic, simpler days when an excited employee could just walk into the founder's office with a cocktail napkin diagram in hand and a heady dream in mind. Your now-larger firm may need more structure to capture innovations across the new team. There needs to be a way for employees to ponder "could it be otherwise?" and get their ideas scrutinized by the team at large to see if notions and inclinations warrant a stronger test backed up by more company resources.

Well-designed and supported Research and Development departments help. Robust Sales and Operations Planning (S & OP) processes can be a well-informed conduit from your Customers to your Engineering & Design team. Project Management Offices can also ensure opportunities are moving to next-steps only when the evidence is there to justify on-going existence and future investment. Your new organization must build in ways of allowing brilliance to bubble up.

Cash Conversion Cycle Responsibilities — woe unto those who think cash flow will just take care of itself. When companies merge, the cash constraints just get more complex. Accounts Payable may be paying too soon or not at all. Some Payables policies of your old firm may not line up with your new model. Even the means of funds transference and accounts used going forward need to be aligned with your new Accounting team and new partners (banks, financial transaction services, legal teams, Private Equity partners, etc.) going forward. Business should not stop when Larry in Payables goes fishin'.

With any newly-formed company, Accounts Receivable may fall back as a lower priority and not get the proper attention it deserves. Perhaps, your now-consolidated Receivables may be too much for the Sales, Operations, Finance, and Accounting teams to manage. Understanding when and where your new team should best apply their collective energies in the pursuit of cash is imperative. Our experience tells us understanding the various reasons why Receivables are aging is of paramount importance. Next, your team must have timely visibility of all the accounts and a way to prioritize who needs their attention.

Our Way of Collaborating :

Identify
2-4 meetings at no cost

- Discussion of issues
- Alignment around probable causes
- Framing of analysis scope

Qualify
3-6 weeks at cost

- Qualify opportunities
- Quantify anticipated results
- Initial engagement design
- Key meetings: Launch, Opportunity Review, Solution Review, and Final Framing of analysis scope

Modify
4-8 months

- Final engagement design
- Execution of engagement design
- Realization & measurement of results
- Ownership & sustainability

Office Locations :

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One World Trade Center
Suite 8500
New York, NY 10007
212 220 3897

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300 North LaSalle Street
Suite 4925
Chicago, IL 60654
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647 725 9662

Furthermore, your new organization needs to have customer relationships lined up with your new team, not only for New Sales, but also for cash collection needs. After all, a sale is only good if your team gets paid accordingly in the expected timeframe.

On the inventory side of matters, an integrated Sales & Operations Planning (S & OP) capability is a must. Without it, the warehouse could become filled with dusty, cash-laden inventory. Your new organization needs to have the demand-sensing signals and controlled processes in place to ensure customer orders turn into cash rather than one-of-a-kind museum pieces weighing down inventory balances. Our experience tells us your new firm must also understand all the ways to move excess and obsolete inventory along the order-to-cash continuum — from maintaining some margin to becoming a total write-off.

Your post-M & A cash conversion cycle must be understood and optimized. Furthermore, you must embed a cash-generating and cash-preserving mentality into your new team rather than relying on a handful of talented but stretched Finance & Accounting folks to mind the cash.

Operational and Organizational Risks — woven throughout all this M & A landscape is operational risk. In a world rife with unknown outcomes, nervous talent, finicky customers, and merciless rivals, the operational side of M & A needs due consideration. Most teams we work with have a 100-day plan sketched out to help mitigate all the inherent risks. Our collaborations ensure Management is building momentum — every day — to exceed your plan.

To beat the odds of disappointment, an operations-based Assimilation Roadmap accounting for the pitfalls is a great start. Then, crisp, EBITDA-focused execution of your Roadmap allows your team to breathe a little easier and turn anxiety about the near-term into enthusiasm about the future. Going through this trying time, your new team will appreciate an infusion of M & A experiences, dedicated resources, and added agility to overcome new wrinkles of adversity within their evolving organization.

Fortune favors data-backed decision-makers. On the operational due diligence side, it is much easier to be a confident investor when you've got operational experience at your beck and call. On the post-acquisition integration side, Management teams must have the confidence to overcome adversity and capitalize on new opportunities down the road. Our M & A collaborations ensure your new team has embedded next-level capabilities (processes, tech-enabled tools, and training) to continue the march well beyond the 100-day plan and onto your next M & A opportunity.

We hope the time you've invested reading this experience case provided a few points resonating with your own M & A contemplations. Please keep Catalyft in mind when considering a partner to help ensure your team is ready for all the next-steps. We want you to land firmly on the good side of the M & A odds, too.

Engagement Statistics:

Clients' Historical Return On Investment (avg.)
4.8 to 1

Team's Collective Career Projects (total)
1,496

Specialists: Years In Consulting (avg.)
21

Team's Career Training Sessions Delivered (total)
4,935

Subject Matter Expertise (SME) Network (total)
900+

Team's Historical C-Suite Executives Roles (total)
39

Supply Chain Cost Savings (avg.)
19%

Working Capital Unlocked For Reinvestment (avg.)
21%

Tech-Enabled Productivity Increases (avg.)
27%