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4 Common Mistakes in M&A

Four business leaders each tell **Mary-Anne Baldwin**
of one typical mistake often made during M&A
that should be avoided

Gone are the days when cost synergies alone could justify an acquisition premium. Today's management teams have got to work harder to clarify the strategic rationale behind a merger or acquisition, not only to convince shareholders and the board, but to ensure the integration process builds value.

There are still high price multiples versus a low growth outlook and many businesses are already pretty lean following the financial crisis. Delivering value from a transaction is harder than ever and the consequences of failure are serious.

Phillippa Crookes, Relationship Manager at Criticaleye, who supports leaders in challenges such as these, agrees that today's opportunities must be focused on growth – whether that's through expansion of the product and services portfolio, or extending geographic footprint.

"Cost cutting and synergies won't be enough. Think early on about which new markets you want to reach and the companies that could unlock them, including their size and ownership structure. Building this into your shareholder communication will help everyone understand where that potential lies."

Here, leaders with a spread of experience in M&A offer their advice on how to leapfrog the common pitfalls in delivering value.

Helen Gavin-Brown
Partner, Bird & Bird

Taking Too Big a Stake

Integration is often the most important part of the M&A process, particularly when you're buying a business for the people, not just its technology or IP. That often manifests in the legalities around management and senior staff incentives, including earnouts.

The biggest issue with earnouts is that you need to be able to measure the success of the acquired business as a standalone unit, so that you can reward the selling shareholder or founder team behind it accordingly. Yet ring-fencing the business is contrary to the idea of integration.

Another option is to take a smaller stake, at least while you assess the fit and post-merger performance.

If you buy, say, 40 per cent with an option to buy more later, you can strike a balance between bringing the company under the umbrella group and giving the founders autonomy.

We're seeing that as an increasingly common deal structure in the marketing services sector. It's also arguably a more comfortable structure than an earnout because there is less risk for the buyer.

Martyn Fisher
CEO, Northern Europe
Veolia Water Technologies

Not Adapting to the New Ecosystem

When I joined the business it had a turnover of around €300 million, now its €2 billion. It grew by adding technology and engineering companies. I got involved by realigning some of those businesses to achieve the return on investment we'd initially hoped for.

When you're growing rapidly within an entrepreneurial business, people in the parent business sometimes see the new asset as a 'sure-fire' success and, perhaps underestimate the cultural and business challenges the new addition will face.

The ExCo must decide before M&A, not only what business should be acquired, but how it should operate within its new ecosystem. Then it's a case of getting those in the newly acquired organisation to understand how to adjust their model within the group environment and ensure they stay focused on their original values.

If it's not handled within the first six to nine months it can be very easy for people to go off on all sorts of tangents. It can then take a couple of years, or more, to bring it back on track. That can become quite a negative process.

Tim Doubleday
CFO
Casual Dining Group

Killing the Brand

When the group bought the UK restaurant business, Las Iguanas, in 2015, we were very mindful to protect its unique brand and personality or risk losing what made it special – and what made it a highly attractive acquisition to us.

It is one of the major executional risks inherent in any such transaction; without the necessary care, a smaller, entrepreneurial business becomes part of a larger group.

We spent time early on in the process to really understand the unique attributes that made Las Iguanas successful and work with the senior team to fiercely guard them. An example of this was retaining the brand marketing and HR functions at a local level. That way, the Las Iguanas business, led by its MD, retained control of the brand voice and its delivery.

Sometimes the right balance means sacrificing some perceived savings for the greater good of the brand integrity and IP. This is especially the case with successful hospitality businesses, which rely heavily on people, culture and ethos. A deal can quickly go from being value accretive to destructive, and detrimental to both parties.

> *“Sometimes the right balance means sacrificing some perceived savings for the greater good of the brand integrity”*

John Goddard
Partner & Member of the Global Leadership Team, L.E.K. Consulting

A Lack of Accountability

It’s all about the right people and the right process. The due diligence needs to be thorough, rigorous and proactive, yet at the same time agile and responsive to changes in the transaction timetable.

Clearly any transaction has got to be led and sponsored by the CEO, but they need to know when to intervene and not to micro-manage.

That requires a clear process for decision making agreed by the CEO and supported by a small team with accountability and relevant skills.

During the integration process you do need a small, tight steering group. It doesn’t necessarily need the chief executive in it – but does need to draw on dedicated resources from inside and outside to achieve an effective integration. Often it’s good to find an up and coming person in the organisation, who can later step into a higher level role, given exposure to that responsibility.

Don’t be worried about making changes to the team. Integrations are stressful. There is often a lot of heat and emotion – it shakes people out. If those people aren’t right, change them and move quickly.

These insights were shared during Criticaleye’s Conference Call: The Role of the ExCo in Leading M&A and the Discussion Group, Understanding Value in M&A.