

Panel 3: Doing, Implementing and
Following The Deal - "Insider" Views
(Slides & Presentations)

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A managerial perspective on M&A

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FTC Roundtable on M&A
December 9, 2002

A Managerial Perspective on M&A

M&A is a make or buy decision

Three types of managerial perspective:

- ◆ The variations in what the managements are trying to accomplish
- ◆ The process over time
- ◆ The process of implementation

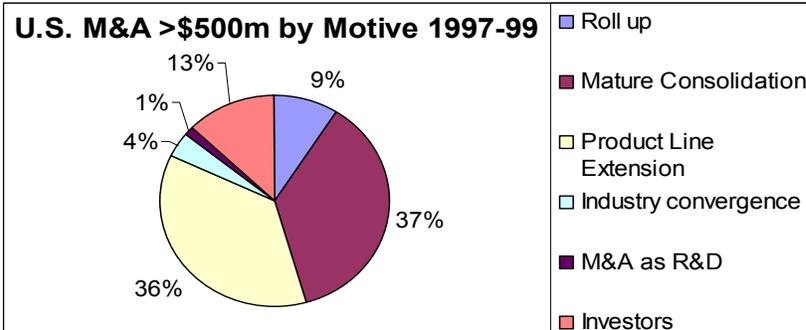
7 Different Strategic Objectives:

- ♦ **Reduce overcapacity, eg Chemical Bank merges with Chase (mega-mergers)**
 - Acquire or merge with competitors to take capacity off line and rationalize other activity
 - Use larger market share to strengthen pricing
- ♦ **Roll up a fragmented industry, eg. BancOne in the 1980's**
 - Expand geographically in an industry with local delivery – often a service
- ♦ **Product or market extension, Quaker buys Snapple**
 - Extend product line, or enter new country markets

7 Objectives, cont.

- ♦ **Use M&A as R&D, eg Microsoft buys Vermeer**
 - Acquisitions used instead of R&D to build position quickly
- ♦ **Build a new industry, eg Viacom buys Paramount**
 - A bet that there are strategic benefits to be gained from integration across industries
- ♦ **An Investor Buy-out**
 - A bet that value can be created with new, private, leveraged ownership
- ♦ **and Blue fish**

Leaving out bluefish



What difference does it make?

- ◆ ***Companies can be thought of as consisting of resources, processes, and values***
 - Resources are the assets – tangible and intangible
 - Processes are the way companies convert assets into goods and services
 - Values are the way employees think about what they do and why. They shape priorities and decision making
- ◆ ***It is relatively easy to assess and rationalize assets***
- ◆ ***It is very hard to assess processes or change them***
- ◆ ***It can be even harder to see the depth with which values are held. It may be impossible to change them.***

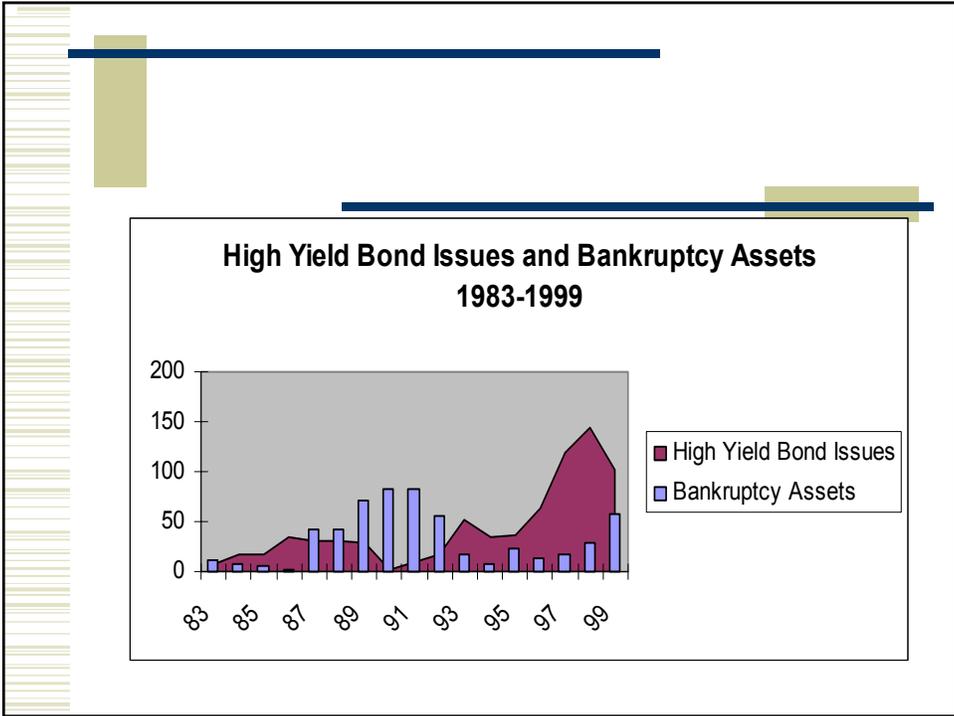
What difference does it make?

M&A is a business process. Managements need to learn how to do it well.

- ◆ **Targeting** – assessing resources, processes and values
- ◆ **Doing the deal:**
 - **Negotiating** – getting the price right
 - **Closing** – getting to yes
- ◆ **Integrating** – rationalizing resources, imposing (or modifying) processes and values

Implementation: The wrong price

- ◆ If the price was too high, there is no way of succeeding against a strict financial test (An Anglo perspective?)
- ◆ Attempts to make such deals succeed often destroys the acquired company
- ◆ And sometimes the acquirer.



Research on Implementation: Two dimensions of success

Level of completion of human integration	High	Mixed Success: satisfied employees, but no operational synergies achieved	Successful acquisition
	Low	Failed acquisition	Mixed success: operational synergies achieved at expense of employees
		Low	High
		Level of completion of task integration	

The basic finding

- ◆ A longitudinal study (5 years +) nine big deals
- ◆ The substance of human integration and task integration involve two different trajectories
- ◆ But they are deeply interdependent so that failure in one can block or defer success in the other.
- ◆ Failure at task integration has its source in failed human integration
- ◆ Value creation requires both

The Panel Discussion

- ◆ Proceed following the process of a deal
 - Targeting
 - Doing the deal
 - Implementation
 - Lessons
 - The Cosmic Question



Panelists



- Peter Brodsky – Partner, Hicks-Muse
- Bill Earnest, GM Corp Planning & Strategic Transitions, Conoco-Phillips
- Juan Pedro Hernandez, VP/Treasurer P&G
- Robert Ingraham, COO GlaxoSmithKline
- Michael Jones, Business Development Leader – GE Medical Systems
- John Mayfield, Group Controller, Construction Products and Finishing Systems Group, Illinois Tool Works
- Dan Scheinman, Chief Strategy Officer - Cisco

FTC Merger Outcomes Roundtable - Merger Integration Best Practices

William E. Earnest
ConocoPhillips

MERGER INTEGRATION – SUCCESS FACTORS

Set high aspirations

- Set high merger aspirations top down that include both financial and nonfinancial targets

Protect current business

- Recognize current business momentum has greater value than integration synergies and act swiftly to protect it

Establish separate integration organization

- Establish a merger management leader/organization and an integration management team to manage the merger

Establish strong integration process

- Move swiftly, front-end load decision making and pursue 70% solutions that are 100% implementable, empower integration leaders

Focus on value creation

- Focus on value creation and business objectives – not only on integration

Address cultural challenges

- Identify the cultural challenges based on differences between the two organizations upfront and explicitly design a process to address them focused on core business processes

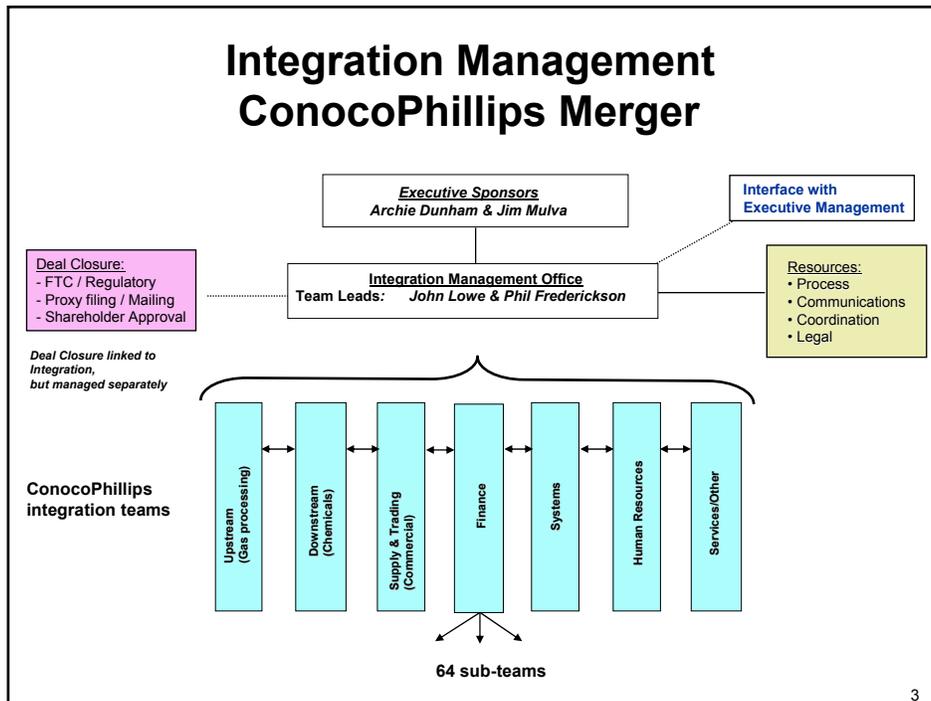
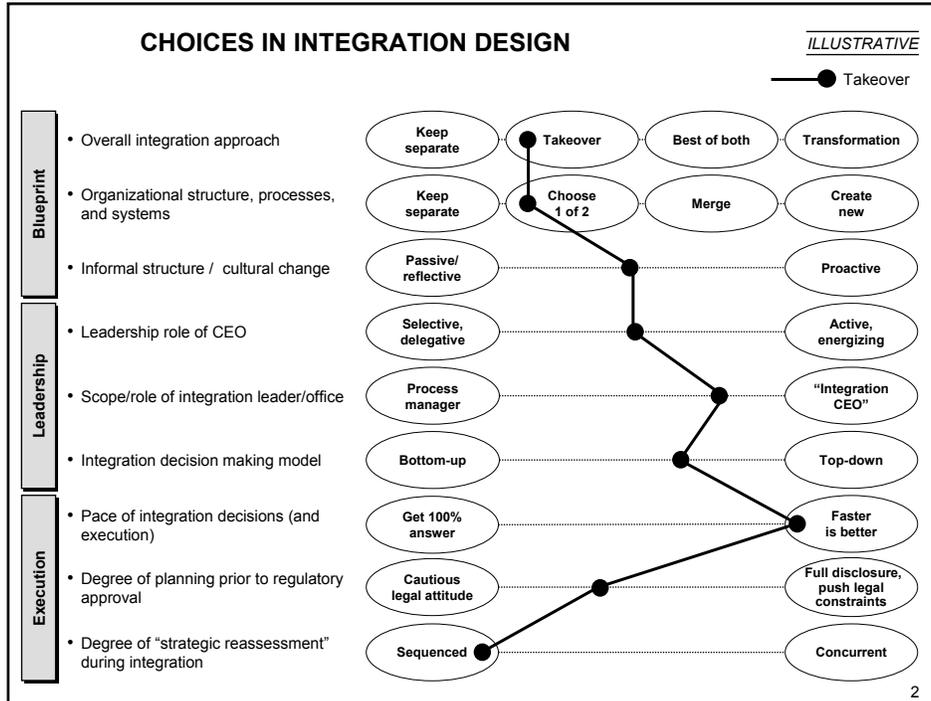
Establish strong people selection process

- Appoint new managers as early as possible, striving for excellence, even at the expense of perceived equity between merger partners

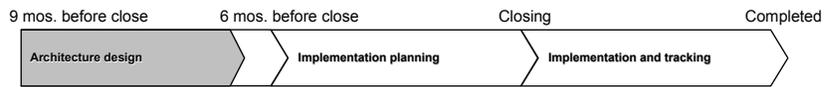
Have focused communications

- Communicate often and early, focusing equally on the process of integration and the content of key decisions made

Source: McKinsey Co. 1



Three Phases of Merger Integration



- Integration process design
- Subteam scoping and launch
- Information sharing / comparisons
- Stretch synergy targets and synergy categories

- Day 1 readiness preparation
- Implementation plans and coordination
- Organizational structure, staffing and business process design
- Portfolio and strategic issues
- Synergy initiative/action plans
- Handoff to new management team

- Synergy and key issues tracking
- Accountability thru Operating Plans
- Portfolio and strategic issues
- Transition to day-to-day operational teams

FTC Bureau of Economics Roundtable

December 9, 2002

**Juan P. Hernandez
Vice President and Treasurer,
The Procter & Gamble Company**



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Agenda

- M&A Planning Process
- Approaches to Value Creation
- Q&A's



FTC Bureau **P&G Statement of Purpose**

■ Our M&A Program flows from our Statement of Purpose.

“We will provide products and services of superior quality and value that improve the lives of the world’s consumers.

“As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.”



FTC Bureau **M&A Program Planning**

- Fish In The Right Pond



Value Creation Through M&A Planning

M&A Process Steps

1. Integration with Corporate Strategy Process
2. Target Selection & Prioritization
 - Clearly Defined Objectives
 - Reality Check on “Fit” Elements
3. Initial Valuation
 - Internal Analysis
 - Walk Away price
4. Due Diligence
5. Refined Valuation
6. Negotiation – Transition – Integration into P&G

Value Creation Through M&A Planning

Strategic Planning

- Operating units develop business strategy and set long and medium term goals.
- Business unit M&A program flows from the business where-to-play/how-to-compete choices.
- Screening priority setting at the business unit level.
- Business Unit strategy and M&A Program reviewed and prioritized at the Corporate/ CEO level.

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Value Creation Through M&A Planning

Target Selection

- Fit with P&G's Core Competencies:
 - Branding
 - Innovation
 - Scale/Efficiencies
- Fit with P&G's Growth Strategy:
 - Faster Growing
 - Higher Margin
 - More Asset Efficient Businesses



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Value Creation Through M&A Planning

Internal Analysis/Valuation

- Current business model and its sustainability.
- Asset's performance and future potential if merged in our portfolio.
- Identification of "value creators" where/how/when value is created.
- Assessment of asset availability.
- Pre-determined walk away price.
- Deal type and structure.



Value Creation Through M&A Planning

Due Diligence

- Right team and clear objectives. Team is a combination of business owners and subject matter experts.
- Leader of the team should be the ultimate business owner if/when transaction is completed.
- Assign responsibilities to team members on checklist specific items.
- Validate internal analysis (growth, synergies), valuation major risks and price.
- Identify key transition issues.
- Fine-tune thinking on structure.



Value Creation Through M&A Planning

Transition & Integration

- Critical part of the planning process.
- Follow the business plan in the acquisition recommendation.
- Systems compatibility are normally an issue. Plan ahead transition needs and what needs to be done. Assign responsibilities.
- Don't wait until closing to start integration.
- Assign people to the transition and to the acquired business who worked the acquisition process, including due diligence.



Value Creation Through M&A

- Sources of Value Creation

- Strategic Fit
- Core Competencies: Branding
Innovation
Scale/Efficiencies



Value Creation Through M&A

- Sources of Value Creation

- Customers stock our products (right place, visibility, price, etc.)
- We communicate the unique product benefits to consumers (compelling advertising).
- Consumers choose our brands – use our brands – and find them a terrific value.
- Do these with right cost & capital structure ...

Shareholder Value Creation



Value Creation Through M&A

- Sources of Value Creation

- RVI:
 - Global Beauty Care Infrastructure
 - Access to Skin and Conditioning Technology
 - Great Equities: Olay, Pantene
 - Synergies: Surfactant Technology from Detergents
- Consumers:
 - Real Science to Personal Care
 - Great Value to Consumers



Value Creation Through M&A

- Sources of Value Creation

- Iams:
 - Terrific Equity
 - Access New Specialty Channels
 - Pet Care Technology
 - Synergies at Technology End (Tartar/Pet Tooth Care)
 - Mass Distribution Channels
 - Longer and Healthier Life of Pets



Value Creation Through M&A

- Sources of Value Creation

- Spinbrush

- Battery Operated Brush
- Low Cost Technology
- Under Crest Equity
- Great Value to Consumers:
*A Better Product, Improved
End Benefits at Very Affordable
Costs.*



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Q&A's



**Acquisition
Integration and
Implementation**

Michael Jones
December 2002



Key Elements of GE Integration Approach

- Process**
 - ✓ Ensure Seamless Operational Hand-Off ... Starts with Due Diligence
 - ✓ Balance Independence and Integration Speed
 - ✓ Adopt Best Practices from Acquired Companies
 - ✓ Broad Business and Functional Engagement
- Leadership**
 - ✓ Commercial Sensitivity ... First Priority ... Always On the Screen
 - ✓ Set Clear Measurements and Closely Monitor
 - ✓ Business Leaders Ultimately Own Integrations
- People**
 - ✓ Right Incentives... Get Key Players to Give GE a Chance
 - ✓ Focus On Commercial and Key Talent Retention
 - ✓ Integration Managers ... Integral Part of Team from Beginning
 - ✓ "A" Players on Both Teams ... GE and Acquisition

e-Integration Tool Brings All Together ... Clear Objectives, Goals and Track

e-Integration

Acquisition Performance

- Financial Impact
- Deal CTQ's
 - Synergy Realization
- Operational CTQ's
- Functional Metrics

Integration Execution

- Functional Execution Progress
- Status of GE Non-Negotiables

Customer Centricity

- Direct Link to Voice of the Customer
- Customer Satisfaction Metric

Executive Updates

- Critical Issues / Next Steps
- Integration Highlights & Key Wins

One Platform For All ... Integration Team, GE Mgmt, Target Employees ... Total Transparency & Immediate Feedback

Integration Execution

Providing On-Line Access to Dynamic Integration Information . . .

Status By Function

Function	Area	% "Due" Complete	Total % Complete	Function Leader
Communications	Fin Closing and Reporting	100	91	COHEN, Allison
	Fin Controlling	100	48	DEWIS, Michael
	Fin PPA	99	68	
	Fin Purchase Acctg	100	89	CRONIN, DE
	Fin Tax	100	80	CRONIN, DE
Global Parts	Fin Treasury	100	78	CRONIN, DE
	Global Sourcing	81	76	SEEGY, Michael
Global Sourcing	Global Sourcing	100	30	BRISQ, Matt
	Global Sourcing	75	50	SEEGY, Michael

Descriptive Highlights to Address Key Issues

Real-Time Status of Functional Execution & GE Non-Negotiables

Visibility & Accountability Enable Real-Time Decisions

Integration – Customer Voice

Visibility Enables Commercial Integration Leader Responsiveness

Consistent Message to Customers & Employees

Provides Insight to Future Growth Opportunities

Capturing Voice of the Customer to Measure Acquisition Impact

How We Look At Acquisitions

- ✓ Provide Our Healthcare Customers With Comprehensive Offering of Diagnostic Devices, Information Technologies and Related Services
- ✓ Helping Enable Better Outcomes At A Lower Cost
- ✓ Help Business Execute on Strategy Faster
 - Expand Product and Services Offerings
 - Increase Our Overall Growth Rate

#1

#2

Improve and Expand Core Businesses ... Product, Technology and Geographic Gaps ... Improve Competitiveness

Create New and Complementary Platforms for Future Growth

Help Business Meet Strategic and Financial Objectives