

# ***Mergers and Acquisitions – Strategies for Managing Change***

**By David Leis**

Cheesemakers and dairy industry veterans are not strangers to merger and acquisition or “M & A” activity. From 1975 to 1998, the number of U.S. plants making cheese declined from 839 to 398, due to increasing consolidation of dairy operations. And 1999 was the year for blockbuster mergers such as the Suiza-Southern Foods merger. With low material prices, high consumption and a healthy economy forecasted this year; the climate is favorable for continued dairy industry consolidation. Although there are few huge companies left, the market’s positive outlook will cause acquisition deals to continue on a smaller scale.

M & A has historically had negative connotations. It’s not hard to see why with a 70 - 80% failure rate across all industries. Several factors contribute to this dismal statistic. Surprisingly, these failures are not usually caused by outside factors like the market, competition, high purchase premiums or excessive leverage. Rather, the failures have three primary causes: disparate management styles, organizational culture differences and clashes in decision-making processes. The biggest challenge is handling the human side of the merger equation. People issues ultimately drive performance and can consume a majority of operating costs.

## **Warning Signs**

Employee attrition, decreased productivity, dissatisfied customers and communication problems – the most distressing aspect of managing a merger or acquisition is that by the time warning signs are spotted, it’s often too late. At this stage,

companies are in damage control mode and are unable to spare resources to properly address the problem. For this reason, the solution to managing these transactions depends largely on planning and prevention. The following are some real-life strategies to act on before the M & A deal is inked.

### **Analyze Company Cultures**

During the courting phase, companies considering consolidation must maintain objectivity about the impending business deal. Companies should frankly discuss their respective business cultures to determine whether an appropriate fit is even possible. For example, perhaps Company A has a loose management style and delegates a great amount of responsibility to regional managers. Company B, on the other hand, has a rigid, conservative approach with all decisions coming from the top and filtering down through an elaborate approval process. Distinct differences like this must be acknowledged, accepted and dealt with directly. In this instance, the two companies must compromise up front about how much authority they will delegate to their regional management teams. An open and honest assessment of the differences in business cultures ensures there are no surprises after the two companies begin working together.

### **Make People a Priority**

The merging of two large companies is a huge undertaking, involving a great deal of legal and financial wrangling. Unfortunately, high-power meetings and paperwork often receive the greatest allocation of resources, while the “people” aspects are neglected. To successfully merge two companies, executives need to allocate sufficient communication resources for managing employee concerns. Industry consolidation typically raises fears about job loss, plant relocation or the reassignment of responsibilities. Managers must be honest with their people about what to expect. Management must also involve their staff in as much decision-making as possible.

Although mergers and acquisitions happen quickly, the need for speed is not an excuse for making decisions about people without their involvement. Additionally, all players must be tolerant of the new team's differing personalities and management styles to help build relationships with the new company.

### **Beware the Honeymoon Syndrome**

Spirits are usually high at the onset of the merger or acquisition. Stock prices skyrocket, press is favorable and expectations are high for growth. This is the "honeymoon period" when companies are preoccupied with the bright side of the new venture. This can also be a very dangerous time, as companies are blind to the weaknesses and risks inherent in the deal. Often it's wise to bring in an objective third party as the planning begins to prevent 'infatuation' and ensure that management is realistically considering the problematic aspects of the merger or acquisition.

It's also critical to gauge whether management is willing to allocate enough "bandwidth" to tackle both the acquisition and current operations. It is important to perform "reverse qualification" so companies use the same set of analytical tools on themselves that they have already used on the target company. Issues such as "Does the new company treat customers the same way?" "Do we share similarities in risk-taking?" "Does the new company nurture leadership qualities in their management staff?" Asking these questions will help determine whether or not there truly is a fit between both organizations.

### **It's OK to Walk Away**

Sometimes the best deal is the one that never happens. Take for example, the recent decision of Land O'Lakes and Swiss Valley Farms to indefinitely postpone their intended fluid milk joint venture. Both companies analyzed ways to come together and decided the venture would not work in both cooperatives' best interests. Although the

venture did not fly, the companies' reluctance might be deemed a success. A failed merger can cost a company millions of dollars, often resulting in huge employee turnover and customer dissatisfaction

### **A Success Story**

As grim as the realities of M & A can be, the Suiza-Southern Food merger is a great example of companies that are able to manage change. Both companies realized up front that the rapid pace of consolidation would require field operations to maintain regional independence. Suiza-Southern Foods executives then empowered field management to run their own businesses. This foresight exemplifies a sound approach to handling merger and acquisitions by first analyzing people issues and then taking action.

### **The Bottom Line**

Companies typically amass an army of financial advisors and lawyers but lack the expertise to handle the people part of M & A. Frequently, the smartest strategy is to bring in a trusted advisor who is skilled in handling the human aspects of mergers and acquisitions. After all, companies are made up of people and people determine performance. Putting people first is an investment in success.

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