

Beyond the Deal:

*Leveraging for “Value Creation” Integration
Breakthroughs*

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Beyond the Deal Objectives

- Determining what is involved in making an acquisition work in an era of ever changing economic realities
- Exploring what a “Value Creation” approach to leveraging intangibles in acquisitions is and why it is more critical than ever
- Understanding how to leverage intangibles in acquisitions to develop the key, complementary capabilities that are necessary to yield breakthrough gains

The New Era for Acquisitions

- The earlier conditions of what we knew as “normal” have not and will not return
- Regardless of conditions though, the ability to discover, leverage and capture value in intangibles in an integration sets the stage to yield unprecedented gains
- Good acquirers continue to judiciously plan to acquire - and do acquire

Be Prepared and Make Great Gains!!

Common Problems in Acquisitions

- Significant value left on the table
- Ineffective approach and planning leads to disruption of people, processes, customer relationships
- Lack of institutional learning leads to repetition of mistakes and sub-optimization

High Risk and Low Success Rates

Why?

- A limited skill base to execute the acquisition
- A one-sided focus on financial synergies that underpins a limited view of the gains that could come from the acquisition
- Poor due diligence
- A weaker position in negotiating the deal
- Unrealistic expectations for regulatory approval
- A slow and ineffective integration of the acquirer and acquiree into a newly combined company

Acquirer and Acquiree

- Both acquirers and acquisition targets need to develop readiness ability so they can have their intangibles/capabilities inventoried and quickly accessible for valuation
- Part of readiness is cultivation of a partnering orientation which builds trust, knowledge sharing and speed in implementation
- Leadership at all levels engage in seamless integration planning and implementation

Intangibles ↔ Capabilities

A Virtuous Cycle

- Intangible assets are what enable breakthroughs in performance and strategic outcomes in acquisitions
- Intangible assets are the basis for capabilities and capabilities are the basis for creating intangible assets
- Capabilities are a collection of cross-functional elements that come together to create the potential for taking effective action – including attributes, skills, knowledge systems, structures (Saint Onge)

Build on Existing Organizational Capabilities

- Organizational Capabilities
 - The collective skills, abilities and knowledge of an organization, both generic and particular to the organization
 - UPS and Fedex have excellent general management capabilities but excel at specific logistical capabilities, allowing them to deliver items efficiently with high rates of customer satisfaction
- Integration Capabilities
 - Those capabilities that are configured and brought to bear in the specific context of an acquisition
 - Building this configuration on continuing basis allows the company to repeatedly initiate and implement effective, value creating acquisitions

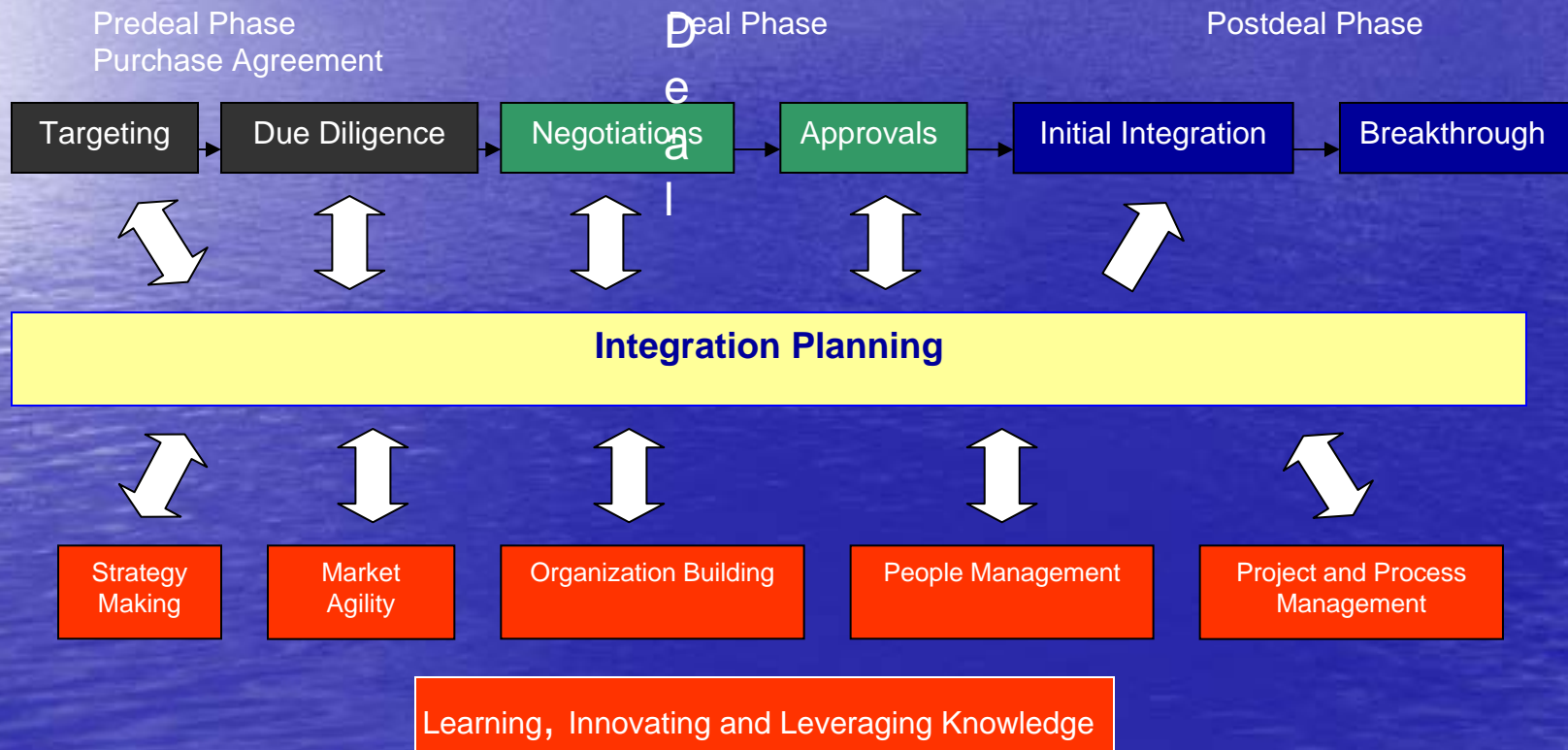
Key Integration Capabilities

- Strategy making
- Market agility
- Organization building
- People management
- Project and process management
- Learning, innovating and leveraging knowledge

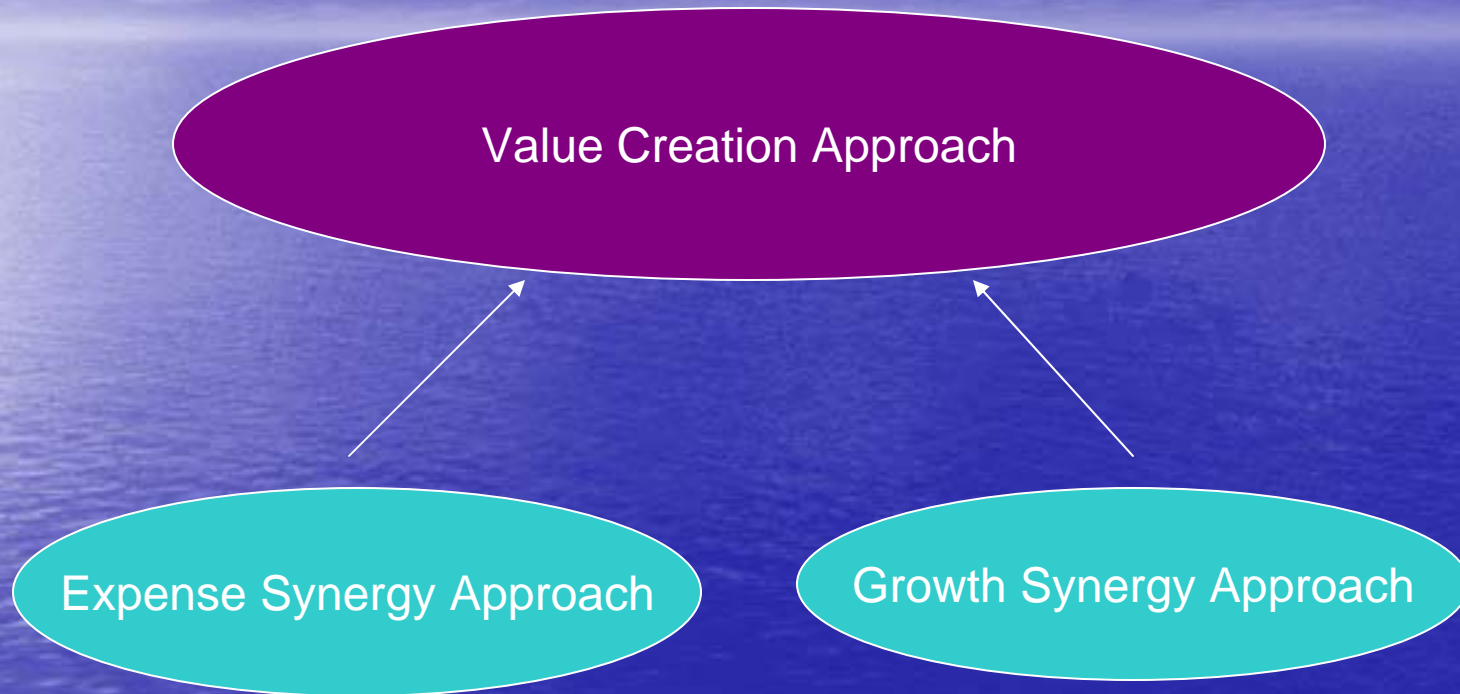


Integration Capabilities Support the Acquisition/Integration Process

A Developing and Interactive Process Across All Preacquisition Phases and Core Capabilities



Value Creation Approach



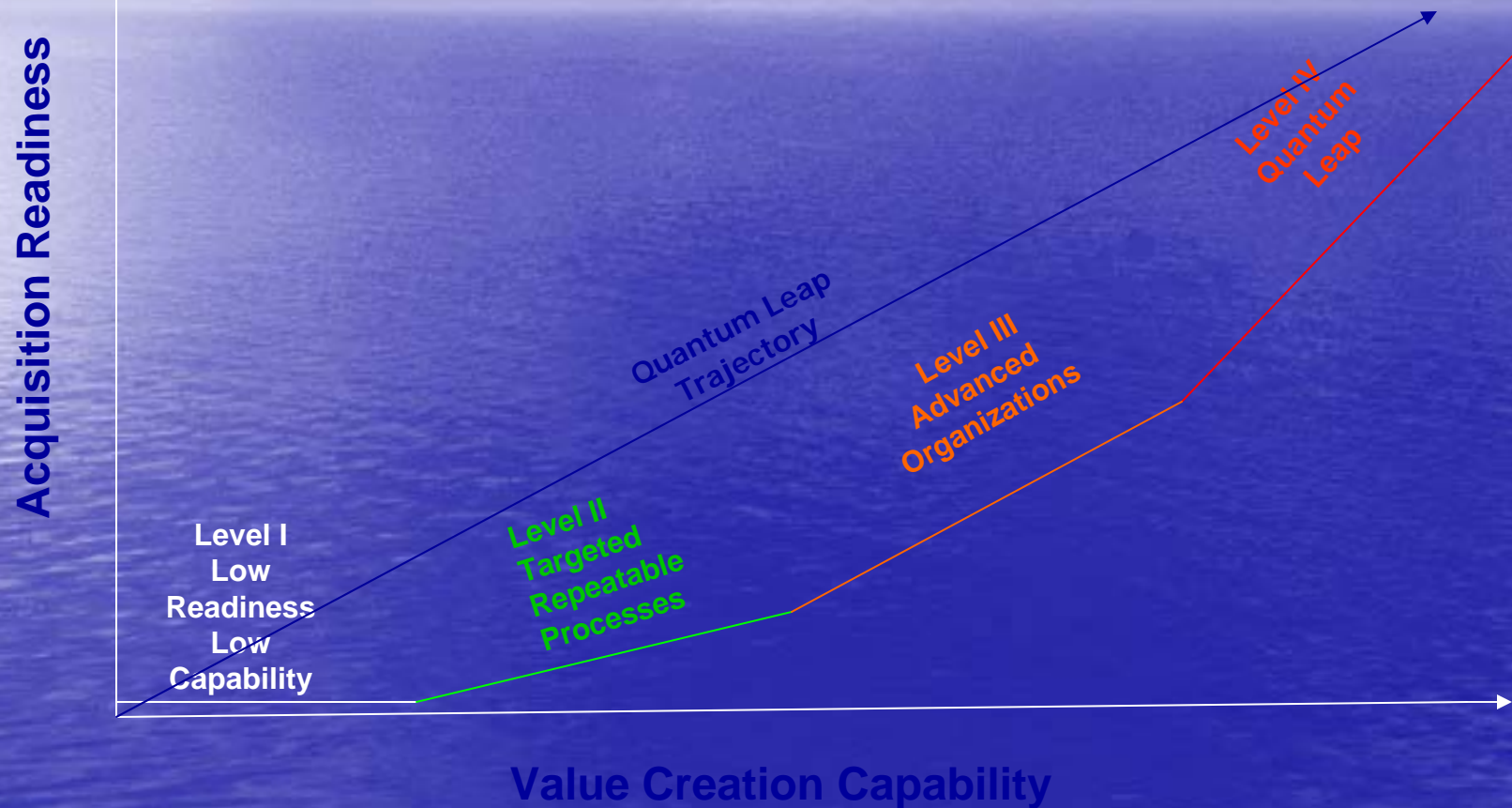
The *value creation* approach seeks expense and growth synergies that mutually support the building of capabilities needed for the creation of value

Achieving Quantum Leap Gains in Acquisitions

- Identify key intangible assets of both companies
- Determine how to shape an integration plan that takes them into account
- Set up an integration and post integration process to cull and recombine these often embedded capabilities from both companies to create a new, significantly more powerful set of capabilities that are the basis for the new company's success

Four Levels of Acquisition Capability

What Level is Your Company On?



Shifting to a Quantum Leap Trajectory

- **Level I:** Little preparation for acquisition or being acquired - Highest risk for failure.
- **Level II:** Attention is to "The Deal." Readiness to do the same type(s) of acquisition repeatedly but with little new learning or capacity for value creation. Focus mainly on financial synergies and efficiencies. Marginal capturing of intangibles.
- **Level III:** Advanced Organizations – Holistic view of acquisitions. Capture and develop high levels of codified knowledge, skill and approaches. Often have expertise centers. Greater interest in intangibles but still as "icing on the cake".
- **Level IV:** Quantum Leap – Substantial capabilities in both readiness and value creation. Full valuation of both expense and growth synergies. See acquisitions not as additive but unique opportunities for transformation. Solid business planning and project management skills allow for managing the unpredictable. Different companies have developed particular quantum leap capabilities but no one company has yet achieved becoming a Quantum Leap organization.

It is not necessary to go lock step through the different stages to become a Quantum Leap company!! By forming and acting in a Quantum Leap framework, a company immediately shifts itself onto a streamlined Quantum Leap trajectory.

Transferring Capabilities During Integration Implementation

Resource
Sharing

Functional
Skills

General
Management
Skills

Capabilities transfer issues

- An acquiring organization needs to think creatively to plan and capture capabilities
- Capabilities need to be identified and captured rapidly but without being degraded
- Capabilities are often embedded and unique
- They require trust and dialogue to become accessible

BMS – DuPont Pharma

- \$8 Billion acquisition of DuPont Pharma business unit
- Research in pipeline was a principal intangible asset sought in the acquisition
- To access this critical knowledge quickly, BMS developed a format and targeted training for its senior scientists, recruiting them to engage in peer-to-peer strategic conversations the day the deal was closed.
- By 8 days after closing, with scientists and BMS KM staff reviewing this newly captured knowledge in a daily basis, BMS made all its “asset” decisions. 15 days later BMS made all of its “people” decisions

Auditing Strategic Capabilities

- Determine how capabilities are being accessed, shared, and used, and with what effect, as well as who is involved in activating and mobilizing these capabilities
- Both companies senior leadership, business unit managers and sub-managers develop lists of top 3-5 core organizational capabilities that enable it to meet its strategic goals and differentiate it from competitors
- Compare the two sets of capabilities
- Chart out projects the new organization can undertake to mobilize these capabilities for specific outcomes
- Evaluate costs and gains from the work of leveraging these outcomes

Establish an Expertise Center for Integration

- Can be formal or informal depending on the scale of the organization
- Gauges the readiness of the organization for a range of combinations (licensing, joint ventures, strategic alliances, acquisitions, etc.)
- Is the repository and development center for what is necessary to plan and implement any type of combinations (including a knowledge base, skill sets, tools, and networked community of practice resources)
- Mentors business leaders on the required skills and context
- Serves as an interface between corporate leadership and those involved in combination initiatives

Conditions for Leveraging the Value of Complementary Capabilities

- Develop and align a commonly held vision, values and leadership principles
- Review and renew the dominant business logic for the new organization
- Maintain a strong, shared view of the role of the customer
- Identify, reconfigure and capture critical capabilities for use
- Define accountabilities
- Maintain a sense of urgency
- Sustain seamless operations during this period of major change and reconfiguration

For More Information

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