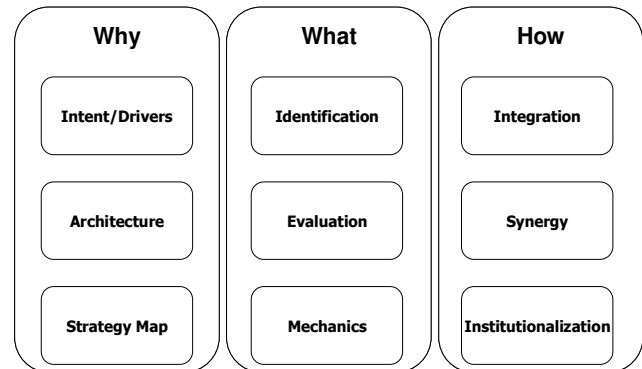


Acquisitions – A Perspective

It is 15 years since the journey on liberalization started in India. India Inc. is on a path to building TNCs (Trans-National Companies) across the globe. It is the desire of every enterprise to go global through sales outlets, and/or M & A. A variety of acquisition stories are doing the rounds in the media. Here we share a few thoughts that could be handy in the M & A domain.

The facilitators to the M & A domain spend more time on the financials and the projected cash flows to arrive at a value to complete the transaction. As the acquiring company, you would be interested in non-financial facts that could have an impact on the performance of the acquired company. It is desirable to spend quality time on non-financial facts that could have impact on the performance. Here, we share a framework that is holistic on M & A:



Intent/Drivers

There are a variety of reasons for engaging in acquisitions. The integration of the acquired unit leads to success only when our actions match the intent of the acquisition. Below is a list with explanation.

1. Consolidation - Buying the Competition
2. Diversification - Increasing the Value Chain Width
3. Parking - Benefit from Arbitrage in Unrelated Areas
4. Re-Positioning - Synchronizing with Societal Changes
5. Paradigm Pioneering - Betting on Future Technologies

Architecture

What are we seeking with the acquisition? Many a times, the acquisition yields results through improved capabilities, technology, brand position etc. It is worthwhile to ask ourselves the below questions prior to acquiring any unit:

1. Will the acquisition add to Tangible Assets (Resources) and/or Intangible Assets (Capabilities)?
2. Where does value come from? Is it Process Efficiency, Asset Turnover, ability to expand (financial leverage) in new areas, or a combination?
3. Can the Human Capital be assessed and indexed to establish a baseline? Are there metrics to measure capabilities growth?
4. How is talent Retention & Sustenance are handled? Can they be repeated?

Strategy Map

It is desirable to have answers on the what, why, where, when, and how questions to find a strategy fit with the acquisition.

1. What - Value Generation & Delivery Infrastructure

2. Why - Maslow's Hierarchy of Needs – Security and/or Recognition Needs
3. Where - Leadership in Demanding Markets
4. When - Towards Portfolio Balance
5. How - With Value Fit, Integration, and Institutionalization

Identification

Identifying target companies is normally done through accounting firms as they are viewed to have a broader knowledge of the markets. However, prior to engaging them, a framework needs to be developed to filter the lists generated by them. Below is a sample of filters worth looking into:

1. Relevance to the overall strategy
2. Size – Turnover, Territories, Technologies
3. Infrastructure/Platform (commodity products) or Applications (custom products)
4. Stage in the Business Cycle (adolescence, youth, prime/peak, aristocratic, bureaucratic etc)
5. With Sustainable Competitive Advantage or For Building Competitive Advantage
6. Geo Political, Civility, and Ethical Considerations
7. Regulatory, Ecological, and Infrastructural Frameworks
8. Ease of Exit, Related Costs and Value Loss

Evaluation

This is a mature area where many have views with conviction. Typical parameters for evaluation include Customer Capital, Brand, Financials, and Liabilities. In addition, few more parameters on the intangibles or practices would add value:

1. Process, and Practice
2. Ethics, Excellence, and Eco-Consciousness
3. Culture, Communication, and Commitment
4. TQM (6σ, BPR, CMM, ISO), and ERP/MIS Systems
5. IPR, Time-to-Market, and Re-positioning

Mechanics

There are many experts available to obtain Legal & Environment Clearances, arrive at transaction value based on EBITDA/WACC vs. Market Cap, Book Value etc, structuring the transaction in terms of Cash, Stock, Swap etc, and negotiating for equitable gains to both the parties. This article can not add much value in this area beyond what the experts can bring to the table.

Integration

M & A in the economies that are comparable to India are as good as domestic acquisitions and the issues are relatively less. While venturing into acquisitions in the developed economies, the challenges are psychological and not just business-related. Many would resist a new boss (parent company) from an economy that is not at par with their economy. Many a times, the businesses are bought based on brand, technology, and dominantly by future cash flows. If half (or a significant number) the management team decide to leave what value would remain with the business?

The challenges of making it work multiply with the acquisition as the expectations run high from every corner. The role of the integrating agent will remain under the microscope until the objectives are met to everyone's satisfaction. To bring single point accountability, the acquired unit should be viewed as a subsidiary of the parent and one business head should be appointed from the parent company. Communication with the members of the acquired unit should be structured and measured to get the synergy from everyone.

A quick audit should be done to reach the members of the management team commanding respect on performance & people management. Reassurances must be given (may be in writing with necessary caveats) to retain them through the integration process. Performing members would typically expect independence & continued respect. Guaranteeing them these within the framework of the overall strategy would go a long way.

The members of the management team who do not fall under the above category should be eased off with immediate effect to minimize/eliminate the spread of negative energy. This activity should be done in one go and not spread over time. Nobody likes to have bitter medicine more than once!

Share with the team (remaining members of the management) the objectives of the acquisition, set the expectations, the measures, and develop the timetable with milestones to track integration. Involving them on the timetable would secure buy-in.

Synergy

The synergy of the acquisition will be decided by the communication to the markets, customers, and other stakeholders. Many a times, internal acceptance is faster than the external acceptance. For example, HP acquired Compaq but, the market see the products differently. The Compaq products that competed with HP prior to the acquisition are viewed a notch below by the markets leading to value erosion. To gain market acceptance on the value delivered, joint positioning of the brands (basically kill one of the two brands) is needed with changes to product design, ergonomics, and support systems.

If mergers are on the cards then, compensation parity and management team rotation between the acquirer and the acquired is a must to gain synergy and unified culture.

Institutionalization

Often, the experience gained from one acquisition is not captured or documented as part of the knowledge management to leverage on the future acquisitions. Just as the post implementation audits on projects, audits on the acquisitions, the lessons learned would add value to the organization and ensure the prevention of the same mistakes being committed. After all, a learning system is not expected to make the same mistake twice!