"Only time will tell whether this merger makes sense or not."

What's the key
to a successful
merger integration?
Start early.

The merger before the merger

By Jay Grob and Matthew Meacham

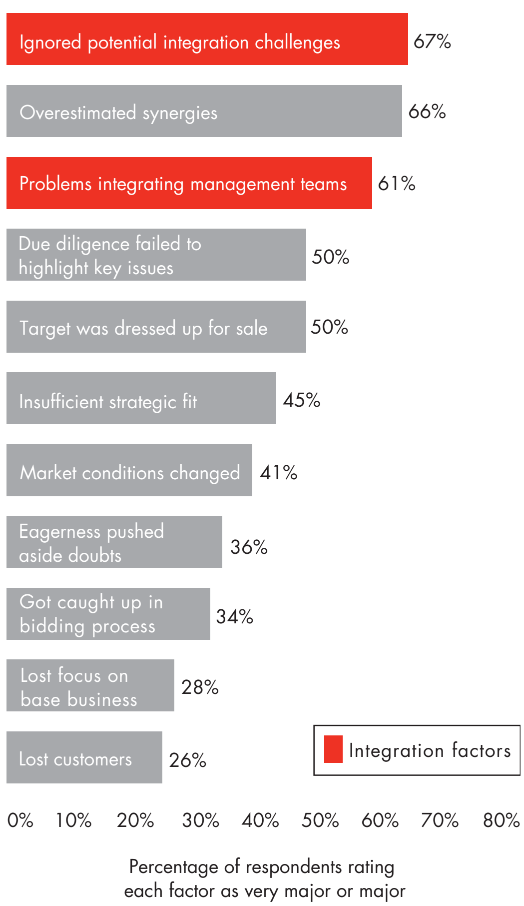
BAIN & COMPANY

The merger before the merger

Advice to consumer products companies eyeing acquisitions: plan ahead. Making good on the value that shareholders expect from deals can be an uphill battle—and it's a battle most frequently lost when merger integration is an afterthought.

Indeed, in a recent Bain & Company survey of 250 global executives involved in M&A, "ignored integration challenges" emerged as the top reason for eventual deal disappointments; 67% of respondents cited it as a major factor in deal failure. "Problems integrating management teams and/or retaining key managers" came in as the third-leading cause of difficulties for those respondents, right behind "overestimated synergies." (See figure 1.) Put another way, more than two-thirds of executives are aware that integration can make or break a deal. But few really understand how to ensure that they get it right.

Figure 1: Why deals break down



Source: Bain survey, fall 2002 (n=250)

Best-practice acquirers, on the other hand, have a motto for integration success: start early. In our experience with thousands of deals—and in recent interviews with a score of acquirers that overcame the dismal odds of success typically associated with large deals—we've found the best deal teams consistently design a "merger before the merger."

It works this way: From the initial due diligence through final signing, regular interaction becomes a required element of the deal. The goal is a structured plan allowing a company to take on the marketplace as soon as the ink is dry. Success generally involves a "clean team" that, working under strict confidentiality with both companies' counsel, analyzes critical data that cannot legally be shared or that the companies wish to protect. Companies can staff clean teams with employees from both firms, as long as those workers don't return to jobs in which they could use competitive data if the deal falls through. Or outside lawyers, accountants or business analysts can be brought in to staff them. Without revealing sensitive data to either party, clean teams create a road map for joint strategy, operations and marketing efforts that allows acquirers to jump-start the integration process once the deal closes.

A wholesome success

Consider how this worked for a company we'll call Jessup Organics. Jessup is part of Jessup Foods, a $3 billion multinational that has made a series of US acquisitions to market everything from tofu to all-natural teas. In 2002, the success of Jessup's $600 million merger with the western division of a Canadian company we'll call Healthy Farmer Foods hinged on sorting out sales and distribution issues: creating delivery-route efficiencies, cross-selling each other's products and consolidating key national accounts like Safeway. The combination doubled Jessup's US business, extending its reach into 23 western states.

As part of its agreement, Jessup laid out the terms of a pre-merger exercise. It insisted that Healthy Farmer allow management to hold two or three major meetings to share such allowable operating data as organizational structure and IT systems specs. A key Jessup executive took responsibility for the merger integration, and both parties participated in building 90-day and one-year merger plans. Sixty days before the close, Jessup and Healthy Farmer began formally working together. A team of 20 managers from both companies met to target synergies, map out the integration strategy, devise a method for handling overlapping duties and create a tracking system for post-merger progress.

Well before the deal's close, Jessup announced a new senior management team and had outlined a plan to rapidly capture the deal's potential. The parties had also prepared for the biggest exposures, including the loss of key executives and negative customer reaction. Moreover, joint teams had developed plans for issues ranging from banking account management to systems cutovers to corporate culture.

Jessup and Healthy Farmer not only bought time by telescoping their planning but also ensured strict objectivity and legal compliance for the process by hiring a clean team to collect and analyze customer, product and pricing data.

The team made rapid headway on issues, choices and opportunities—substantially reducing the time required to integrate the sales and marketing operations after the close. Without divulging proprietary or sensitive data, it evaluated customer penetration, channel effectiveness and opportunities, preparing a blueprint Jessup could follow once the deal was signed. Indeed, with annual program sales to retailers coming up for renewal, there was no time to waste.

The Jessup–Healthy Farmer combination got off to a fast start. Three months after the closing, 75% of the initiatives launched to realize the deal's value were on track. Over the first year, the company consistently met its synergy targets and experienced minimal customer disruption.

A half-baked deal

Unfortunately, Jessup's experience is hardly the rule. A case in point is the combination of two $2 billion food companies we'll call Patterson Foods and Mountaintop Bakeries. Bob Patterson, who had worked tirelessly to build the family business, expected the Mountaintop acquisition to boost his company by adding complementary capabilities such as access to food-service channels.

But at the time of the closing, the two teams hardly knew each other. Leadership had discouraged managerial interaction, frittering away months for integration planning.

Patterson did generate some synergies from the merger, but months after the close, the sales team was still struggling with its internal organization and its plan to attack opportunities in distribution. Worse, it was only beginning to understand the data upon which to make its decisions. Ninety days after the close, major channel-management positions still hadn't been filled and no plan existed.

Patterson's predicament amply illustrates the cynics' observation "There never seems to be enough time to do things right, but there's always plenty of time to try and fix things afterward." But as Jessup knows, there is a better way. By using the discipline of a "merger before the merger" process, informed by the data and analysis prepared by a clean team, companies entering into a merger should have all the time they need to come to the correct conclusions.

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Jay Grob and Matthew Meacham are Dallas-based partners in Bain's Consumer Products practice.

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Bain & Company, Inc.
131 Dartmouth Street
Boston, Massachusetts 02116
USA

Tel: 1 617 572 2000
Fax: 1 617 572 2427

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