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The Acquisition Process Map: Blueprint for a Successful Deal

Paul Mallette, Karen L. Fowler, and Cheri Hayes

In January 1999, *The Economist* reported that the first $100 billion merger would soon occur ("How to Make Mergers Work," 1999). In January 2000, *Business Week* covered AOL's $183 billion bid for Time-Warner ("Welcome to the 21st Century," 2000). In February 2000, Vodafone AirTouch bought German rival Mannesmann for $179 billion in the world's largest hostile takeover, and that acquisition was "just a sign of the times" (Hopewell, 2000, p. 58). U. S. mergers and acquisitions set another record for 1999 at just short of $1.8 trillion, compared to $1.65 trillion for 1998 (Cohen, 2000). The key drivers of this merger and acquisition boom include moves toward deregulation, privatization, globalization, consolidation, higher technology, and a more liberal view of mergers and acquisitions ("How M & A Will Navigate," 2000). Pressures to reduce costs, create economies of scale, collapse and compress supply chains, and acquire intellectual capital and knowledge are also motivating the merger and acquisition wave (Mische, 2001). For example, IBM completed 17 acquisitions valued at more than $1.5 billion in 1999 alone (IBM Corp., 2000), and Cisco acquired 51 companies in just six and one-half years (Thurm, 2000). Advances in technology have, in some cases, enabled smaller, new economy companies with higher stock valuations to bid for much larger, but older economy companies experiencing lower stock values as with AOL's bid for Time-Warner ("Welcome to the 21st Century," 2000).

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The merger wave is not limited to the United States. Europe's 1999 mergers and acquisitions were double those of 1998, registering in at $1.5 trillion ("Welcome to the 21st Century," 2000). The euro makes big deals much easier in Europe ("Welcome to the 21st Century, 2000), but mergers and acquisitions are also flourishing in India (Rao, 2000), Mexico (D'Mello, 2000), South Africa ("Net Sellers," 2000), and Asia (Kroll, 2000). Argentina, Brazil, and South Korea were some of the biggest international sellers ("Net Sellers," 2000). The value of cross-border mergers rose to $720 billion in 1999 ("Net Sellers," 2000).

The volume of literature written on the motivations for mergers and acquisitions is massive and encompasses many disciplines. Academics and practitioners alike continue to analyze the underlying reasons for mergers and acquisitions and try to ascertain whether the combined entity is producing the benefits intended. Researchers and practitioners have, over time, questioned

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whether mergers actually produce any financial gain, individual gain for various stakeholders, synergistic benefits, market share increases, or other forms of tangible strategic success. In spite of mixed findings, the number and size of mergers and acquisitions is at an all-time high.

However, as a general rule, nearly *half* of all mergers and acquisitions fail (Brouthers et al., 1998; "How Mergers Go Wrong," 2000; Freestone, 2000; Schmidt, 2000). The tremendous size and volume of mergers and acquisitions taking place today create tremendous challenges for successful implementation. The authors discuss some of the most often-cited variables that result in success or failure for mergers and acquisitions and present a comprehensive process model that can be used by corporate decisionmakers to make the merger and acquisition process more effective.

Strategic Intent

It has been suggested that the recent wave of mergers and acquisitions has been based more on strategic opportunities than on past motivations for diversification, synergy, and/or pure financial gain (Calvey, 1997). Mergers and acquisitions are a special case of strategy and, without a clear strategy, a merger or acquisition will likely produce no added value (Rappaport, 1998). Mergers and acquisitions are now considered a strategic weapon ("How M & A Will Navigate," 2000), and perceptions of synergy are not enough. Decisionmakers must be able to precisely define the strategic benefits expected from the integrated firm before the merger or acquisition takes place ("Why Good Deals Miss," 1999).

Managers tend to have multiple motives for participating in mergers and acquisitions. With respect to strategic intent, the best performance indicator of success of a merger or acquisition is if the original objectives of the merger are met. In a recent survey, managers indicated that they realized a high degree of success in 12 of the 17 motives listed. Most of the motives were strategic in nature, such as acquiring a source of raw materials, increasing market power, and spreading risk (Brouthers et al., 1998).

One thing is clear. The success of any merger or acquisition seems to be dependent on a large number of variables that are highly interdependent, volatile, and very complex. In fact, the implementation of mergers and acquisitions has even been described as equivalent to an organizational crisis (Mische, 2001). In spite of managers' knowledge of these complexities, reports that many firms do little or *no* pre-merger or acquisition planning abound (Cecil, 2000). Thus, regardless of any hoped for strategic advantages, many mergers and acquisitions still fail.

Success or Failure

Research on the long-term effects of mergers and acquisitions suggests that any impairment of value, measured by share price and other indicators, is due to a variety of identifiable reasons including inexperience, lack of strategic purpose, use of overvalued stock as a payment mode, and poor post-merger integration (Lajoux & Weston, 1998). Companies avoiding these traps perform better than their counterparts. Reports from three well-known consulting firms found that a high proportion of acquirers lost value or generated sub-par returns for shareholders after executing major merger or acquisition deals. The biggest causes of sub-par performance were fouled and snail-paced integration plans ("Why Good Deals Miss," 1999). Many practitioners agree. When mergers collapse, it is usually the people dimension that goes askew (Revell, 1998).

Individual Personalities, Organizational Culture, and Relationships

Even in low-pressure negotiations, personality clashes among executives are frequent impediments to the successful completion of a deal. Differing attitudes, expectations, and motivations offer the potential to completely kill a deal. Personality profiling must take place when a merger or acquisition is being considered. This process can result in the elimination of prospective deals or structuring the future entity appropriately to accommodate personality issues (Ruotolo, 1999). Acquiring companies must be mindful of the fact that they are buying personnel and processes, not just assets.

Organizational culture is often blamed for mergers and acquisitions that fail (Love &

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Gibson, 1999). While companies may be well matched strategically, financially, and along product lines, they may be very different in their beliefs, practices, and systems. A merger or acquisition that appears to offer a high degree of strategic fit can result in worse than disappointing results if cultural problems persist. Acquiring managers are often ill-equipped to deal with the subsurface issues of people and culture. As a result, hostilities, mistrust, turf battles, and even sabotage can result from cultural clashes.

The degree of similarity or divergence between two organizations intending to merge is often overlooked in pre-merger planning, resulting in subsequent conflict (Numerof & Abrams, 2000). Additionally, organizational relationships extending beyond the two primary companies must also be considered. For example, the supply chain relationships with the suppliers and buyers of both companies should be taken into account (Ruotolo, 1999).

An entire consulting industry for post-acquisition integration has evolved to help companies salvage the wreckage of impossible promises and hoards of personnel and operational problems ("How to Make Mergers Work," 1999). Cultural issues should be considered from the moment a merger or acquisition is considered since in large mergers or acquisitions, integration of the two companies can take years. While the AOL/Time-Warner merger was announced in January 2000, it was six months before the full boards of both companies even met to discuss what the new AOL/Time-Warner would look like (Kemper, 2000). Companies that agree, in advance, on a clear strategy and structure for the new entity have a much higher chance for success ("How to Make Mergers Work," 1999).

Acquisition Experience

Empirical evidence has previously documented the benefits of acquisition experience, indicating that acquiring firms with prior acquisition experience outperformed similar firms with less experience (Fowler & Schmidt, 1988). Many leading firms have now made merger and acquisition integration a core competency ("M & A Skill," 2000). Practitioners and consultants are echoing the importance of experience (Chevriere, 1999). Some managers just seem to have a knack for acquiring other companies while others do not. If the talent is not there, merger and acquisition should be a strategy of last resort. Management teams that do not have the skill set are bait for the competition. Competitors can steal top talent, customers, and market share while the uncertainty of an unclean deal persists. Since a high percentage of firms do little or no merger planning, competitors gain a clear opportunity to capitalize on integration mistakes (Cecil, 2000).

Companies that frequently travel down the merger and acquisition path develop a process by which they can address issues that have arisen in the past. This process not only makes the merger and acquisition activity more efficient, but also helps to resolve problems before they arise. However, while the trial and error approach is a very effective teacher, it may not be a very efficient one. A great deal can be learned from companies with significant merger and acquisition experience.

The acquisition process map (Figure 1) has been developed by the authors to guide the various parts of the acquiring company through the merger and acquisition process and to ensure that thoughtful consideration has been given to every step of the way. The ultimate goal is to ensure that acquisitions are successful and to help the acquiring company realize its strategic intent.

Overview of the Model

The acquisition process map consists of two dimensions. The vertical dimension represents the various actors involved in the acquisition process. Six groups are identified in the model. The four groups in the middle represent internal actors and the top and bottom groups represent external actors. The main goal of the model is to assist the internal groups by systematizing the acquisition process so that it is both comprehensive and efficient.

At certain times, however, the external groups become important players in the process. Naturally, one of the external groups consists of the target company and its representatives. The acquiring firm really has no control over these individuals, but the model recognizes the times during the acquisition

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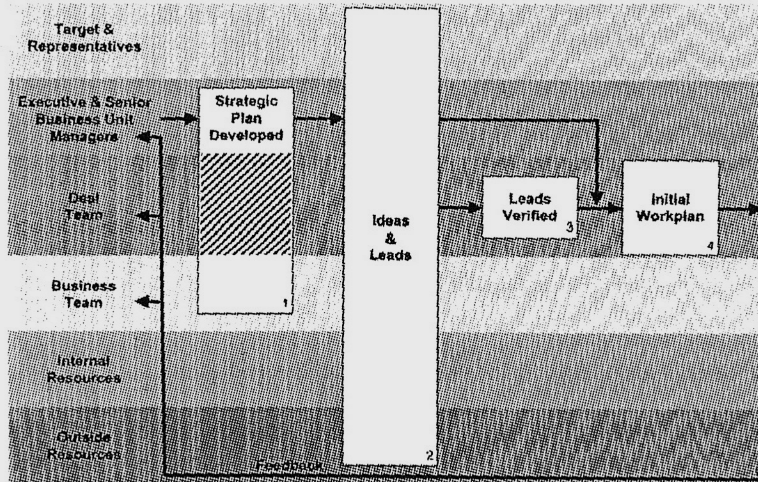
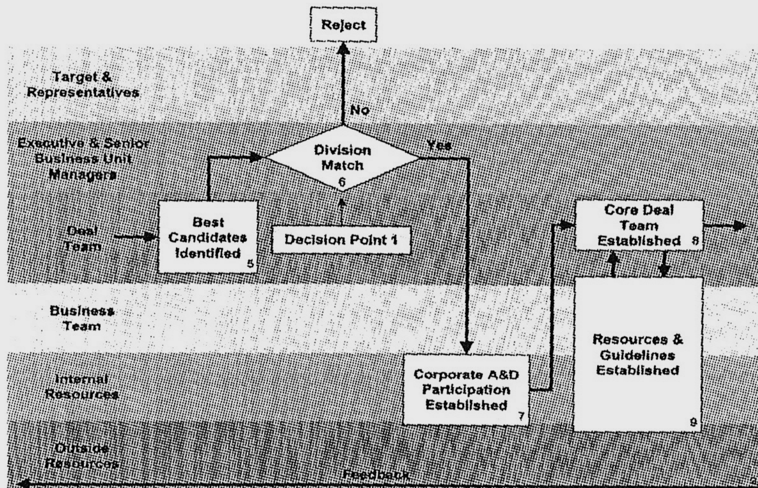
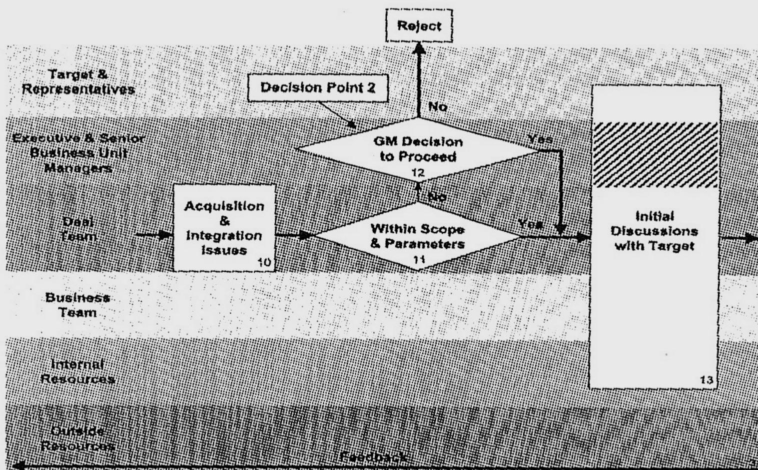
FIGURE 1
ACQUISITION PROCESS MAP







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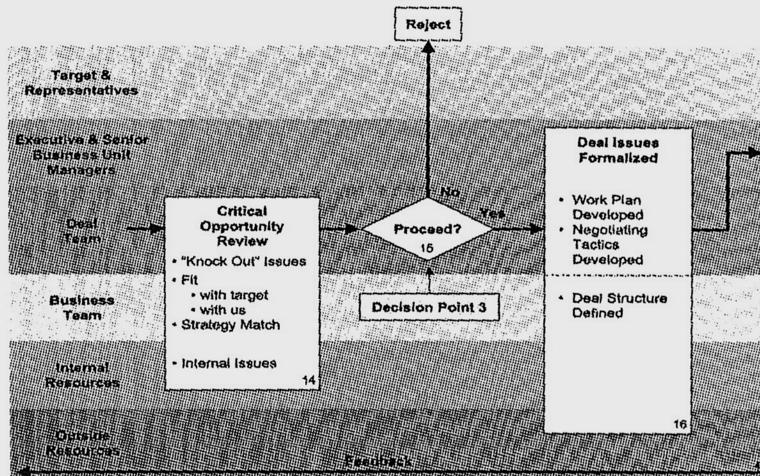

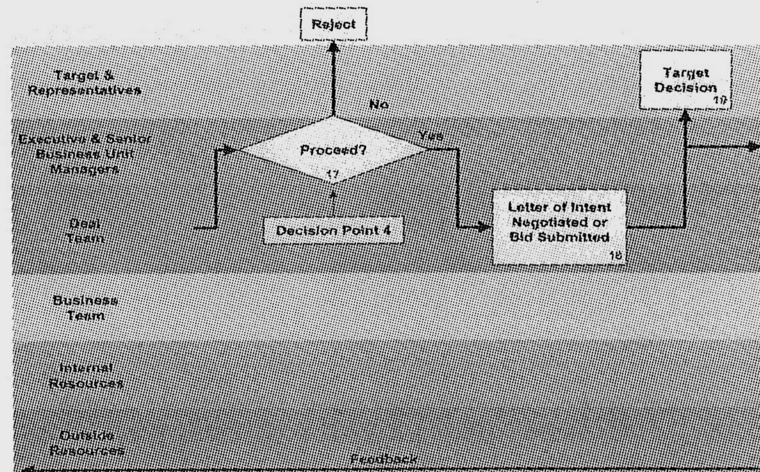

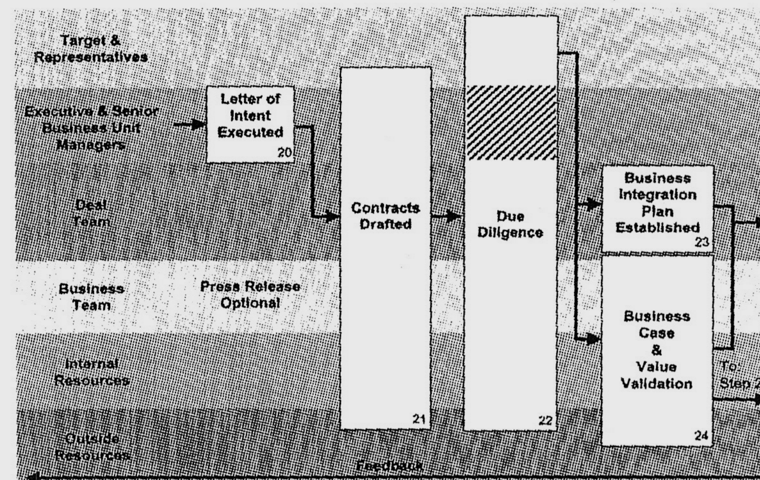

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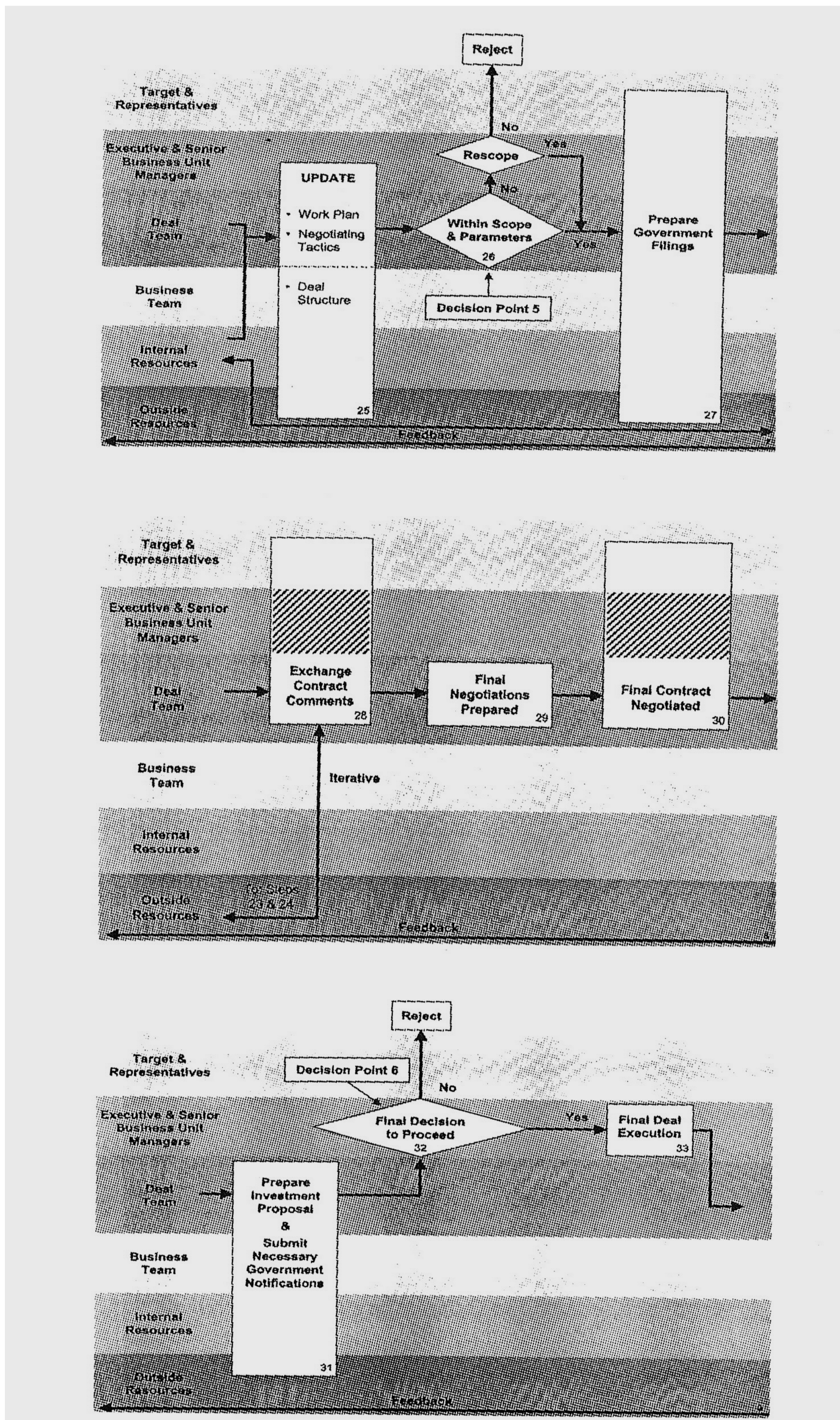

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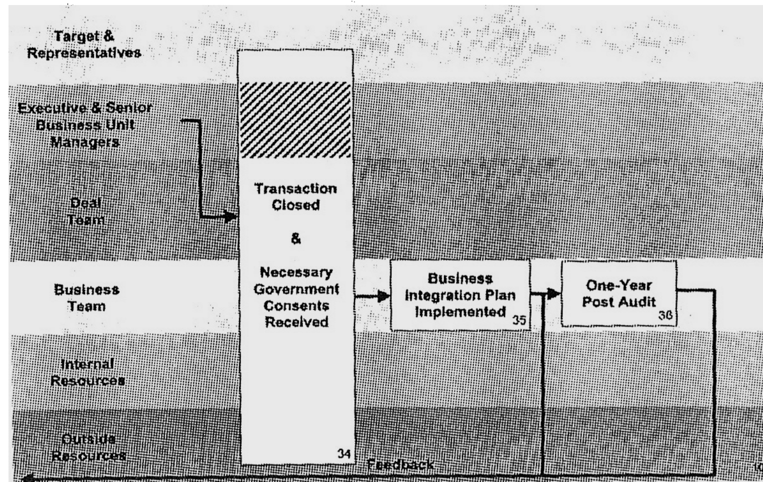

process in which an interface with this group is necessary. The other external group is outside resources. This latter group consists of the acquiring company's bankers, consultants, and other key advisors.

The internal groups, from top to bottom, consist first of executive and senior business unit managers. From an organizational hierarchy perspective, this level of the model represents corporate level involvement in the process. The second internal group identified in the model is the deal team. Early in the process, this team is usually small in number. It often consists of a deal team manager, a business manager who will work closely with the target company in a post-acquisition capacity, and, perhaps, a person from the acquisition and divestiture (A&D) department. As the deal progresses, the size of this group increases significantly. The leadership of this group may change from one deal to another. In some cases, the business manager may also act in a dual role as deal manager. In other cases, another senior business manager may serve as deal manager. Rarely, however, does an A&D representative serve in this regard. The third internal group is the business team. This team is one with line responsibilities and consists of the business manager previously identified and key functional managers within his or her business (e.g., marketing and sales, operations, technology support and development, procurement, and financial analysis). From an organizational hierarchy standpoint, this level of the model represents business unit involvement in the process. The final internal group is internal resources. This group consists of internal personnel with various types of expertise including finance, tax, internal audit, A&D, health, safety, and environment (HS&E), legal, and accounting. Depending on the expertise required, others might be added on a case-by-case basis. These internal resources are all considered to be vital organizational support areas.

The horizontal dimension simply represents time and helps to establish the chronology of the process. While, due to the unique circumstances of each deal, it is difficult to establish exact time parameters for each step of the model, it is possible to establish an appropriate sequence of events along the horizontal dimension.

The model itself consists of thirty-six consecutive steps that define the entire acquisition process. The process is linked to the acquiring company's strategic plan and continues through the one-year, post-acquisition audit. These steps occur in the specified sequence, and the model identifies the groups, both internal and external, that are involved in the process at any given step. Decision points in the sequence, interactive steps, and

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feedback loops are also identified in the process model. Following is a brief description of the activities that occur during each step.

Step 1. Strategic Plan Developed

Corporate and business unit strategic plans are developed and the specific role of acquisitions in the plan is defined (e.g., fill holes in product line, identify technologies needed, gain access to competitively valuable resources, etc.).

Step 2. Ideas and Leads

Acquisition opportunities are identified through various sources including unsolicited calls from potential target companies, rumors, target referrals by third parties, and social and business contacts.

Step 3. Leads Verified

The target company is contacted by a member of the deal team or an outside advisor to assess the target's willingness to explore a deal and verify that the business opportunity does exist. Through this point in the process, the deal team is still relatively small and most likely driven by the efforts of a business manager.

Step 4. Initial Work Plan

For all companies with verified opportunities, a basic outline of the work involved to make a deal is prepared. In addition, deal parameters, scope, and objectives are outlined and target interest, tentative financial projections and requirements, and technical assessments must be made. Depending on the complexity of the target, an A&D representative may be assigned to the deal team at this point.

Step 5. Best Candidates Identified

The list of verified opportunities is narrowed, and the best candidates from this list are identified.

Step 6. Division Match

Decision Point 1. Executive and senior business unit managers examine the best candidates and assess their contributions to the organization's business portfolio. A decision is made by this group to reject one or more candidates and/or move the process ahead.

Step 7. Corporate A&D Participation Established

At this point in the process, business managers often want to move ahead very rapidly. Therefore, it is important that an A&D representative take the lead for the coordination of the project during this stage to ensure that all bases are covered. A major point of emphasis is to keep the process objective so that mistakes are avoided and sound decisions are made. The A&D representative occupies this role for the remainder of the deal.

Step 8. Core Deal Team Established

The complete deal team is assembled during this stage. In addition to those already listed, the team will be composed of functional representatives from the business team, other internal personnel with special expertise, and various outsiders with relevant resources and/or knowledge.

Step 9. Resources and Guidelines Established

Financial resources, time, team member access, and the acquisition process for a given target (with general time guidelines) are all spelled out in great detail.

Step 10. Acquisition and Integration Issues

Initial negotiation parameters and preferred fallback positions are established by the deal team on key issues such as the assumption of target liability, cost, employee pay and benefits, systems, and processes. Also at this stage, the team begins to address the organizational culture issues of the target and how this culture will fit with the acquirer or how it can be shaped so that a successful integration can be accomplished. Preliminary discussions related to management of the target within the acquiring firm also occur.

Step 11. Within Scope and Parameters

Decision Point 2. At this point, a determination is made as to whether the target deal still fits within the original scope and parameters. If not, the deal, in its current form, is sent on to the general manager for a decision.

Step 12. GM Decision to Proceed

Decision Point 2. The general manager decides whether to

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endorse the deal in its current form, reject it outright, or rescope it so that the deal in its current form falls within the revised parameters.

Step 13. Initial Discussions with Target

Discussions at this stage are fairly broad, but the deal team needs to start to build a framework for a letter of intent. The negotiation parameters previously established provide a set of basic expectations on the part of the acquirer. These expectations are shared with the target, and a basic understanding for working out these issues should be developed.

Step 14. Critical Opportunity Review

Critical issues that must be addressed are identified. Also, a more detailed analysis of fit is undertaken to assure that the organizational fit between the target and the acquirer is good and the target fits well within the acquirer's portfolio of businesses. Additional analysis is performed to make sure that a match exists between the deal and the original strategic plan from which the whole process began. Further, internal experts provide advice on topics such as antitrust, environmental impacts, and legal liabilities.

Step 15. Proceed

Decision Point 3. Based on the outcome of the critical opportunity review, the deal team decides whether to reject the deal or move ahead. This stage of the process is the one in which most deals are rejected.

Step 16. Deal Issues Formalized

A work plan is developed by each member of the deal team in which members identify a set of action items that must be addressed, who will be responsible for addressing them, when this will happen, and what reports need to be prepared. The deal team must also develop its negotiating tactics. These tactics will likely change from deal to deal as issues, context, and organizational representatives change. Negotiating tactics include specifying who will say what and when it will be said. Role-playing is often done to help negotiators handle unexpected queries. Also during this stage, the business team begins to hammer out the people issues, such as allowing target employees to keep their old benefits package or be switched to one that the acquirer uses. Management reporting and control issues, as well as business systems issues, between the target and acquirer are also resolved.

Step 17. Proceed

Decision Point 4. A formal proposal, including all prior analysis, is presented to senior management, and a decision is made as to whether this deal should be completed.

Step 18. Letter of Intent Negotiated or Bid Submitted

The conditions to be included in a non-binding letter of intent are negotiated with the target's representatives to try to get them "locked-in" on numerous points. This letter usually includes an exclusivity agreement to prevent the target from shopping the deal around to other companies. If the deal is not very complex and major issues are non-existent (or can be easily resolved), a formal bid may be submitted at this time.

Step 19. Target Decision

If the acquirer and target cannot agree on a basic framework for the letter of intent, the deal may stall at this point. If a bid has been submitted, it is up to the target firm's representatives to make a decision to accept or reject the terms outlined in the bid.

Step 20. Letter of Intent Executed

The formal letter of intent outlines a substantial framework for the deal and spells out the key parameters. It may specify additional information that the target must provide as well as the availability of key target personnel. At this stage, a formal press release may be prepared.

Step 21. Contracts Drafted

The acquirer begins preparation of detailed contract documents. Input across groups helps to identify specific items that serve as focal points for continuing discussions.

Step 22. Due Diligence

Due diligence is mandated by the deal team. This step requires the target company to provide very detailed information about any and all aspects of the target firm's business. Information on products, markets, the organization,

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financials, commitments, etc., must all be forthcoming. The intent is for the target to "tell it like it is."

Step 23. Business Integration Plan Established

This step is a very difficult and time-consuming one, but the sooner it is completed the better off both sides will be. Based largely on information obtained in the due diligence stage, numerous decisions must be made regarding the integration of the target into the acquirer. Issues include what to do with the pieces of the target that do not fit, how to integrate different organizational groups, the role of current management in the new entity, the type of reporting structure that will be required, how to bring the organizational systems together, how to address cultural issues, and to identify issues that will affect day-to-day operations. Each issue must be resolved.

Step 24. Business Case and Value Validation

As the final shape of the deal is formed, the business team must make its case for completion of the deal. Also, with a fairly confident assessment of target costs and contributions, an accurate assessment of target value must be made. At the end of this process, reports are prepared based on due diligence findings with the internal and external experts providing their input.

Step 25. Update

If necessary, elements of the work plan, negotiating tactics, and overall deal structure may need to be revised.

Step 26. Within Scope and Parameters

Decision Point 5. The deal is assessed by the deal team as to whether it still fits within the established scope and parameters.

Step 27. Prepare Government Filings

This step may or may not be an issue. The major concern usually relates to antitrust concerns.

Step 28. Exchange Contract Comments

This process is one between the target, deal team, business team, internal resources, and outside resources. It is essential at this point that both sides communicate so that no post-deal surprises occur.

Step 29. Final Negotiations Prepared

The deal team prepares for final negotiations. By this point in the process, only small issues should remain. Larger issues have already been resolved, or the deal would have been suspended long ago. The issues remaining at this juncture are seldom considered to be "deal-breakers."

Step 30. Final Contract Negotiated

The deal team and the target come to an agreement on resolution of final issues.

Step 31. Prepare Investment Proposal and Submit Necessary Government Notifications

The investment proposal is an internal requirement. It is a very detailed proposal that specifies the cost of the deal as well as its net present value and internal rate of return. The integration plan is also included as part of the proposal. Appropriate government notifications are also prepared for agencies such as the SEC and EPA.

Step 32. Final Decision to Proceed

Decision Point 6. The proposal is submitted to the CEO who, with the board of directors, closely scrutinizes it. At this point, a final decision is made about the completion of the deal.

Step 33. Final Deal Execution

Final commitments are made, and final contract documents are signed.

Step 34. Transaction Closed and Necessary Government Consents Received

From the beginning of the process until the transaction is closed, the deal usually takes between six and eighteen months. While this process represents a significant investment of time and resources, a successful deal means more than just signing contracts. A successful deal helps the acquiring company realize its strategic intent. The only thing that could stop the deal at this point would be action by a

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governmental agency, but given the thousands of deals that are completed every year, governmental blockages rarely occur.

Step 35. Business Integration Plan Implemented

At this stage, the deal team is disbanded, and the business of implementation begins. The business team takes over and addresses all of the issues that were anticipated previously and also handles new ones as they arise. This step is ongoing, and the implementation of the integration plan could take years.

Step 36. One-Year Post Audit

A one-year post audit is performed to assess the integration of the target business as well as the success of the entire process. A representative from A&D is usually involved and, based on information obtained in the audit, various steps of the process may be revised or enhanced for the future. The model indicates feedback loops in Steps 35 and 36 in which feedback is provided to the business unit managers, the deal team, and the business team in order to improve future acquisition success. This audit is usually informal in nature, and the focus is on what could have been done better or what should have been addressed to ensure a better fit.

Concluding Thoughts and Suggestions

The model is a useful tool to help guide an acquirer through the acquisition process. However, as with most tools, the user must remain mindful of several things. First, the model is a representation of a dynamic process. The desired outcome of the process is not simply to complete an acquisition; it is to complete an acquisition that will yield the desired results. As such, the process can continually be improved or refined to help ensure the desired ends. The more experience that acquirers have, the more skillful they become at managing and refining the process, and the underlying process is highly adaptable. It must be since each deal is unique. The scope, parameters, implementation, personnel, business focus, personalities, negotiating tactics, cultures, etc., are never the same. Various levels of judgment are required at each step of the process to ensure that it proceeds smoothly and that the end goal—the strategic intent—is realized.

The model presented in this manuscript is also quite comprehensive. It needs to be because attention to detail means that nothing is left to chance. While surprises may be good at birthday parties, they are not welcome in acquisitions. Both acquirers and targets must understand exactly what to expect.

Another point the model helps to make clear is that, while numbers are an important part of the decision equation, they are not the only, or even the most important, part. The financials need to make sense. It is usually unwise to pay more for a target than the benefits provide, but it is not generally the financials that determine the success of an acquisition. As stated previously, the make or break issues are usually the human ones. This fact explains why these issues are addressed, to varying degrees, at several points in the process.

In addition, the model makes clear the importance of both internal and external groups in the acquisition process. Companies seldom possess all of the resources or expertise necessary to complete a successful deal. Several internal experts need to be involved in the decision, as well as those who are not employees of the acquiring firm. These external resources are brought on board early in the process and remain active until the deal is completed. The experience gained from working with these external groups helps to establish relationships that make future deals more efficient.

Another point, less visible in the model but important to address, especially as it relates to the integration of the target into the acquirer, has to do with a win-win resolution to negotiating issues. The search for win-win solutions often takes some creativity and resourcefulness on the parts of both the target and acquirer. However, it is fairly important that "sacrifice deals" (those in which one side benefits at the expense of the other) are minimized. When one side is forced into accepting certain terms or conditions at the expense of the other, ill will and polarization can develop. These feelings not only jeopardize the deal, they also make implementation much more problematic. The more contentious the deal, the more difficult integration becomes and, ultimately, the realization of strategic intent is at risk.

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Finally, the model helps to make it clear that several decision points are necessary throughout the process. It must be emphasized that careful consideration of key issues at each of these decision points takes place. Too often companies rush into deals and later regret the decisions. Careful consideration involves objective analysis. Personal agendas and emotions must be constrained. An unbiased A&D representative should take responsibility for marshalling the organization through the acquisition process. This important, detached perspective helps to ensure that critical analysis is performed and that reject/proceed decisions are well considered. The cost of a bad acquisition far exceeds the dollar amount paid for the target. While the target can always be divested, the lost productivity, distractions, time, and dollars invested in trying to realize the strategic intent can never be recovered.

As previously noted, mergers and acquisitions are often traumatic organizational events. They have frequently been referred to as corporate marriages and, continuing this metaphor, the more participants know about their prospective partners before the blessed event occurs, the higher the likelihood that the marriage will survive and prosper. The acquisition process map helps to accomplish this end. Acquisitions can fulfill a vital role in helping an organization meet its needs, but only if the acquirer realizes what it actually set out to accomplish.

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