“1+1=1” – The Art of Successful Mergers

Post-Merger Integration demystified

Mergers & acquisitions are essential means to fulfill strategic growth and profit targets. However, studies reveal that two-thirds of all deals fail on delivering results due to common issues. Professionally managed post-merger integration (PMI) helps to avoid these failures. This article presents the THERON PMI methodology, a proven and effective approach for commercial successful mergers & acquisitions.

2015 has been a very busy year for mergers & acquisitions. The number of deals and the value of international transactions peaked since 2008, and top management surveys forecast further increases in M&A.

An increasing number of corporations – especially in health, medical technologies and life sciences – secure their targets through acquisitions in order to attain top line growth, optimize their cost position, drive international expansion, increase diversification, or drive industry consolidation.

The THERON Post-Merger Integration methodology adapts to these individual requirements with a customized management process.

Post-Merger Integration: Secure the Success of your Investment

Investors frequently underestimate efforts and costs required for successful post-merger integration. They typically invest most of their time, money, and attention in finding and valuating the target (due diligence) and less in integrating the organizations. But left to its own devices integration will not happen and the M&A investment is at risk. Every merger requires completely different skills compared to regular business operations. The challenges are immense because mandatory skills are usually unavailable in both organizations. Competencies in strategy, project management, employee psychology, and organizational design are now essential for building the future.

Integration challenges will grow significantly as soon as the strategic intent moves from consolidation and volume to diversification, new business growth, or other unknown territories. In today’s environment, these cases get more frequent again.

Over time market forces shrink the profit margins of each business, which drives some businesses to move closer to the end customer to increase their profit margins. Other corporations enter – by diversifying their businesses – unknown territory geared at strategic repositioning, or to fill their innovation pipeline. In

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<th>M&amp;A Deals, Germany 2015</th>
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<tr>
<td>Sector: Health / Life Sciences</td>
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<td>Transactions: 30</td>
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<td>Volume: Euro 35 bn</td>
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Key Challenges in any Post-Merger Integration

1. Employee, organization & culture
2. Maintain and increase cash flow
3. Technical mistakes in implementation
4. Systems, processes, and IT
5. Unfavorable market positioning of merged company
6. Unrealistic expectations derived from flawed initial analysis
all these cases mergers grow in complexity beyond average. They become more entrepreneurial. Successful integration requires a transformational approach reaching into all relevant departments of the corporation.

**THERON PMI Methodology:**
A system to build your future

THERON offers comprehensive and professional services in M&A, including target search, ratings, commercial due diligence, post-merger integration, support in sales & finance as well as design of the equity story. Post-merger integration is our key M&A focus: Our experience reveals that most deal value is destroyed during the integration phase, mostly by avoidable mistakes. THERON’s service offer includes all elements of a tailor-made post-merger integration. We support our clients on all relevant levels and in the various stages of the process. Our consultants provide many years of experience in managing complex projects in various industries. We are guided by the critical success factors we identified in previous PMI projects.

Our methodology secures continuity, transparency, and controllability. PMI activities and day-to-day business are closely linked during the integration phase. This enables client employees to quickly and effectively cope with their new responsibilities. For optimal integration, PMI

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**PMI Success Factors**

1. Enable stability and continuity
2. Enforce strong customer focus
3. Secure and increase value
4. Provide transparent control by project and program management
5. Actively integrate cultures
6. Focus on employee communication
7. Align strategy, processes, and IT

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**Strategic M&A goals determine the activities of the post-merger integration**

![Strategic M&A goals determine the activities of the post-merger integration](image-url)
preparation should begin as early as possible, ideally already when closing the deal.

**Competitors take advantage to lure away customers**

Most tasks need to be addressed rapidly. Business continuity must be ensured and customer experience needs to be maintained without any disruption. High performers must be tied closely to the corporation and contingency plans need to be defined. Competitors take advantage of any disruption to lure away customers. Thus speed, focus, transparency, and agile management are critical in any post-merger integration.

Additionally, medium and long-term targets need to be addressed immediately. Cost-cutting programs are typically effective in the first three years or never. Synergies beyond initial saving potentials will evolve only if the new organization works as one unit. All this takes time.

**Culture eats strategy for breakfast**

The human factor is the biggest challenge in every merger. Converting different cultures of two established, successful companies into a new and well operating organization may become a Herculean task. Incompatible value systems destroy the efficiency of daily operations. Discussions about direction and process as well as personal frictions can rapidly lead to disappointment of core employees. If not well managed, the best employees will be the first to leave the corporation.

Employees who do not understand the nature of the merger or the business model of the other corporation work [(un)consciously] against the strategic intent of the transaction. This may result in long-lasting problems in processes, IT systems, and strategies that frequently erode the value of the deal.

While these effects are already strong in vertical mergers in an industry, they increase expo-
nentially when cross-vertical mergers leave the known market segment. A common example is the creative energy of a start-up enterprise not fitting into the rigorous discipline of a medical device producer. Losing this energy may not be a feasible option.

The THERON PMI methodology is based on a value-based organizational design. We maintain cultural elements essential for value and profitability. The methodology decides early on whether a corporate culture shall be preserved, synthesized or absorbed. Depending on the respective strategic intent, this decision will turn out differently and is part of a tailor-made management process.

Experience shows that in cases of integration of product businesses into predominant sales organizations (e.g. commodity pharmaceuticals), the acquired companies, as a general rule, will be fully integrated. In merging service companies (e.g. hospitals or regional sales expansion), in contrast, the original character and culture of the acquired company will most likely be preserved for the end customers (partial integration or merger of equals). And in cases of acquisitions along or outside of the value chain it will be mandatory to secure market access, market know-how, and core competencies in order to ‘survive’ the merger and come up with a competitive new organization. In this case, successful post-merger integration cannot be controlled from one side of the two companies only. The new organization must be a mutual achievement. The later case, where companies had no contact points previously, offers a maximum payback potential at a maximum of integration risk.

For more details on the THERON M&A portfolio, our PMI methodology, and its applicability within your organization please contact us.

THERON Advisory Group

The THERON Advisory Group exists more than 20 years and has built an excellent reputation of designing and implementing difficult changes in complex international organizations.

All partners are senior and experienced with many years in consulting or management positions. We add value to our clients by sharing our experience of individual situations. We work closely with our clients in order to optimize their organizations for mastering future market challenges, produce measurably better results, and create value by realizing entrepreneurial visions.

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