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M&A

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How to Make the Most Out of M&As

By Peter Purton

Mergers and acquisitions have a reputation for being difficult to make work, but they may be more successful than you think. It's all about the way you approach them.

2015 may turn out to have been a record year for Merger and Acquisitions or M&As. According to the Deloitte M&A Index, a service which monitors and forecasts global M&A deal volumes, there were more than $1.8 trillion worth of deals during the first half of the year, a staggering 22% increase over the equivalent period in 2014.

Christina Öberg
Professor of Industrial Marketing, Örebro University, Sweden

"You tend to get more mergers and acquisitions when there is an upturn in the economy," says Christina Öberg, professor of industrial marketing at Örebro University in Sweden.

Apart from ROI, other reasons for pursuing M&As can include adding new products or services — perhaps a company can see a synergy between its offerings and that of a potential take-over target, accessing new markets — either in other geographical or business areas, or sometimes acquiring a company for its brand. "There have been quite a few cases of Asian companies acquiring longer established and better known Western companies to achieve this," says Prof. Öberg.

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DIFFERENCE BETWEEN SUCCESS & FAILURE

But M&As are not always straightforward. Analysts and media estimate that fewer than one in three succeed. Some respected sources — such as the Harvard Business Review — say the failure rate could be as high as 90 per cent.

It all depends on how you measure success, says Prof. Öberg. Often, it is judged by the effect on share price — is it more or less after the acquisition? That's not always a good approach, says Prof. Öberg. A more beneficial way of measuring the success of an M&A is to look at whether the acquiring company's goals are being met, she suggests. For example, if the aim was to secure a new regional market - was that achieved? And take a long view. "It can take 10 years or more

for all the benefits to be realised, and for them to feed through to the share price."

The key to a successful M&A, says Prof. Öberg, is to gain a thorough understanding of the target company before signing the deal, and being really clear about what you actually want from the resulting venture. "For example, if your goal is to add revenue, you need to know how established the target company's relationships with its customers are," she explains. Otherwise, you may well be disappointed with post-deal revenues.

MANAGING INTEGRATION

Once the deal is done, careful attention to integration is necessary. If two products are close, you should ask yourself whether they should be integrated, says Prof. Öberg. But you have to be careful, she warns. "Will the customers like the result? Not just the product, but maybe the sales team they have to interact with."

Jeffrey A. Bannister
Executive Vice President of Global Enterprise Services, NTT America

Then there's the human element: "Do the people really want to work together," she says.

And integration of procedures and systems can also pose a problem.

The world of M&As is changing, says Jeffrey A. Bannister, executive vice president responsible for global enterprise solutions at NTT America.

Many of the mergers and acquisitions of the past were about seeking growth through buying a new business to expand and gain market share, he says. Today they are also about managing and making the most of digital disruption — the change that occurs when new digital technologies and business models affect the value proposition of existing goods and services — and using technology to be faster, more agile and flexible, and ultimately grow the business through innovation.

"Businesses need to approach M&As from an IT and infrastructure perspective"

In this environment, businesses need to approach M&As from an IT and infrastructure perspective, says Mr. Bannister. "IT and IT services should be an integral part of pre-planning in the M&A process."

"If we understand the IT environment in the organisation to be acquired, the challenges we may face during integration, and the costs, we are much more likely to end up with a successful M&A," he explains.

Many organisations still have a lot of legacy infrastructure on a fixed cost basis. "That's not helpful if your aim is to be more agile and flexible," he says.

TECHNOLOGY IS THE KEY

While the chief information officer's key challenge is to create a modern and dynamic system, organisations look at the whole picture, not just the consolidation of infrastructure. With the support of agile technology, the key business strengths of both companies are considered and a solution developed on how best to integrate them to maximise their combined competitive edge.

NTT Com can help in a number of ways, says Mr. Bannister. "We are still often seen as a telecommunications company but we are much more than that." NTT Com, combined with other NTT Group companies, offers synergies that allow it to be a systems integrator, he explains.

"We are leveraging our Global Enterprise Cloud service, our security and applications management capabilities with our core data center and network services to provide a dynamic and flexible environment for today's business age. Particularly in the case of M&As, we have the professional services capabilities to deliver data center rationalisation, consolidation and optimisation capabilities to enable smoother integration for businesses. "We can help our clients move from a fixed cost to a variable cost basis while managing their IT and infrastructure environment, whether a dedicated or hybrid model."

Peter Purton is a freelance writer, based in the UK.

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