

***Master of Science
in Innovation and Entrepreneurship
2007/2008***

***ENT 4400:
Innovation Strategy and Management***

3rd meeting

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Overview

- 1st meeting: strategic choice – content and process
- 2nd meeting: evaluation of strategic alternatives and criteria for choice
- 3rd meeting: growth alternatives and the M&A process
- 4th meeting: rise and fall of businesses via M&A

Agenda for the 3rd meeting

- **Growth alternatives**
 - Organic growth
 - Alliances
 - Mergers and acquisitions (M&A)
- **Internal preparations for alliances and M&A**
- **The M&A process**
- **Case 3: "Analysis of the growth plan in Aker Biomarine ASA"**
- **Recommended reading:**
 - **Johnson & Scholes (2004): ch. 7**
Case example: Tesco (pp. 380)
 - **Dixit & Nalebuff (1993): "Thinking Strategically"**

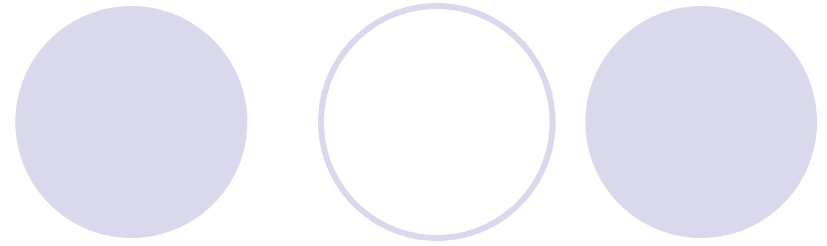
The network perspective

- Links in networks are related to
 - Technology
 - Knowledge
 - History
 - Judicial
 - Social/personal
- Networks are characterised by
 - Activities are mutually dependent
 - Resources are heterogeneous

Consequences of the network perspective

- Strategic consciousness of the links and how they can be exploited
- Develop the organisation to handle the network, especially with procurement, marketing and product development
- Research in the Nordics suggest that the 10 largest customers and suppliers represent 2/3 of the total volume

(1) Alliances



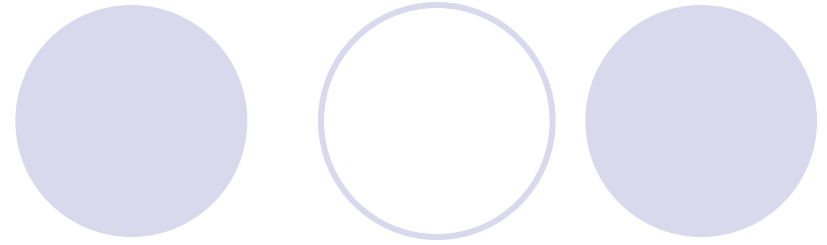
- Motives
- Degree of integration
- Pitfalls

Motives



- Value creation (positive net present value)
- Effective growth
 - Avoid barriers of entry
 - Speed
- Access to resources and competence
 - Scarcity
 - Quality
 - Quantity

Motives (ctd.)



- **Protect**

 - Avoid acquisition

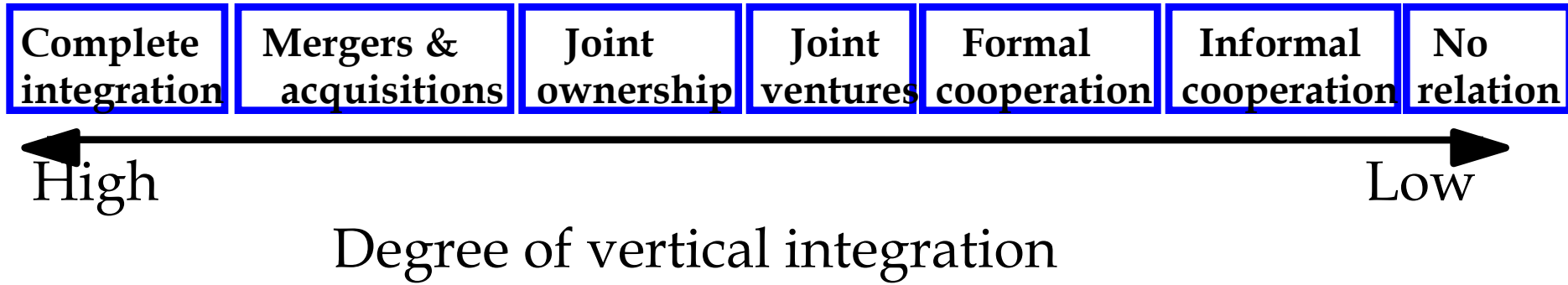
- **Legitimate**

 - Increase goodwill

- **Build**

 - Increase management's freedom
 - Prestige and power
 - Government support

Degree of integration

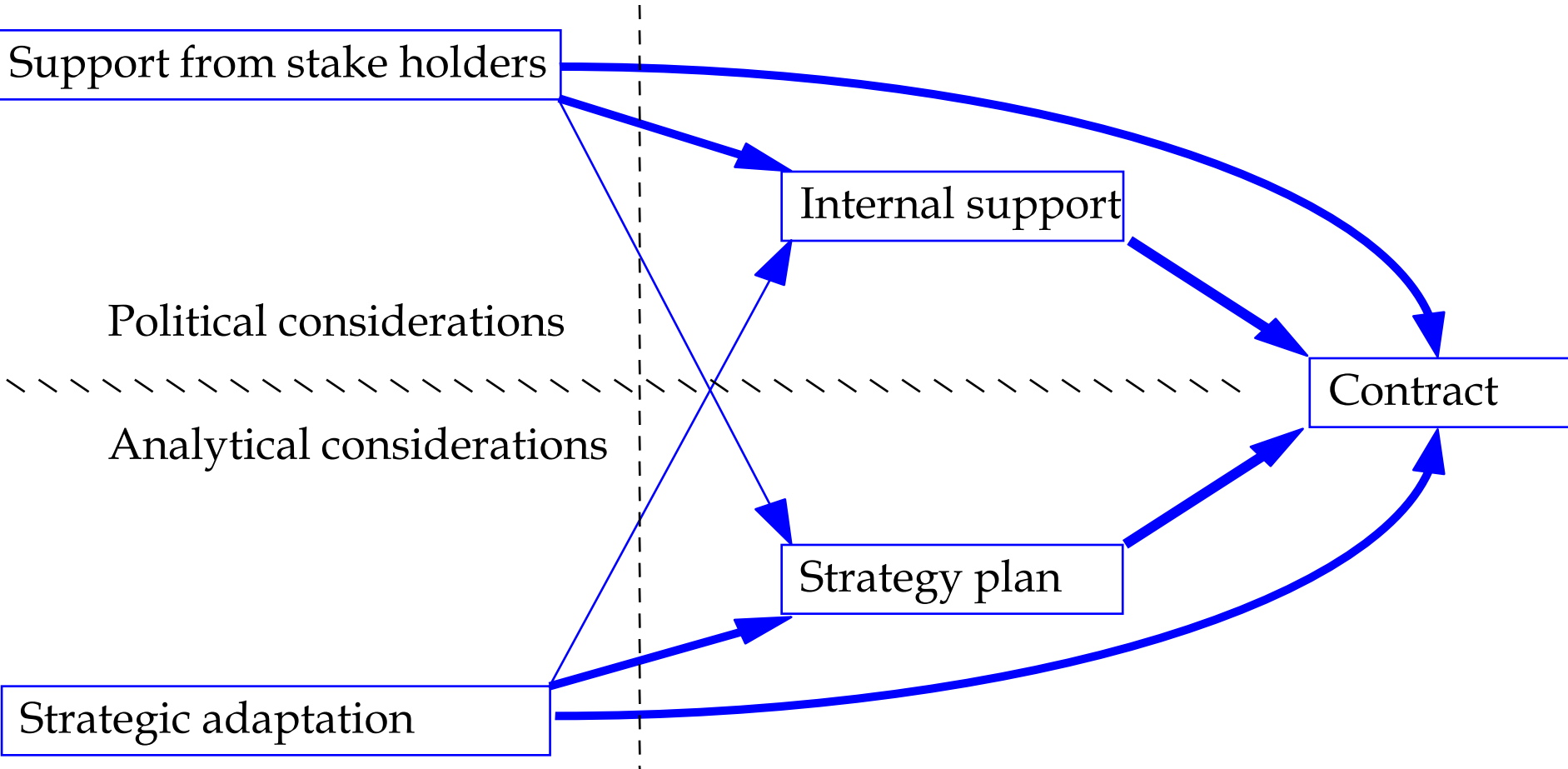


Pitfalls



- Hidden strategies and motives
- Conflicting internal motives
- Lack of information and hidden assumptions
- Unrealistic belief in own strategies and motives
- Complex coordination of motives and strategies
- Lack of will to give up control

(2) Internal preparations for an integration process





Strategic adaptation

- Coordination between strategic motives and potential forms of cooperation
- Cooperation related to the parties' total business portfolio
- Analyse conditions for a win-win-situation

Support from internal stake holders

- Understand individual political behaviour and processes
 - Change of conditions in order to achieve individual objectives
 - Manipulation, negotiations and coalitions
 - Coalitions are often case by case
- How to deal with
 - Make the cases explicit
 - Predict and lead the behaviour of coalitions
 - Allocate time and energy base on the potential impact
 - To create a positive atmosphere is more a question of finding the right way than to win.

Support from external stake holders

- Are major owners or groups of owners convinced?
- What will be the consequences for the company's reputation, and how will the stock market react?
- How will customers, suppliers, partners, sources of funding, and competitors react?

Strategy plan



- The cooperation as a common, continuous process
- Emphasise the benefits for the partners
 - Increased size
 - Speed
 - Complementary resources and competence
- Focus on competitive advantages created
- Identify and agree on common, coordinated activities
- Map the need for operational integration

Internal support



- Is it clear who is expected to do what, and when?
- Is the cooperation well enough explained and motivated?
- Is the organisation aware of the tasks ahead and in a mode to focus on the opportunities?
- Are the questions potential reductions in staff brought up?
- Are relevant specialists motivated to do their work in a true cooperative spirit?
- Will staffs complement each other in their way of working together?

Important players in the process

- The advocates
- The decision makers
- The opponents
- The bureaucrats
- The analytics
- The facilitators
- Those who will implement

Pitfalls in the internal preparation

- Lack of focus on the environment
- Too much politics
- Top management isolation
- Timing of response (too slow or too fast)
- Sudden need of change

(3) Mergers & acquisitions

- A process approach
- Price and value
- Acquisition competition
- Over pricing and “the winner’s dilemma”
- Decision and funding

Success or failure



- Of what?
- When?
- Why?
- According to who?
- And to whom?

A process approach

Mergers and acquisitions are complex processes:





The strategy phase

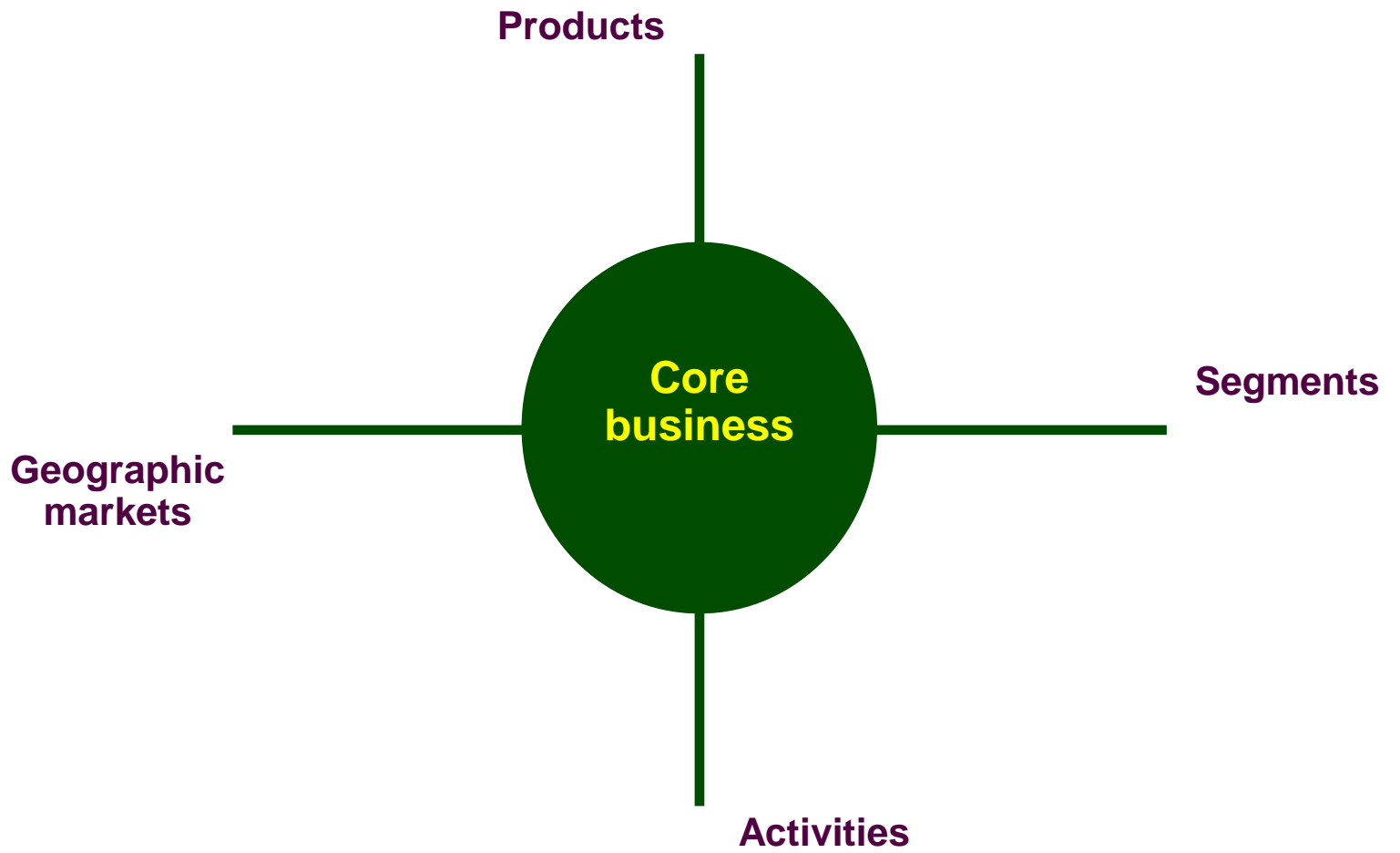
- Map the environment
 - Predict major changes
 - Focus on critical parts of the industry

- Industry analysis
 - Critical success factors
 - Key competence

- Analysis of the business
 - Compare strategy and vision
 - SWOT

- Strategic alternatives
 - Organic growth
 - M&A
 - Alliance
 - Wait and see

NB! Realism in growth alternatives





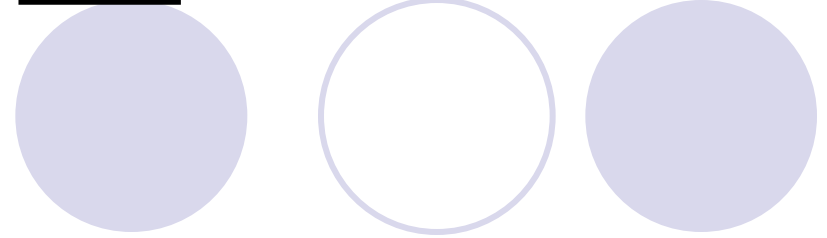
Growth and risk

Risk increases in line with complexity:

- Attempts to grow along several dimensions at the same time
- M&A to "win time"



Targeting



Critical issues:

- Selection criteria and ideal candidate profile
- Search for potential candidates
- Choice of target
- Approach
- Initial contact
- Initiate negotiations

Potential candidates

- Updated overview of strengths and weaknesses in key areas
- Evaluate with emphasis on
 - Activities that add maximum value at minimum cost
 - Key resources
 - Critical competence
 - Future challenges in the industry
 - Necessary competence to be able to exploit opportunities
- Personal contact with key personnel



Ideal candidates

Look for strong and compatible companies who can:

- Help acquirer overcome complexity
- Create two-way synergies
- Avoid being dominated by acquirer
- Demonstrate a market position
- Improve acquirer's image
- Build mutual trust and respect
- Contribute to smooth and fast integration



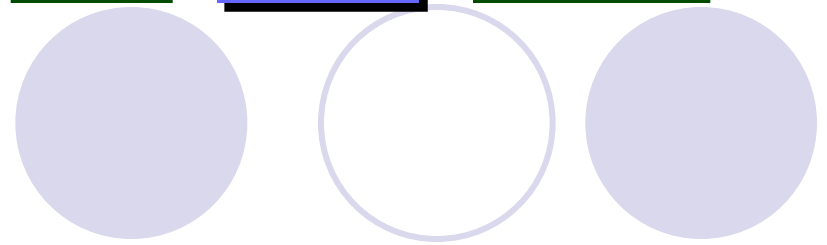
Ranking of candidates

Ranking based on value for acquirer :

- Net present value of future cash flow
- Synergies
- Dependencies
- Total cost of the M&A process
- Price



Negotiations



Key issues:

- Initial contact
- Stepwise mapping of opponent's position
- Estimate of value
- Negotiation meetings
- Deal



Preparations for negotiations

○ Agenda

- Prioritise issues of mutual benefit
- Rank benefit:
 - Based on importance for you
 - Against likely cost for the opponent
- Rank confessions:
 - Based on assumed importance for the opponent
 - Against potential cost for you
- Compare benefit and confessions

○ Roles

- Chief negotiator should be visible and available
- Management and board should be available



Negotiation issues

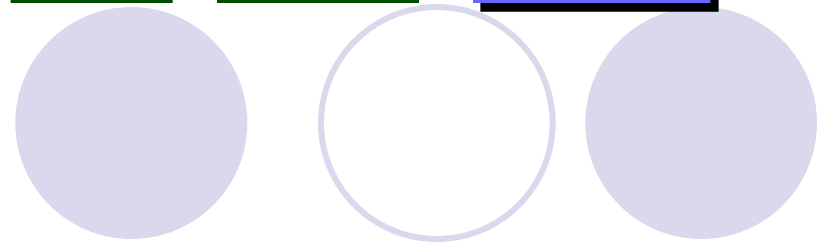
- Upgrade focus from two different pasts
- ..to a common future

- Create a positive atmosphere
 - Start with “simple” issues
 - Continue based on achieved results
 - Delegate to experts between negotiation sessions
 - Sum up and emphasise achieved results

- Documentation
 - Oral confirmation on achieved understanding
 - Start next session with a written summary of achieved results



Implementation



Issues:

- Planning
- Allocation of resources
- Communication
- Action → Results → Feedback
- Final result



Key implementation issues

- Implementation should start in the strategy phase
- Maintain a balance of people from both companies, but make sure that the right person is in the right position
- Continue the surveillance of the environment
- Start early with communication of achieved results
- Control realism in synergy effects on both sides
- Take the lead!
- Create attitudes for one company
- Listen and communicate!
- Deal with conflicts immediately



The post merger integration process

- Secure operations in target
 - Keep key management as long as possible
 - Give strong incentives to increase performance
 - Maintain basic systems
 - Allow management to focus on current business
- Treat those who will lose their jobs with generosity and respect
- Maintain and strengthen relations in the organisation



Decision and funding

- Go/no go decision
(with internal and/or external funding)
- An offer to the seller
- Board approval
- Announcement to stake holders
- Legally binding contract



NB!!

Always be prepared and willing to call off the process – if necessary with a loss,

i.e. avoid escalation of irrational engagements.

Case Aker Biomarine part 4 (to 4th meeting)

- preparations for an M&A-process

1. On what areas would you recommend alliances rather than acquisitions for Aker Biomarine? What preparations should Aker Biomarine do in order to be prepared for the establishment and implementation of successful alliances?
2. What preparations should Aker Biomarine do in the event that they should acquire another company? What internal measures should Aker Biomarine take with respect to meeting external stake holders' expectations?
3. To what extent will Aker Biomarine benefit from using an external advisor in an M&A-process? What will be the main benefits and drawback, and what will be the major pitfalls?
4. How would you form and present an offer of becoming Aker Biomarine's advisor? What competence and resources would you emphasise as "selling points", and would you propose a success fee or an retainer?