



Abstract: Mergers and acquisitions often fall short of their participants' high expectations. This article explains why M&As frequently fail and provides tips to improve a company's chance of success. These include choosing the right target company, planning for integration challenges and constructing a solid communications strategy.

Why mergers fail ... and how to make yours succeed

Many mergers and acquisitions fail to live up to their participants' high expectations. Indeed, a 1999 study performed by A.T. Kearney, entitled "After the Merger: Seven Rules for Successful Post-Merger Integration," found that two-thirds of post-merger companies fell short of profit goals, while 46% failed to meet hoped-for cost reductions.

These startling numbers suggest that companies anticipating an acquisition or merger should proceed with caution. But with enough foresight and planning, as well as the right strategic execution, you can increase the odds that your deal will be one of the success stories.

Choose wisely

An important initial step in a successful acquisition is to pick the right target. It sounds simple enough. But how do you know ahead of time whether a company will be right for your purposes?

Before you identify a potential merger partner, develop specific goals for your deal and clearly formulate the benefits you hope can be achieved. For example, will the acquisition result in greater profitability or lower costs through economies of scale? Will it significantly enhance your competitive position? Or enable you to capture a larger market share?

Such specific goals make your search more focused and increase the likelihood of identifying a desirable target. By contrast, overly vague ambitions — think "synergy" or "growth" — can broaden your search excessively and lead you to waste time and money on unsuitable candidates.

As you investigate possible opportunities, you'll benefit from developing a detailed acquisition plan. According to "Creating Shareholder Value from Acquisition Integration," a study by PA Consulting Group and the University of Edinburgh Management School, simply having a plan prior to a merger or acquisition translated into a valuation boost of 4.5%, compared to companies that didn't establish a formal plan.

A good acquisition plan will vary from situation to situation. Every plan, however, will have certain attributes in common. Each, for example, should be realistic, establish dates for completing significant milestones and include a checklist of key integration challenges, along with a strategy for meeting them.

Consider integration challenges

Integration — combining two formerly separate businesses into a single unit — is one of the biggest challenges merger participants face. The deal's ultimate success depends in large measure on whether you are able to meet that challenge.

When evaluating a possible acquisition target, try to evaluate how similar that company's culture is to yours. Can differences be worked through, or will they be too great to reconcile completely?

Consider the widely touted merger between America Online and Time Warner: One of the main reasons the deal never achieved the promised synergies was the huge difference in how each company did business.

The time to investigate issues of cultural fit is during the due diligence process. If after your due diligence you've determined that the two companies are compatible, you should then develop a comprehensive integration plan, including a communications strategy.

Indeed, a lack of communication is a common reason why many acquisitions fail to achieve their goals. Companies that develop a communications plan for every stage of the deal can dramatically enhance their odds of success.

For example, regular communication between management and employees helps keep employees informed and involved throughout the integration process. These communications — which involve everything from the initial announcement of the deal to regular updates on its progress — should provide employees with a clear, focused message.

Explain the reasons

Employee communications efforts should address the rationale for the merger, explaining why you think it's an important step in your company's evolution. You should also be upfront about any planned organizational changes.

Keep communications upbeat and positive, but also honest and straightforward — even if some of the news, such as layoffs, won't be well received. And throughout the process, make your employees active partners in the integration by encouraging feedback.

Customers — any business's most important asset — should also be a vital part of your communications strategy. As companies struggle with integration challenges, customers who feel overlooked may be tempted to turn to your competitors. Keep your customers regularly informed by explaining to them what level of service they should continue to expect from you throughout the merger process.

Be prepared

There's no formula to making a merger or acquisition work. If you follow every guideline, your deal might proceed exactly as planned, resulting in a tightly integrated company that's able to achieve the promised benefits. It's more likely, however, that you will run into some unexpected challenges requiring skill and leadership to turn them into long-term business advantages.

Your best strategy, therefore, is to be as prepared as possible for any contingency. By setting realistic, achievable goals for your deal and conducting thorough due diligence, you can feel much more comfortable about the prospects of your merger or acquisition.

Your chances of success will also be higher if you assemble an acquisition team that includes financial, legal, benefits and human resources experts, as well as operations and marketing representatives. Each team member can help evaluate opportunities and provide strategies for post-acquisition integration.