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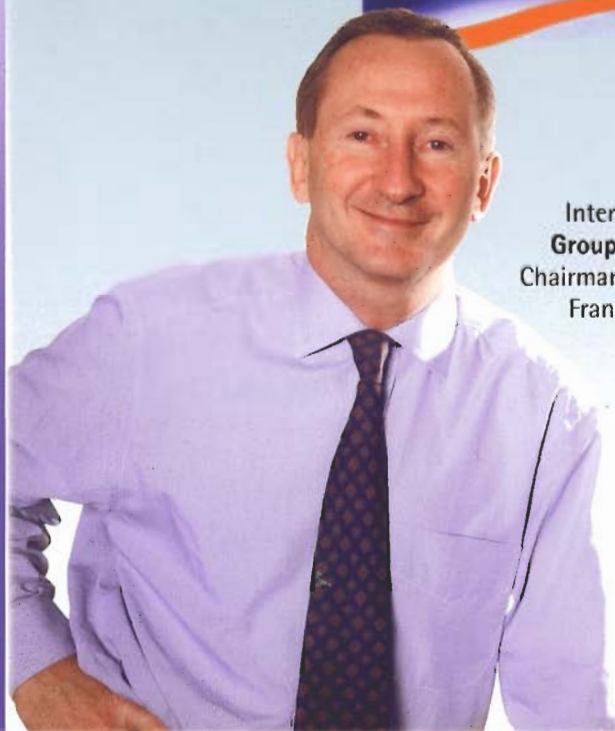
Europe 20

The journal of
the European Bottled
Watercooler Association

Groupe Danone
acquires Chateaud'eau
and Sparkling Spring

Nestlé Waters invests in European
home and office delivery and extends
Nestlé Aquarel brand onto coolers

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Interview with
Groupe Danone
Chairman and CEO
Franck Riboud

Battle of the giants



Nestlé Aquarel Managing
Director Lazaro Rivademar
and Nestlé Waters
Vice President Home and
Office Development
Group Rusty Krahn

Lance R Tullius asks: "You've bought, sold or merged with another company. Are you prepared for what happens next?"

The deal's done. Now what?

by Lance R Tullius

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The attorneys and bankers sat huddled around a conference room table late at night, preparing the final documents that would seal a deal whereby two water cooler 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 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 advisers approved the final draft of documents. Minutes later, over dinner, they celebrated the culmination of yet another deal.

Perhaps for the advisers 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.

Losing customers

Unfortunately in this particular case, several problems began to surface within the first month of the merger's completion. Most alarming of these problems was the recent loss of an unusually high number of customers. It was a trend that had just begun to show itself to the newly combined companies' upper management and was becoming worse as each day passed.

While the two companies had yet to consolidate into one headquarters facility, each of their customer service departments were reporting increasing numbers of customer complaint calls. Many long standing 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 service person didn't understand the customer's 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 receiving their deliveries at all.

While some of these customers were salvaged, the problems were compounded by confusion in the respective customer service departments. The integration of the two companies was turning out to be a much greater task than the principals had anticipated or planned for. As such, 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 may not be supported by management or was beyond their authority, the customer service representatives could not give the customer what they wanted most - answers!

The more customers became fed up with the bureaucratic responses, the more lost business the company suffered. As the situation worsened, one problem led to another. The company's struggles lowered employee morale and many of the rank and file began to search elsewhere for employment.

Growing pains

As the merger's first quarter of operations was winding to a close, a meeting was called for all management level personnel. On the morning of the day this group was to gather, the CEO sat in his office and wondered how what appeared to look so great on paper could have come to this.

Sure, he figured there would be some growing pains, but nothing like what he knew he was now facing.

What furthered his frustration was that, as this meeting would soon commence, he now could clearly see that the issues



Lance Tullius is a principal with Portland, Oregon based **The Tullius Company**, which specialises in providing merger and acquisition/financing services to companies in the bottled water industry.
www.tullius.com



which would consume the most time would be those that should have been clearly addressed prior to and upon the merger's completion.

As the company's CEO, he had not fully appreciated the significance of combining two entities with different personalities and different approaches to doing business.

In setting the agenda for this meeting, he knew that, above all, his group had to stop the bleeding. The company could not afford to lose customers at anywhere near the current rate. After all, the merger was supposed to create value, not lead to its disintegration. His first priority, he concluded, would be to gather and confront all of the company's route drivers - essentially the primary points of contact with the customer. Together, they would brainstorm effective integration steps, starting at square one, as if both companies were still operating separately. As he thought about this, the fact that the companies had attempted to integrate in too short a time became painfully clear to him.

His next priority would be to coordinate more closely the various functions and personnel within those functions of the business. In the many months leading up to the merger, little attention was given to how the cultures and personalities of the two companies differed. In addition, because there was no formal integration or transition plan established, many loose ends had yet to be tied up when it came to coordination.

For instance, the in-house customer service people had no idea of the changes made in how the customers were actually being serviced as well as who they were being serviced by. What's more, by definition, integration implies the bringing together of various functions. However, the CEO was quickly realising that no attempt at true integration had been made. In many cases, all that management had done was inform the various functionaries that two companies were being put together. At best, certain departments were given some new marching orders. Management was learning the hard way that integration was a complex process that went far beyond the o's and x's of a game plan. Finally, as he was preparing to leave his office for the meeting, he realised how vital it was that he had the complete support of his senior management team. Given the situation the company was facing, a good plan with inadequate support would do nothing to reverse the company's fortunes.

Primary motives

In an attempt to get off to a positive start, the original principals, including the CEO, shared with management the primary motives for creating the merger and the anticipated results that would come from a successful marriage. While the respective department heads agreed that this alliance could produce great results, they immediately reacted by asking the principals why these motives

and expected results weren't communicated with them. They had ideas of their own that could help achieve these results and perhaps even lead to more. And, as important, they all believed that with their input much of what was going on could have been prevented. The managers' frustrations clearly stretched beyond the surface of these comments. Most of them had been with their respective companies for in excess of ten years and felt that, by not being consulted prior to the deal, their loyalty had been taken for granted.

As a result, the CEO realised that he had to go right to the last of his identified priorities, that being to gather the support of this disgruntled management team. Having thought this would be the easiest of his objectives, he was beginning to wonder if and when he'd see any light at the end of this tunnel.

Because he knew that the immediate customer attrition had to be stopped, the CEO first acknowledged the managers' frustration and



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disappointment and suggested that they all meet off-site for dinner that evening.

He then addressed the heads of distribution and customer service, suggesting that they arrange for all of the employees in these departments to meet early the next morning. Meanwhile, he wanted to strategise with these department heads immediately after this meeting was finished. He spent the next hour of this meeting discussing a complete integration/transition plan that he wanted to quickly create with the input and help of each of the department heads.

He outlined what particular issues he wanted them to address and ultimately suggest solutions for and then adjourned the meeting.

In establishing a plan to first stop the customer losses, the CEO said that he thought it would be best to start this plan from scratch and put route drivers back on their original route. Interestingly, the route operations manager breathed a sigh of relief. He understood that it would be most efficient to consolidate overlapping routes but, with a lack of planning and poor communication, the consolidation was backfiring. With as many routes as the combined companies serviced, it would take careful planning to orchestrate an effective route reorganisation. While the route managers would begin to construct a route consolidation model, the current routes would revert to their pre-merger structure and be serviced by the original drivers. It was hoped that with the rapport the original drivers had with their customers, some of the lost customers could be salvaged and the current customers preserved. The group further agreed that this reversion would cure the problem of certain customers being missed on their scheduled delivery dates.

Having dealt with the route set-up issue, the discussion turned to the confusion in pricing. The CEO asked both the customer service and route operation heads how prices could be increased for particular customers without any notice. This baffled him because, for all that was missed in due diligence, the issue of pricing had been evaluated by both sides in great detail. The companies did offer slightly different pricing and, even though their computer systems had yet to be integrated, all drivers and customer service representatives had been instructed as to how to access information from both systems. As the new quarter was just beginning, the two systems had been integrated into one - which he felt would only make things easier. So how was it that pricing was added to the list of problems?

By the response of the two managers, it appeared that the problem was surfacing at the driver level. For both companies, most residential customers were billed and supplied monthly statements by the drivers. While some time had been spent with the drivers upon the merger's completion, it wasn't enough, given the significance of the situation.

The CEO was reminded that drivers are taught to be effective, efficient and quick, delivering as much

product as possible in as short a time as can be achieved. Productivity and speed correlate with success in a driver's world. So, when certain drivers began servicing new accounts, in many instances they simply charged the customer the same price as they billed their last stop. While this would have to be addressed more carefully in the route consolidation plan, all agreed that the problem should be rectified by putting the drivers back on their original routes. As these managers left the CEO's office, he felt that while the problem wasn't fixed, headway was being made.

Restoring credibility

That evening, at dinner with the department managers, the CEO suggested that a two day off-site retreat be immediately arranged, whereby not only department coordination and strategy would be discussed, but also an opportunity to establish rapport amongst the managers would be presented. At that same time, the integration/transition plan referenced in the morning meeting would be completed. The managers seemed to think this was a good idea.

What the CEO did next did more to restore his credibility and trust with the managers than anything else he could have done. He stood up before them and simply took responsibility for the mess that had been created. While he remained convinced that the merger represented a great strategic move, as the company's leader, he had failed to plan appropriately for what would happen after the deal. In so doing, he said, he put every member of the business in a position where success would be near impossible. He apologised to each of them for that. As a group, the team appreciatively acknowledged the apology. He then confirmed that he needed their input and help now more than ever, and hoped that he could regain their trust. At this point everyone was on board. In just a short time, but with a sincere message, the CEO had gained the support he would need to put the company on the right track.

Early the next morning, all route drivers, their supervisors and the department head came together to discuss the immediate changes that would be made to all routes. Before this group, the CEO again took responsibility for the confusion and chaos that had been caused. Another wise move indeed. He finished by giving a vote of confidence to the route supervisors and department head, and to that end, asked that during this transition the drivers be in close contact with these folks. They then rushed off to their deliveries.

The CEO had scheduled a meeting with the customer service personnel to share with them the changes that had been made to make their lives easier and were now beginning to take effect. As with the other groups, he opened with his apologies, demonstrating an appreciation for their job of being on the front line - essentially the primary interface with the outside world. He told them that, effective immediately, all drivers had been put back on their original routes and emphasised that, when working with further customer complaints, they should let the customer know that



they would be seeing their old driver. With the customer service manager at his side, he asked that they communicate closely with her and informed them that this manager would soon be presenting them with a company wide plan that would address various changes in the company's operations as a result of the recent merger. He closed by answering a few questions and was then off to the next order of business.

Regaining customer credibility

Slowly but surely, 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. Route drivers seemed to be doing their job and were gaining back the customer's confidence in the company. Communication lines throughout the company were flowing more actively and smoothly. Early the following week, the management retreat took place and proved to be very effective. In fact, it went so well and was proving so productive that the CEO wished he had done the same with his original company. At the end of the following quarter, the merger's second, the results showed 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 problems, management was pleased with the turn-around. Further, everyone now realised that the original projections were never realistic, considering that a complete integration process had not been accounted for in crafting those projections.

While this CEO and his management team struggled mightily to learn the importance of integration and transition, it certainly doesn't have to be that way. That said, in the world of mergers and acquisitions, it seems that ineffective integration is the rule rather than the exception. Evaluators, be they principals or advisers, of strategic transactions so often get 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 will the new organisation be structured?
- How can minimal customer attrition be ensured during integration?

- What will be the costs of integration?
- How long will it take to integrate?

The costs of failing to plan for integration and/or integrating inadequately can be experienced 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. Done right, the benefits of a merger or acquisition growth plan can be substantial and provide for significant shareholder returns. If neglected, however, ownership may eventually learn that they had no business in pursuing these respective avenues of growth.

