Strategies

Financial Services

newsletter

Published by Makovsky + Company

Volume/Number

MAKOVSKY + COMPANY
the power of specialized thinking

Managing the Communications Aspects of a Merger

The scene was typical of many in recent years: two powerful executives, chairman Jürgen Schrempp, of Daimler-Benz and chairman Robert Eaton of Chrysler, smiling for the cameras and clasping hands to celebrate the joining of their two companies. The DaimlerChrysler deal, billed as a merger of equals, represented a marriage of opportunity, not desperation. Nevertheless, behind the traditional "grip-and-grin" shot lay weeks of careful communications planning, preparation and implementation. Word of the synergies expected to result from a merger needs to be passed on to everyone who has an interest in one or both combining companies: investors, employees, labor unions, Wall Street analysts and the media, among others. Communications must also play a critical role in building a new unified, productive corporate culture out of what formerly were two distinct entities.

Standardizing Customized Messages

While it takes time to modify a corporate culture, other merger challenges that require communications expertise need to be dealt with promptly. Take, for example, a situation where recalcitrant groups of shareholders have to be wooed to vote in favor of the merger. Just like employees, suppliers or any other group, shareholders are comprised of individuals who have a wide range of diverging opinions on various matters.

Do You Have the Answers?

As soon as news of the merger gets out, numerous interested parties will have questions about how it will affect them. The company's responses should be prepared well in advance. Here are just a few of the many queries the CEO or communications executives may have to field:

EMPLOYEES: Will I have a job after the merger? Will I have to take a cut in pay or benefits (for example, my pension)? What will the new company look like? Will there be more layoffs in a year or two? Will I lose my Union and the protections that a contract gives me? Will a contract employee replace me? Will I get a different boss? Will I have less autonomy? Will I be relocated? Who will have power over my career path and growth?

SHAREHOLDERS: Why is the company merging now? Is the company as good an investment as it has been? What will happen to the dividend? The dividend reinvestment plan? What sort of stock will I actually receive? What are the tax implications? Who is running the company?

UNIONS: Will we still have a cooperative management to deal with? Will layoffs and resignations deplete our membership ranks? Will one company or the other send work to another state or country?

ANALYSTS, BROKERS, ARBS: What's the rationale for the merger? What does the balance sheet look like? What's the likely effect on near- and long-term share prices of the companies? Will this merger be followed by others? Who's in charge now? What is past experience? Can management get along?

Recently, a large old-line company sought shareholder approval for a merger with a younger, more progressive firm. Its shareholders were sharply divided. Sizable blocks of stock were held by institutions that questioned whether the merger could reinvigorate a sleeping giant and boost the stock price or just weigh it down with added debt. Many shares were in the hands of thousands of elderly, conservative investors wary of any potential threat to the steady dividend increases they had previously enjoyed. To persuade both groups to vote in favor of the $2-billion deal, separate messages had to be crafted carefully for each. Both sets of messages shared a common underlying theme: things would change –– but not all that much –– and the changes would improve the lot of both companies and their respective shareholders.

The challenge is customizing the information for each individual audience group, without compromising credibility, accuracy or consistency. Communications with key constituencies can take a variety of forms, including brochures, audiovisual presentations, teleconferences, in-person speeches and educational seminars.

Take a look at some of the concerns in the illustration below that individuals in the various audience groups might have, which the communications plan should address.

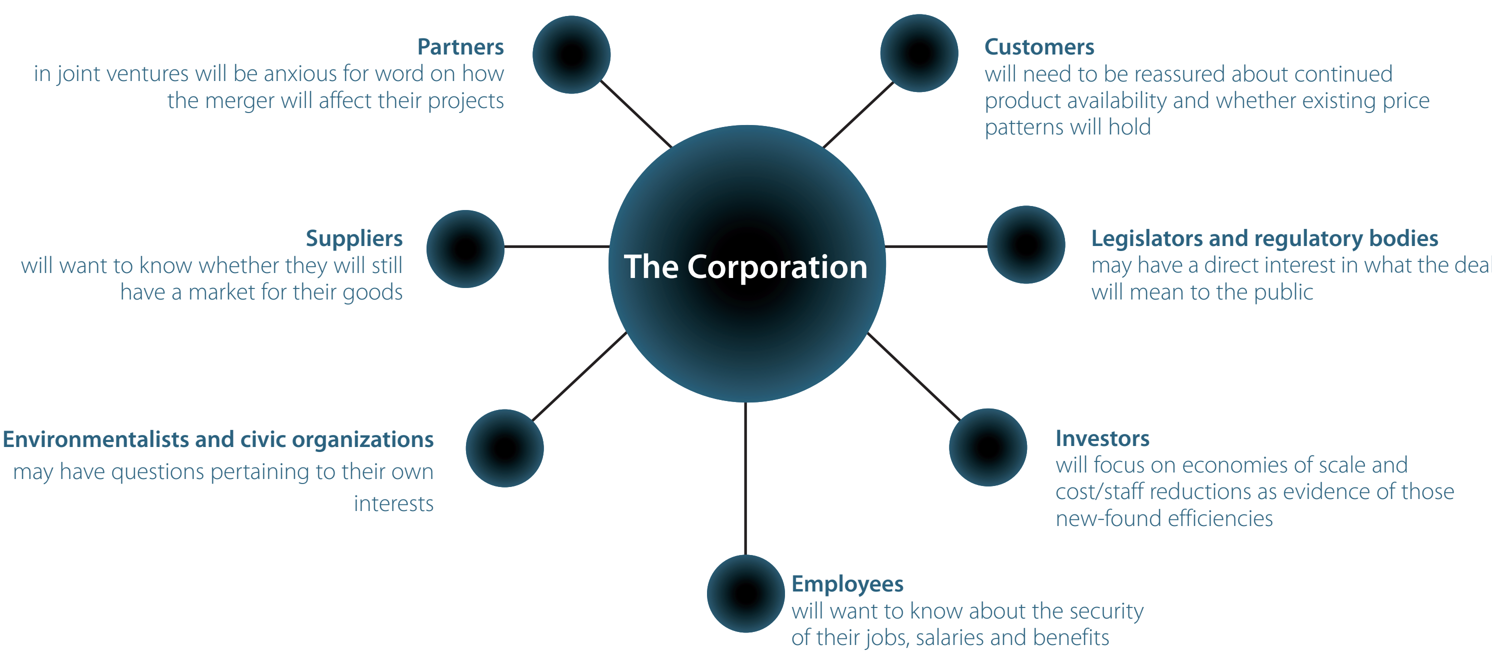
The Hazards

With the accelerated pace of mergers today, a successful communications program may need to be prepared in a matter of days … certainly, within a week or two. Rumors of the impending move can leak between the time that two chief executives agree in principle to merge and the time they make an official announcement; and the effects of those rumors can be disastrous. Management may have to field a sudden flurry of queries from shareholders. The stock price of one or both companies may rise or fall as investors seek to capitalize on the imminent event. Morale issues may surface among employees confused about the future direction of the company and the stability of their jobs.

The companies may find themselves enmeshed in problems resulting from their failure to comply with the full disclosure regulations of the Securities Exchange Commission and the stock exchanges.

For those reasons, top executives invariably huddle with their attorneys, investment bankers and board members in top-secret, pre-merger confabs on the executional details of "Project X." Will it be a stock-for-stock transaction? Stock and cash? All cash? Which execs will hold which managerial titles in the post-merger company? Drafts of prospectuses, proxies and other legal and regulatory documents need to be prepared.

Communications Concerns to Address



Plugging a Leak

Under the "full disclosure" regulations of the SEC and stock exchanges, a publicly-held company is compelled to make certain that any significant news is widely disseminated. As more individuals – – secretaries, messengers, graphic designers and the like – – are involved in the details of a merger, the odds grow that a CEO will be called by a news reporter or large shareholder, who will begin by saying, "I've heard a rumor that …."

What's a proper response? It varies, depending on the accuracy or inaccuracy of the report.

In most cases, avoid a curt "No comment." Word it more helpfully: "It's our company policy not to provide any information, positive or negative, about rumors. I'm sorry that I can't say more, but that's our policy." The statement is acceptable even to the stock exchanges, which may be interested in the reasons for a stock price swing.

Be wary if a reporter says he or she is about to publish a story with information that's way off the mark. Some reporters will deliberately misstate what they've heard in hopes of getting a statement from the CEO. In cases where it appears that the rumor is specific and correct, the "company policy" reply might be amplified slightly. "Everyone is involved in discussions at one time or another, but we can't say that any talks we have had in the past or may have in the future will culminate in an actual transaction. If one does, we will make the news public at the appropriate time."

Developing the Plan

Once negotiations near completion, one or two senior public relations consultants may be involved. Often in just a few days'time, they must master the financial intricacies of the merger, the personal style of the companies' key officers, any important labor and shareholder issues and a host of other factors. As the top-level meetings wind down, the communications consultants can swing into action.

The next order of business: to fix a date when the merger will be announced, and a timetable that –– working backward from the target –– sets completion deadlines for each aspect of the communications program. To guard against leaks, the entire initiative must be condensed into as short a time frame as possible.

A sampling of the elements of a merger communications plan might include:

Themes and "talking points" –– Condensed to a few brief sentences on a page or two, this vital document focuses on the rationale for the merger, pinpointing the benefits for shareholders, customers, employees and suppliers. The more benefits, the better.

Press releases –– Once the themes are set, they are integrated into press releases targeted to the general and financial press and trade media targeting specific audience segments, such as suppliers, customers and environmentalists.

Shareholder letter –– This personal message from the chief executive elaborates on the talking points, with an upbeat tone for the future.

Key customer letter –– Ditto, with appreciation for past business and a strong conviction that the merger will mean better products and/or service. The companies may find themselves enmeshed in problems resulting from their failure to comply with the full disclosure regulations of the Securities Exchange Commission and the stock exchanges. For those reasons, top executives invariably huddle with their attorneys, investment bankers and board members in top-secret, pre-merger confabs on the executional details of "Project X." Will it be a stock-for-stock transaction? Stock and cash? All cash? Which execs will hold which managerial titles in the post-merger company? Drafts of prospectuses, proxies and other legal and regulatory documents need to be prepared.

Key supplier letter –– The talking points, with assurance that the merged company will value their cooperation as "the pieces are put into place."

Employee letter –– Carefully crafted for the entire company or workers in each of the various divisions, these reiterate the main themes, but also focus on the opportunities that the merger presents for individual advancement. Importantly, even though the goals of a merger typically include "operating efficiencies," employee letters should stress that no immediate changes are in prospect and all employees will be kept fully informed of upcoming changes in the following months.

Retiree letter –– Occasionally overlooked in the hectic period of communications planning, this letter can calm retirees' worries about how the merger might affect their pensions.

Company fact sheet –– A single page or two with the basic data on company size, revenue, earnings, history, etc.

Bios –– Background biographies of the top management and key executives at the new entity.

Q & A s –– The heart of a sound communications program, a questions-and-answers document precisely states the new c o m p a n y 's considered responses to all questions about the merger that could conceivably be posed by media, shareholder, employee, analyst, customer or supplier.

Speeches –– These can take a variety of forms, ranging from a lengthy address accompanied by a multimedia presentation for reporters, analysts, shareholders or customers to a brief voice mail message informing employees that a merger is planned and further details will be forthcoming.

Information kits –– Various materials –– press releases, fact sheets, executive bios, letters, a Q&A page –– are packaged together for distribution to the press. The kit may be modified for employees and other constituencies.

Media training –– Corporate spokespeople –– the CEO, financial officers and division heads –– rehearse presentations, speeches and Q&A sessions.

Web page –– Various documents –– such as financial statements, backgrounders, press releases and employee or customer letters –– must be adapted for posting on the Internet.

"History shows that . . . only about 30% of all mergers succeed . . . a well-executed communications program can raise those odds."

No Place for Fumbles

Asuccessful merger hinges on the presumption of both buyer and seller that they have struck a fair bargain. But what if a poorly communicated response to a question gives employees the idea that they face layoffs or salary reductions? Some immediately start to look elsewhere for jobs, thereby weakening the company and lessening the value of the acquiring company's purchase. What if customers get the idea that the merger will mean delayed shipments, lower quality products or rising prices? They turn to other suppliers … again reducing the company's value to the acquiring firm and lowering its prospects for the future.

Some CEOs respond with generalities: "We believe the merger is in everyone's best interests" or "It's too early to predict what will happen." That can be dangerous. In today's skeptical environment, such statements can be construed as evasive. Even the tone of voice in which a question is answered can have negative consequences. Suppose, for example, a tired CEO snaps a blunt, "No! No more questions!" when asked if the merger might provide him with a huge golden parachute payoff. Rather than accepting the reply at face value, an investor might wonder why the executive seemed so irritated. A comprehensive communications plan guards against the possibility of a misleading statement –– or a tone of voice subject to misinterpretation –– with careful scripting and rehearsal.

To prepare for the imminent Announcement Day, printed materials must be distributed to appropriate distribution points, sometimes on a global basis, in absolute secrecy. Once everything is in place, it's time for the announcement: a critical period in which multiple activities take place in a few hours in rapid succession.

Step by Step

Taking into account SEC disclosure requirements, particular attention has to be given to publication deadlines in key time zones in the U.S. and worldwide. If, for example, the announcement is scheduled for release at 10:00 a.m. on Wednesday in New York, it may be necessary in Paris to distribute employee letters and kits in the wee hours of the morning so that the company's French employees have them at the start of their workday. And since the aim is to notify everyone at the same time (thus avoiding "We've been sold out!" employee e-mails from Paris to New York), printed material in the U.S. should be distributed after close of business on Tuesday night.

Again, keeping in mind the time difference between stock exchanges around the world, a press release must be faxed to the important exchanges a half-hour before they open. Moments later, the release will be sent to major financial media wire services (including Bloomberg, Dow Jones and AP) and to the services that distribute public relations announcements. Often, the announcement is accompanied by an invitation to a press conference within the next few hours.

While the printed material is electronically distributed, communications professionals take to the phones to alert key customers, financial analysts and other interested parties to the announcement. Messengers deliver press kits to key media in major cities. The CEO and other top executives begin to schedule one-on-one briefings for important customers and media representatives.

Not Over 'til It's Over

At the appointed hour, management meetings and presentations are delivered to the invited audience, live or by phone or satellite hook-up. Human resources teams are on hand to field employee questions as the news is received at offices and plants everywhere. The flurry of activity doesn't end with the announcement. Once that's accomplished, members of the communication team get on the phone to schedule a series of conference calls: for the media, shareholders and analysts. Some individuals get one-on-one briefings.

In the ensuing days, a well-planned communications plan allows for thorough follow-up.

Media coverage is carefully monitored. Were the primary themes –– the potential benefits of the merger –– accurately reported? Has the merger achieved widespread acceptance among shareholders? Have questions been raised other than those anticipated? If so, what can be done to clarify matters?

Reactions at the employee and union levels must also be monitored. HR staff may get a feel for the immediate post-announcement mood from the questions that flow in via e-mail and phone. Management must be quick to counter any fears or rumors by providing prompt, factual, up-to-date information.

When Things Go Awry

As simple as the process seems when it is wellplanned, the consequences of poor forethought anywhere along the way can be severe. Take, for example, the press received by Ernst & Young and KPMG Peat Marwick when they called off their planned merger. The Wall Street Journal said both "had not only wasted time and effort but had also swapped competitive secrets."

In another failed deal, when Bandai, a Japanese maker of video games, cancelled a merger with giant Sega, its president had to step down in a symbolic acceptance of responsibility for the failed alliance. And, a California electronics company, MicroProse, decided not to merge with rival GT Interactive. The cost of the withdrawal was estimated between $7 and $10 million.

Answers Always Needed

As important as it is to have ready answers for questions about a proposed merger, it's also necessary to be prepared for the questions that will inevitably arise if the deal is suddenly called off. In such cases, the odds are good that some disruption has taken place within a supposedly well-run business operation, and that one or more constituencies will be grievously disappointed. Even if the cause of a deal's failure originates outside of the two key organizations –– from a regulatory agency or court opinion, for example –– investors may assume that corporate management did not do its homework.

So, as each step toward a merger is considered and taken, company executives must keep their communications specialists apprised of what is happening. It's not just top management that must know why the merger is contemplated, when and how it will be executed and the measures of success … so do shareholders, customers, suppliers and others even tangentially involved with the dealmakers.

Some thought may need to be given to how the companies might respond if a "white knight" rides into the picture, or a rival offer is made. Where the employees are concerned, is there a likelihood of cutbacks … of people, branches or factories? There will probably be questions about benefits, early retirement, relocation, and opportunity for advancement. And political considerations may need to be taken into account if the deal could come under regulatory fire, antitrust activity or community opposition.

History shows that, over the long term, the odds of success for a merger are low. A well-executed communications program can raise those odds, ensuring that the optimistic smiles on the faces of the CEOs at the deal signing represent an accurate expression of the future of the new enterprise.

Communications and the Corporate Culture

Whether or not a merger succeeds — and it's estimated that only about 30% of all mergers do — can depend to a large extent on how well management communicates its plans and expectations to the combined organization. For a period of several months following the merg e r, it's best to make few changes, but to ensure that employees, customers and suppliers are informed that changes will occur, gradually, and that *they will be kept fully advised about them well in advance of any potential changes.*

Seminars headed by representatives of a communications team can explain in detail why the merger was undertaken and what promise the future holds. Not every question has to be answered with a direct "yes" or "no." No one can complain if the answer is "At this time, we just aren't certain and can only say that we're considering various options, and we'll let you know more when we know more ourselves." The words to liveby are "You will know first."

To foster cooperation among staff of the new organization, the communications line should flow inward. A number of surveys should be taken: Asking management executives, for example, which departments they think should be combined and workers their opinions of such concepts as flex time or equal pay for equal work.

One objective of the surveys and seminars is to uncover the commonalities of both cultures, even to discover shared gripes. Survey results should be fed back to everyone, with assurances that management is taking them under consideration. Regular employee newsletters and mail bulletins help.

Is it possible to over-communicate? To provide employees with such a flood of e-mail, newsletters, invitations to seminars and announcements that they turn resentful? In a word, no. Not if the messages are focused and creative.

MAKOVSKY + COMPANY
the power of specialized thinking

Learn more about how
Makovsky's Financial Practice
can make a difference for your company.

Contact Scott Tangney
212.508.9661
stangney@makovsky.com

About Makovsky + Company

Founded in 1979, Makovsky + Company (www.makovsky.com) is today one of the nation's leading independent global public relations and investor relations consultancies. The firm attributes its success to its original vision: that *the Power of Specialized Thinking*™ is the best way to build reputation, sales and fair valuation for a client. Based in New York City, the firm has agency partners in more than 20 countries and in 35 U.S. cities through IPREX, the third largest worldwide public relations agency partnership, of which Makovsky is a founder.

575 LEXINGTON AVENUE, NEW YORK, NY 10022
212.508.9600 P 212.751.9710 F

WWW.MAKOVSKY.COM