THE WATERMARK WIRE

FIRST STEP TO ENSURE SUCCESS IN M&A: STRATEGY

Dr. David Furse, Strategy Consultant

In earlier issues of the *Wire* we described how as many as three-quarters of acquisitions fail to create significant return on investment for the acquirer. This issue delves into what needs to be the first step in combating this trend and improving a company's likelihood of success in mergers and acquisitions (M&A): honing in on corporate strategy.

M&As that fail to meet their potential happen when the acquirer hasn't adequately prepared itself to be acquisitive. When a merger or acquisition is not part of a clear, well communicated strategy, it is likely to underperform. "The odds are against it from the start," says Dr. David Furse, Watermark's Senior Consultant on strategy. "It's like embarking on a journey without a map. Every time you get lost, it costs you money. Developing an executable strategy is the most essential skill of a leader."

Furse has over forty years of experience as an entrepreneur, strategy consultant, and teacher. He is co-founder of Executive AURA, a consulting firm that helps leaders *Think, Lead, and Act Like a CEO* – including how to develop effective strategy. He is also a long-time management professor teaching strategy and entrepreneurship at Vanderbilt University.

Q: Why do so many companies struggle with strategy?

A: It is usually because they make it too complicated. Simpler, focused strategies are easier to execute and can be communicated quickly. It doesn't have to be complicated to be powerful. Strategy is just guidance for what you need people to do every day. Having more moving parts does not make it better. When complexity blurs the connection between strategic vision and execution, strategies fail.

Q: How do you help clients develop better strategy?

A: Since strategies play out over years, they tend to lose momentum if they are too complicated – sort of like wind drag on a race car. I prefer strategies that you can fit on one page. If it takes more than that, it's probably too complicated. The more pages it takes to describe your strategy, the more likely it is to fail. My 1-page StrategyMap©, requires you to create a picture of the future with six quantifiable milestones. These are your strategic vision and roadmap. I like management guru Peter Drucker's observation that no one can predict the future, so you need to create it. Your strategic vision and roadmap communicate the future you intend to create and how you will get there.

The roadmap walks the six milestones each year back to today. If you can achieve your milestones for year one, your odds of success go way up. Over 60% of strategies fail to achieve their objectives due to poor execution from the start. You should know within six months of launch if your strategy is working.

Q: Are there specific strategies for companies with low or declining profitability?

A: There is no one-size-fits-all strategy. Each one must be uniquely crafted to that company's strategic challenges. While each strategy is unique, they all share the following seven elements: Opportunity, Vision, Roadmap, Business Model, Execution, Leadership, and Culture. Without addressing how all these fit together, strategies will underperform.

For companies experiencing low or declining profitability, it is often due to changes in market opportunity. Over time as needs change, products that were once cutting edge become commodities and gross margins shrink. A second likely problem area is an inefficient business model. For example, if inventory turns are higher than those

of your competitors, your operating profit will suffer, eroding your ability to compete. Eventually your competition will win. Another business model problem is marketing efforts that don't discriminate between high-value and low-value customers. Too much money is spent on maintaining unprofitable customer relationships and too little on growing the most profitable ones.

These problems, and others, are usually systemic and must be addressed with an effective long-term strategy. The most effective solutions often include a well thought out M&A strategy component, but you must anticipate, not react. Short-term fixes seldom work out well.

Q: What strategies work best for companies in slow growth industries?

A: Look at the parts of your business that are growing most rapidly today. Even in slow-growth (usually mature) industries there are pockets of robust growth. You are just not exploiting them. Mergers, acquisitions, or strategic partnerships are solutions, but only if you have value to offer to a strategic partner or the financial ability to make an acquisition.

If you are not financially sound enough for an acquisition in the next year or so, your strategy should include ways to improve your financial performance today to allow an acquisition in the future. Strategies are about anticipating where you want to go and taking action today to make it happen.

Q: How do you help companies to develop a new strategy?

A: My role is usually to act as a facilitator and coach in the strategy making process. You should understand your business and industry better than any outside expert. If you have someone else come up with your strategy, you still have to execute it, so you are usually better off developing it yourself. Having an outside expert provide perspective on the process is usually all you need.

Once you get over the belief that strategy should be complicated, creating it is surprisingly straight forward. I didn't say it was easy. Companies that are struggling with strategy usually need a mentor or coach to help them establish new habits and unlearn bad ones.

Q: If a company is profitable and growing, when is the right time to revisit strategy?

A: Strategies are not static; they evolve. Your strategy is only as good as what you knew at the time you developed it. As you move forward, you see things more clearly and you are always scanning the environment for significant changes in the trends and assumptions on which your strategy was based – including how your competitors will respond.

I recommend having a detailed 6-month launch plan with assigned tasks and owners. This is what gets the rocket ship off the ground and breaks the gravitational pull of the status quo. Strategies almost never survive a bad launch. Repeat this process every six months for the life of the strategy. Every 12-18 months conduct a full strategy review. What things look different now?

Want to Learn More?

Use the link below to access a 1-page summary of the seven components of the StrategyMap© process discussed in Dr. Furse's interview:
http://www.watermarkadvisors.com/strategymap

Watch this 8-minute video where Dr. Furse discusses "Executable Strategies that Drive Shareholder Value":
http://www.watermarkadvisors.com/watermark-webinar

For further information about the StrategyMap© and how strategy links to M&A, please contact Watermark Advisors at 864-527-5960.
We are happy to help!

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