PMI Services in Perspective

Mergers and acquisitions have been around for two centuries, but the M&A profession has only been performed for two decades.

Mergers and acquisitions (M&As) have been part of corporate strategy since the beginning of industrialization, and the activities have gone through a number of waves from the mid-nineteenth century.

During the first hundred years owners/managers created M&As to improve wealth by consolidation of railroads, oil companies, steel mills and other industries. Their ambitions were limited only by their managerial capabilities, and their success led to monopolies, which were subsequently broken up by regulators. In the nineteen-twenties, a wave of mergers & acquisitions were performed by financiers to leverage small investments for control in pyramid schemes. That came to an end with the Great Depression.

In the 1960's, however, M&A took hold for completely different reasons. Then, non-owner managers reinvented corporate missions by forming conglomerates from acquisitions. The most well known example was ITT, a telephone equipment producer that ventured into unrelated businesses in car rentals, bakeries, hotels, insurance electronics and other lines.

|This strategy fell out of fashion with the stock market during the 1970's when the conglomerates could not sustain an ever-increasing EPS (earnings-per-share) ratio. Their spin-offs in turn fueled a wave of acquisitions by corporations seeking growth by increased market share and the pursuit of a portfolio strategy of "cost leadership through experience".

In the 1980's, many of these giants began to strip off marginal businesses. This movement together with the liberalization of capital controls and deregulation created opportunities for leveraged buy-outs. These acquisitions were financed by a whole new cadre of institutional investors through Leveraged Buy-Out (LBO) funds that were managed by financial engineers.

In the 1990's globalization and improved communications intensified the M&A activity and caused cross-border deals to multiply and many more firms to take part. Even very small firms and recently formed public companies began merging across borders using their escalated market capitalization. Throughout this M&A boom, the business cycle seemed to have disappeared and the relentless focus on globalization and leveraged competency was all the rage.

The new millennium introduced a sudden bust in market capitalization and a subsequent drop in M&A activity. In this new economy, companies must not only be competitive in commercial markets, but they must also compete in capital markets. Otherwise, their cost of capital (debt and equity) will be higher than their competition, a problem that is corrected by either improved performance or by takeover.

The increased diversity of participants in mergers and acquisitions, coupled with elevated activity, has created new professions during the past twenty years: M&A- advisors, bankers, lawyers, tax accountants, and integration facilitators. Because of the complex management requirements of buying and selling used companies, combined with the infrequency of the deals, the professionals operate as service firms where specialized knowledge is gathered and disseminated on demand to a variety of clients.

Only a small number of acquirers make deals frequently enough to afford but a skeleton staff of M&A professionals. Fewer than one hundred companies worldwide presently make the ten acquisitions or more a year required to develop a flow. And very few executives get the opportunity to learn of M&A first hand to form a methodology that others could follow. Hence, most acquirers treat acquisitions not as repeatable processes but as hurdles to overcome, so everyone can get back to business as usual. And the results speak for themselves. Fewer than 1 in 4 acquisitions meet the corporate expectation of added value to the buyer and allow for pay off of an acquisition premium. And cross-border deals are especially challenging.

The few companies that have turned M&A into a successful corporate competency don’t get as much press as the failures. Some of the best-known US companies that have created a string of winning acquisitions over the past few years are: Cisco, Fleet Bank, GE Capital, MNC Bank, and Tyco. Cisco has an impressive record of absorbing high-tech start-up firms. The two banks have developed a "big bang" methodology for rolling up regional bank networks over a long weekend. GE Capital developed a systematic integration approach after struggling with more than one hundred deals. Tyco made several deals a week adding some depth but mostly diversity that increasingly look like conglomeration all over again.

Some of the few European corporations that have made multiple acquisitions a competency in their US growth strategy include: AHOLD (Dutch food chain), ASSA-ABLOY (Swedish locksmith), ELECTROLUX (Swedish appliance maker), NOKIA (Finnish wireless), PUBLICS (French media), SIEMENS (German electro mechanic), SMITHS (UK industrialist), and WPP (UK advertising).

Over the past two decades, we have worked with several of these acquiring firms, as well as many occasional buyers, to assist in both the pre-and post-merger processes to produce improved results. We have now put the best practices and the most experienced people into a new service we call Post-Merger Integration, or PMI.

The PMI service is offered to acquirers making friendly strategic deals. It provides an adaptive integration process for both the transition of control and the transformation to the merged venture, with improved effectiveness compared to the pre-merger organizations.

The PMI Team of more than 90 facilitators provide hands-on assistance with the planning, execution and outcome of merger integrations. These seasoned professionals make available experiences from mergers, turn-a-rounds, reorganizations, and spin-offs in many types of organizations and industries throughout the USA. For each assignment we supplement the resources of the acquirer during the integration phase with a Post Merger Facilitator. Through this process we help the acquiring organization create value.