M&A

Keys to Success

Merger Communications

Driving Engagement, Assurance and Productivity

Article #2 in the “M&A Keys to Success” Series

February 2020

At Deal Announcement …
The deal is announced with much fanfare. Company A and Company B will come together to create an industry leader. They will provide superior value to customers and investors through global scale, innovative products and the best industry talent. Employees will have increased career opportunities. The next few months will be bumpy, but senior leaders are committed to open, honest communications. The CEO provides a simple, clear mandate to HR and Communication leaders: "We need to over communicate".

12 Months Later (6 Months After Close) …
Employees don't know the new product strategy, and are especially anxious about the product lines that overlap. The two product leaders that used to compete in the market have now become colleagues, but are still wary of each other, not knowing who will survive. Account Managers are tripping over each other, calling on the same clients more than once. They did not get a quota reprieve while the leadership figured things out, so they're doing what they do best … call on clients and try to explain feature-benefits of their respective products. Meanwhile, HR has pulled the plug on the employee engagement survey for the year since future org structure is not quite clear.

The scenario above is of course exaggerated, but elements of it play out in the majority of deals. Communications is one of the 3 "soft C's" of mergers (Culture, Change and Communications) that individually and collectively often get ignored during the integration process. The business impact is well-established, and yet few companies spend sufficient time on these areas.

The target variables for communications are:
- **Engage & Retain** key employees
- **Assure & Retain** external stakeholders (including customers)
- **Maintain Productivity** through efficient communication processes

These variables, in turn, drive the speed and degree to which the intended deal value can be realized.

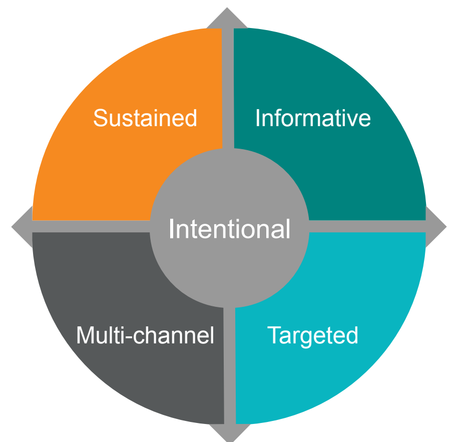
Challenges of M&A Communications
Communications demand a significant amount of time from senior management at a time when they are focused on the technical and financial aspects of the deal. This time constraint – combined with the additional challenges noted below – make M&A communications exponentially more difficult than "steady state" communications.

Aggressive & Shifting Timelines	• Accelerated pace, with major milestones to be hit every few weeks • Key decisions are made on a daily/weekly basis that might alter what needs to be communicated
Multiple Constraints	• Multiple constraints dictate what can and cannot be communicated - Contractual obligations with clients - Regulatory issues, especially pre-close - Competitive considerations

Different Stakeholder Interests	• Investors are trying to drive value capture • Leaders are trying to accomplish strategic & operational goals • Executives from both companies are jockeying for their own positions and priorities • Employees are concerned about their employment (jobs, compensation, benefits, title & responsibilities) • Customers are concerned about coverage gaps and new account managers, changes in product roadmap, etc.
Different Cultures	• There are at least two different cultures at play • In cross-border deals, national cultures are an additional overlay to the organizational culture • Merging entities see issues through their respective cultural "filters"

5 Key Elements of Effective M&A Communication

To achieve the target variables and address the challenges mentioned above, we recommend a very deliberate communication program that is comprised of 5 key elements:



1. **Intentional**
2. **Informative**
3. **Targeted**
4. **Multi-channel**
5. **Sustained**

While we discuss each of these elements separately, they should not be viewed as individual steps to be checked off, but rather as interrelated pieces that work together, and need to be continuously revisited and reaffirmed during the process.

1. Intentional: Create a Plan

It's just as important to have a plan for communications as it is to have a plan for merging the charts of accounts. A well-crafted plan ensures alignment across the messaging and messengers, ensures key milestones aren't missed, and provides an important signal to stakeholders that management is in control, and "has seen this movie before".

The Communication Plan Should:

- Define and agree on goals/key messages
- Establish a communications workstream;
- Outline roles, responsibilities and governance
- Identify key audiences
- Determine communication channels
- Set timeline/frequency & check-points to assess effectiveness
- Incorporate compliance requirements (gun-jumping considerations)
- Include a leak (reactive) strategy
- Incorporate training and talking points for key messengers

Intentionality requires continuous review to ensure the message delivered is the message desired. Management need to gather feedback, evaluate and adjust as needed.

Experienced integration leaders use the Communications plan like a metronome – it forces a cadence on all other integration activities. The initial (deal announcement) communication forces executives to think about integration objectives. The Day 1 communication forces a flurry of decisions around organization structure and roles. The Board/Investor communications calendar forces the CEO and CFO to think about how they will manage the combined business. Without metronomic demands of the communications calendar, most integrations would drag on for much longer.

2. Informative: Deliver Compelling and Relevant Messaging
Key messages should tell the story of the "why" in addition to the "what" behind the deal. They should inform stakeholders of what the deal means for their future and the future of the organization. These messages should align with integration strategy, organization vision, and employee values. They should generate excitement and encourage additional conversations.

Early in the deal process, it's easy to fall into the trap of "we don't have all the details, so let's not communicate right now." Think of merger communications like any good story … it starts with something that grabs the reader's attention, but the plot isn't revealed until much later. At the time of announcement, there is exciting and attention-grabbing (but high-level) information about markets, products, strategies and perhaps synergies. On Day 1, there is typically information about organization and key roles. Between Days 30-90, there is increasing level of detail about go-to-market (sales plays, account strategies), office locations, mid-level organization structure, etc. It's only after Day 90 (at the earliest) that the full story is revealed.

Example Topics of Key Messages

- The business case for the deal
- Leadership changes
- Integration decisions/updates
- Key business decisions
- Future organization mission, vision & values
- What's in it for me?
- New capabilities

Merger communications need to be as transparent and truthful as possible about likely outcomes. Without this, stakeholders will feel like they are being fed the party line, which results in a loss of leadership credibility.

An early test of transparency is around "What do we say about eventual cost synergies, and when?" This question is asked in almost every deal, and yet there is no easy or correct answer. Many companies (especially public companies) will make a specific statement about cost synergy goals in the deal announcement. This may include the synergy targets that were assumed in the deal model, and also the areas in which synergy is expected to be achieved (e.g. back-office functions, manufacturing, R&D etc.) Beyond these early high-level numbers, most companies will not say more until the decisions are firm and they are ready to execute on the cost synergy targets. This isn't being disingenuous – it's more about making sure that decisions are final before they are communicated.

Anti-trust "gun-jumping" regulations proscribe what can be communicated pre-close. Counsel should be included early in the communications review process. There is a balancing act here – communicating too much could put the company at compliance risk, while communicating too little slows down integration and wastes the precious few pre-close communication opportunities.

3. Targeted: Create Targeted Messaging for each Stakeholder Group

Less than 10% of merger communications content is relevant to all stakeholders, and that 10% is typically addressed in the initial announcement. As you get to the "business end" of the integration, there is a need to create targeted content for each stakeholder group.

Each stakeholder has a different WIIFM ("what's in it for me?") as shown below. Their engagement is directly proportional to the level to which their WIIFMs are being addressed.

Stakeholder Group	WIIFM
Employees	How does this affect my employment (job, compensation, benefits, title & responsibilities)?
Managers	What do I tell my employees? When? Is there any support available?
Executives	How do our success measures get recalibrated?
Unions	How does this impact membership, bargaining power, jobs, compensation and benefits?
Investors	How will the deal translate into shareholder value?
Partners	How does this impact my bargaining power, partner status, terms and future product roadmap?
Customers	How does this impact my account, agreement, pricing and the product/service that I currently receive?

4.Multi-channel: Reach Stakeholders Where They Are

To reach all stakeholders, you have to meet them where they are – utilizing all channels and allowing some redundancy. Emails and intranet posts are the easiest communication channels, but lack personalization. An integration "microsite" may be the most efficient vehicle for general integration news, but few people will check it unless prompted regularly. Face-to-face meetings provide the richest interactions, but are difficult to arrange for large global companies that may have employees in dozens or hundreds of sites around the globe. An "all of the above" strategy irons out the issues associated with a single communication channel.

Common channels for merger communications:

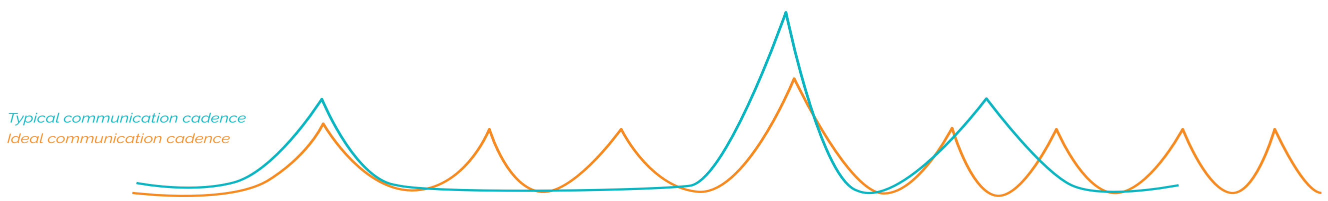
- **Email**
- **Web/intranet**
- **Print (handouts, site posters)**
- **Targeted microsites (employees, customers, partners)**
- **Face-to-face meetings (townhalls)**
- **Mobile (SMS/app)**
- **Webcast**
- **Executive Videos**

To ensure two-way communication flows, there needs to be a channel for listening and responding to each stakeholder. Engaging in two-way communications with each group requires a lot more effort than sending boilerplate email blasts, but it is necessary for any group that needs to be brought along in the deal.

Communications leaders are only responsible for delivering a small fraction of all the merger-related content. They rely on executives, sales teams, HR, finance and many others to deliver the majority of the messages. As such, a significant responsibility of the communications team is to provide tools and training to all leaders with merger communication responsibilities.

5. Sustained: Think Ongoing Waves rather than a Bimodal Curve

In most deals, there is tremendous focus on the initial announcement and Deal Close/Day 1, and then it tapers off rapidly. The best practice is to provide a continuous stream rather than a deluge of information. Key messages, messengers and channels, should be aligned with the unique challenges and needs of each distinct phase.



Due Diligence

- Communication is heavily restricted to senior executives, deal team and Board
- Communications team is focused on deal announcement and stakeholder identification

Deal signed & announced

- Ensure all major stakeholders understand deal rationale
- Reassure stakeholders of the company's commitment to them
- CEO is announced
- 100,000 foot statements on company direction

Pre-close and Day 1 prep

- Focus on major milestones: Integration team created, regulatory approvals obtained etc.
- Communication & collaboration processes are set up
- Legal team sets guidelines on how much communication/ collaboration is possible
- Clean team may be created
- Reinforce focus on achieving deal objectives
- Deeper focus (including 1-1 communications with) special/sensitive groups e.g. regulators, key business partners, major customers requiring consent

Deal close

- Reinforce deal rationale and company's commitment to major stakeholders
- 30,000 foot statements on company direction and key business units/ functions
- L1 structure announced
- High-level timeline for integration

Post-merger integration

- Things that really matter to each stakeholder: pay, benefits, titles, partner status, product roadmaps etc.
- Tactical actions to integrate products, business units, functions
- L2 and below structure announced over time
- Synergy actions
- Office/ site changes
- Highlight joint successes
- Create a combined Vision, Mission, Values and Culture

Transformation

- Evaluate success against initial premise
- Integration team moves on, hands over responsibilities to BU leaders
- Focus shifts from how we're going to integrate to how we're going to ensure deal success metrics

The Type of Deal Matters

The type and intensity of communications varies by deal type. In general, transformative deals have many more stakeholders and demand more communication resources than smaller tuck-in deals. There is also a variation between the 5 deal types we examined in our previous M&A Keys to Success paper:

- **Cost-consolidation:** Communications focus is on explaining synergies, regulatory approvals, employee plans that are getting consolidated or going away.
- **Product Expansion:** The focus is on customers, communicating product roadmaps and retaining key technical/product talent.

- **Sales Channel Expansion:** Communications is focused on customers, sales teams and sales programs, channel partners and partner programs.
- **New Business Platform:** In these deals, less is often more. The new platform was acquired due to its uniqueness, not its overlap. There may be some integration (and hence communication) in back-office functions, procurement etc., but there is usually a conscious effort to keep the acquired business/platform/brand distinct.
- **Portfolio Play:** Minimal communication, mostly in the form of reassurance to key customers and stakeholders about the new owners' intent for the business.

Conclusion

There isn't a one-size-fits-all approach to M&A communications, but using the 5 key elements discussed above as a framework – with adjustments made for deal type – you can develop a plan that fits your unique scenario. Developing and implementing effective M&A communications requires a significant resource investment, but is critical in driving the organizational and external stakeholder change required for the merger to succeed.

Executive credibility gets eroded if the early promises of "we will tell it like it is" and "we will over-communicate" are not kept. Even worse, the impact will be felt in the variables that really matter – speed and degree of value realization.