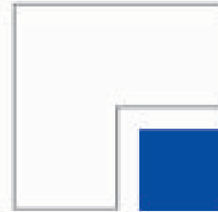

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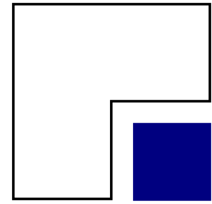
Creating competence for the future

Project Management for Mergers & Acquisitions

by Kai Lucks



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Abstract

The article covers the “end to end” management of M&A projects for strategic buyers with special focus on business integration and business reengineering, beginning with the strategic “case definition” and ending with the finalization of the integration. Different characters of work, change of responsibilities and external factors inhibiting a continuous flow of work imply to break down the overall project into “partial projects”. Typical working steps and how the steps and partial projects are in terlinked describe the overall task. Practical approaches for integral project management and their tools, complementing on drawbacks and general rules round up this overview.

Project Management for Mergers & Acquisitions

By Kai Lucks

1. Summary and definitions

M&A projects involves all activities related to corporate mergers, the acquisition of companies or divisions and the transfer of business activities of several parent companies to a new unit (joint venture) that is owned jointly by the parent firms (see Figure 1).

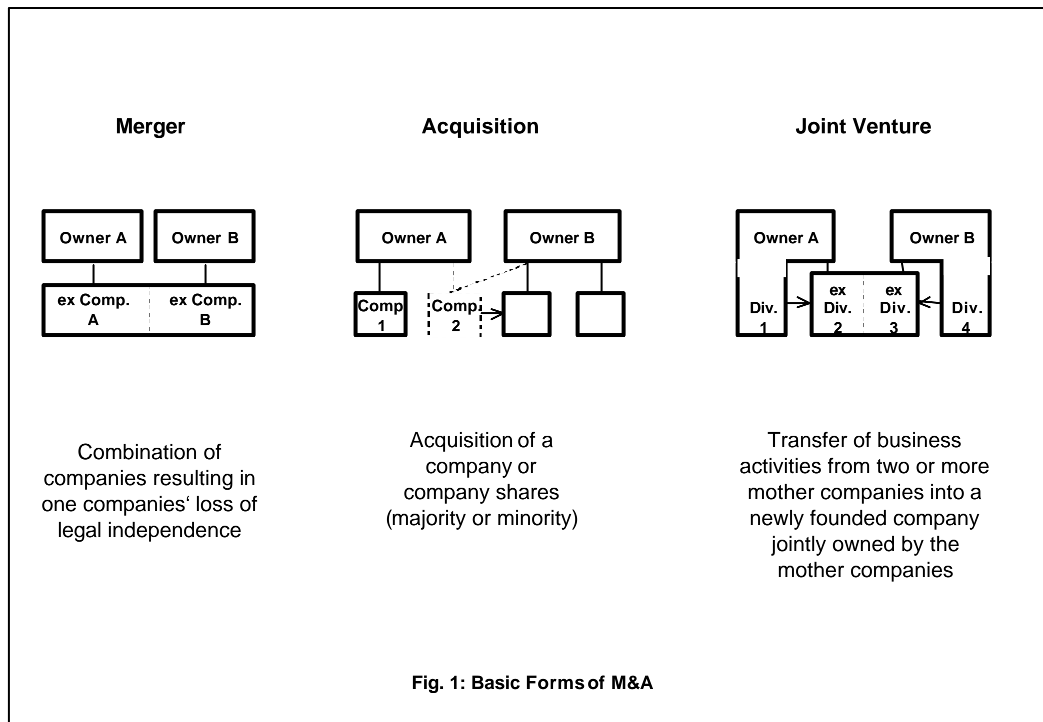


Fig. 1: Basic Forms of M&A

Because these projects are aimed at improving a company's business position and involve restructuring, they are also known as *external business reengineering*. M&A activities range from strategy development and systematic selection of candidates, exploration, transaction and integration preparation to integration itself and the tracking of implementation measures. They can be broken down into three "partial projects". The business case is developed

during the "explorative preparatory project”: (strategy checking, candidate selection, determination of the business model). This preliminary explorative phase is followed by the “deal-making project”, which involves the financial/legal transaction, including negotiations, setting of terms and conditions, contract development and antitrust clearance. The “integration planning and implementation project” is where the structural and cultural merger takes place. M&A projects are driven to a large extent by external factors and the influence of third parties. In addition, they are not easily controlled and tend to progress in fits and starts. This paper describes the individual steps involved in this process, with a focus on integral management and controlling. The discussion presents instruments, combined with recommendations on ways to implement them.

2. Focus of the paper

The discussion of this subject is limited to transactions involving the operational merger between previously separate business activities. It does not deal with the exclusive transfer of property: Acquisition/sale of stock or ownership interests (known as "share deals") or acquisition/sales of assets (such as individual machines, individual customer agreements, etc., known as "asset deals"). The exclusive transfer of ownership, for example, through management buyouts, is also beyond the scope of this paper (see [1] for details on management buyouts).

One special kind of transaction project, the company *auction*, is managed under largely fixed rules, with the buyer employing investment bankers to monitor compliance. In this case, potential buyers will also hire an investment bank to represent their interests. Because of such transaction outsourcing and limited influence by the buyer on how the process is conducted, auction management is only tangential to the present discussion.

2.1 Differences compared to industrial projects

At first glance, M&A projects appear to have similarities with those carried out for customers, for example, industrial projects. In both cases, a team is formed for the purpose of producing an object that meets certain performance criteria, while keeping resources and time to a minimum. On closer examination, however, there are significant differences between the two. An important aspect of an M&A project is the way in which they are defined. M&A is a highly *explorative process*. With each phase characterized by *uncertainty*, it affects every concern of all parties involved; most of the players are "perpetrators" and "victims" at the same time. M&A projects are largely determined by third parties, namely, competitors, customers, suppliers, politicians, social partners and public authorities, especially antitrust agents.

Although the transaction is based on a purchase agreement, the latter cannot be implemented until the legal permits have been obtained. While the project is undergoing antitrust clearance, the M&A hopefuls find their hands tied. They must continue to compete with each other in the market, but cannot reach any agreements. They don't know how long the clearance period will last, whether they will obtain clearance or what conditions will be imposed. In the meantime, the clouds are gathering: employees are uneasy, customers remove one of the candidates from their list of bidders because they assume the merger will go through, while competitors take advantage of the weaknesses of companies unable to devote their full attention to day-to-day business. Periods of waiting alternate with stretches of hectic activity when the parties crank up the pressure in rounds of price talks. Although divisions need to be spun off, this must wait until the eleventh hour so as not to upset the employees.

The "capacity and time schedule" for an M&A project is therefore completely different than that of a goods and service project: first there are short peaks of frantic activity, followed by waiting periods; then come attempts to offset estimated man hours with uniform utilization of plant capacity. Nevertheless, a second look does turn up parallels and therefore transferable experience. Even M&A requires a system and calculations as well as the definition and tracking of milestones.

3. M&A project management and its overall purpose

According to management practice and the literature, M&A projects are typically divided into three phases, namely, the preparatory phase, transaction and implementation (Figure 2). These phases are separated by "major milestones". The preparatory phase is commonly defined by an "official" project launch and completed when the company management decides internally to enter into negotiations. An official project launch is practical inasmuch as the players often informally keep an eye out for "external" possibilities, with CEOs talking to each other or sales managers getting together informally and discussing their visions for common business interests. Motivated by these factors, internal analysts are brought on board. Unless such exercises are quickly channeled, there is the danger of endless meetings stretching out for years on end and expenses accumulating uncontrollably for studies. That is why it is important to make these activities "official" and to set clear goals, budgets and criteria for discontinuing the process.

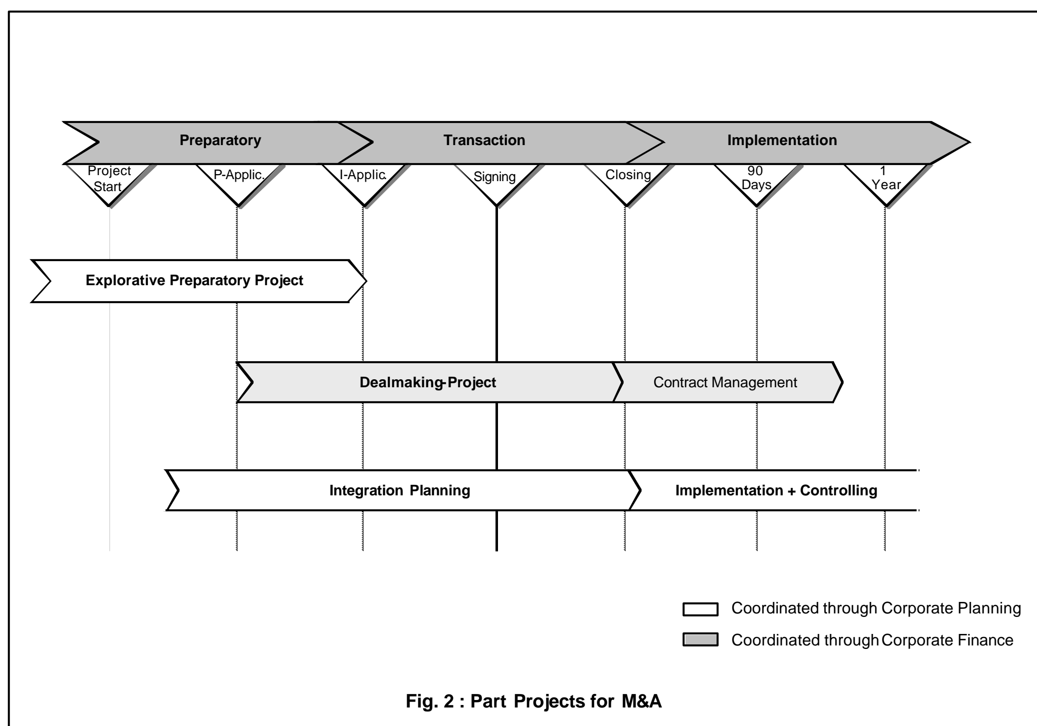


Fig. 2 : Part Projects for M&A

The preparatory phase is characterized by internal studies and external, as yet unbinding contacts. The transaction phase, on the other hand, tends to be more contract-oriented and binding in nature. It is based on preliminary contracts,

such as exclusivity agreements and statements of intent, and is aimed at formulating and approving the purchase agreement. Once the purchase agreements are ready for signing, they are "frozen" and based on the application for antitrust clearance. Once this clearance has been given and other legal requirements met, the contract can be performed (and the deal closed). The transaction preparatory period is also used to obtain information (due diligence) and prepare for integration so that the target company can be taken over on the first day after closing.

With the closing, direct access is provided to the target company, marking the beginning of the implementation phase. From this point on, the new owner can asses his acquisition for the first time unhindered and compare the condition of the assets with what had previously only been on paper. It is now also possible to implement planned measures. During implementation, a further "major milestone" is typically set for three months later. This period should be a time of corporate appraisal aimed at verifying the state of the company and establishing conditions for integration. Initial decisions about "top management" should be made and the preliminary organization set in place. The integration team must also be formed to verify the potential for value enhancement, and individual actions should be planned.

It is advisable to set another milestone for one year after closing, when it is usually possible to determine with certainty whether the project will generate the anticipated value. As integration progresses, there is now room for other fundamental decisions on orientation, such as corrections and follow-up restructuring -- even if the merger has not yet been completed. Some things simply take longer than others (such as "cultural" integration) or cannot be initiated until a later point in time (for example, product harmonization).

A number of typical "partial projects" can be carried out on the basis of the main functions described above:

- The **explorative preparatory project**, focusing on strategy verification, candidate screening, business model development (simulation) and development of a value enhancement concept. As the "owner", the initiating management team assumes overall responsibility for the

project, while the central strategy department usually handles the analyses.

- **The <u>deal-making project</u>, with post-closing contract controlling**: the focus here is on due diligence, negotiations, contract development, legal reviews, transaction structuring (financial engineering) and setting terms and conditions. The project "owner" and the financial and legal departments should share responsibility for leading the negotiations.
- The **<u>integration planning and implementation project</u>** for identifying the value enhancement levers as well as planning, implementation and controlling of the measures taken. An integration manager to be appointed at an early stage should be placed in charge of the planning team and also implement the integration process after closing.

3.1 The exploratory preparatory project

3.1.1 Basic strategy

The first step is to verify whether the planned strategic approach does indeed offer better value enhancement potential than any of the other available options. It is also important to determine whether this approach is consistent with the company's general portfolio policy (prioritization of expansion methods, allocation of financial resources, etc.). The central strategic planning department should be responsible for these functions.

3.1.2 Candidate screening

Possible candidates need to be identified on the basis of these basic considerations and prioritized according to how well they conform to the strategic goals, improve the company's competitive position, contribute to the value enhancement objectives, provide a good cultural match, are interested in the same merger model (purchase, joint venture, majority shares) and are also at the right stage of readiness. Responsibility for this lies with Strategic Planning.

3.1.3 Exploration

Together with the prioritized candidates, the company must explore whether the above expectations appear to be feasible and which conditions the candidate would be willing to accept (value concept, merger model). If the expectations seem to be leading in the right direction, more in-depth discussion can follow. If not, other candidates should be contacted. Due to the lack of information and the uncertainty as to whether the candidate will indeed "bite", it may be useful to explore multiple possibilities at the same time, if necessary, with the help of a third-party mediator (to preserve anonymity). Any exchange of data should be based on confidentiality agreements, with the content limited by fair trade rules. It is therefore important to have a lawyer present at all sessions.

3.1.4 Management structures

Once positive signals are being received from the preceding steps, the next stage is to establish structural measures. This includes the planned corporate and organizational structures (integration model, etc.) and, in the case of joint ventures, the distribution of decision-making powers (corporate governance) and voting rights among different decision-making areas (such as strategy and investments). The responsibility for this lies with Management, with input from Corporate Planning and corporate law experts.

3.1.5 Business simulation

An initial overall business plan must be drawn up on the basis of the company's own business, the business of the potential candidate, the anticipated combined effects and restructuring costs. The information obtained from the candidate is too meager at this point to describe his business in a profit and loss (P&L) statement, which must be done on the basis of market and competitor data as well as plausibility studies using the company's own business data. On this basis, the next step is to simulate the combined effects and risks arising from the merger. The overall result must be checked to determine whether the planned strategic goals (competitive positions, cost positions, etc.) can be achieved on this basis.

3.1.6 Rough assessment

The company's own business planning and simulations for candidates (stand-alone) and combined effects yield the cash-flow figures for an initial assessment of the planned overall business. Comparison approaches (multiples, comparable deals) are other ways to determine the anticipate range of purchase prices. It is important to consider the candidate's debt. The overall business value and anticipated purchase price allow scenarios to be established about the project's value enhancement potential.

3.1.7 Feasibility

Before proceeding to subsequent steps, it is important to verify the ability to obtain legal clearances, particularly from the antitrust agencies, based on strategic competition data. This study is carried out by internal antitrust experts or an external attorney's office, including consultation with public authorities. It is difficult to clarify these processes in advance with any certainty. While the national antitrust authorities are usually open to direct consultations, international agencies frequently do not allow direct contact with the office in charge of the decision. If there is a high probability of rejection, the only choice is to develop a different company model, change candidates or withdraw from the deal.

3.1.8 Preliminary contracts

If the completed studies present a promising outlook for both parties, preliminary contracts can be drawn up to pave the way toward initiating the transaction phase. It is common practice to provide mutual exclusivity promises for negotiations - it is reasonable to impose time constraints - as well as letters of intent that are usually of a "moral" nature rather than being binding.

3.2 The deal-making project

If a deal is put together "from individual pieces", as described above, one can also expect to enter into direct and exclusive negotiations with the selected partner. This is a better choice because it allows the future partners to largely

control the process themselves. A less favorable choice would be to initiate an auction with the involvement of an investment banker. This greatly restricts the flow of information, eliminates the due diligence step almost entirely and results in the banker dictating the time sequence. It is important to consider whether or not to participate in such a process, which is best ruled out in the event of certain risks or if there is no way to conduct a review outside of the given process. A risk of this type exists, for example, if the business plan is based on new products with unproven performance and market readiness.

3.2.1 Due diligence and management audits

During the preparatory phase, only indicative business information is customarily exchanged. Due diligence opens up the chance to view (audited) year-end reports and balance sheets as well as original planning work. Specially prepared information is provided in a "data room". However, merely checking the consistence of economic data "on the books" is not enough. The submitted information is rarely complete, raises plausibility questions and may even present a picture of the company's competitive position and market perspectives that differs from that of the potential buyer. Meetings with management, known as a "management audit", should be requested to clarify and discuss these issues. Any resulting risks that are unusually high (for example, arising from site contamination or contracts) then justify demands for a purchase price reduction, discontinuation of negotiations or withdrawal from the purchase agreement. If available information is proven to be false, a purchaser can also sue on grounds of misrepresentation. However this should be explicitly formulated by certain clauses in the purchase agreement (threshold values, level and limit of compensating claims).

3.2.2 Detailed assessment

A detailed assessment can be made once the economic data and balance sheets have been submitted. In addition to cash flow-based assessments, the net value of tangible assets can now also be approximated in order to make statements about goodwill (difference between the business value and book value). At this point, it is also possible to make statements on fiscal

organizational models and proceeds from the subsequent sale of non-essential assets.

3.2.3 Negotiations and setting terms and conditions

The purchasing party is in charge of directing the negotiations, a process that encompasses all the results of the due diligence and assessment steps. Both sides arm themselves with arguments supporting the ability of the business to hold its value (seller) or placing it in question (buyer), using studies of comparable deals (industry-standard multiples derived from EBIT or other quantities). Both parties bring their own ideas about purchase prices to the discussion, which are aimed at their own thoughts on value enhancement. The buyer focuses on ways to enhance value by improving business processes and using combined effects, keeping in mind the value of alternative strategies (going it alone or selecting an alternative candidate). The seller is likely to ask himself whether the selling price is fair on the basis of his own plans, whether he is sufficiently involved in the value enhancement potential (an argument in favor of a "sales premium") or whether another buyer would have more to offer (auction?). The negotiations are a time of maneuvering, with each party placing the other under price and time pressure.

3.2.4 Contract development

The contract is a written document that describes the purchase object, defines the type of transaction (asset deal, share deal or a combination of both), sets the terms and conditions (price, time, method of payment, etc.) and - in the case of a joint venture - determines the governance structures. The contract must provide a complete description of the object and transaction. Once the terms and conditions have been negotiated and the purchase agreement is "finished", it can be signed by both parties – subject to legal clearances. With this signing, the contract is "frozen", although not yet ready to be performed. To finalize the deal, the legal clearances must be obtained, especially those from the antitrust authorities. In order to prevent the other party from backing out of the deal, it is common practice to provide a memorandum of understanding with binding clauses, for example, the possibility of withdrawing only for good cause. This can make the decision to back out from the deal an expensive one.

3.2.5 Legal review

As was done earlier during the internal review phase, the applications for antitrust clearance are now submitted to the antitrust authorities. Jurisdiction lies with the offices in the countries where the future company will operate. This includes national antitrust agencies as well as international ones, like the European Antitrust Authority. Their main task is to check whether certain mergers would alter the competitive landscape in a way that would be detrimental to customers. To accomplish this, they survey customers and competitors. After the signing, the intent to merge is also announced to the general public. Critical responses from customers and competitors are to be expected. The cost of antitrust clearance has soared in recent years and will climb even further as more and more countries establish fair trade rules and require approval procedures (especially Eastern Europe and threshold countries). As the rules continue to change rapidly, little general information is available about opportunities and time constraints. The antitrust clearance procedure is one of the main time risks facing a major deal: a first-level hearing in the United States or Brussels generally takes around four months. If a second request is made, the clearance may take another eight months. A two-step review with rejection and subsequent legal action before the higher-level court can take a total of two years.

3.2.6 Closing

Once antitrust clearances as well as special legal permits (required in certain industries and in countries where special ownership conditions must be met) have been obtained, the green light is given to perform the contract. Nothing more stands in the way of the takeover.

3.2.7 Post-closing contract management

The deal must go through after the closing. Additional contracts must be signed if "place holders" were initially agreed on, and the performance of the contracts (purchase price payment, etc.) tracked. Site contamination risks, contractual and pension obligations must be evaluated and changes under corporate law made. Compensatory amounts for changes to values and assets arising

between the time of signing and closing must be evaluated and paid. Guarantee obligations fall due. Sales rights and technical property rights must be transferred and contracts with third parties either canceled or re-concluded (e.g., with distributors). In the case of large companies or large single projects, a separate department or team should be formed to handle these tasks.

3.3 The integration planning and implementation project

3.3.1 The pre-closing integration plan

The main measures must be planned even before closing if the company is to be ready for action from "day 1". This includes primarily identifying the main sets of measures, which, among other things, are the main levers for improving the result. The method used for this purpose is described in Section 4.1.5. The organizational and management changes to be announced on "day 1" must first be determined, along with the key functions for the implementation team, especially who is responsible for which set of measures. Reporting and controlling structures must be provided for the project (see 4.1 and 4.2.4). The program for combining IT infrastructures must be established, and the candidate must be integrated into the planning and reporting system. To this are added basic considerations on the cultural orientation and preparatory communication program. Announcing the deal to the general public at the time of signing requires declarations and papers that have been coordinately between the partner companies. Specific planned procedures for the days before and after the closing must be worked out (see sections 3.3.3 and 3.3.4).

3.3.2 The readiness report

The implementation program should be summarized in a report and submitted to company management for approval. This report should cover all tasks described in sections 3.3.1 to 3.3.4, verify consistency with planning (section 3.1.5) and be structured according to the "cockpit approach" described in 4.1. Reasons for submitting this report are to verify consistency and obtain approval

by management as well as obligate team managers and operational management to follow the program and its goals.

3.3.3 Management on day "minus 1"

This is the day of closing, which means that approval to go ahead with the merger has been given, and the contracts have been signed. One of the most important goals of this day is to provide information to important internal and external groups (see 4.1.4). To do this, the deal must be announced on the stock market, for all shareholders worldwide must have the same information at the same time. This is especially critical in the case of transatlantic mergers, when one partner is listed in Europe and the other in the Americas. The New York Stock Exchange cannot notify its stockholders before 9:00 a.m. local time, which means that the Frankfurt Stock Exchange must wait until 3:00 p.m. local time to make its own announcement. Only after this is done, can the individual stakeholder groups be notified. All of this must be done in a certain order (management before employees, federal politicians before regional ones, etc.). This is why communication activities on "day minus 1" requires general staff planning.

3.3.4 Management on "day 1"

Prior to "day 1", general staff planning must be carried out for the "first day under new ownership". Meetings with managers and employee representatives should be followed by all-hands meetings. In the case of large deals covering multiple locations, management addresses made at headquarters should be broadcast to the other locations. Customers and suppliers must be contacted. The transfer of ownership must be made secure (for example, precautions against theft and sabotage), information networks interconnected or disconnected in the case of spin-offs.

3.3.5 The 90-day plan

Initial decisions are announced: appointment of managers, departure of former key players, lines of reporting, organization "after day 1". On the team level, the operational parties on both sides must be determined, along with their duties and availability (full time, side-line?). Team leaders and the steering committee

make decisions about the team's composition, the job program and reporting processes. The division of teamwork (see section 4.2.4) can be based on a breakdown by business (product units, etc.) and regions (locations, etc.) as well as according to the value-added chain and cross-sectional functions. Figure 3 shows an example of a large, complex project with teams organized as a matrix between value-added elements and cross-sectional functions.

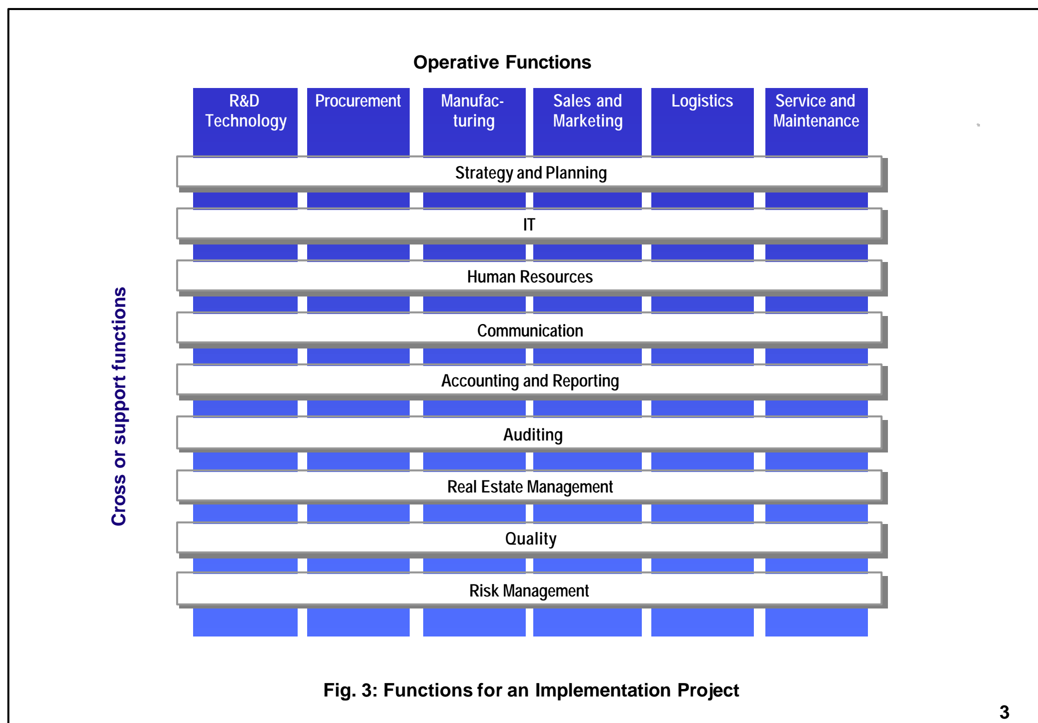


Fig. 3: Functions for an Implementation Project

The work of each team initially focuses on verifying whether the measure levers can be implemented (first-time access to the target company) and broken down into individual measures. Emergency operations are carried out (to "stop the bleeding"). Immediate restructuring efforts are worked out with the management and implemented ("low hanging fruit"). Efforts to harmonize IT solutions are made, and management and reporting system are transferred to the candidate. An internal review team performs a comparative review of the due diligence information, using the now accessible books and assets. The 90-day plan has high capacity requirements. It is still dictated by the detailed work of the planning team as well as special finance and controlling staff. Deviations from previous findings, decision status and work performance in the 90-day plan

should be summarized in the team's self-assessment report and submitted to the management.

3.3.6 The 1-year plan

All "catch-up work", which was able to begin only upon access to the candidate, is completed roughly three months later. After the "initial measures" have been determined, and the groundwork laid for all trams, the team is now in a "steady state". The instruments described in section 4 have been established. The work of each team should be quickly transferred to the new organization, which was formed from the corresponding activities of both companies.

3.3.7 The 1-year report

Less complex projects can be finalized within one year under positive circumstances (organizational "annexes", no measures that take specifically long time - such as product harmonization). Yet even projects with programs of longer duration should result in a kind of final report one year after closing. Based on the cockpit structure (see section 4.1), this report should summarize the project results, identify project management strengths and weaknesses and thus provide a basis for knowledge transfer and M&A competence management (see [2] for details). This is also a good time to have a look at decisions on the further direction to be taken (see section 3).

4. Integral project management and controlling

Project Management is responsible for all partial projects, from the formal beginning of the M&A deal to its formal completion. This overall responsibility requires an set of project management and control instruments covering all concerns. The instruments are combined into a "management and controlling cockpit".

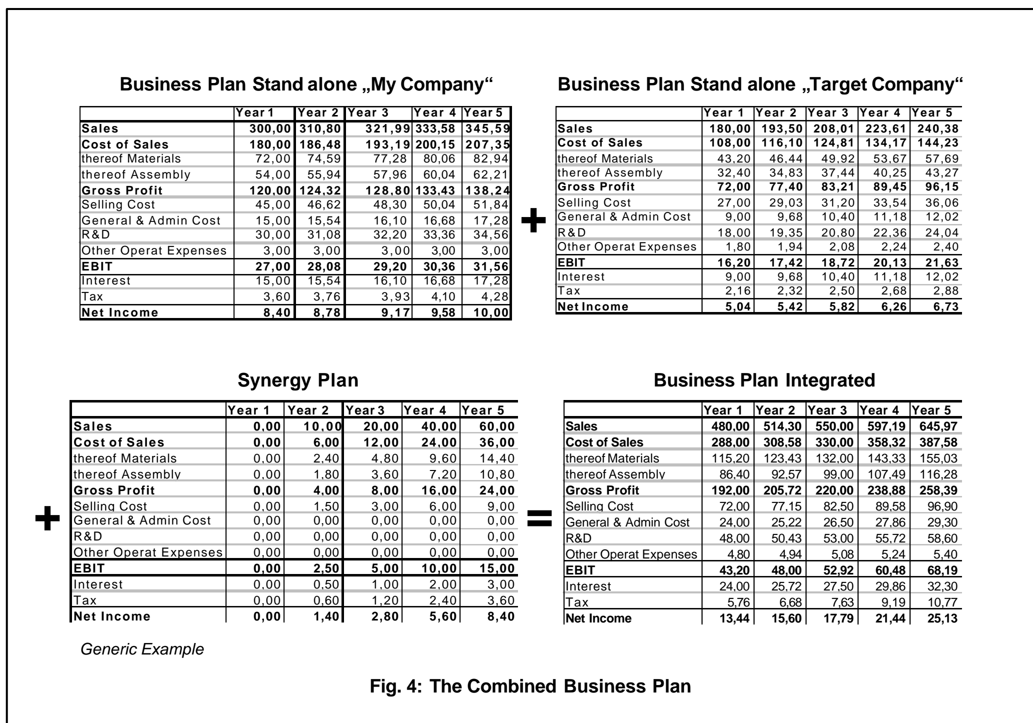
4.1 The cockpit approach

Like in technical equipment, the individual "cockpit" instruments should provide continuous information about the current status and how it compares to a target

status. Project Management determines the targets on the basis of benchmarks, or comparison figures achieved by competitors or during internal activities. Progress is measured regularly at intervals to be agreed upon. Thus, a development gradient can be determined and then used to extrapolate trends. Calibration on the basis of external measurement quantities, the definition of target values for a schedule and the comparison of these target values with actual values enable the cockpit to be used for both planning and controlling purposes. The present model proposes 6 instruments, which are: (a) the business plan, (b) the assessment, (c) perimeter and goal, (d) people and functions, (e) action plans and (f) culture and communication. The individual cockpit instruments are interconnected in many ways, so that the expert can recognize problems from the context even if they are not registered by some instruments – just like in the control room of a power plant.

4.1.1 The business plan

The business plan, which includes a P&L statement, a balance sheet and a cash flow analyses, provides the foundation. As early as the exploratory preparatory project, a rough business plan is developed and then refined gradually over the course of the project. The candidate's plan is first assumed only for plausibility purposes in the preparatory phase, since access to the data is not yet available. An overall plan is drawn up by adding the planning data of both candidates and calculating the combined effects (Figure 4). From closing on, operations are based entirely on the combined figures, since the company is now an integrated one for accounting purposes and all invoices reflected by the accounts can no longer be allocated to one party or the other (nor should they be). All effects from the measures thus also balance out in the business plan. Any measures not implemented are reflected by a deviation from the plan.



Business Plan Stand alone „My Company“

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	**300,00**	**310,80**	**321,99**	**333,58**	**345,59**
Cost of Sales	**180,00**	**186,48**	**193,19**	**200,15**	**207,35**
thereof Materials	72,00	74,59	77,28	80,06	82,94
thereof Assembly	54,00	55,94	57,96	60,04	62,21
Gross Profit	**120,00**	**124,32**	**128,80**	**133,43**	**138,24**
Selling Cost	45,00	46,62	48,30	50,04	51,84
General & Admin Cost	15,00	15,54	16,10	16,68	17,28
R&D	30,00	31,08	32,20	33,36	34,56
Other Operat Expenses	3,00	3,00	3,00	3,00	3,00
EBIT	**27,00**	**28,08**	**29,20**	**30,36**	**31,56**
Interest	15,00	15,54	16,10	16,68	17,28
Tax	3,60	3,76	3,93	4,10	4,28
Net Income	**8,40**	**8,78**	**9,17**	**9,58**	**10,00**

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Business Plan Stand alone „Target Company“

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	**180,00**	**193,50**	**208,01**	**223,61**	**240,38**
Cost of Sales	**108,00**	**116,10**	**124,81**	**134,17**	**144,23**
thereof Materials	43,20	46,44	49,92	53,67	57,69
thereof Assembly	32,40	34,83	37,44	40,25	43,27
Gross Profit	**72,00**	**77,40**	**83,21**	**89,45**	**96,15**
Selling Cost	27,00	29,03	31,20	33,54	36,06
General & Admin Cost	9,00	9,68	10,40	11,18	12,02
R&D	18,00	19,35	20,80	22,36	24,04
Other Operat Expenses	1,80	1,94	2,08	2,24	2,40
EBIT	**16,20**	**17,42**	**18,72**	**20,13**	**21,63**
Interest	9,00	9,68	10,40	11,18	12,02
Tax	2,16	2,32	2,50	2,68	2,88
Net Income	**5,04**	**5,42**	**5,82**	**6,26**	**6,73**

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Synergy Plan

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	**0,00**	**10,00**	**20,00**	**40,00**	**60,00**
Cost of Sales	**0,00**	**6,00**	**12,00**	**24,00**	**36,00**
thereof Materials	0,00	2,40	4,80	9,60	14,40
thereof Assembly	0,00	1,80	3,60	7,20	10,80
Gross Profit	**0,00**	**4,00**	**8,00**	**16,00**	**24,00**
Selling Cost	0,00	1,50	3,00	6,00	9,00
General & Admin Cost	0,00	0,00	0,00	0,00	0,00
R&D	0,00	0,00	0,00	0,00	0,00
Other Operat Expenses	0,00	0,00	0,00	0,00	0,00
EBIT	**0,00**	**2,50**	**5,00**	**10,00**	**15,00**
Interest	0,00	0,50	1,00	2,00	3,00
Tax	0,00	0,60	1,20	2,40	3,60
Net Income	**0,00**	**1,40**	**2,80**	**5,60**	**8,40**

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Business Plan Integrated

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	**480,00**	**514,30**	**550,00**	**597,19**	**645,97**
Cost of Sales	**288,00**	**308,58**	**330,00**	**358,32**	**387,58**
thereof Materials	115,20	123,43	132,00	143,33	155,03
thereof Assembly	86,40	92,57	99,00	107,49	116,28
Gross Profit	**192,00**	**205,72**	**220,00**	**238,88**	**258,39**
Selling Cost	72,00	77,15	82,50	89,58	96,90
General & Admin Cost	24,00	25,22	26,50	27,86	29,30
R&D	48,00	50,43	53,00	55,72	58,60
Other Operat Expenses	4,80	4,94	5,08	5,24	5,40
EBIT	**43,20**	**48,00**	**52,92**	**60,48**	**68,19**
Interest	24,00	25,72	27,50	29,86	32,30
Tax	5,76	6,68	7,63	9,19	10,77
Net Income	**13,44**	**15,60**	**17,79**	**21,44**	**25,13**

Generic Example

Fig. 4: The Combined Business Plan

4.1.2 The assessment

The business assessment, which results from the current cash flow values for the planning years and a final value, is closely related to the business plan. Thus analysis can be used to continuously recalculate the value enhancement that was planned at the beginning of the project. The calculation is based on planning figures (usually for a period of 5 years). The final value based on the final planning year accounts for roughly 80 percent of the total value – taken alone, the cash value calculation is something of a risk because unmet targets during the first few planning years can be compensated by more aggressive assumptions later on. However, such deficiencies come to light when implementing the measures in connection with the business plan and the target/actual value comparison.

4.1.3 Perimeter and goal

Every strategy has a certain value. Once the basic strategy has been formulated, the relative business position (relative competitive strength, technology position, etc.) to be achieved with the project is determined. An analysis of benchmark competitors also serves to determine financial targets,

for example a certain return on sales. These targets are tracked continuously over the course of the project, particularly in connection with the planning of measures. The result improvement level is determined by comparing the target result in the planning year with the operating result that would be achieved if continuous improvements were not undertaken and if basic conditions were to change (such as factor cost increases). This calculation is known as "baselining". One of the main targets is to derive the overall level of cost improvements expected to result from the action plans (see Figure 5 for project example).

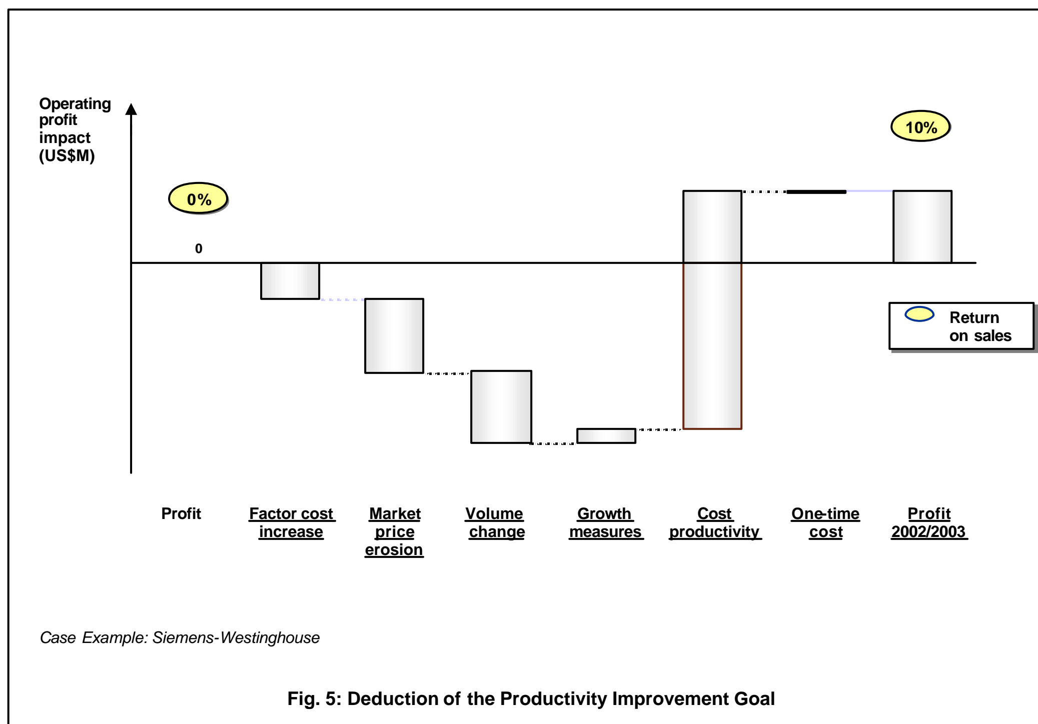


Fig. 5: Deduction of the Productivity Improvement Goal

In addition to these financial targets, operational targets on the time line must be defined, including organizational changes, staffing, cultural integration and the closely related adjustment of employee conditions and the attracting of customers. This is especially important because consistency checks are organized at this point, while manipulation attempts can also be detected (for example, the abandonment of development spending that is first reflected in apparent cost savings).

Another indispensable instrument is to define and track the perimeter of the merging businesses. At the beginning of a project, this serves the purpose of acquiring the entire value-added, including all locations and the entire range of products and services. Experience has shown that activities get "forgotten" time and again during the course of large deals. These activities must be identified and either disinvested to increase value or incorporated into the internal value enhancement exercise. The perimeter comparison remains important later on because further restructuring measures (such as outsourcing, adding activities to another business) can change the business basis and thus make it difficult to compare. Because comparability forms the basis for target/actual analyses, it can be restored through "shadow calculations".

4.1.4 People and functions

M&A projects are characterized by the need to involve a large number of specialists and groups, including (a) management personnel and employees involved in the operational business of both units to be merged; (b) the management levels of the higher-level organization; (c) internal functions that need to be integrated for M&A purposes; (d) external consultants and service providers; (d) "third-party stakeholders", such as customers, suppliers, social partners, politicians, etc. In the case of merger projects in the category of "1000 employees, 2 businesses, 2 countries", 50 different groups can be expected (including internal organizational units). This figure is even higher in the case of "frequent buyers" who maintain numerous specialist functions in-house. Siemens, which completes around 100 M&A projects each year, maintains roughly 30 M&A-specific or general specialist functions who need to be consulted or who get involved in project control and implementation (see Figure 11). The "inner" circle in an M&A project includes the actual project team, the higher-level management (reporting level) and the heads of the businesses being merged. Their roles, responsibilities and interactions must be precisely defined, which is also regulated in the "cockpit" for the integration project. See section 4.2 for details on forming the teams for all partial projects and for reporting.

4.1.5 Action plans

The action plans are based on the overall improvement target, which was worked out with the help of competitor benchmarking (determining the level to be achieved) and baselining (determination of the result base), as shown in Figure 6. During the transaction phase, this overall target is broken down into its main levers in the "integration planning" partial project. At first, the process must be limited to the plausible determination of result improvement levers, since access to the M&A partner is not yet possible prior to closing. Planning the individual measures also requires details that cannot be made available before closing for competition protection reasons. Depending on the project, the overall improvement level can be broken down into different types of levers: according to value added levels (R&D, production, etc.), according to product groups or according to locations. The levers must be described and the costs and anticipated savings allocated.

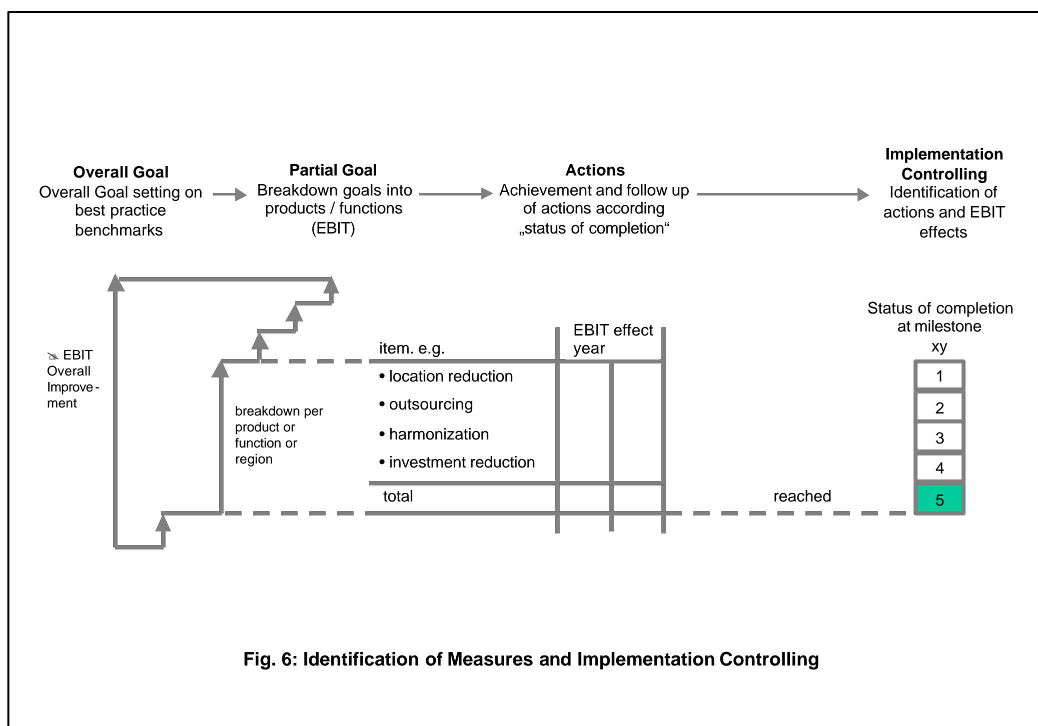


Fig. 6: Identification of Measures and Implementation Controlling

When the data of the "other side" becomes accessible immediately after closing, the levers must be broken down into individual measures, with a definition of the following: (a) precise identification and allocation of the measure; (b) person responsible for the measure; (c) cost of implementation; (d) time of expenditure; (e) time at which the improvement should take place;

and (f) financial impact of the improvement. This data makes it possible to incorporate the improvements into P&L planning (see section 4.1.1) and to calculate its current value (section 4.1.2). Overall, this makes it possible to continuously track the effect of all measures on the business plan and its contribution to value enhancement for the entire project.

A "hardness degree" concept, which can be used to track the progress of planning and implementation over time is recommended for tracking implementation. The five hardness degree categories are: HD 1 = "Potential recognized", HD2 = "Measure defined", HD3 = "Measure implemented", HD 4 = "Measure takes effect" and HD 5 = "result improvement posted ". Although this method is costly and time-consuming, it is also very effective. Large projects may include far more than 1,000 individual measures to be tracked, recorded in the project office (see section 4.2) and countersigned by the people responsible (see Figure 7 for project example).

Business Field:	Gas	Org.-Unit:	Gasturbine	Reference Calculation Project	GuD 2.94.3A2ZGK5
System No.	3751	System Title:	Exhaust Gas System		
Measure No.	5	Measure Title:	Umbrella Agreement for Diffuser		
System No.	PA/CM03				

Prerequistes

No.	Milestone	Deadline	Actual
1.	Transfer Implementation to stage 2		
2.	Relevant suppliers identified		
3.	Qualifikation / capacity of supplier approved		
4.	Binding offer received		
5.	New cost reflected in reference plant calculation		
6.	Measure appliaction in first project		
7.	Booking of new cost in first project		

Fallbeispiel Siemens-Westinghouse

Cost Impact: A Savings

Item	99	00	01	02	03
1 HW/SW Savings					
2 Engin. Hours					
3 Project Multiplier					
4 PM static					
Sum: savings p.a.					

Cost Impact: B One time cost

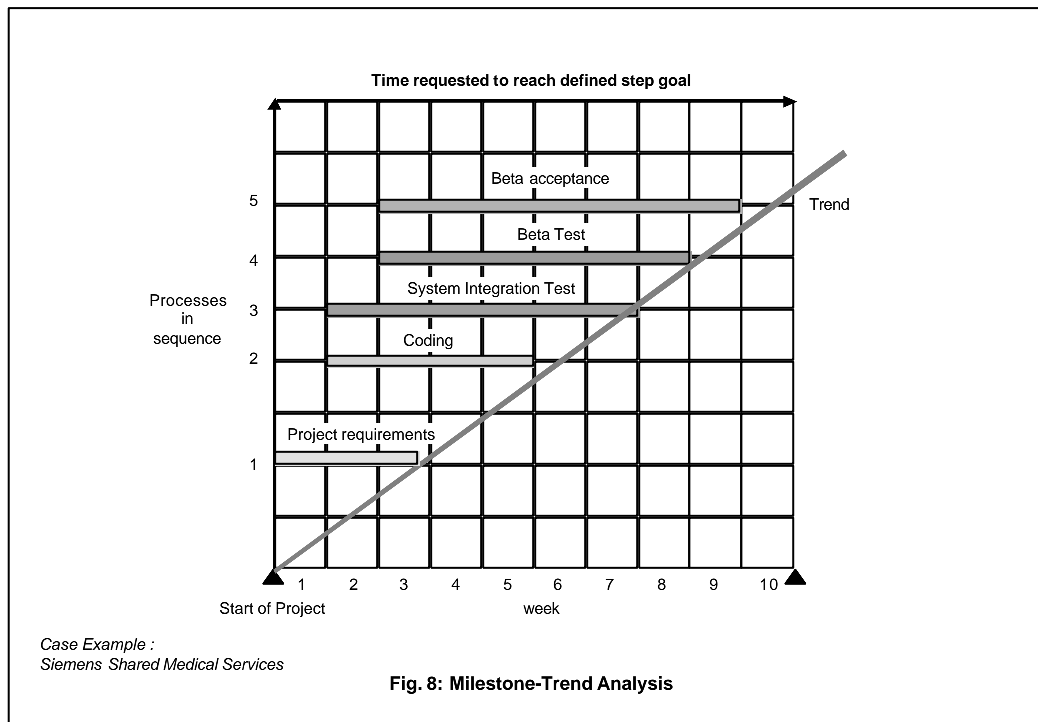
	99	00	01	02	03
One time cost Investment					

Responsible for	Name	Date	Signed
Cost target			
Implementation			
Implem. support			

Abb. 7: Datasheet for Measures Tracking

It is also useful to "negotiate" the measures with the managers. In some instances, multiple managers should sign, for example if cost reductions affect product design and purchasing. In addition, the retraction of improvement

promises is unavoidable, which requires new "negotiation rounds" to close the reopened cost gaps by implementing an alternative measure. Sometimes individual measures also built on one another and do not take effect until all prerequisites have been met, for example, when launching new products. Time-trend charts, which can be used to directly determine deviations from a planned gradient, are useful for tracking such critical factors (see Figure 8 for a project example).



Case Example :
Siemens Shared Medical Services

Fig. 8: Milestone-Trend Analysis

4.1.6 Culture and communication

Each merger is a joining of people. Each integration measure must be carried out by people. This means that the level of "hard" strategic and structural measures corresponds to a level of "soft" factors relating to "culture and motivation" (Figure 9). Even questions relating to corporate and communication culture belong to the set of instruments that must be analyzed in advance and intensified as the project progresses. This includes a comparison of guidelines for corporate action, corporate objectives and behavioral and decision-making methods. New cultural goals must be defined (see section 4.1.3).

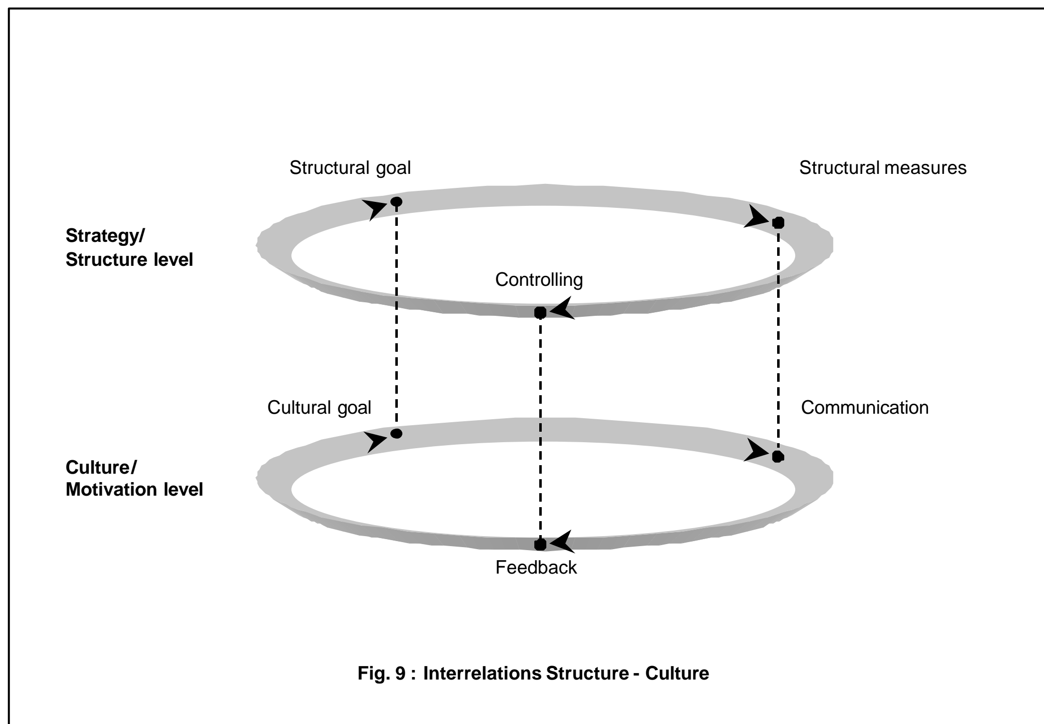


Fig. 9 : Interrelations Structure - Culture

Employees must be asked for their opinions. Communication measures are derived from deviations between the desired profile and reality. Information and talks usually first result in employees being receptive to the idea of the merger. But experience has shown that they become frustrated later on when "hard" measures filter down through the organization and affect the individual person. Without intensifying employee support, this can quickly put a stop to any integration progress. Scorecards have proven to be useful monitoring tools. They can be used to track the regularity of employee and crisis meetings. The level of information and opinions are documented, organized according to hierarchical levels and organizational units (see Figure 10 for a project example).

A communication program should address the above-mentioned employees as well as all other internal and external "stakeholders" (see section 4.2) of both merger candidates. This must take place according to specific groups, by gradually scaling the content and adhering to time rules (see sections 3.3.3 and 3.3.4).

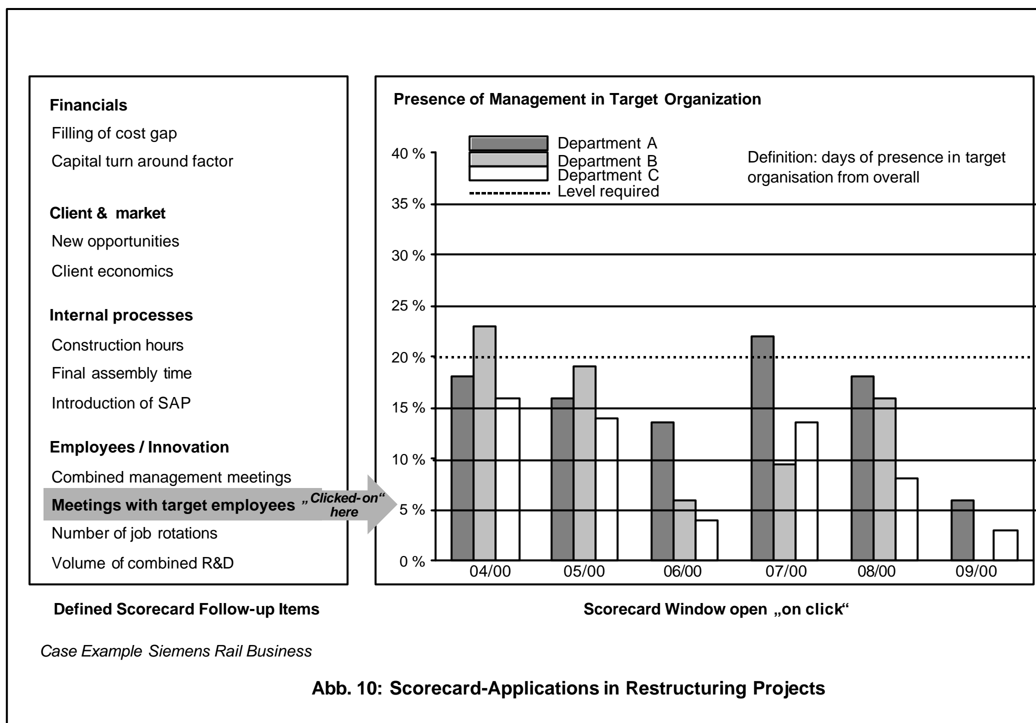


Abb. 10: Scorecard-Applications in Restructuring Projects

4.2 Teams and reporting

4.2.1 Preparatory team

The team leadership is responsible for managing the people involved, with the overall project manager assuming central control. During the preparatory phase, this can be a representative of the strategy department. By the start of the transaction phase at the latest, a negotiation leader must be appointed to head the deal-making project team. The negotiation leader can be selected from operational business or come from the financial and legal department; the integration project leader must have an operational background and previous M&A experience.

The personnel capacities to be reserved for the project team vary from one phase to the next (see Figure 11). The personnel requirements increase as the project progresses, and positions should be filled by employees who can be released from their normal duties and assigned to the project full time.

To allow for universal responsibility and knowledge transfer, as many team members as possible should remain in place between a preparatory project to the transaction and integration phases. The strategy development and

candidate screening team is recruited mainly from members of the strategy departments (corporate and business unit). A small explorative team can be formed to explore and jointly model a merger. Members should be recruited from both candidates, with roughly 5 delegates on each side covering the main functions and areas of expertise (such as strategy, technology, production, sales and law). One member should be the leader, and there should be an obligatory legal representative whose function is to ensure that the rules of competition and fair trade are observed.

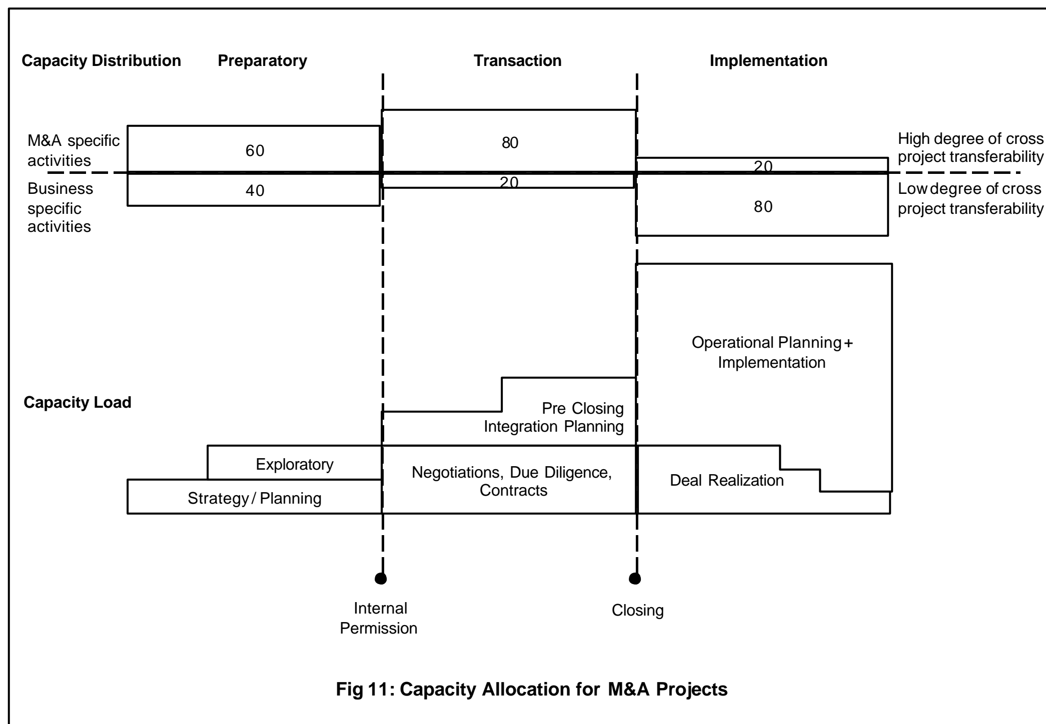


Fig 11: Capacity Allocation for M&A Projects

4.2.2 Deal-making team

The actual deal-making team is composed primarily of transaction specialists, lawyers and financial experts. This team has a scope comparable to that of the preparatory team. However, experts from different disciplines must now be increasingly included in a consulting capacity, for example, covering the areas of taxes, antitrust law, contract law, etc. If such expertise is not available in-house, it must be purchased externally, for example, by hiring corporate consultants (if necessary), CPAs (required by law for audits) and investment

bankers (if one party finds this necessary, then each party should hire one of its own).

4.2.3 Integration team

The team responsible for integration and measure planning is quite a bit larger, since numerous operational experts are added from the businesses involved (see Figure 3). A steering committee should be established as the top reporting body, headed by a person representing the management level above the business unit in question (Figure 12).

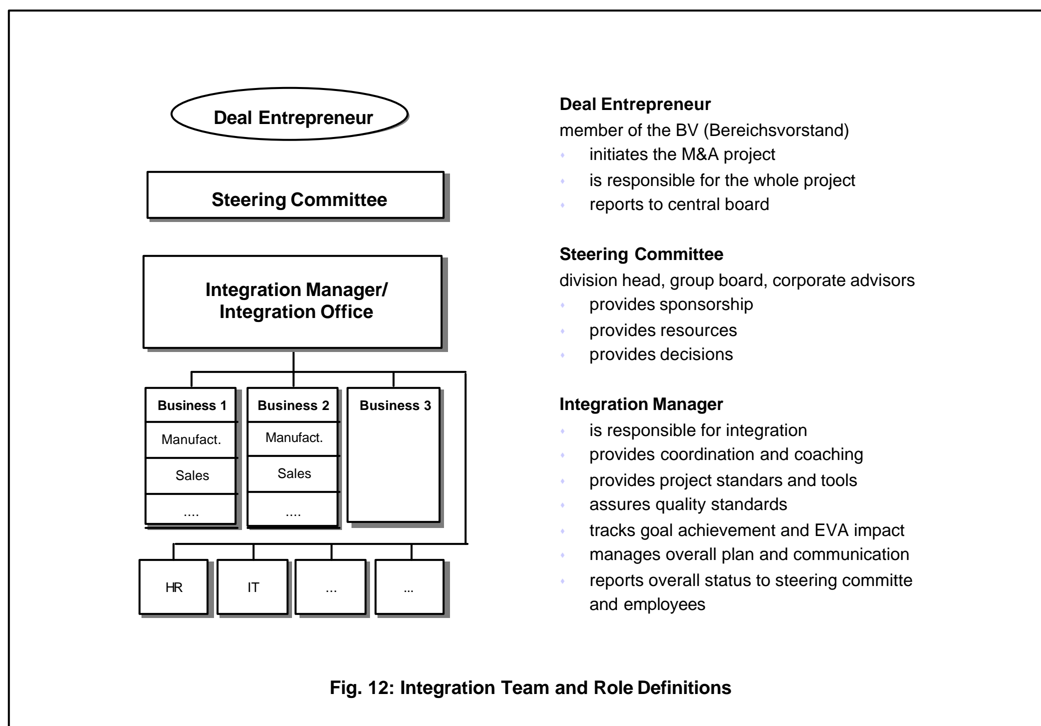


Fig. 12: Integration Team and Role Definitions

The team should be formed as an "interim organizational body" and recruit its members from both candidates, taking responsibility for planning business restructuring. The existing operational units of both candidates are responsible for continuing day-to-day business (continuity management in ongoing business). Sub-teams should be formed as "product teams", "location teams" and "teams for cross-sectional functions" (see chapter 3.3.6). Each team has a description of duties and is responsible for a portion of the measures and value enhancement goals. Once the final organization for merging the corresponding units from both companies has been identified and decided on, the

corresponding team should be disbanded and the corresponding project duties transferred to the new unit. This means that the project teams is gradually dissolved. The project leadership should continue with a small project office over a longer period of time and remain responsible for data aggregation and tracking implementation planning. Empirical values for major integration projects are gathered over the course of several years, with the functions of a continuous process improvement campaign being used and this "residual team" thus formed into a permanent institution.

4.2.4 Project reporting

During each project phase, a body must be formed to take overall responsibility for monitoring the deal as the top entity. The project manager must report directly to this body. The heads of the business unit involved can sit on the steering committee, but not serve as its chairperson. The reports to be submitted must be coordinated in advance between the managing board and the team leader, who, however, is on the same reporting level as the management. The purpose of this is to prevent the team leadership from being downgraded to a sort of "assistant" to the management and rendered unable to perform its most important function, namely, to prepare for structural changes that may affect the status quo role of the management. The most important actors take on a dual function, due to their work in the team and their other responsibility for operational business, which also imposes a dual workload. This, and the resulting potential for conflict (change management versus continuity management), however, takes a back seat to the enormous advantages that are offered by management's responsibility for restructuring measures and reorganization.

The steering committee should meet regularly (empirical value: every 4 to 6 weeks with teleconferences between meetings) and accept progress reports according to a standard pattern (progress of measures, reports on hardness degree). The committee must either accept or reject the presentations, and its decisions are final. The range of reports covers the entire cockpit. The depth of the reports must be defined on a case-by-case basis. The measures should be

collected from levels that correspond to the vertical organization of the teams and their task structures (see Figure 13 for a project example).

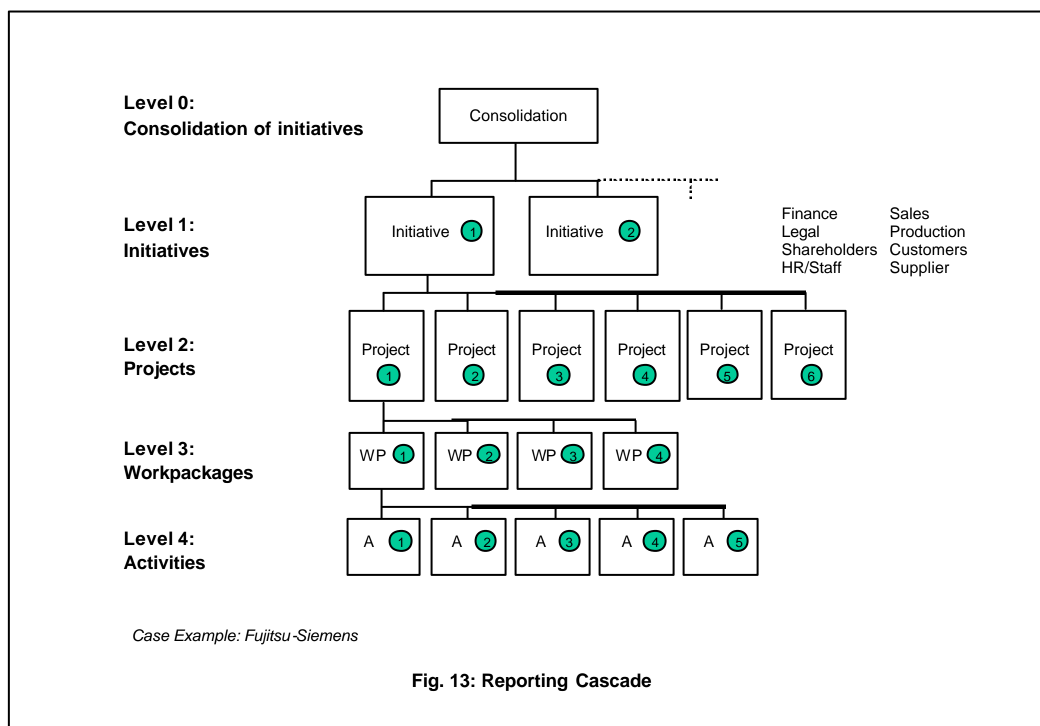


Fig. 13: Reporting Cascade

5. Final remarks: drawbacks and rules

Analyses shows that, on the average of all M&A projects, more value is destroyed than generated. However, it has also been demonstrated that those who have gathered experience, take a systematic approach and adhere to fundamental rules have significantly greater chances of success. To illustrate this fact, let us take a look at the major mistakes and central rules.

The potential for mistakes in M&A projects is immense – a fact that may scare off some people from entering into them at all. However, M&A is an unavoidable tool for quickly achieving ultra-critical business positions and access to foreign markets. This is why businessmen and women today must examine the opportunities and ways to manage risk in M&A. Main sources of mistakes exist in every phase of a project, and they can be so damaging that corrections are not possible in subsequent steps. Anyone who makes the wrong strategic choices or commits to an unsuitable candidate cannot reverse the mistake by working out a good purchase price, unless he is able to reverse the decision

before it is too late. Anyone who overlooks site contamination and falsified balance sheet statements during a due diligence examination, is in danger of falling off the cliff unless he jumps off at the last moment. Anyone who has done everything correctly is now facing the greatest challenge of all: how to integrate two organisms. Here, risks lurk on the side of both the "hard" and the "soft" factors. Anyone who has not mastered the challenges of measure planning and implementation is sure to fail. Anyone who is unable to convince employees of the necessity and workability of these measures and can build a new company identify upon them will also fall by the wayside.

In light of these many apparently contradictory risks, the most important rule is to carefully consider all possible consequences at an early stage and take a close look and one's ability to meet the wide range of requirements simultaneously. One way to do this is to create a kind of decision-making tree and use it to consider the course of action ahead of time. The author has outlined this process in an article on common mistakes and systematic procedures in the area of M&A [3]. The "company model" should be simulated according to all decision-related dimensions, i.e., strategy, value enhancement, organization, management concept, culture, antitrust law, taxes, etc., so as to identify the critical dimensions at an early stage and avoid the need to withdraw from the deal after spending a great deal of time and money on it. However, this would be only the second worst solution, for the worst choice of all is to keep going at all cost. My personal assessment is that every fifth project ends in "disaster", characterized by the fact that companies spend many times the amount of their initial investment over the course of several years - through never-ending restructuring costs and losses. This disaster could be avoided by using the emergency brake – which takes the courage to own up to the mistake before it is too late. A common error is to leave everything up to project specialists and assign universal responsible to no one. The strategist thus handles the preparatory project, while a transaction specialist closes the deal and an integrator implements it. Big mistake! After all, a "strategic bean counter" generates a model that does not does not correspond to harsh realities, the deal-maker is interested primarily in tying things up and pay little attention to strategy during due diligence. If the "integrator" is appointed too late, he will

blame all problems on the project managers in the earlier phases and refuse to take responsibility for the business plan. The solution is as trivial as it is difficult: someone must be brought in who will take on general responsibility, from the preparatory project all the wall to final integration. The most logical choice, of course, is the business or project owner. However, if he has no special M&A experience and, in particular, has never yet carried out the partial projects described in this paper, he should find someone else – if not internally, then an expert recommended by a consultant. In light of the potential of an M&A project to destroy value, this expert's fee is money well spent. A business owner who views M&A as one of his basic strategic tools, has gathered experience, develops his "own" M&A project management model over time and can follow this pattern of success time after time, is in a better position. Above all, he will pay attention to the above-mentioned universal approach to project management as well as consistency of individual tasks from the beginning to the end of the project. A project management concept based on this idea takes a process-oriented approach [4] in which the project levels described in sections 3, 4 and 5 can be allocated to universal partial processes [5]. Finally, it is not flawless planning that sets a successful project apart from an unsuccessful one – from a statistical point of view. Instead, these are the projects in which the risks are identified from the very beginning, tracked, evaluated through risk assessment and circumnavigated through contingency plans. With a close look at the opportunity profiles, it is possible to make the ultimate decision on which the success of even large "frequent buyers" is based, namely, to steer clear of projects in which the risks are simply too great.

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Author biography

Dr.-Ing. Kai Lucks was born in 1948 in Kiel, Germany, and studied building at the Munich Technical University. As a project manager in the fields of hospital engineering and infrastructure he worked in Maroc, Algeria, Saudi Arabia, Egypt, China and other countries. He spent many years in joint ventures around Siemens, specifically in the areas of medical and power generation. There his tasks for new technologies and business development led to acquisitions, e.g. in the Laser Industry, Subsea Technology and Power. Having taken over corporate responsibilities at Siemens for M&A projects he covered merely any task from strategy development to integration management and he participated in the realization of more than 1000 acquisition and joint venture projects. He is the director of the Group Strategies department at Siemens headquarters, which includes the Center of Competence for M&A Integration. His duties include the development and implementation of the Siemens standard process for corporate integration. He provides central support for M&A projects within the Siemens Group, from the preparatory phase to implementation. This also covers project coaching and the professional content for the Siemens training program in M&A management. He is the founder and chairman of the Bundesverband Mergers & Acquisitions e.V. (Federal Association of Mergers and Acquisitions). Please direct questions and suggestions to: kai.lucks@siemens.com

Impressum

Herausgeber
Der Präsident der
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85049 Ingolstadt
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Fax: 08 41 / 93 48 - 200
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