Transforming M&A failure rates

With Isoma Choir

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Failed integration costs **$54m** per deal and the global economy **$12bn** every working day. It doesn't have to be that way.

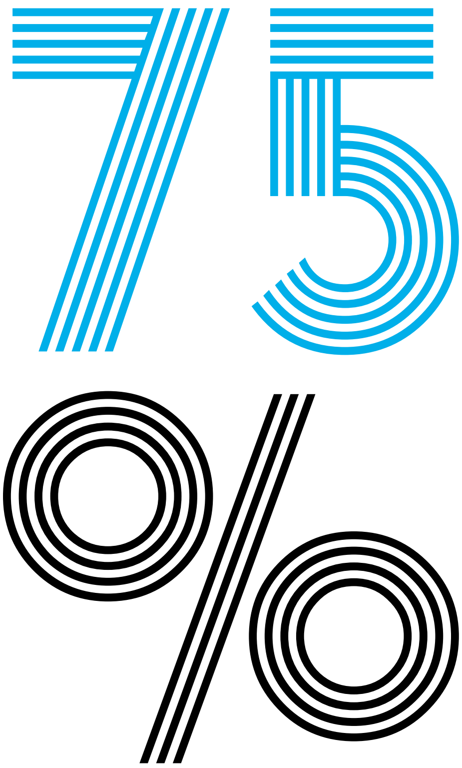
Executive Summary

More than seven out of every ten mergers and acquisitions fail for one common reason: ineffective integration of the teams, systems and cultures involved.

On average, that is costing shareholders, fund managers and employees $54m per deal and the global economy $12bn every working day.

It doesn’t have to be that way. All it requires is an effective mechanism for harmonising people with processes, purpose and positioning so that from Day One of the deal – or as soon as is practicable thereafter - everyone is singing off the same hymn sheet.

E-Squared has created such a mechanism: one which reduces deal failure rates by up to 75%, deal costs by six figures, accelerates the rate of deals by 70% and increases deal capacity by 400%.



Isoma reduces deal failure rates by up to 75%

> The traditional approach to integration that has emerged as best practice over the past 10-20 years produces M&A failure rates of 66-75 percent.

From ‘Perspectives on Integration’ McKinsey & Company

Called Isoma Choir, it is a new type of acquisition management system that consists of software, content and consultancy and reverses the odds of deal failure. Not only does it enable every CEO to enter every deal confident in the knowledge that it will be successful, but it also releases senior management and their teams to focus on sales growth and productivity from Day One, safe in the knowledge that behind the scenes, their operations are solid, and their new teams are working in harmony.

This paper describes how Isoma Choir works and explains its benefits in more detail.

Effective Integration: The Key To M&A Success

According to McKinsey, almost three quarters of all mergers and acquisitions fail due to the ineffective integration of the teams, systems and cultures involved.

Let's just put that into perspective for a moment.
It equates to an **unnecessary loss** of:

$2.6trn

to the global economy

$12bn

every working day

157

deals per working day

$54m

for the average deal

So, correcting that, even partially, could have an enormous effect on every stakeholder involved: improving returns for shareholders, building local economies and creating job security for management teams, employees and their families.

In this White Paper, we investigate what it would take to do this at a very practical level: looking hard at what it means to integrate two businesses effectively.

Firstly, we look at the practical differences in integrating small and large businesses and examine these through some case studies in which we were involved. Then we show how Isoma Choir works for both business types. Finally, we look at Isoma Choir's application in two different scenarios:

01 The ideal scenario where the system is in place before the deal is completed and productivity can be enabled from Day One.

02 The alternative scenario: where a merger or acquisition has already taken place and is showing signs that integration may not be as effective as the management teams expected. Here we investigate what it would take to recover and reverse the situation so that productivity is brought back on track as quickly as possible.

> "The success of any merger depends almost entirely on effective integration."

From 'Post-Merger Integration: The Key to Successful M&A' by Merrill Corporation and reprinted by Institute for Mergers, Acquisitions and Alliances, 2019.

What Does It Mean To Be 'Effective'?

For most businesses, an effective integration is one in which from Day One, the merging teams know and agree on what they need to do and how they need to do it.

Factually that means they need clear information on goals, targets, and operations, which are readily accessible and easily understood. Pragmatically it also requires a style and system of management which is adaptable: one that is capable of harmonising and motivating very different cultures, particularly if the dominant culture is one of tight control and the incoming culture is looser and more innovative.

For most businesses this is the major challenge in any merger or acquisition and it is this which is at the heart of the high failure rate. Teams can only perform when clarity and comprehension are effectively matched with a means to merge two alien cultures. To be effective is to achieve just that and its application often differs according to the size of the business.

> "The goal in any integration is being able to transact business on Day One."

From 'How to use proper integration to make mergers profitable' by Joanne Baginski, The Business Journals, Dec 2017

Larger businesses tend to know what they do and how they do it, but their distributed nature means that they are often poor at communicating that. So, for them the factual side of integration is often easier whilst they often struggle with culture change.

Smaller businesses can to a point, more easily communicate a message and build a cohesive culture. But often they lack the process maturity and detailed operational knowledge required to build a solid management system.

This might be best illustrated with the following case studies...

Case Study

SMALLER BUSINESS INTEGRATION

In 2017 we were approached by the CEO of a 100-person packaging design company that had grown rapidly through acquisitions.

All had been strategic with the early deals designed to build market share and the latter to build capacity.

But out of nowhere, following the roll out of some new systems and amidst plans to increase headcount by 12%, profits fell 20%. No one clearly understood why. Orders were good, the customer base was growing and staff were happy.

We were asked to investigate; which we did by focusing on one specific area – the sales process. The results were a surprise. It emerged that whilst in the early days of the business, the owners could close new sales in 2 or 3 days and that is what they expected in the enlarged business; the actual time was 62 days. And this was just one indicator of a much larger problem.

The issue was clarity – or the lack of it. Few people understood how the business worked, nor what their contribution was to the collective whole. The acquisitions had created small, siloed teams of busy firefighters: each great at fighting fires but many inadvertently creating those fires in the first place. Their understanding of processes was rudimentary, so huge gaps existed between many disparate activities and when new systems had been introduced, the scale of those gaps and their effect had simply been multiplied.

At the heart of this lay the integration of the previous businesses. New teams had been added - and with them different methods of working – without ever really harmonising either those methods or the reasons for them. The result was confusion and inefficiency, with operations that were in danger of becoming ever more inefficient with each new acquisition.

The answer was to provide a visible means of communicating the purpose, positioning and processes for all operations in a way that everyone could understand and easily contribute to. This is why we created Isoma Choir.

LARGER BUSINESS INTEGRATION

In late 2015, we were approached by a Private Equity house in the City of London, called First Capital.

They had agreed to purchase the Maui Gas Pipeline from one of our large clients: the New Zealand based utility provider, Vector Ltd. The aim was to form a new company in New Zealand called First Gas, which would go live six months later.

Importantly, all of the people, processes, systems and data that were previously managing the Maui Pipeline had to be transferred in their entirety to First Gas and merged with the new team coming in from London. The joint team then had to be fully effective and operational at 8 am on the Go Live date. Not only was this needed for productivity, but since this was to be a regulated company it was also needed for the Regulator. Without new certification, First Gas would not have been able to trade.

Both First Capital and Vector needed a means to ensure all of this happened. That meant the rapid integration of two teams of people, none of whom knew each other; with a coherent and comprehensive set of processes and systems that were needed to run the new day to day operations.

There was no room for error or delay.

In this case, the operational processes and systems already existed at Vector: including those required for regulatory certification. So, the incumbent team were familiar with those. But for the incoming team from First Capital, everything was new. The reverse was the case with the new management processes which First Capital wanted to apply. The team from London were familiar with those but they were new to the New Zealand team.

The integration aims therefore, were clarity, consistency and the creation of a coherent team culture. Everyone needed to be clear on the new goals for First Gas and the means to deliver those in a consistent, replicable manner. Automation played a part but only for the small number of transactional processes the business undertook. Much more important was the need to provide a comprehensive overview of operations so that each member of the new team could understand not only what they had to do and when, but also how that contributed to the achievement of the overall corporate goals.

First Gas consisted of a medium sized team derived from and operating like a large company. In its case, effective integration meant a fully operational team that was ready to go live on Day One in May 2016. Due to the geographic separation of the component businesses, there was minimal prior face time. That required an overarching system which could not only combine all of the pre-existing processes, systems and data but could easily communicate those, along with the new corporate goals, to two teams from radically different cultures and bring them together as a single coherent whole.

That was precisely what we built: a prototype of the system which later became Isoma Choir and which we describe in the next section. The results were significant:

- We saved First Gas almost a year of integration time and around £180,000 in manpower costs.
- Productivity during the transition barely faltered. The team were able to seamlessly transfer operations from Vector to First Gas and continue them on Day One as if nothing had changed.

Case Study

Isoma Choir:
The Single Source Of The Truth

Isoma Choir is a brand new, tailor-made acquisition management software system, built for purpose, where all the key information needed to successfully integrate acquired companies is located in one place.

It contains everything an acquisitive business needs, regardless of size:

- A tailor-made software system, built for purpose
- An online operational playbook in the form of industry-specific documentation, change management tools and processes, which we customise for each business
- Measurement systems which enable management teams to track progress
- On-site and on-line training and support from our global partner team
- A template for rapidly integrating unlimited numbers of subsequent acquisitions
- A structure which caters for growth.

It has been built on our tried and tested Isoma platform, which is used by clients ranging from small, simple service companies to major, complex multinational conglomerates; and piloted successfully across the globe.

We deliver Isoma Choir as a pre-built subscription package which includes the templated software; user licences for everyone in the business, the industry-specific content and local expert support.

TOTAL FOCUS ON EFFECTIVE INTEGRATION

We know that effective integration is not easy. Nor can it be achieved through software alone. It can only be achieved through a focused combination of:

Systems

Number 1

Relevant content

Number 2

Expert support

Number 3

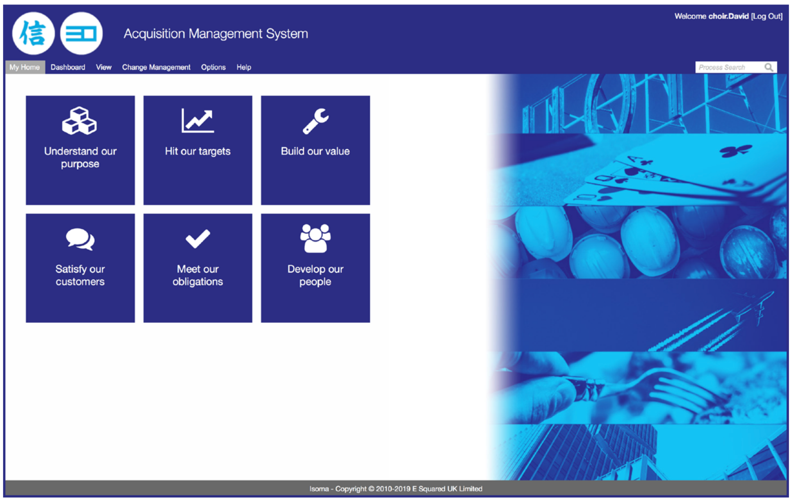
Good management

Number 4

That is why we have built Isoma Choir as a package of the first three so that the management team of the merged entity can focus entirely on the fourth: safe in the knowledge that the 'technical stuff' has been addressed.

A TAILOR-MADE SOFTWARE SYSTEM, BUILT FOR PURPOSE

The first part of this is the creation of a management system designed specifically for acquisitions.



By that, we mean the following:

- An interface which enables the new team to:
  - Understand its purpose – i.e. what the merged organisation is trying to achieve
  - Hit the company's new targets
  - Build the value the new company is aiming to create – for its customers, shareholders and staff
  - Satisfy its customers by delivering that value consistently
  - Meet its obligations to its shareholders and regulators
  - Develop team and individual competence.
- An underlying system language which is easily and universally understandable and usable by everyone, irrespective of their skill level or business function.
- A single point of the truth – a place where everyone goes to find, use and improve the documentation, processes and data which is critical for success.

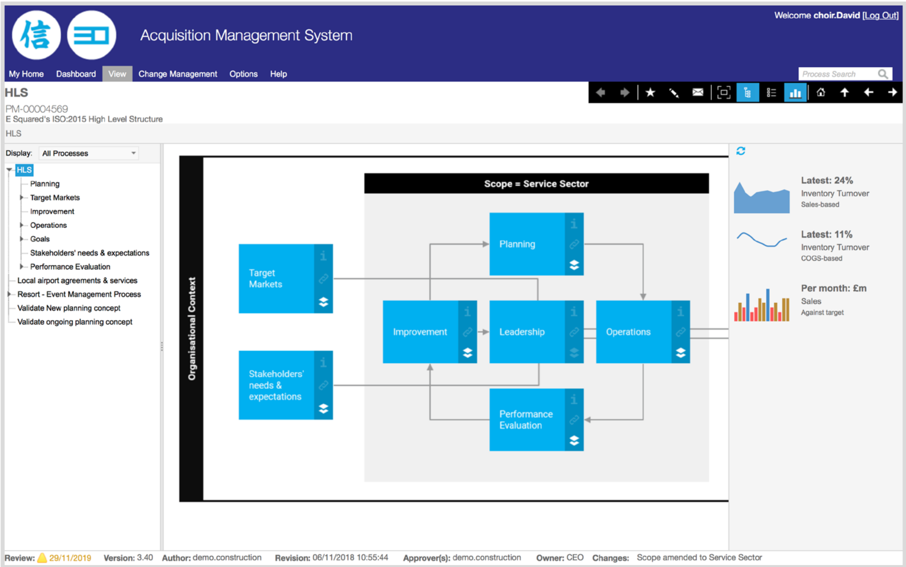
AN ONLINE OPERATIONAL PLAYBOOK

When we deliver Isoma Choir, we do so with a complete set of processes and value maps which are specific to the purchasing company's industry. Typically for each company these are about 80% accurate: meaning that if the company were to start trading at that point, with the exception of document and system links, 80% of its operations would be able to function immediately.

We then involve our technical partners:

- Operational Excellence management consultants, who go on site to refine the remaining 20% and help manage the integration
- Systems Engineers who integrate any automated systems (e.g. Enterprise Resource Planning, Customer Relationship Management and Accounting systems) and set up links to critical documentation and data feeds
- Learning & Development specialists who ensure that the system is as effective as possible.

The result is a fully functioning, online operational playbook, ready to be rolled out. It provides all of the documentation, change management tools and processes needed to define and manage the new, joined operations: enabling each member of staff to know precisely what he or she needs to do and to see how their work contributes to the overall corporate goals. This alignment is then reinforced by Isoma Choir's inbuilt measurement systems.



ON-SITE AND ON-LINE TRAINING AND SUPPORT

In addition to the technical support which we provide on-site as part of the system's customisation, we also provide comprehensive training and competence development in its use.

That starts with blended on-site and on-line learning and continues with competence assessment programmes. Together these ensure that the relevant soft skills are in place so that Isoma Choir is fully understood and applied effectively by all staff.

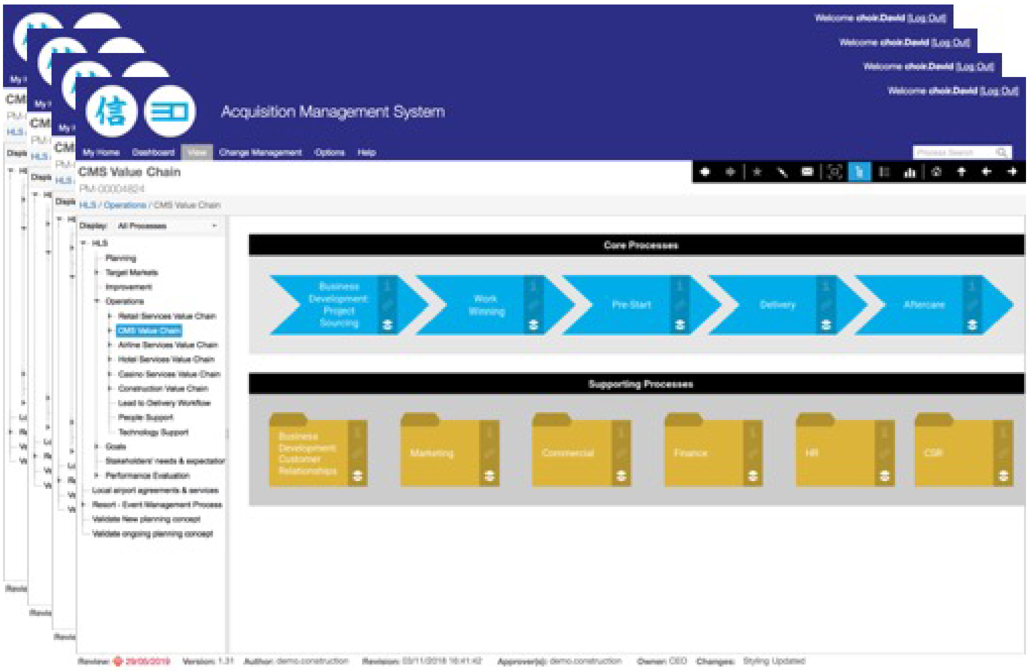
MEASUREMENT SYSTEMS

Isoma Choir enables each company to track its performance against the achievement of its corporate goals. It does this at several levels:

- By displaying the top-level Key Performance Indicators on the main user interface, so they are constantly visible
- By displaying progress towards the attainment of component KPIs at each process level if required.

> “A poorly planned or executed integration can still destroy the value of the acquisition.”

From 'Why M&A Deals Fail' by Firm Room, July 2018



Isoma Choir is not just a template for one acquisition. It serves as a template for multiple acquisitions by the same parent company.

A TEMPLATE FOR RAPIDLY INTEGRATING UNLIMITED NUMBERS OF SUBSEQUENT ACQUISITIONS SUPPORT

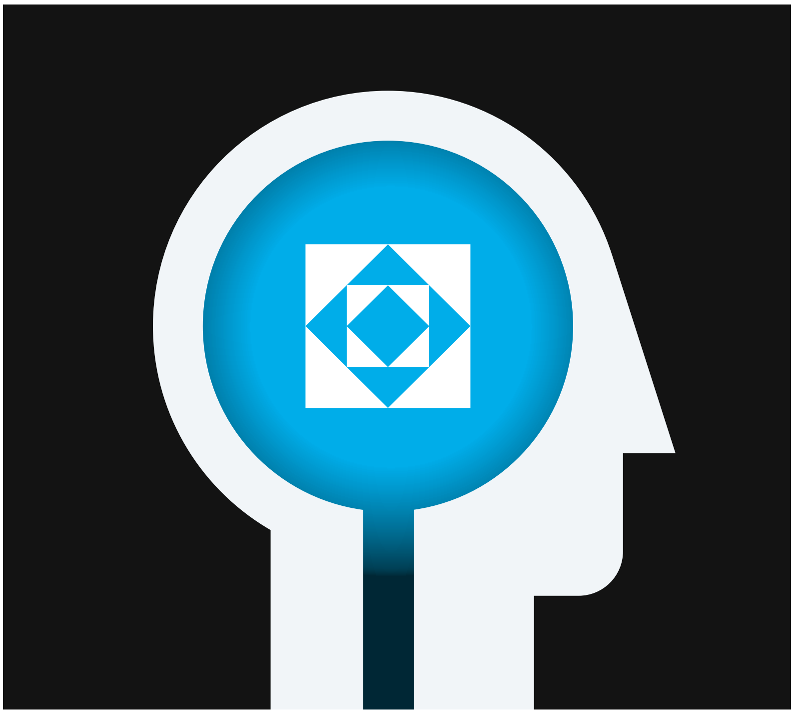
Isoma Choir is not just a template for one acquisition. It serves as a template for multiple acquisitions by the same parent company.

So once the operational playbook has been built and the measurement of KPIs enabled, any number of subsequent acquisitions can be made, safe in the knowledge that those will be based on a standard set of tried and tested processes, controlled by the purchasing company, that can apply to any new deal.

This has a particular impact on process due diligence; making it quicker, more consistent and more reliable than had Isoma Choir not been in place.

It also applies even if the target company needs to retain an element of local processes, which Isoma Choir can enable in a number of ways:

- It can facilitate variable splits of core and local processes for each acquisition whilst maintaining consistency of management across the whole business.
- It can enable qualitative process improvements to be shared between the whole business and upgraded to include quantitative improvements (using Isoma Crescendo) if required.
- It can enhance document management by ensuring that only the latest, approved versions of a common set of documents are used by everyone in the company.
- It can improve the efficiency of other systems by providing and distributing shortcuts to any automated routine at the relevant point of need: for each person and for each process.



The Isoma Platform:
A Structure That Caters For Growth

The structure of the software platform which underpins Isoma Choir is designed so that it can be easily extended to cater for growth: both in terms of users and of functionality.

Whether growth is organic or inorganic: staff can be added or removed from the system at any time, with no upper limit on numbers, sites or installations. Equally, as each business matures and its requirements move from integration to optimisation and possibly standardisation, its demands from its management system may also increase. The Isoma platform allows for that by providing a seamless functionality upgrade to other products in the Isoma suite which cater for those needs. For example:

- **Isoma Crescendo** optimises effectiveness and efficiency, enabling deep and otherwise invisible risks or costs to be exposed and rectified.
- **Isoma Concerto** enables operations to be quickly standardised across multiple business units or divisions and facilitates the rapid attainment and management of group-wide regulatory or standards certifications.

> “In 2018, the number of deals decreased by 8% to about 49,000 transactions, while their value has increased by 4% to 3.8 trillion USD.”

From the Institute for Mergers, Acquisitions & Alliances, 2019

Benefits

FOR SHAREHOLDERS

- **Reduces the risk of deal failure by up to 75%** by removing the main cause of deal failure: ineffective integration.
- **Increases productivity in the first year of integration by 80%** by enabling teams to be productive from Day One
- **Accelerates the rate of possible deals by 400%.** Isoma Choir reduces the typical integration period from eleven months to three months: after which time businesses are ready to take on subsequent acquisitions. Over a three-year period, this equates to a company being able to take on twelve acquisitions rather than three: a 400% increase.

75%

Reduction in the risk of deal failure

FOR SENIOR MANAGEMENT TEAMS

70%

Reduction in integration time

80%

Increase in productivity during the integration period

- **Reduces integration time by 70%.** Each time a company makes an acquisition using Isoma Choir, it saves at least eight months in integration time: reducing the integration period from a typical eleven months to three months.
- **Reduces process due diligence time up to 100%.** Once the operational playbook has been built and the measurement of KPIs enabled, any number of subsequent acquisitions can be made using the same master system. Since this has been fully tried and tested, unless local processes are allowed, no further process due diligence is required.
- **Increases productivity during the integration period by 80%** by enabling teams to be productive from Day 1
- **Increases acquisition capacity by 400% over 3 years.** Isoma Choir reduces the typical integration period from eleven months to three months: after which time businesses are ready to take on subsequent acquisitions. Over a three-year period, this equates to a company being able to take on twelve acquisitions rather than three: a 400% increase.

IN A TYPICAL SMALL BUSINESS

An Isoma subscription of...

£10,000

Results in a manpower saving of...

£200,000

FOR OPERATIONS

- **Improves operational consistency and performance across an entire group of companies**
- **Reduces time to build and test a full set of operational processes by up to a year**

FOR HUMAN RESOURCES

- **Enables each and every employee to understand the contribution they make to the company**
- **Provides an objective measure of staff contribution to corporate performance improvement** which can be used to improve and add rigour to staff performance reviews

FOR FINANCE

- **Saves around £200,000 in manpower costs with each integration**
- **Provides a minimum Return on Investment of 10:1**
  - For a typical small business Isoma Choir costs just under £10,000 per annum with a similar amount for initial implementation. But with each integration it saves around £200,000 in manpower costs.
  - So, if a business makes just one acquisition, Isoma Choir provides a return of 10:1
  - But if a business makes continual acquisitions at a rate of one per year, that return increases to 16:1.

Practical Implementation

IMPLEMENTING ISOMA CHOIR PRE-DEAL

To gain the greatest benefit from Isoma Choir it should be implemented before the deal starts: as part of the due diligence process.

This will:

- Provide the acquisition or lead team with an industry-specific process template on which to assess the operational effectiveness of the target company
- Reduce the time, effort and cost of the due diligence process
- Provide the greatest protection against integration failure
- Have the greatest impact on the operational consistency and performance of the new joint entity
- Provide a template for any future deals so as to accelerate the future acquisition process and reduce its risk

IMPLEMENTING ISOMA CHOIR POST-DEAL

If pre-deal implementation is not possible, post deal implementation of Isoma Choir is a good alternative.

This will:

- Improve the probability of a successful deal by up to 75%
- Enable a deal that is showing signs of failure or poor productivity to quickly recover
- Provide a template for any future deals so as to accelerate the future acquisition process and reduce its risk

“

Even in top-tier companies, many integrations are performed by disconnected functional groups communicating through a hodgepodge of spreadsheets, emails, and irregular meetings.

Workflows are disconnected, target dates are not set realistically or adhered to, and the integration ultimately fails to capture value due to a combination of disorganization and poor communication.

Making sure that all integration strategies are carefully mapped out, all functional groups are clear regarding their goals and responsibilities, and that the integration itself is supported by agile software, can maximize the success rate of your M&A deals.

”

From 'Why M&A Deals Fail' by Firm Room
July 2018

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From 'Why M&A Deals Fail' by Firm Room
July 2018

Conclusion

Isoma Choir is a new and highly pragmatic solution to the single issue which causes up to seven out of ten M&A deals to fail: poor integration.

Effective integration is not easy. Nor can it be achieved through software alone. It can only be achieved through a focused combination of systems, relevant content, expert support and good management.

That is why we have built Isoma Choir as a package of the first three: so that the management team of the joint entity can focus entirely on the latter, safe in the knowledge that the 'technical stuff' has been addressed.

Isoma Choir provides everything an acquisitive business needs, so that from Day One of the deal, everyone is singing off the same hymn sheet, operations are effective and teams are as productive as possible.

We believe change begins with people.

Which is why we've created our Isoma system to engage and energise the workforce, not just automate it.

Help

If you are planning a deal, about to close a deal, have recently completed a deal, or are trying to recover a failing deal, we can help you.

If you are a shareholder, we can help you reduce the risk of deal failure by up to 75%, increase productivity in the first year by 80% and increase the rate of future deals by 400%.

If you are a member of the senior management team, we can help you reduce integration time by 70%, reduce process due diligence time by up to 100% and increase productivity during the integration period by 80%.

To obtain that help all you have to do is give us a call or drop us a line using the contact details below.

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