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Although the second quarter of 2011 witnessed a drop in M&A activity, it is now expected to soar in the coming future, owing to the tremendous increase in capital availability. However, given the times and risks involved, paying attention to the many factors effecting success has become even more crucial. The following key points are especially important to consider:

"Marriage" counselling for your business

Most companies today are opting for inorganic growth as it is a fast way to expand and improve reach. However, M&A is a risky business and there are certain key aspects that need attention. Tanya Thomas finds out what can make or break the deal

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IN FOCUS

Why buy?

Considering the several risks and troubles involved such as high interest rates or plummeting stock markets, one would wonder why get into a M&A. However, if you want to grow and have a healthy balance sheet, "M&As can have multiple benefits. They can help companies reduce the time to enter new markets, enhance business diversity, provide economies of scale, expand product profile and customer base, and enable access to new technology," says Pawan Agarwal, director, Crisil. However, it is important to have a specific strategy for growth in mind as your entire integration process would depend on it.

Being diligent

Performing due diligence and preparing a strategy prior to closing the deal is a vital process. Apart from conducting a standard industry research, the acquirer must prepare a deal thesis that should identify all the sources of value and risks involved. The deal must enhance the organisation's core strategy, which might be to increase in scale, scope or both.

In order to cover all aspects, "Any investment must be preceded by a C-I-E (Company-Industry-Economy) study. To ensure whether the company is worthy for investment, following areas need to be evaluated; the business model, competitive advantage and market share, technology assessment, management and corporate governance. The industry study must entail few critical areas such as industry growth, margins, outlook, competition and regulation. If it is a cross border investment, that country's economy must be thoroughly examined," advises Aman Gambhir, founder, principal consultant, Caston Capital Advisory Services. In the excitement to close the deal, many a times, companies perform due diligence to justify the deal rather than to uncover potentially serious problems. Such an outlook overlooks the existence of several ticking time bombs.

Integration, the key

One make or break aspect of any deal is integration. "Post deal, an immediate hundred-day plan must be prepared and adhered to. Effort must be made to avoid disruptions and integrate systems, cultures, communication, marketing, technology, software, accounting, etc," says Rajan Wadhawan, executive director, PwC India. An immediate and ambitious timeline is a requisite considering that if integration takes up too much time and energy, it distracts you from your base business.

To basically erase the problem, some have suggested not integrating at all. Wadhawan, however, explains why integration is essential, "Without integration, you might not be able to leverage your distribution, production and technology with the help of your broadening network. It might also cause redundancy in positions, products, etc causing duplication of costs." There are several soft issues that need to be dealt with while integrating; a cultural difference is one of them. The organisation needs to define the culture that they want to stick by and its organisational structure and decision-making principles must complement this.

Retaining value

The main aim during integration should be to eliminate uncertainty. If people are not certain of their future, they will leave and your competitors will happily grab good talent. You begin in a top-down fashion by first setting up good leadership and then, without wasting too much time, decide who the key talents in the organisation are. "A lack of proper communication is the main problem for loss of good people. Also, more often than not, the due diligence process does not include evaluating people and this causes problems. If you are required to let go of a large number of people, their severance packages is a liability and effects the value of your deal," says Anupam Prakash, partner and regional leader - cross border consulting, Mercer. Integration must begin as soon as the deal is put on the table, thus ensuring smooth transition. If there is too much of a delay, doubt and uncertainty sets in and its effects are drastic.

ethighflier@indiatimes.com