remedy
taking care of business

Merging with another company – should we consider it?

Often a business will merge with another because the opportunity arises. Invariably this is the wrong policy as it's more important to carefully consider your long term strategy, where the business is going and what resource is needed to get there. The most important thing to remember about mergers is that if you can't grow your business organically, a merger won't help you as there needs to be a route of organic growth before it can work.

The valuation of the business is one of the biggest issues for companies and often owners don't :

- Know how much money can be made.
- Emphasise profits.
- Control working capital.
- Value the business realistically.

While an accurate valuation is essential, it's not all about the money. People will not transact unless they think they're getting value. Future profitability, looking at what you can get tomorrow as well as what's on offer today, is what keeps people engaged. Succession planning is a key part of this. Each business needs to be able to regenerate, but many companies leave it too late.

Above all, a successful merger requires good leadership; a leader who strategically recognises the need to merge or acquire (or in some cases, perhaps to be acquired) and one who is able to communicate the goals of the business effectively and act on them promptly.

Most businesses never do more than one merger in their lifetime, so it's not unusual for it to fail. The following checklist will help owners with their review before merging with or acquiring another business. All of them should be considered before you start down the merger path. Know what your non-negotiable items are and stick with them. It's also vital to pinpoint your primary reason for entering into a merger. Is it to acquire talent, increase profits, expand services or expand geographic coverage?

The financial considerations

How will this merger help you achieve your strategic vision? You need to give careful consideration to this question. If you can't answer it, there is no reason for the merger.

- Strong leadership skills are essential as once you have merged the larger business will need a good and effective leader. This is not the same as a good manager. If you yourself are not a good leader, then one should be found at the outset. If the other company's owner is not the right leader then by merging the two firms you are putting together a recipe for a disaster.
- Where is the new enlarged business going to put down its roots? Is there the physical space in your offices or the other company's offices? If not, you must consider moving to bigger premises. Does either business have a heavy contingent liability in the lease? That alone can take the financial gloss off the deal.
- How will you integrate the new people with your existing staff? What is the name of the new firm? This is the number one deal breaker for many mergers. Make sure this is discussed at the very beginning of the process.
- Have you and your opposite number agreed on which of you will lead the business? Power sharing does not normally work.

- How will the new business departments and staff be structured?
- Is one of your companies more profitable than the other? How does that impact upon profit shares? How will this issue be addressed within the new larger business?
- Will the larger company be more profitable in the short and medium term? Frequently the first year represents a drain on earnings. Productivity usually falls while everyone gets used to the new systems and responsibilities, so be prepared for this and consider and appropriate counter-measures.
- Will the owners of the merged business be required to increase their capital contributions? Make sure all the owners understand the funding philosophy and are in agreement with any impact on their earnings.
- It is important that you inform all employees of the merger in a timely manner. Have you considered how this will be done? Once rumours of the merger leak it will have an impact on morale. You need to communicate with key personnel as soon as possible. Pay particular attention to the key personnel who you want to hold onto and take them into your confidence as soon as possible.
- How will employee issues be addressed? There will always be some discrepancies when it comes to salaries and benefits between the two companies. Other than the financial aspect, the main concern that every individual has is how it will affect them. One way to hold on to people is to offer them a retention bonus that is paid at the end of the first year.
- Have you developed a forecast to show the effects of the merger over a 12 month and 36 month period? Whatever you think the first year's results will look like, take the most conservative projection. Savings that you thought were there will disappear or take longer to materialise.
- Finally, are there any deal breakers? While a deal breaker can pop up at any time, it's best to keep asking the other party if they see any deal breakers.

The personnel considerations

In order to make sure your merger has a better than average chance of succeeding, here are some key items to get you thinking and which you should be concerned about:

- Has a merger team with senior leaders and staff from each business been created?
- Have the senior leaders agreed how the new business will operate?
- How will you receive feedback on what is and is not working?
- Have you got a system for monitoring the morale amongst both sets of employees?
- Have you identified which groups or departments in the new business will feel ignored or even threatened by the merger? Have you considered how you will address their concerns?
- When employees have questions about the merger, is there someone or a team to whom they can go for answers?
- Do you have a facility in place for ensuring consistent information is distributed about the merger to head off rumours?
- How will you deal with those employees (new and existing) who are negative about the merger? You will need to set and define the limits clearly. Act quickly so any negativity does not spread.
- Merging companies creates a new entity resulting in both businesses losing some things. How will you reassure your employees? Can you offer a replacement for what is lost?
- Productivity usually decreases after a merger. What will you do to make sure that it does not spiral out of control?
- New and/or existing managers may try to make power plays or protect their ivory towers. How will you handle these events?
- Some of your employees may have to be made redundant. Have you got a procedure in place which complies with current employment law?

- Key staff that you want to retain may decide to leave. How will you communicate your intentions to these important members? You don't want to lose key people because you haven't told them how critical they are to the future of the firm.
- What new training will be required? You will need to make sure that everyone is following the same procedures and policies.
- Benchmark employee attitudes soon after the merger and then again at the end of the first 12 months. This will tell you what still needs to be worked on.
- Have you clearly articulated the new company's mission and communicated it to everyone?
- What are the key strategic opportunities that need to be addressed during the first 12 months? Develop specific objectives in order to implement these strategies.
- What systems will you need to change in order to integrate the two companies' so that they are using the same procedures as each other? Take the best of the best from each business.
- What type of internal and external communication systems should be developed?
- What will be your procedure for resolving internal conflicts?
- How do the two customer bases fit together? If you have niche markets make sure that the appropriate members of staff from both companies are reviewed with a view to servicing those markets using your best talent.
- Are there new products or services that should be developed right away to service your niches?

REMEMBER!!!

The human implications of undertaking a merger are just as important as the financial implications. It is vital that the impact upon your employees and colleagues is carefully considered before embarking upon a merger. The spectre of a merger is enough to send a chill down the spines of most employees, and with good reason, as mergers always carry a risk of redundancies. On average 10 – 15% of employees across both companies lose their jobs in commercial mergers, sometimes as many as a third. Even those who keep their jobs are likely to be fearful of the change to the status quo.