

Why Too Many Merger and Acquisition Efforts Fail

Those who advocate mergers will argue that they'll cut costs or boost revenues beyond that needed to justify a price premium. It makes sense since it: reduce redundant systems, take advantage of economies of scale, put a larger sales force on the streets and eliminate redundant or over-abundant job functions. The resulting whole has to be more profitable than the sum of its previous parts. The concept of synergy sounds great in theory, but in practice, Mr. Murphy always seems to be on everyone's payroll because it's no secret that more than a few mergers don't live up to expectation.

Historically roughly two thirds of large, well hyped mergers don't meet pre-merger expectations. What this means is they will fare poorly on the stock market. The motivations that drive mergers can be flawed and efficiencies from economies of scale may prove elusive. In many cases, the problems associated with trying to make merged companies work are all too concrete.

Flawed Intentions

For starters, a booming stock market encourages mergers, which can spell trouble. Deals done with highly rated stock as currency are easy and cheap, but the strategic thinking behind them may be easy and cheap too. Also, mergers are often attempted to imitate: somebody else has done a big merger, which prompts other top executives to follow suit.

A merger may often have more to do with glory-seeking than business strategy. The executive ego, which is boosted by buying the competition, is a major force in M&A, especially when combined with the influences from the bankers, lawyers and other assorted advisers who can earn big fees from clients engaged in mergers. Most CEOs get to where they are because they want to be the biggest and the best, and many top executives get a big bonus for merger deals, no matter what happens to the share price later.

On the other side of the coin, mergers can be driven by generalized fear. Globalization, the arrival of new technological developments or a fast-changing economic landscape that makes the outlook uncertain are all factors that can create a strong incentive for defensive mergers. Sometimes the management team feels they have no choice and must acquire a rival before being acquired. The idea is that only big players will survive a more competitive world.

The Obstacles to Making it Work

Coping with a merger can make top managers spread their time too thinly and neglect their core business, spelling doom. Too often, potential difficulties seem trivial to managers caught up in the thrill of the big deal.

The chances for success are further hampered if the corporate cultures of the companies are very different. When a company is acquired, the decision is typically based on product or market synergies, but cultural differences are often ignored. It's a mistake to assume that personnel issues are easily overcome. For example, employees at a target company might be accustomed to easy access to top management, flexible work schedules or even a relaxed dress code. These aspects of a working environment may not seem significant, but if new management removes them, the result can be resentment and shrinking productivity.

More insight into the failure of mergers is found in the highly acclaimed study from McKinsey, a global consultancy. The study concludes that companies often focus too intently on cutting costs following mergers, while revenues, and ultimately, profits, suffer. Merging companies can focus on integration and cost-cutting so much that they neglect day-to-day business, thereby prompting nervous customers to flee. This loss of revenue momentum is one reason so many mergers fail to create value for shareholders.

But remember, not all mergers fail. Size and global reach can be advantageous, and strong managers can often squeeze greater efficiency out of badly run rivals. Nevertheless, the promises made by deal makers demand the careful scrutiny of investors. The success of mergers depends on how realistic the deal makers are and how well they can integrate two companies while maintaining day-to-day operations.

Dan Light Consulting works with services contractors and systems integrators who struggle with controlling cost and the realization that the business isn't reaching its full potential. Our clients have experienced a 95% reduction in the cost of under performing business systems and increases in new business win rates to above 80%.

Contact Dan Light Consulting today for a no obligation discussion of how we may benefit you.

[Dan Light Consulting](http://danlightconsulting.com)
dan@danlightdirect.com • (540)219-0001