

# Look out!

## SPOTTING THE SIGNS OF A TROUBLED DEAL

There's plenty that can go wrong with M&A transactions before they close, because they're long and delicate processes. Both buyers and sellers, therefore, need to know the hazards inherent in any merger transaction and be able to anticipate deal breakers and other problems that may get in the way of long-term success.

Focus on minimizing roadblocks that will prevent you from reaching your final destination, including cultural differences, disruptive employees and communication misfires with staff, customers, suppliers, and other stakeholders.

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### On the inside looking out

Sometimes M&A deals fall victim to outside influences, such as industry turmoil or a tight credit market that prevents buyers from obtaining financing. More often, however, transactions die because of company-specific factors, such as cultural incompatibilities. So try to choose a merger partner with similar values and management structures. Owners and executives also must watch their words at the negotiation table. Many deals fall apart simply because the parties misunderstand one another or can't get along.

It's natural for your employees to try to grab what control they can when merging their departments with those of another company or to lock down customers



for themselves. These natural tendencies, however, don't necessarily benefit the merger or its objectives. Most M&A deals are made to achieve such synergies as cross-selling to customers; battles over customer accounts or management positions undermine those goals and may threaten a deal's viability. To facilitate an integrated culture, you may want to create more companywide mutual incentive productivity programs.

### Communication is key

Communication — or lack of it — is another common deal-breaker. You may be wary of sharing information about your deal before it closes, but withholding too much will only fuel the employee (and public) rumor mill. And damaging rumors, such as those about widespread layoffs, have been known to sink otherwise promising mergers.



Announce the deal as soon as feasible and share as much information as you can about changing office locations, compensation, benefits, assignments and supervisory roles. Your HR staff can act as point people for employee questions and concerns and, if necessary, assist laid-off workers in finding new jobs.

Along the same lines, don't neglect to communicate the big picture to employees. Explain your merger goals, clearly outlining what you hope to achieve (for example, 10% annual growth, increased productivity and greater market share), how employees can help the company meet those goals, and how they'll benefit in the long run. Be sure to offer measurable benchmarks, such as an increase of 500 new customers in the next year, so that employees can easily track the newly merged company's progress.

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If your company fails to involve employees in these larger objectives, they'll be more likely to focus on smaller, internal matters such as office space, vacation plans and benefits packages. This can slow productivity before you even close the deal, and is likely to make the integration phase that much harder.

When a merging company puts off making hard decisions, the result is rarely good. If, for example, your merger will result in redundant jobs and require you to terminate part of your workforce, don't put

it off. There's nothing worse for employee morale than to sit around for months waiting for inevitable bad news.

### **Don't neglect outside stakeholders**

Employees aren't the only stakeholders who need to hear from you. Be sure to communicate your plans and any likely changes with external stakeholders, such as shareholders, lenders, suppliers and customers.

Speed is paramount: Customers, for example, need to know if prices or contract terms will change, and you must inform suppliers if you'll be terminating a contract. But don't rush the process so much that you neglect details or forget to address every issue. External stakeholders won't appreciate frequent terms revisions or addenda to earlier communications.

### **Spotlight on decision-making**

These are only a few of the issues you need to look out for. Most M&A deals encounter unanticipated obstacles, but as long as you keep the lines of communication open, your chance of closing a deal that benefits both parties is good. ■

## **Bring your board on board**

Whether you're buying or selling a company, your board of directors can help you determine the viability of a deal as well as minimize risk for shareholders. But directors can fulfill their important role only if they're given the right information to evaluate the transaction. Good communication is essential.

If you're a buyer, present your board with a post-merger business plan that illustrates likely positive, neutral and negative scenarios and that describes the expected effect of synergies on key metrics. Also share an integration plan that details tasks and participants at different stages of the deal and a summary of due diligence findings that highlights any calls for action — such as revising the price.

Both your board and the seller's need to see a fairness opinion prepared by an independent advisor. This will help assure your board that synergies and cost savings are realistic and the seller's board that shareholders are receiving fair value for their investment.