

The Review

INSIGHTS, IDEAS & INFORMATION

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White Maple is a strategy consulting firm. We aim to deliver results for clients that produce lasting improvements to performance through facilitating alignment between strategy, the market and brand, and the organisation's people, structure and processes.



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White Maple Consulting Ltd
3 Shortlands, Hammersmith,
London W6 8DA

T +44 (0)20 8822 3320
F +44 (0)20 8822 3357
E info@whitemaple.net
W www.whitemaple.net



Plan the marriage and not just the wedding!

ALAN PENSON

It is well known that many mergers and acquisitions fail: plenty of academic and analytical studies over past decades suggest this (and perhaps, also, bitter experience?). However, acquisitions can be managed to add value rather than leave a nasty taste. This article emphasises three main messages for potential purchasers if they are to buck the trend and pull off a deal that works.

Buying another business is complicated and time consuming. So, at the outset, you need to be very clear about your objectives for the deal and the benefits that will make it worthwhile. The causes of failure can seem obvious to an outsider, particularly with the benefit of hindsight, but they are often hard to see and manage at the time from the inside. The three messages I want to emphasise in this short piece are: be realistic; plan the marriage; and talk to everyone.



1. BE REALISTIC

Once a target company is identified, the imagination and "the vision thing" can take over quickly and good rational business questions are sometimes not asked. Some important aspects are:

Market

Get good information on the relevant market and the competition and why and how the target company makes a profit. Assess the risks – what might change after the takeover? What do customers really care about?

In my experience you really do need to undertake thorough research about the marketplace in which you operate and, if different, in which the target company operates. Feedback from current customers is very valuable, but make sure that your strategic understanding of the market is right up-to-date. It's important to be able to assess what may happen in the sector over the next few years.

Price

What is a realistic price – what needs to be taken into consideration? An objective view is essential here. In negotiations be sure of your "walk-away" price and be prepared to do it, even at the cost of throwing away the work done so far.

This article does not address the complex matter of how to finance a deal, but whether you are paying cash or borrowing from a bank or getting more money from shareholders, paying a sensible price for the target company is, of course, vital.

The business of valuing companies has a profusion of methodologies and is a curious mix of precise science and judgement. Accordingly it is sensible to seek advice and cross-check with specialists in order to construct a winning bid. It's important to think about the successful medium-term outcomes and short-term affordability rather getting the deal done regardless of price. Deals are only done in practice at a price with a willing seller and a willing buyer. Do make sure it's right for you.

Some formal due diligence is essential. This should cover financial, legal and commercial (including management) issues. In our experience the latter should be done at least partly in a structured way by a senior member of management, but some expert consulting support can be extremely helpful too. The need for due diligence is to:

- identify and address potential risks, problems and possible deal-breakers;
- provide an objective review of forecast business performance, which may help confirm the value of the business or, indeed, prompt renegotiation;

"RUMOURS WILL RUN RIOT"

REFERENCES

This article has drawn on my experience of working first-hand with mergers and acquisitions. In addition I recommend the following references:

Why Acquisitions Fail

An excellent (but not cheap!) book with practical advice from an industry expert as advisor to acquiring companies.

Denzil Rankine

FT/Prentice Hall, 2001.

Mergers & Acquisitions: Creating Integrative Knowledge

Academic research material but viewing acquisitions with great insight and based on wide variety of case studies.

Amy Pablo & Mansour Javidan

Blackwell, 2004.

Good to Great

Not strictly about buying businesses, but very much about what has made good companies become distinctly great.

Jim Collins

Random House, 2001.

Institute of Chartered Accountants in England & Wales

www.icaew.co.uk

From homepage try both Faculty of Finance and Management and Faculty of Corporate Finance for a good selection of research reports, articles and free downloads about mergers and acquisitions and making them work.

- provide early identification of the management and commercial issues to be addressed post acquisition.

Due diligence is crucial for minimising risk and increasing the chances of a successful deal, so do use knowledgeable and experienced specialists.

Process

What are the synergies that are expected to lead to a better business? Cost reductions? Sales growth? How will success be measured? How much manpower will be swallowed up by the acquisition process – and are there key people still concentrating on running the business?

To make a successful acquisition of another business, you need strong and well-supported foundations within your own company. So before even embarking on a strategy of growth, there must be robust systems and capable staff in place to provide a platform for the vision to be delivered successfully.

"INTEGRATION NEEDS TO BE PLANNED IN ADVANCE..."

Segregate two project teams for the relevant period and dedicate one to work on the acquisition process and another with different directors to ensure proper focus on the day-to-day running of the existing business.

As best you can, you want the target company to also have its eye-on-the ball maintaining performance during the process of negotiating the deal. Just don't ask me how often I have seen acquired businesses with very poor results in the quarter before completion of the deal!

2. PLAN THE MARRIAGE

After the acquisition there will be nothing but questions unless the short and medium term issues have been thought through in advance and can be explained in a credible and consistent way.

Strategic fit

Review core competencies of both parties and how each will contribute to the new strategy. It may sound obvious, but there needs to be a pithy and compelling explanation of the vision behind this deal and why this will succeed.

Integration plan

Integration needs to be planned in advance of the deal's completion. And it is usually essential to involve people from both companies in the project to bring the operations closer together. Above all, it is necessary to give employees and other stakeholders in the business some sense of how the new union will work and what it means for them in terms of, for example:

- culture and people: pay and conditions, team-working, communication, organisation structure, leadership and line-management relationships;
- systems and processes;
- customer relationships.

Post acquisition review

In the immediate aftermath of an acquisition or merger, much focus is necessarily on action to get things done quickly. However there will be a considerable proportion

of the staff who will have had little direct involvement in the process. There is merit in a structured post-acquisition review which canvasses the opinion of all levels of the organisation about the process of integration.

3. TALK TO EVERYONE

In an information vacuum, rumours will run riot, and they will not usually be helpful ones! So effective communication is very important. However, it is an unfortunate, but usually necessary, feature of most deal processes that some information will need to be kept confidential.

Communication

Give information clearly and swiftly and to everyone in an organised way. This should be done at the earliest practical opportunity, and communications should be a core part of the ongoing integration plan. Employees are typically concerned about job security, workload and place of work, amongst other issues. Customers want to know if their service levels and terms and conditions will change. This is a high risk time - your sales team must look after them better than ever or you risk losing them. Suppliers are worried that you may stop using them or start squeezing the price lower. Any shareholders who are not involved in the day-to-day business will also want to be kept appropriately informed.

Listen too

Vital information can be gained from informal conversations with staff, customers and other stakeholders. Make sure that they have the opportunity to talk about their hopes and fears and that their remarks do not go unheeded – they may contain vital clues about the success or otherwise of the venture.

Leadership

Any team will benefit from a good leader; the skills of leadership have been dealt with in previous articles of The Review. However the complicated mix of vision, business acumen, determination to get a deal done and build a solid and successful business all at the same time will test any leader's skills. It is essential to make sure that the communications from the top are clear, consistent and swift and that feedback from "the bottom" is taken seriously.

So let's be clear the three messages are:

1. Be realistic
 2. Plan the marriage
 3. Talk to everyone
- ...and the best of luck!

ALAN PENSON founded Penson Associates eleven years ago. He works with clients on business strategy, operational and finance matters. Most of his firm's clients are owner-managed businesses. He is a Fellow of the Institute of Chartered Accountants in England & Wales and a Certified Management Consultant through the Institute of Management Consultancy.

T +44 (0)1494 778946

E alan@penson.co.uk



Continuity or collapse?

BY JO CAUSON

Despite viewing business continuity as an important issue, many organisations are failing to put plans in place to ensure the continuity of their operations when faced with serious risks. This article summarises some disturbing findings from research in 2006 about business continuity and provides some sources of practical guidance and advice.

Today's businesses face greater threats than ever. They can be operational, strategic, financial, or environmental, and can impact directly on sales, cash flow and profitability, share price, quality and brand image.

Although no one can accurately predict the future, Business Continuity Management (BCM) is crucial in identifying mission critical functions of an organisation and developing plans and procedures which endeavour to ensure that key activities continue whatever the circumstances. BCM is akin to insurance: never required until something goes wrong, making it generally perceived as a damage limitation function!

According to research published in 2006, organisations admit that they are failing to protect both their key assets and the ability to function in the face of major disruptions. The report, Business Continuity 2006 (published by the Chartered Management Institute and Civil Contingencies Secretariat at the Cabinet Office), uncovered alarming levels of complacency. It showed that many organisations are ignoring threats to their business, neglecting the needs of their managers, and failing to communicate plans with employees. A full copy of the report can be found at www.managers.org.uk/researchreports including details of the sample and a full set of conclusions and recommendations.

Worryingly, the report showed that less than half the organisations surveyed have a Business Continuity Plan (BCP) in place, even though a majority (77%) of senior management teams view business continuity as an important issue.

Loss of IT and people were the most common disruptions experienced by managers: see the table for a list of some of the main disruptions.

Organisations are also failing to rehearse plans as often as they should. Only 37% of those with plans test them at least once a year, compared to 52% in 2005. This drop is made more worrying by the fact that where rehearsals have taken place, most (79%) have revealed shortcomings in their plans! Some learning points were identified: the importance of communication with all stakeholders; the need for staff to refresh their knowledge of contingency plans frequently; and having a plan to bring together key staff to handle a situation is more important than trying to plan for every threat.

But having no plan in place in the event of a disaster is not an option. In simple terms, all organisations should take a robust and proportionate approach to BCM so that the measures are appropriate for the size and type of business, and relevant to key stakeholders. This will undoubtedly require plans to cover threats such as a loss of people and skills as well as factors such as loss of IT and telecommunications.

Disruptions experienced in the previous year: 2002-2006

	2002 %	2003 %	2004 %	2005 %	2006 %
Loss of IT	19	24	25	41	38
Loss of people	-	26	20	28	29
Loss of telecommunications	-	-	23	28	24
Loss of skills	33	16	14	20	19
Utility outage e.g. power, water, gas	-	-	-	28	19
Negative publicity/ coverage	24	17	16	17	16
Employee health and safety incident	13	9	8	19	13
Loss of (access to) site	5	5	6	11	13
Supply chain disruption	19	11	12	10	10

Source: Business Continuity 2006 (Base: 1,150 respondents in 2006)

It is a matter of concern that many organisations still fall short when it comes to implementing thorough business continuity management (BCM) strategies because of poor communication. Yet, communication is only part of the answer.

Clearly having a plan is not enough. Test it at least once a year and address any shortcomings which appear as a result. Evaluate the plan regularly so that any changes to the business or new risks can be reflected and considered. Too many organisations have inadequate and untested plans that expose them to unnecessary risk. So make sure that you take the steps necessary to protect your customers and staff from disruption.

If you have been inspired (or worried!) by this article, further information and guidance relating to business continuity planning can be found at the following websites:

Continuity Forum

www.continuityforum.org: the Continuity Forum provides independent advice, information and support to the private and public sectors covering all aspects of BCM, disaster recovery, crisis management, emergency planning and security.

The Business Continuity Institute

www.thebci.org: the BCI offers advice and assistance to members on business continuity. Best practice guidelines are available as a free download.

Business Link for London

www.businesslink4london.com: look in the Planning & Operations section for advice on managing risks, including advice on disaster recovery planning.

Continuity Central

www.continuitycentral.com: provides a one-stop resource about business continuity.

London Resilience Partnership

www.londonprepared.gov.uk: a range of resources and tools are available free to assist you in developing BCM within your organisation.

The Security Service "MI5"

www.mi5.gov.uk: offers advice on security and business continuity planning, including a very good booklet "Expecting the Unexpected".

JO CAUSON is Director, Marketing and Corporate Affairs, at the Chartered Management Institute, the only chartered professional body that is dedicated to management and leadership. CMI has over 70,000 individual members and 400 corporate members. Jo was previously Head of Group Marketing at City & Guilds, and also Head of Brand at Norwich Union.

T +44 (0)20 7421 2709

E jo.causon@managers.org.uk

Book Reviews

This issue's books are quite different. The Big Moo is an eclectic set of short stories about innovation and growth. Freakonomics is a "rogue economist's" attempt to give us new perspectives about the world around us.

WEB SITES

In this section we normally have a theme and review a number of relevant websites. This time we focus on our own new venture: Cities in Sound!

www.citiesinsound.com

The website was launched in December 2006. It offers high quality audio walks in major tourist destination cities including, initially, Edinburgh, London, Paris and Rome. More walks and cities will be added in 2007.

Someone has described these walks as being like having a knowledgeable friend show you around, without having to buy them lunch! The walks are written by a professional guide and are narrated by actors. In addition to providing information about places along the way, they aim to entertain with relevant music, interviews with "locals", exploring "secret" places, authentic sounds recorded on location and other sound effects.



Getting the walks is easy: visit the website, select and purchase your walks, then simply click to download the MP3-format audio files to your computer, transfer them to your MP3 player (such as an iPod) and off you go! Each walk comes with a free map which can be downloaded from the website.

Cities in Sound is also successfully licensing the walks to corporates such as tour companies, hotels, airlines, incentive agencies and tourist boards.

READER OFFER

We are offering readers of The Review a discount of 25% on every audio walk they buy. Insert the voucher code **review25** when checking out. This offer is available until the end of February 2007.

The Big Moo

By The Group of 33. Edited by Seth Godin

In his earlier book, Purple Cow, Godin argues that in a field of hundreds of brown cows you need to dare to stand out and be purple. A purple cow is something that a consumer thinks is worth remarking about: it's remarkable. But now, in The Big Moo, he says that's not good enough; we need to create a big moo.

So what's a big moo? It's "the extreme purple cow, the remarkable innovation that completely changes the game." Godin wants us to understand that the quest for the big moo is the only reason we go to work. To develop and promote his idea, Godin recruited "The Group of 33" authors and "business superstars" to produce stories that "will light your fire and give you flashes of inspiration."

It's easy to dip into The Big Moo because the stories are short and diverse. They cover such topics as:

- how Houdini was a success because he chose to focus on escapes rather than magic, although there "wasn't a market for escape acts" (the message is that those making brave and original choices can succeed, as in his case);
- panicking at inappropriate times (ie before the situation becomes so serious that it's too late to take action that will accomplish anything);
- "Bob wears panty hose" (you'll just have to read it to find out what this is about!).

Perhaps you will be inspired by this book. But it did not light the fire for your reviewer. People go to work for many reasons; for most people, creating a big moo will certainly not be the main reason, and may not be a reason at all. And, whilst some of the short stories are indeed interesting and even inspiring (see the one about the mothers in Rwanda who develop a baking business), they fail to add up to more than a random set of ideas and anecdotes. All the authors are donating their royalties to charity.

OVERALL RATING 

Michael Joseph (Penguin), 2006. £12.99

Freakonomics

By Steven Levitt & Stephen Dubner

Levitt is an economist at the University of Chicago who has worked, in particular, in the fields of crime and sport. Often drawing on some of his earlier academic work, Levitt uses economists' tools to show that, for example, "incentives are the cornerstone of modern life", "conventional wisdom is often wrong", and "dramatic effects often have distant, even subtle, causes". This book can really challenge how one sees the world.

He offers a variety of examples to show that "cheating is a primordial economic act". He explains how and why 7 million US children disappeared one night in 1987! Statistical analysis illustrates how cheating is endemic in the apparently honourable sport of sumo wrestling. And bagels are used to explore morality, white-collar crime and links between morale and honesty.

To show how conventional wisdom can be challenged, Levitt's analyses suggest that "abortion was one of the greatest crime-lowering factors in American history" rather than, for example, gun control, capital punishment, the strong economy or new policing strategies. He argues, controversially but convincingly, that the dramatic fall in the crime rate in the USA in the 1990s was largely a consequence of legalizing abortions following the US Supreme Court ruling in Roe v. Wade in 1973.

Other quirky applications of economics tools include, for example, considering why drug dealers live with their mums and what makes a perfect parent (apparently it's more to do with things that parents are, than what parents do).

Some other reviewers (perhaps usually statisticians or economists?) argue that his analysis is often flawed. And the book does fade towards the end. However, on balance, Freakonomics is thought-provoking and an easy and entertaining read, even if you are not into statistics!

OVERALL RATING 

Penguin, 2006. £8.99

WHITE MAPLE NEWS

RECENT WORK

Examples of work with clients in the last year include:

- Assisting a trade association to review its strategy.
- Helping an estate agency to implement recommendations of our strategy review.
- Facilitating strategy development workshops for a major professional institute.
- Development of the leadership team of a new international joint venture.
- Training programmes on marketing and planning for client staff in Argentina, Brazil, Hong Kong, UK and South Africa.
- Writing a guidance booklet for a government agency on how to undertake customer surveys.

- Stakeholder consultation for a government department.
- With an accountancy firm, undertaking a value for money study at a housing association.
- Designing and facilitating staff conferences for two government agencies.
- Coaching senior staff at three organisations.
- Membership of the Partner selection committee of a large firm of solicitors.

THE REVIEW: FORMATS

All issues of The Review, including this one, are available on our web site in the resources section in pdf format. Printed copies of all issues are available on request. A version can also be provided in Word to facilitate production as large print or in Braille.