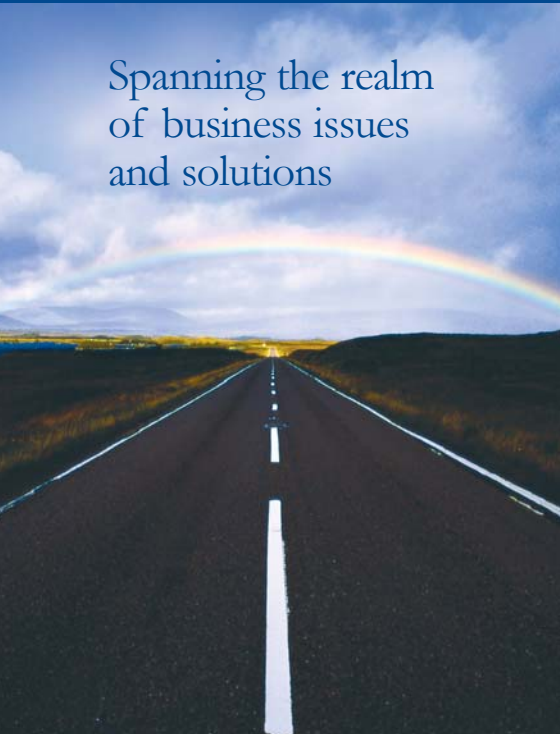


Merging Alliances: *Ignore at Your Own Risk*

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With U.S. companies pursuing alliances, joint ventures, and/or partnerships in record numbers, most merger & acquisition (M&A) transactions are bound to involve dozens if not hundreds of strategic business-to-business relationships (which we'll call "alliances" for short). Yet few merging companies devote as much time and effort to integrating alliances as they do to combining personnel, processes, technology, and physical facilities. The potential price: damaged relationships, confused customers, possible legal and regulatory complications, and an erosion of the market-place leverage the alliances were meant to provide in the first place.

The good news is that a little foresight and planning can go a long way toward getting your newly merged entity's alliances under control. Here are six tips that can help you overcome some common alliance-related pitfalls in a post-transaction integration.

1. Pick someone to lead the charge

The single most helpful thing you can do for your new entity's alliance portfolio is to designate, as early as possible, a senior-level executive to be responsible for alliance integration. The reason is simple. Like every other part of the business, alliances must be integrated with the new entity's strategic direction in mind. A senior executive can not only provide that guidance, but make and enforce the necessary decisions along the way. On a more pragmatic level, assigning a "point person" to alliances, even if only on an interim basis, is an excellent way to safeguard against their falling off the radar in the rush to Day One.

Who's the right person for the job? If one or both legacy companies had an alliance leader, you might simply select one of them to continue in that role. The choice is less clear, though, if the legacy companies left alliance management largely up to the business units or even individual relationship owners.

Depending on the number and significance of your alliance relationships, the person you select to lead alliance integration should be both senior and respected in the merged organization. Additionally, he or she should be able to cross functional and business boundaries within your company as well as at the alliance partners' organizations. Diplomatic savvy and a willingness to make and enforce tough decisions are essential, as the alliance integration leader may be called upon to mediate difficult negotiations or conflicts between alliance partners.

Whomever you choose, remember that he or she must also be given the authority, resources (both money and people), and time he or she will need to deal with the unique challenges alliances pose. Simply finding out who has what alliances with whom, for example, can be tricky in an environment where one or both merging companies might have lacked central alliance coordination, relationship owners may have been terminated during post-transaction restructuring, and most people are too worried about the changes to the internal business to spare much thought on alliances. If your alliance network is especially complex, you might consider deploying a dedicated team to help coordinate and staff the project.

2. Investigate legal and risk issues sooner rather than later

Pre-transaction due diligence rarely includes reading all the fine print in both companies' alliance agreements. Now that you've officially merged, your legal and risk management professionals will want to carefully examine each alliance agreement for any issues they might have missed before the transaction was closed. You'll also need to evaluate your alliance contracts against the new entity's legal and risk approach and, if necessary, renegotiate contracts with alliance partners you wish to keep.

Because alliances tend to be more complex and more interdependent than simple vendor-buyer relationships, expect to spend correspondingly more time and effort on sorting out alliance-related legal and risk issues. Alliance agreements often test the

Getting organized

Who are all of your company's alliance partners? What about the alliance partners of the company you're integrating with? If you don't have a consolidated inventory of all your alliances and their objectives, now would be the time to create it. This is not always an easy task, and there will likely be some debate as to whether a relationship is actually an alliance. Our advice: Cast the net wide, talk with many people in both legacy organizations, and circulate the list of alliances you've identified to everyone you have talked with – they're bound to suggest a few more.

boundaries of what organizations are willing to explore, and if the integration process isn't properly handled, a merger or acquisition may strain an already delicately balanced relationship to the breaking point.

What's more, because each alliance is unique, each must be examined individually for contractual nuances that may affect your current relationship and future plans. Be especially alert for any changes that may be needed to what each company is willing to put at risk, as well as the criteria for defining and measuring performance. Intellectual property issues are also often a significant area of concern. And don't forget to discuss what will happen to the alliance in the event of another merger, acquisition, or divestiture. Laying the ground rules now will make things much easier for both of you the next time around.

3. Tie alliance rationalization to product and service rationalization

The primary purpose of most alliances is to help develop, promote, and/or sell a company's products and services. A very effective way to rationalize alliances after a merger, therefore, is to map them to the combined entity's new product and service mix and decide how the alliance portfolio needs to change to support it.

In practice, surprisingly few merging companies succeed in connecting product/service rationalization and alliance rationalization. Some may need to streamline their alliances before they have time to finalize the new product

and service mix; others may simply overlook the need to link the two processes. To the extent they rationalize alliances at all, many companies base their decisions on factors more appropriate to routine alliance "housekeeping" (whether one alliance duplicates another, the cost and returns of maintaining a particular relationship, and so on) than to the broader question of supporting the new entity's marketplace strategy.

Housekeeping, of course, is fundamental to any well-run alliance portfolio. But when you're making major changes to your product and service mix, it's far better to tie any alliance adjustments to the changes in the goods and services they support than to rationalize alliances in isolation. Examining alliances alongside your new product and service roadmap allows you to readily identify and eliminate duplicative and no-longer-needed alliances. More importantly, it can give you an important time-to-market advantage by uncovering areas where alliances can fill in "white spaces" in your product and service mix.

4. Communicate early and often – even if there's no new information

The typical integration plan devotes an entire team to managing communications with employees, analysts, investors, and customers – every stakeholder group except, almost always, the company's alliance partners. Yet your alliance partners are just as hungry for information as any analyst, customer, or employee, and they're likely to be just as important to your new

entity's success. In most cases, your alliance partners did not ask to be part of a merger integration process, and it's only natural for them to have concerns and questions about the possible impact on their own businesses.

Getting the right message to your alliance partners takes both strong central coordination to facilitate message consistency and a certain amount of flexibility in how the messages are delivered to individual partners. If your company, like most, has an "up-front" communications policy with regard to the integration, you might begin with an initial message expressing management's commitment to alliances in general (if this is true), while acknowledging that the restructuring will have an as-yet-unknown impact on a number of alliance relationships. It's important to keep each alliance partner informed as to its status with the new entity even if – in fact, especially if – that means sending repeated "no new news" bulletins. The longer it takes to decide an alliance's ultimate fate, the more important it is to keep the communications flowing, if only to reassure your alliance partner that it hasn't been forgotten.

Individual relationship owners play a vital role in the communication process. They're the first people your alliance partners will turn to for answers, and they're the ones usually best placed to tailor the delivery, if not the content, of your messages to each partner. Assuming they're doing a good job, it can be helpful to preserve legacy relationship owners to give your alliance partners a sense of continuity. If you transfer or terminate a relationship owner, be sure to give the alliance partner plenty of notice as well as an immediate replacement contact. In all cases, it's important to educate the relationship owners as to the messages you want to convey and arm them with the information to answer your partners' questions. The point is not to micromanage the communication process itself, but to give your relationship owners the tools and knowledge they need to deliver a consistent message.

5. Renegotiate performance metrics and alliance partner compensation

Most alliance agreements include performance-monitoring provisions that specify how each party will measure the alliance's benefits and, if necessary, redistribute the gains. As the new entity's alliance strategy takes shape, some of the arrangements carried over from the legacy companies may no longer be appropriate. Your alliance partners, too, may decide that the changes to your organizational structure call for adjustments in the way the alliance is monitored and compensation awarded.

The first step is to establish a clear alliance strategy for the merged organization and set goals against which to judge each alliance's performance. If you're lucky, one or both of the legacy companies will have a well-defined alliance strategy to use as a starting point. If not, you can start by asking yourself exactly what you want to accomplish through alliances, how you'll know if you are succeeding, and how much alliance-related risk your company is willing to tolerate. The answers will point you toward an organization-wide alliance strategy that can inform performance measurement and compensation practices for each relationship.

Even with an overarching alliance strategy, expect your alliance-related metrics and compensation procedures to vary much more widely than the metrics and compensation schemes within your company's four walls. Alliances with different strategic purposes will require different metrics and procedures, and each alliance relationship will have a slightly different way of achieving the desired result. So don't worry if you can't develop a single set of metrics to regulate an inherently heterogeneous group, as long as you can be confident that every alliance has the right measures and procedures to monitor and reward its particular contribution.

6. Don't quit while you're ahead

Once you finish integrating your alliances – having rationalized your relationships, resolved any outstanding legal and risk issues, updated contracts, and aligned the entire portfolio with your merged company's strategy – it's time to think about how you're going to keep your alliances network synchronized with the business' evolving goals. Fortunately, the work you've done to integrate your alliances gives you a solid foundation on which to build an ongoing alliance management program. You may choose, for instance, to formalize top-level alliance accountability by appointing a "chief alliance officer" or equivalent. Key contributors to the alliance integration process could also be given permanent alliance oversight responsibilities.

Corporate-level alliance leaders should have at least three important responsibilities. The first is to periodically review the company's entire alliance portfolio to assess its value and strategic alignment, weed out rogue alliances and otherwise unproductive relationships, and perform other basic housekeeping duties. The second is to proactively identify opportunities to add, modify, end, or redirect alliance relationships to better support the company's objectives. And the third – least visible but perhaps most important – is to create an infrastructure that helps everyone at your company treat alliances in a way that's consistent with your overall alliance strategy. Among other things, this can involve establishing formal policies around why, when, and with whom alliances can be formed; assigning dedicated relationship managers to your most important alliances; and publicizing existing alliances and their purposes among your employees to prevent duplication and encourage alliance utilization.

To sum up: your strategic alliances are, well, strategic – and it pays to treat them that way. A post-transaction integration can be a fine opportunity to not only streamline the alliance portfolio, but also install the leadership and management processes to keep your alliance activities on track, today and for the long term.

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