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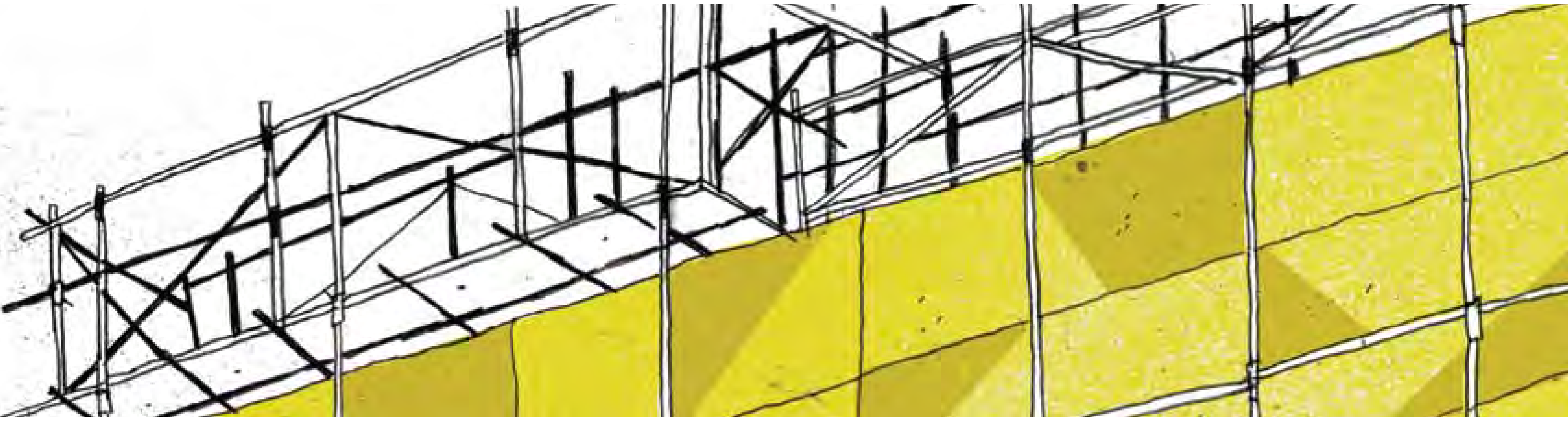

M&A teams: When small is beautiful

Large M&A departments aren't essential for making successful acquisitions.

Patrick Beitel and Werner Rehm

It's not surprising that executives planning for M&A often look to acquirers with track records of success for insights. After all, effective deal making can be a source of superior corporate performance, and the capital markets tend to reward companies that have executives with experience in planning, carrying out, and integrating mergers and acquisitions.[1]

Attention typically focuses on companies that have large, standing M&A teams with as many as 30 to 40 members, who can meet all the contingencies that deal planning might require, such as initial screening, legal structure, and finance. Because such teams can manage deals from beginning to end, they are the most efficient way to screen potential targets (as many as eight to ten for each acquisition planned), particularly if a company intends to acquire a lot of small businesses in a fragmented industry.

Executives at companies that don't have large, standing teams may wonder if they are really essential for successful deal making. We don't think they are. If the essentials for the governance and execution of M&A are in place, many companies can carry it out successfully with a small, experienced team that pulls in resources project by project. In an ongoing series of executive interviews on M&A, we've run across

[1] See Richard Dobbs, "Creating value from mergers," mckinseyquarterly.com, November 2006.

a number of companies that have small M&A teams—with as few as two to three core team members, led by the head of M&A—which take this kind of project-driven approach.

Indeed, it may even be more suitable than the use of large, standing teams—at least for companies in certain industries, depending on the number of strategic M&A opportunities. Consider, for example, the difference between the utility industry and the broad software industry. In the former, few potential M&A targets turn up in a given year, so assembling a project-based team will be sufficient to assess the opportunities. These utilities also have less need for a highly formalized M&A process, because their normal investment process can deal with M&A sufficiently. This approach provides a relatively clear decision point even if a utility has no formalized M&A playbook to generate and screen deals. By contrast, in the software industry, there are many hundreds (if not thousands) of potential targets for a larger company, depending on the scope of its growth strategy. For such companies, screening must be an ongoing process using more formalized tools in a more centralized and disciplined way.

Not surprising, executives we've spoken to from relatively consolidated industries tend to prefer project-based teams. Companies that rely on them, however, must also have the essential M&A discipline of the more systematic approach. These companies need to employ the basic tools of successful M&A, such as a relatively standardized discounted-cash-flow analysis to identify key elements (including intrinsic and synergy value), due-diligence checklists, and integration team charters. There are also unique challenges in several key areas.

- *A link to strategy.* A tight link between the strategy of a company and its M&A program is critical for success, regardless of what kind of merger team it uses.[2] In particular, companies using the project-driven approach must identify out-of-scope deals early on so they can be put aside, freeing up scarce resources.

- *Governance.* No matter which approach a company uses, it must have an explicit path toward decision making so that it can move in a quick, fact-based way when competing for acquisitions. Companies with large, standing M&A teams typically have a formalized approach to M&A decision making—an approach different from the one for standard investment decisions. Often, a specific M&A committee controls and steers the flow of deals and makes go-no-go decisions at various points.

  Companies that use the leaner, project-driven approach tend to have a less formalized procedure. Often, they forego the M&A committee and use the standard investment decision process instead. This can work well and may even expedite decision making so long as there are

[2] See Robert T. Uhlaner and Andrew S. West, "Running a winning M&A shop," mckinseyquarterly.com, March 2008.

few deals or the deals considered are small enough for management to address on the business unit level. One European consumer company, for example, handles all M&A decisions just as it would other capital expenditure or investment decisions. This ensures that each deal's value creation potential receives scrutiny, since all such decisions must compete for the same scarce resources.

- *Organization.* Large corporate M&A teams can work through deals more quickly, but they can sometimes get so focused on finding the next one that they lose a clear connection to the strategies of the business units. We have observed organizations where even business unit managers directly affected by a deal come to the table relatively late.

  In contrast, for the project-oriented approach it's critical that the small core team include highly experienced deal makers who know the process and which other specialists should be included. Such executives can bring a team together quickly because they have established connections to the support functions and the business units. As a result, they can expand their capacity to assess opportunities by bringing in experts from the business units; the legal, IT, HR, and sales functions; and external resources, such as tax and legal specialists.

  In addition to functional experts with deal experience (who are brought in if they meet preselected criteria), such teams inevitably have some members without a background in M&A. The process may therefore be somewhat inefficient initially, but it will also be flexible; these team members will bring types of expertise directly related to an acquisition's strategic or operational rationale. This approach also tends to engage more of a company's people in a given deal. Eventually, almost every manager will have served on a deal team and will be able to take M&A into account when thinking through strategy. This aspect of small teams is a long-term advantage—one we would expect to change the tone of strategic conversations about future acquisitions throughout an organization.

- *Early integration planning.* In our observation, most companies require some element of formalized integration planning before final deal approval. Yet they often fail to provide for any explicit connection between the deal-making process and the target's eventual integration. This disconnect may undermine an acquisition's strategic and operational advantages. All companies, regardless of their approach to M&A, should assume that they need to have a clear deal "owner," as well as an integration manager who is responsible for providing focused leadership—from well before due diligence through far into the integration effort.[3]

  Given the typically lower deal volumes of companies using the project-based approach, these elements are even more critical, since often there is no standing integration team. Insisting that discussions on integration should start early in the process is critical to avoid surprises later. At one banking institution in Europe, for example, the head of M&A established a separate unit for integration to ensure that it received sufficient attention early in the process. As a result, the team could raise a deal's integration approach in very early discussions. This has important implications

[3] See Robert T. Uhlaner and Andrew S. West, "Running a winning M&A shop," mckinseyquarterly.com, March 2008.

for the due diligence or structuring of a deal, which can look very different depending on whether the acquirer aims for full integration or plans to leave the target more or less untouched.

- *Continuous learning.* The ability to learn from previous deals through a formal educational process, such as postdeal or postintegration workshops and updated playbooks, matters more than does the mere experience of doing deals. Indeed, the performance of companies that have a formal postdeal and postintegration learning program is higher, both by qualitative metrics and total returns to shareholders, than the performance of companies that don't.[4] Yet very few companies, we've found, have formal learning mechanisms in place.

  Postdeal learning is one area where the less formal, project-oriented approach can work against companies. They may have an advantage for informal learning, given the broader inclusion of executives across the organization. But they still need a more formal way that is less dependent on individual deal team members if they are to communicate key insights from one deal and integration effort to the next. Project-oriented organizations might hold workshops, for example, after each step in the acquisition process in order to develop some degree of continuity among deals by formalizing and documenting what teams have learned and observed along the way. One chemical company in Europe, for example, held workshops 12 and 24 months after the closing of an acquisition to discuss key lessons—both the quality of the process and the business goals reached—and recorded the team's observations in what will eventually become the company's M&A playbook.

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With the necessary elements in place, companies that want to grow through acquisitions don't necessarily need a large corporate M&A group. They can instead build up a smaller nucleus of experienced deal makers who can scale teams up or down as needed. The result—in addition to the value created by M&A—can be a more agile and experienced organization.

[4] David Fubini, Colin Price, and Maurizio Zollo, *Mergers: Leadership, Performance, and Corporate Health*, New York: Palgrave Macmillan, 2006.

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