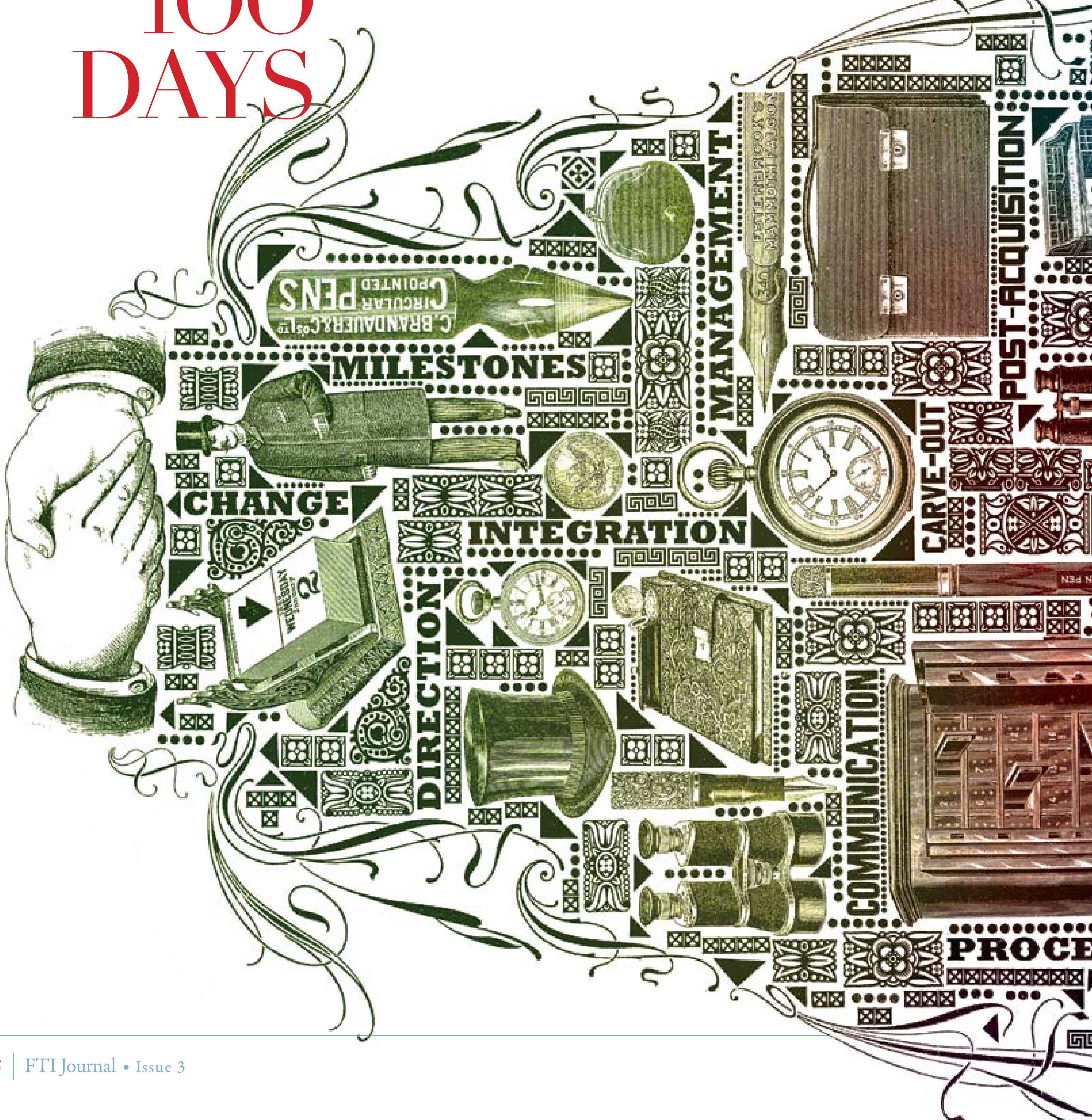
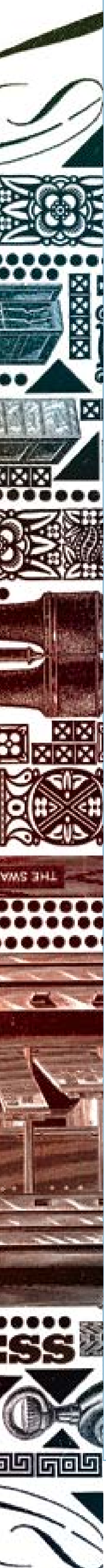
THE FIRST 100 DAYS

Well before closing on the acquisition of a company, the sponsor should develop a 100-day plan for the acquired company that will put it on the path to achieving the sponsor's investment goals.

BY RANDALL EISENBERG AND ANDREW HINKELMAN





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Whether acquiring a stand-alone business or carving out a division from a larger company, sponsors need to launch the investment on a course that will maximize the likelihood that it will achieve the goals that prompted the acquisition in the first place. Whether a sponsor anticipates minimal changes in how the business operates or radical changes in the vision and direction of the company, what happens during the first 100 days after an acquisition is completed is critical to establishing the tenor of the new partnership. To maximize the likelihood of success once the acquisition takes place, sponsors should develop a 100-day plan well ahead of time.

During the period leading up to the acquisition, the sponsor presumably has communicated its investment thesis clearly to management of the acquired company and had frank discussions on how it expects to achieve the goals that underpin its rationale for the investment. These should include realistic expectations about the level of involvement the sponsor expects to have, reporting requirements it expects to institute and the various metrics it expects to employ to monitor the company's progress toward its investment goals. (Sponsoring companies commonly complain about the sometimes cloudy distinction between the roles and responsibilities of their CEO and those of the acquired company's CEO.)

Once an acquisition takes place, it is important that the sponsor and company management finalize a concrete plan for achieving the investment objectives; and doing so within the first 100 days takes maximum advantage of the relationships and momentum that have been established during the negotiations. Management should be charged with preparing a bottom-up business plan that sets forth the tactics it proposes to achieve the agreed-upon near- and mid-term goals for the company, the metrics it recommends that the sponsor employ to measure progress, and a road map of middle management responsibilities, milestones and time lines that will be used to implement the plan. The plan should then be presented to the board (that is, the sponsors), for (firsthand) input and approval. If the portfolio company operates in a sector that is not well known to the sponsor, or the sponsor believes that the company requires dramatic changes to either its business model or operations, the board might be well-advised to retain experts with executive level experience in that sector to provide additional guidance during this process. The agreed-upon business plan can then be used to establish annual incentive plan targets (potentially reflecting a mixture of financial and nonfinancial goals) and performance rewards that incentivize the actions deemed necessary to achieve the business plan's goals.

> A common criticism of sponsors is the sometimes cloudy delineation of roles and responsibilities.

A detailed one-year plan is particularly important, but we would recommend that the plan encompass at least a three-year horizon so that the management team and sponsor can agree on the nature of the medium-term direction that will be pursued to reach the goals that have been established, and the steps that they expect will be required to get there.

SIX KEY FOCAL POINTS FOR THE FIRST 100 DAYS

Each of the following issues is critical in positioning a new acquisition for success. While some may seem commonsensical, each requires thoughtful planning and execution.

Clearly communicate with all key constituents on day one and again during the first 30 days. A comprehensive communication plan should be developed to address the anticipated concerns of key constituents, including customers, suppliers, employees (including unions or workers' councils) and financial stakeholders. If the acquired firm has various operating entities resident in different countries, it is possible that this will require tailored communications in terms of both content and local language. In many cases, this plan will be developed and implemented before the acquisition, but once the transaction is complete, these stakeholders will want to learn more about the sponsor, its goals and objectives in making the acquisition, its vision for achieving those goals and objectives, the thinking behind any announced management changes and a report on the financial stability of the company after the acquisition. Consideration should be given to having the sponsor and senior management meet individually with key customers, critical vendors and valuable employees to share their vision and enthusiasm, calm fears, solicit concerns and gather input. Directly or indirectly, these conversations should address the sponsor's level of commitment to the company and the opportunities that are created for each constituency.

Establish control of cash from the first day, even if there is an abundance of it. Many acquisitions, particularly divisions carved out of larger businesses, are more focused on profit and loss than on the cash flows. First identify all of

Ingraining financial discipline in a business often involves adjusting the mind-set of the existing management team.

the ways obligations can be entered into cash (such as by field staff, individual store location, corporate, p-card and contract) and how cash disbursements can be made (such as check, wire transfer and petty cash). Armed with this inventory, evaluate and adjust authorization limits to levels the sponsor is comfortable with, then modify the related procedures accordingly. Tightening down the many ways cash can be committed to and disbursed will often save the company significant dollars in situations where controls were somewhat loose under prior ownership. In addition to maximizing cash flow in the short run, taking this step in the first 100 days fosters a culture of cash maximization that is often critical to achieving the long-term goals of the sponsor.

Implement corporate governance policies that provide the appropriate level of oversight by the sponsor and establish authority limits at different levels within the portfolio company. Companies permit varying degrees of authority to obligate the company and disburse funds. In more decentralized organizations, significant authority sometimes lies at relatively low levels. A sponsor needs to evaluate commitment and disbursement authority levels from senior management down to the most junior levels and adjust them as necessary. At the senior management level, authority limits establish the degree to which the sponsor desires to be involved in decision-making beyond approval of a business plan and monitoring of results.

The proper balance will depend on the unique facts and circumstances of each situation — the important point is to explicitly address the issue, and establish well-thought-through incentives and the necessary governance procedures, in the first 100 days. For example, negotiating an owner earn-out that focuses exclusively on revenue metrics might encourage management to enter into major post-acquisition customer contracts at margins that generate little net cash flow. On the other hand, management might respond to incentives to improve profits by seeking to implement price increases on large customers with other options who could respond by taking their business elsewhere. In another example, one would want to make sure management did not commit significant marketing dollars to repositioning its brand before having fully implemented the product changes that underpin the repositioning, or before quantitatively assessing the potential ROI of the marketing initiative. These lessons demonstrate the need for a sponsor to balance management's latitude in running the business with necessary sponsor oversight. In thinking about how to incentivize desired behavior on the part of portfolio management, it is critical that the sponsor examine in a nuanced way how those incentives could backfire, and then establish corporate governance procedures accordingly.

Establish financial and operational metrics and tools to ingrain financial discipline and accountability in the business from the outset. This often involves adjusting the mind-set of the existing management team to reflect the sponsor's

THE SIX PILLARS OF AN ENTERPRISE

Each of these areas should be aligned with an enterprise's overall investment thesis and corporate governance policies within the first 100 days after acquisition.

INVESTMENT THESIS

RISK MANAGEMENT

Financial
- Budgeting
- Liquidity management
- Authority matrix
- Reporting
- Metric model
- Covenant model
- Leverage

Operational
- Footprint
- Metric model
- Process mapping
- Exception reporting
- Supply chain
- Store/plant
- Metrics

Strategic
- Market segmentation
- Channel distribution
- Cost containment
- Business plan
- Expansion
- Diversification

Human Resources
- Talent mgmt.
- Incentive comp
- Employee agreement
- Severance
- Spans/layers

Infrastructure
- Information systems:
  - ERP
  - CRM
  - ERM
- Outsourcing
- Facilities

Internal/External Relations
- Communication plan:
- Suppliers
- Customers
- Employees
- Lenders
- Board members
- Sponsor

GOVERNANCE

METRICS

core objectives of cost containment, profitable growth and efficiencies that will drive positive cash flows and generate the contemplated return on investment. Within the first 100 days after acquisition, the sponsor should work diligently with management to establish the specific process and reporting that will be implemented (e.g., "bottom up" budgets, cash flow forecasts, cash conversion plans, detailed cost containment initiatives and financial metrics). Once in place, these new procedures can be used to evaluate product development, portfolio and product offerings, and distribution and manufacturing alternatives. And in undertaking these changes, sponsors should not ignore other metrics such as customer satisfaction, win/loss rates, upsells, same-store sales, sales force productivity, shipping costs, on-time delivery, days to close the books or employee retention, all of which provide valuable insight into how well the business is being run. The key for sponsors is to agree with management about the most important metrics and seek weekly and monthly reporting and, in some businesses, such as restaurants and retail, daily reporting of certain key metrics.

Assessing human capital requirements should begin in the due diligence phase but continues to be crucial throughout the first 100 days. In the due diligence phase, the sponsor seeks to predict whether the existing senior and middle management teams have the experience and leadership to execute and to design compensation structures that reflect appropriate incentives to do so. Seeking to complete whatever management changes are necessary within the first 100 days — including identifying and retaining key individuals who can act as "change agents" by being visible proponents of the deal and the elements of the going-forward plan — will allow the dust to settle and reduce the inherent anxiety associated with uncertainty within the leadership ranks. Often companies are paralyzed if a pending management change is anticipated. Committing to a go-forward management team as early as possible, and certainly within the first 100 days, is important. In carve-out situations, sponsors will probably need to recruit a new senior management team, such as a CEO, a CFO, a controller and other key executives.

Ensuring the technology infrastructure is adequate to implement the necessary financial and operational discipline, as well as report on established metrics, is critical to instituting and measuring change and performance. The supporting systems go beyond the traditional accounting system and may extend to the point of sale, customer relationship management, work flow, enterprise risk management, forecasting tools, inventory management, scheduling and procurement, among other areas.

Information systems and infrastructure can play an invaluable role in leveraging an acquisition's value and overall performance, particularly where target company operations are decentralized and IT assets are critical to tracking the progress of 100-day initiatives. Sponsors need to ensure that the technology platforms provide what is needed, and they must implement plans (upgrading or outsourcing) to ensure that IT does not hinder the company's success.

With any acquisition, a fast-track approach to aligning the management team with the sponsor's investment thesis is a vital step. During the first 100 days, the sponsor needs to address with management the six pillars discussed on the previous page, implementing policies, strategy and reporting with an overlay of risk management. In "cross border" acquisitions, particular attention also should be placed in defining and effectively communicating goals for what will be perceived as "remote" or "foreign" parts of the organization. Developing an agreed-upon plan to achieve the sponsor's investment thesis through finalization and formal adoption of a three-year business plan in the first 100 days lays the foundation for a successful path forward.

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