

BOTTLED WATER

REPORTER

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Making the

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The advisors sat huddled around a conference room table late at night, preparing the final documents that would seal a deal whereby two bottled water companies would merge into one. Their respective principals would be arriving to review and sign those documents in less than eight hours. This cast of professionals collectively brought to their clients many years of dedicated expertise in the mergers and acquisitions field, and they prided themselves on catching every last business and legal issue associated with transactions of this nature. Both principals had “signed off” on the business due diligence and were sure the merger would be a great fit and produce fantastic results. Upon negotiating a few remaining issues to the agreement, the advisors approved the final draft of documents. Minutes later, over dinner, they celebrated the culmination of yet another deal.

Perhaps for the advisors this represented the final chapter of just another deal. However, for the principals themselves, this was just the beginning, and as they would soon find out, the success of the alliance would be determined in the coming weeks, months and years. ▶

Integration is about attention to detail and execution. If neglected or not done adequately, even what appears to be the best deal can become a frustrating experience at best.

By Lance Tullius, The Tullius Company, Inc.

ILLUSTRATION BY PHILIP HOWE

WORK

Combining two different businesses is never an easy task. Like personalities, businesses have their own characteristics that when put together create new challenges. Regardless of the implication, however, this is not a bad thing. It's natural and inevitable, and while no business owners can predict exactly what challenges they'll face in integrating multiple businesses, simply anticipating that there *will* be challenges is more than half the battle.

quickly worsened. While the two companies had yet to consolidate into one headquarter facility, each of their customer service departments reported increased numbers of customer complaint calls. Many long-time customers were angry that the delivery person they had come to know so well and, more importantly, knew them so well, was no longer servicing their account. Further, the new driver didn't understand the customers' needs and was inflexible.

Other customers were irate when they unexpectedly received their latest invoice, reflecting a price increase for the same amount of product. Worse yet, a number of customers were reporting that they simply weren't getting their deliveries.

While some of the customers were salvaged, the problems became com-

pounded by confusion in the respective customer service departments. Like others within the company, customer service personnel had really not been filled in as to how this integration process might affect their department. So when the nasty calls became more frequent, these employees were simply blindsided. Not wanting to promise a solution that might not be supported by management or was beyond their authority, the customer service reps couldn't give the customer what they wanted most—answers! The more the customers became fed up with the bureaucratic responses, the more lost business the company suffered. To further matters, the company's struggles lowered employee morale, and many of the rank and file employees began to search elsewhere for work.

Inadequate Planning


In this case the problems facing the company were not a function of an ill-conceived merger or one that didn't make good strategic sense. Rather, they're the result of inadequate planning and poor facilitation both before and after the deal. In fact, even given the circumstances described above, we have no reason to believe that this marriage still can't produce fabulous results. So, what's gone wrong so far? Where have these principals missed the mark? Fortunately, for most of us the answers to these questions aren't all that difficult.

First, good detailed planning must be a prerequisite to any deal of this or a similar nature. And as prerequisite implies, that means *before* the deal is complete. Most all of us are in business to make money. To that end, we must do at least two things very well—satisfy customers, and attract and retain good employees. Subsequently, when contemplating a strategic alliance of any sort, these ought to be two of the core pieces in the planning process. After all, if we lose customers and employees, we're better off remaining independent of any alliance.

With respect to our example, the last thing these combined companies should have done was restructure the delivery route schedules so quickly. The first part to any integration is transitioning from *before* the merger to *after* the merger. This period is typically the most fragile of the integration process. Major changes are occurring faster than they can be comfortably absorbed by managers and employees and, in some instances, customers. Given that, the smoother those changes can be made the better.

Customers Dislike Change

Most customers appreciate familiarity and dislike change. Therefore, any changes that will directly impact customers need to be evaluated very carefully. Don't get me wrong.



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In our referenced merger, for example, you'll see that the principals really hadn't given much thought to the details of integrating these two distinct businesses, let alone the challenges they might face. As a result, when those challenges began to surface, nobody, be it the principals, management or employees of the company, was prepared to respond and act quickly. In business, as most of us know by experience, challenges that aren't responded to quickly often mushroom into serious problems.

Mounting Complaints

In this case, the most alarming of these problems was the loss of an unusually high number of customers shortly after the deal's completion. It became an unsettling trend, and

Invariably, there will have to be changes that affect the customer. However, those changes should be approached with the utmost caution.

Had this company allocated the time to strategically redesign the routes, and come up with a way to communicate this with the affected customers beforehand, they would have spared themselves much of the lost business.

Keeping Staff in the Loop

If customers are a top priority, then employees come right after them. In an effort to manage confidentiality, many business owners neglect to inform even their core management group of a pending transaction. Instead, they share the news with them only after the deal is done.

I understand the concern that sensitive information could be disclosed prematurely, and realize that confidentiality is a fundamental necessity of any merger or acquisition. That

said, all things are relative, which means that keeping certain information confidential from certain persons can compromise a company's best interest. Our example epitomizes that. At least the key management level and department head personnel should have been informed of the deal prior to its closing, if for no other



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reason than to help in crafting an integration plan. With the various departments operating under inconsistent agendas and different amounts of information, chaos and confu-

sion were inevitable. The effect on the business was quite costly.

Getting Owners' Attention

Fortunately, as these issues became significant enough to capture the owners' attention, they realized that quick action was necessary and began to act accordingly. And slowly but surely,

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things began to improve. Reports from customer service showed customer turnover rates that were more consistent with what each company had demonstrated prior to the alliance. Also, customer complaint calls were dropping at a dramatic rate. As changes were made, the route drivers seemed to be doing their job and were gaining back the customers' confidence in the company. Communication lines throughout the company were flowing more actively and smoothly. At the end of the merger's second quarter, the results showed substantial improvement.

Also by the end of the second quarter a full integration/transition plan was communicated and implemented throughout the company. While management felt that it would take at least another six months for the integration to be complete, they were on their way and things were going well. Managers were reporting high employee morale, and a new energy could be felt throughout the company. People felt empowered and were actively contributing suggestions and input to their respective managers. The company hadn't met the original projections but,

given the complexity of the problems, management was pleased with the turnaround.

Asking the Right Questions

In the world of mergers and acquisitions, it seems that ineffective integration is the rule rather than the exception. It certainly doesn't have to be that way. Evaluators of strategic transactions so often get so caught up in the numbers and pricing of a deal that they neglect what will actually happen after the deal.

Many of the following relative questions that should be carefully answered are never even asked:

- How will the different company cultures and personalities fit together?
- At what point should the respective management teams be informed of a pending transaction, and to what level should they participate in crafting an integration plan?
- How can customer retention be maximized during integration?
- How will the new organization be functionally structured?
- What will be the costs of integration?

■ How long will it take to integrate?

The costs of failing to plan for integration can reveal themselves in varying forms. First, if not planned for, a transaction's pricing might be inappropriate, essentially not reflective of the value or lack thereof that an alliance will generate. Further, while integration will likely always bring added costs with it, failing to do it right will raise these costs dramatically. As such, whether an acquisition or merger proves to be a success will likely hinge on how well the businesses are integrated.

In the end, integration is about attention to detail and execution. If neglected or not done adequately, even what appear to be the best of deals can become a frustrating experience at best. Done right, however, the benefits of a merger or acquisition growth plan can be substantial and provide for rewarding shareholder returns. ●



Lance Tullius is a principle with The Tullius Company, Inc., based in Portland, Oregon. The firm specializes in providing merger and acquisition financing services to companies in the bottled water industry. The company can be reached at 503-236-9955.