THE MANAGEMENT FILE

CONTROLLING COSTS DURING A MERGER OR ACQUISITION

Insight for business owners and risk managers provided by McGriff



According to a number of studies, over the past few decades, at least 50% of mergers and acquisitions have failed. For example, the German automotive company Daimler severed ties with Chrysler in 2007, which it had purchased 10 years previously, because it was losing billions of dollars year after year.

Failure can be attributed to many things, such as corporate strategies not meshing well, a misunderstanding of a company's culture or not communicating with employees well enough. All these things are the direct result of business owners not taking the right factors into consideration. Asking the right questions is key.

When contemplating a merger or acquisition, there are due diligence tasks you must perform so that liabilities don't go uncovered and costs don't get out of control. Here are just a few of the factors you might want to consider before delving too deep into a merger or acquisition contract, and potentially exposing your transaction to failure.

Are your employees on board?

A merger or acquisition usually occurs in order to make an already strong organization stronger. While you may see the merger or acquisition as a positive change, you have to keep in mind that employees may be viewing it as a negative thing. To them it could represent:

- Uncertainty about the company's future
- Uncertainty about their jobs
- Loss of company culture
- Proof that management is somehow deficient and the merger or acquisition was a necessity, not a choice
- Increased duties and workload
- Confusion due to miscommunication
- Guilt, if some employees are terminated and others stay

If you do not get your employees on board with the changes and communicate often with them about what is going on, the merger or acquisition could have the opposite effect of what you planned for. Your staff is one of your most essential tools for running your company, but when employees start leaving—and time and money must be spent on hiring and training new employees—the anticipated success of the transaction can sour quickly. By taking the time to make sure everyone understands the reasons for the merger and supports them, you can avoid disgruntled employees working against your objectives later on. However, be sure to strike a balance between being transparent with employees, and sharing information that is subject to change and may need to be retracted later on.

How long will the merger take?

In general, mergers and acquisitions usually take nine to 18 months to be fully concluded, which is often longer than business owners expect. This is because there are a lot of moving parts during the transaction that are supported and

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affected by other moving parts, and these can change estimated amount of time to completion. For example, employees could have trouble with using new software. This could, in turn, mean more hours spent training the struggling employees, and that could equal more time before the new software can be fully implemented. Or, you could lose a key employee unexpectedly during the merger, and, as a result, time and resources must be spent searching for a suitable replacement. It could even be something as simple as cubicles not being assembled in a new office space on time.

You'll need to work diligently to stay on top of your projected timeline and keep yourself and others on track. Here are some suggestions you can implement to make better use of your time during the process:

- When your implementation timeline is initially laid out, carefully review it for accuracy and feasibility. Don't be afraid to challenge assumptions and ask questions—you could catch a snag that might be very time-consuming down the line. Note where you see potential time issues arising.
- Assign one person the task of overseeing the bigger picture items, such as restructuring the organization chart, making data transfers, overseeing brand strategy and implementing a business continuity plan.
- Adhere to the checklists you've made for each part of the merger, such as data transfer, your business continuity plan and insurance liabilities, so that tasks aren't overlooked or forgotten.
- Purchase tools to keep track of your progress, such as a time tracking or time management software. Otherwise, spreadsheets can be very helpful as well.
- Do not try to complete huge tasks at once, or you risk overloading employees or your system. Instead, set weekly goals and abide by them.

How much will I need to invest?

You will most likely see some cost savings after the merger or acquisition is complete. However, the merger or acquisition process itself will include audits, assessments and other legal costs that can really add up. It's important to do careful research about the target company to discover the potential for any hidden costs that may arise during the M&A process. Performing your due diligence prior to the transaction can help you set a more accurate purchase price and create an appropriate budget. Here are just a few questions to ask:

- *What workplace changes should I expect?* A lot of abstract things will be changing for your company during a merger or acquisition, and most of them will be happening behind the scenes, like culture and management style changes. However, there are certain concrete changes that need to be addressed and implemented early on so that accurate and realistic costs can be predicted. Some of these changes might include:
    - Relocation of machinery, equipment and everyone in the building
    - New or redone office spaces
    - Employees working from home for a period of time
    - Choosing which computer system, accounting system, employee and HR policies to use
- *Will you be rebranding either company?* If so, you may need new signage, logo design and sales collateral.
- *Will you be taking on any of the target company's employees?* If so, you may need to purchase D&O insurance or key person insurance for any new staff members.

- *Do all of the target company's locations have adequate emergency preparations in place, such as sprinklers, fire extinguishers and designated emergency exits?* Keep in mind that you may need to spend money to get acquired locations up to the same safety standards you currently have at your company.

- *Does the target company have business continuity plans in place for each location?* If the planning is not up to your standards, you will need to take the time to analyze all potential weak spots and create substitutes for alternate vendors, suppliers and work areas. This research can take a lot of time, and could end up being quite costly.

- *Are any of the target company's locations at a heightened risk of physical damage, like in a flood plain or dry area prone to fires?* This would mean the property insurance costs for the location will be higher, and those costs could potentially keep growing in the coming years.

- *Is this an international business deal?* If yes, there may be different laws dictating how the target company can be run. This could include laws about the type of insurance you are required to buy, who you must purchase from, and when policies must be in place. Additionally, employment laws vary by location; you'll likely need a local legal contact to advise you on compliant practices. The target company might also currently be selling to countries (or have vendors in countries) that you aren't allowed to sell to (or buy from) in your current jurisdiction. For a buyer, this could mean that the revenue you report won't stay the same after you acquire that company.

All of these things have the potential to cause you to surpass your initial cost prediction. Making a change to any of these items does not have just a one-time price tag—each has the potential to cause a ripple effect throughout the entire company, increasing costs for another change that now has to be altered. For example, changing your brand will mean adjusting your marketing strategy, updating all collateral and signage, modifying your social media presence and possibly even increasing the number of employees you need on the team.

However, by performing your due diligence and keeping your spending records as up to date as possible, while also monitoring what you spend and adjusting the budget when unexpected expenses arise, you can prevent costs from spiraling out of control. McGriff has a complete checklist of due diligence tasks to go through when adding up the costs—ask for a copy today.

Can you transfer your government grants?

If you receive government funding pre-merger, keep in mind that it could look quite different after the transaction. You may need to reapply, or go through a different government agency. Always keep your government funders aware of the situation and the changes that your company is undergoing so that you are in compliance with any laws related to government grants and funding in your province.

The importance of asking yourself the tough questions during a merger or acquisition and figuring out questions you may not even have thought about yet is imperative to the success of the whole process. No one likes surprises involving unforeseen costs, liabilities or failure, so be sure you are keeping up with your due diligence responsibilities. And remember, McGriff is here to help with any resources you may need.