WHAT’S WRONG WITH MOST M&A EFFORTS

How do we know that most Merger & Acquisition (M&A) efforts have something “wrong” with them? We know that because according to extensive research conducted by Dr. Robert Bruner, Dean of the Darden School of Business at the University of Virginia, only 20-30 percent of acquisitions result in significant Return on Investment (ROI) for the acquirer. That is a dismal figure, considering how much money is spent on mergers and acquisitions in the U.S. annually ($1.6 trillion).

Inadequate Training

There are several reasons that most companies do not gain significant ROI from their M&A efforts. First, many infrequent acquirers—companies that engaged in 1-4 mergers or acquisitions in the past decade—do not have adequate capacity and training in M&A nor do they usually invest in it. They learn “how to do M&A” as they experience live transactions.

Learning by doing in this way does not provide a company an adequate understanding of how M&A works, leading to costly mistakes. The investment banking firms that introduce deals to companies are in business to close those transactions, not to educate those companies about how everything works. However, with such a large number of failing M&A transactions, companies would benefit from building more capacity beforehand to conduct the kinds of acquisitions they want and need to reach their strategic goals.

In the absence of an existing in-house M&A team, many firms’ only option is to educate their team by sending one or two executives off to a week-long training program at a prestigious university at a cost of $10K–15K per person. The team is expected to apply what they have learned to their company’s M&A processes.

The problem with training only one or two persons is that completing M&A successfully typically requires many more people to have expertise in M&A. Further, there is no university located in the Southeast that currently offers such classes. Watermark addresses this problem with in-house training for companies in the form of a one-day Master Class in Mergers & Acquisitions.

Problems in the Three Phases of an Acquisition

Second, failure in M&A often occurs in one or more of the distinct phases of an acquisition: preparation, transaction, or integration. Most of the problems occur in the first and last phase. In the middle one, the transaction phase, the investment banking world usually does an excellent job advising their clients to close the transaction successfully.

Problems with Corporate Strategy

In the preparation phase, problems often relate to corporate strategy. About 60 percent of strategies fail in execution. Many strategies are either too complicated, poorly communicated, and/or have unclear goals, making them hard to execute and likely to underperform. Failures in strategy can easily result in expensive failed mergers or acquisitions—a reason that Watermark offers companies assistance with clarifying their strategy.

As a result of poor understanding and/or execution of strategy, companies waste resources on deals that never truly fit with them. On the other hand, if the company had clarity about its strategic vision and execution, it would be more selective in how it applies M&A in its strategy to grow. Many mistakenly allow M&A to become strategy, which is a tell-tale sign that the strategy first needs to be clarified. M&A is dangerous if you
lack good strategy. Watermark Advisors offers strategy consulting services to help the C-suite revisit and redefine its vision, roadmap, and resources (the three elements of strategy), and develop a detailed action plan.

Other problems in preparation arise from acquirers not soliciting a large enough internal team of resources to adequately handle M&A processes. Also, they often do not identify enough target companies. Rather they have just a handful of choices—not enough to be successful.

**Inadequate Attention to Cultural Due Diligence and Integration**

Outside of the preparation phase, the most neglected areas relate to cultural due diligence and integration. Foremost scholar of organizational behavior and former MIT professor Edgar Schein wrote: “Culture may be loosely thought about, but it is only after the merger that it is taken seriously, suggesting that most leaders make the assumption that they can fix cultural problems after the fact. I would argue that leaders must make cultural analysis as central to the initial merger/acquisition decision as is the financial product or market analysis” (Bruner: Deals from Hell, 2005). In Watermark, we believe that the neglect in cultural due diligence is the culprit to many problems down the road.

**Starting Integration Too Late**

Companies with effective post-merger policies can improve the odds of success by up to 50%. Yet many acquirers wait until there is certainty that the deal will indeed close before they consider carving out time and resources for integration. This is too late. Savvy acquirers start the integration process when they are in the middle of the transaction phase. Also, many acquirers do not have a detailed plan as to how they should execute integration. Often they are battle weary from all of the efforts they put into the transaction phase.

**Under-resourcing Integration**

Finally, just like the preparation phase, companies make the mistake of under resourcing their integration effort. Other mistakes are made in structuring and staffing. All these lead to unsuccessful capture rate of synergies. One can imagine how poorly executed integration can lead to low ROI. With Watermark’s uniquely comprehensive approach to M&A, companies receive devoted step-by-step assistance in all three phases of M&A: preparation, transaction, and integration. It is precisely the above kinds of problems that Watermark’s approach tackles and diligently seeks to avoid so as to maximize clients’ ROI in M&A.

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