



HUMATICA CORNER

Merging bolt-on former competitors to deliver alpha

Even in Covid times, bolt-on acquisitions are an important lever of value growth for private equity. However, they are tricky to execute, especially with former competitors.

Merging two companies is a management process. But, it is one that happens infrequently. Managers therefore have limited experience. At the same time, the single greatest reason for failure is poor governance and a break-down of collaboration between the merging organisations, which hinders their ability to execute value-enhancing decisions and initiatives. It's the reason why acquisitions more often than not fail to generate a return that justifies their price. Humatica has studied bolt-on acquisitions over the years to understand the organisational secrets of success.

Building trust and mutual respect from the top is the paramount responsibility of the senior leadership. It begins with senior management understanding what they don't know, and approaching the merger with an open, curious mind. That's hard for a lot of leaders, when the thrill of the chase has triggered an over-zealous acquirer's blind post-merger assertiveness. Unfortunately, in the post-merger fog, perception quickly becomes reality. And, the equally tricky human psychology of "anchoring" makes first impressions very difficult to reverse afterwards. Senior management must focus on mastering these challenges from the beginning in order to have a chance of creating a collaborative environment capable of fast-track PMI.

First, the "fog" is cleared by a neutral, third party creating a mirrored, fact-based x-ray of each organisation – its structures, management processes, systems and, most importantly, the unique behaviours which drive decision-making (a.k.a. culture). Not only does this create an objective fact-base for merger decisions; more importantly, it eliminates the root cause of potential misunderstanding, suspicion and distrust between management teams. If soft-factor differences are jointly understood from the beginning by both management teams, then the normal day-to-day conflicts which arise can be put in context and de-escalated.

The second step is to spend adequate time up-front getting to know the people and building personal relationships from the top-down, before launching into specific PMI workstreams. This investment is often neglected in the interest of speed and IRR, but the wisdom of "go slow to go fast" is worth its weight in gold here. Allocating time in initial management meetings for thorough introductions that go far beyond work related topics is just one of many techniques which are used to ensure that trust is laid before launching into workstreams.

Getting clarity on the merged organizational set-up - structures, roles and responsibilities - is the basis for collaborative execution of thousands of tactical PMI decisions. Even though most sponsors and CEO's worry about "inviting the turkeys to Thanksgiving", transparently involving both management teams in the development of the merged organization and new operating model is critical for getting buy-in and understanding for rapid implementation. Humatica pioneered a unique collaborative PMI process to define the winning future operating model with the broader management based on the value creation objectives and sound economic principles. It reduces disruptive second-guessing and implementation delays to activate the merged organization and deliver alpha.

HumaticaTM

Activate organizations. Deliver alpha.