

Focusing on Value Creation in M&A

50–90% of all Merger & Acquisition deals fail.¹ The root cause is fairly simple: the M&A industry is focused on “getting deals done” and is not focused on value creation in deals. A majority of the time and expense are front-loaded into finding a company to acquire and executing the deal. Deal advisory and execution is only 30% of the battle.

Creating value from M&A requires a broader time commitment and understanding from a company. The time commitment required is years. After the deal is done and the 100 day integration is complete, most CEO's stop actively tracking the deal. Most companies don't realize that the hard work has only begun. Without continually managing value creation, companies move onto the next thing and only realize years later that the deal didn't create value.

To understand value creation, a company must see it as a completely separate thread that must be managed throughout the entire deal lifecycle. During each phase of the deal lifecycle, companies must perform key activities and monitor deal execution to ensure the deal stays on target. Below are some of the key activities required for value creation:

M&A Strategy: the M&A strategy needs to be tightly aligned with the corporate strategy to ensure that any M&A deals are accretive to the company strategy, and are not distractions. Once deals become a distraction, they don't receive the necessary attention, funding and management to achieve success.

Deal Sourcing: value creation requires defining clear criteria for the target. The list of criteria must include (1) strategic: your company's target market, core competencies/DNA, culture and DNA and (2) tactical: deal size,

location and other. Without clear criteria, the task of integration and realizing the strategy is much more difficult. Deal Structuring: the traditional issue here is valuation and ensuring that a company doesn't overpay or that the hurdle rate isn't too high for the deal. However, creating a complicated deal to lower the deal price may be self-defeating. Beyond valuation, aligning incentives is very important, and ensuring anyone from the seller still involved is properly incentivized to perform.

Deal Execution: value creation requires getting a sense of the company and potential problems. During diligence, the buyer needs to start finding the skeletons and any potential landmines. From an M&A standpoint, every seller has some level of dysfunction or complications. Even the highly efficient purpose-built companies with a strong culture create significant challenges with integration.

Integration: this is where a buyer usually finds out "the whole truth about a company". Many of the assumptions turn out to be wrong. The goal here is to be realistic about the situation, prioritize the value creating activities, and track execution. Usually, someone other than a project manager needs to manage integration. Value creation requires someone who understands how to make a deal successful take an active role in monitoring and tracking execution.

Deal Realization: in the 6 – 18 months after the deal closed, the real work begins: fixing problems, wrong assumptions, and poor execution. Value creation requires acknowledgement that it is normal that not everything goes as planned. Without this understanding, execs will hide potential problems.

For most companies, focusing on valuation may require a fundamental shift in thinking about M&A. However, once companies begin to identify the activities and required commitment for value creation, the success rate for M&A will improve.

<http://www.relationshipeconomics.net/blog/to-improve-mergers-acquisition-success-rate-align-strategic-relationships/>