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PSM enables Bank to achieve significant improvements in processing efficiency



Background and objectives:

HBOS operates two cash processing centres in Scotland and our need was to improve processing efficiency and capacity in our main centre in Edinburgh. These improved processes would form the 'blueprint' for establishing similar operational processes in our other cash centres both current and in the future. In addition, our aim was to achieve these objectives using our own staff, bringing in PSM to provide the approach, tools and techniques, and to transfer skills to the Cash Centre team.

Our objectives for the project were to:

- map and measure existing operating procedures
- identify and implement 'quick wins' (small improvements that we could implement ourselves with no IT implications)
- identify and plan implementation of more radical process improvements, and to establish future processing volumes and staffing requirements
- develop 'best practice' for Cash Processing in other locations
- develop a continuous improvement capability and process framework

Work undertaken:

Following project launch and team selection, PSM trained the team in process optimisation techniques and then guided them through process mapping, measurement and improvement.

In parallel with process optimisation, PSM helped us with a set of 'factory' initiatives, which drew inspiration from manufacturing industry practices such as Kan-Ban and Visual Management, and applied these to provide additional benefits to the Cash Centre. At the end of the project, the new processes were



written up in a simple, but effective procedure manual which will act as a datum point from which future improvements will be made.

Results:

At the end of the project, 22 quick wins and four improvement themes delivered:

- total FTE savings of 15%
- simultaneous absorption of Halifax cash processing in Scotland without further resource
- the opportunity to make further savings when we implement the new Cash Management software
- capability within the Process Review Team to carry out further improvements
- the adoption of best-practice 'factory' operating principles
- staff involvement and ownership

PSM were very much part of the team, and brought the expertise, tools and techniques, that assisted our team to deliver a significant improvement in productivity to our business.

Graeme Donald - Director of Cash & Support Services, HBOS



Graeme Donald

Can you learn to integrate businesses more effectively?

Why do businesses pursue risky mergers and acquisitions?

While much analysis continues to point to the fact that most mergers and acquisitions do not add long-term value, it is still a key tactic (and in some cases, a weapon) in many business strategies.

Whilst there may be a myriad of reasons why companies undertake mergers and acquisitions, we have found that it is increasingly less about financial benefits such as cost reduction. It is more about intangibles such as greater presence in the marketplace, in terms of share of customers' minds and pockets.

Intrigued by this observation we have invested some time to complete a survey of companies who have recently acquired or merged with another. Although the detail results of this survey are, and will remain confidential to the participants, we have taken the findings of the survey, blended them with our own direct experience and developed a summary of insights into:

- the rationale behind what drives companies to embark on this extremely complex and uncertain path
- major reasons for the failure of the transaction to meet expectations
- what can be done to increase the chances of success of the integration of an acquisition or merger

Rationale for embarking on a merger or acquisition



We found that the six reasons that appeared most frequently were:

Market share gains

- this is seen as the easy way to improve revenues and share in either a very mature market (where product/service innovation plays a more limited role in stimulating share

growth) or in an embryonic market in order to establish early dominance.

Strength with customers - with the growing dominance of a few European retailers we are finding that suppliers are merging in order to match the strength of their customers

Increased business scope - when organic growth cannot provide all the required strategic skills and processes in the time available. In consumer durable products we are seeing a major migration of companies up the value chain towards the consumer in order to grab more of the value-added.

Cost reduction or margin improvement - here we see two main initiatives. Firstly, to grow volume in order to provide economies of scale with suppliers and in manufacturing. Secondly, to acquire lower-end brands in order to secure the position of higher brand (and margin) in the market.

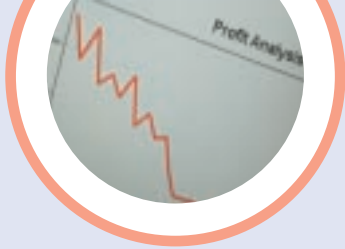
Improved image - particularly amongst key stakeholders. Acquisitive companies tend to have a more dynamic profile and are often (we are not quite sure why!) more attractive to capital providers.

Technology/know how acquisition

- The protection of intellectual and commercial property is a key competitive weapon for those that have it, and an (expensive) barrier for those that do not. This is vividly illustrated by the effort that many consumer electronics companies go to in establishing 'standards' early in the product lifecycle. Access to this IP by competitors in most cases can only (legally) be gained through licensing/royalties or acquisition.

Success therefore is increasingly about getting the two sides to work together to deliver the benefits predicted. While the benefits appear very clear on paper, achieving them requires a careful, planned approach.

For some companies, *doing* mergers and acquisitions has become almost routine and so they begin to think that one is much like another. This is very dangerous as the acquirer become less rigorous in planning, mistakes occur and the chance of failure increases dramatically.



Major reasons for failure to meet expectations

Considerable time and effort is usually put into the pre-deal planning, however there is often dissatisfaction expressed about the final outcome. Although expectations, which used to be set unrealistically high, are now more achievable, there are still disappointments.

The number one reason for failure to meet expectations is the *mismanagement of people*. Companies continue to lose key capabilities by ignoring vital competences and values in the acquired company. The acquisitive company is often arrogant, thinking they know how to do things better.

For branded products and services, there is the added problem of the dilution of value by *not understanding the brands* being acquired and the effect of the ownership change.

Despite the best modelling, until the two companies come together, *the estimation of synergies* cannot be predicted accurately. Also, human nature being what it is, there is often *underestimation of the difficulties*.

Too often the focus on getting the deal done means that careful consideration of *the integration plan* only starts with earnest after the birthday. Getting clear responsibilities then becomes rushed and ad-hoc, rather than being done in a structured way.

Integration programmes with a strong international dimension have to manage *socio-cultural differences* and a lack of understanding on these issues from both sides is often the major cause of failure.

A merger or acquisition increases *the internal focus* and often leads to managers taking their eye off the ball. In addition, the competitors may view this as a chance to take business while the company is pre-occupied.

Finally we observe that senior *executives' attention wanes* after the deal is done, as they are too busy working on the next deal, which demands more immediate attention and may provide more interest. They then

leave it to the integration teams and operational management to make it work.

Our recommendations for doing it better next time

There is no magic solution to this but our experience offers some 'tips' to help improve the success rate in future

People

Better due-diligence in the area of Human Capital (the performance of your target is largely the result of the human capital). Agree the structure and key appointments before the deal, and implement immediately.



Integration planning

Plan the level of integration (full/partial/limited) and the integration tasks in detail before the deal is done. Apply professional risk management methods to the planning process. Speed rather than precision is key

Customers

Assess your customers' perspective on the deal. In some cases consider whether you could approach your customer to discuss the deal in confidence

Brands

Ensure you fully understand the value inherent in the brand and any impact of change of ownership. In addition try to understand how the brand influences the culture of the company and visa versa (e.g. BMW and Rover)

Suppliers

Understand the potential synergies, but more importantly do not forget the increasing power that a narrow supplier base can exert.

Competition

Understand possible competitor responses. Simulate these and put into place mitigating and contingency actions to address them. Consider whether you should plan for short term share loss and how this will be regained

Ways of working

There are usually examples of good practice from both sides. Make the effort to understand these and where necessary create new business processes that embody these good practices.

Communication

This should be two-way: avoid arrogance and build 'one team'

In conclusion, acquiring and merging with another business is undoubtedly, on paper at least, one way to grow shareholder value. We have noted however from the survey and from our experience that in many cases it is used to counteract weaknesses in the performance of the acquisitive company. If this is the case, or if quality time and attention is not paid to the areas above, then the transaction will fail to meet the expectations that the shareholders have been led to expect.

If you would like to discuss our experiences further and how we may help you improve the success of integrating a new business, then please contact M&Ateam@PSMconsulting.co.uk



Louise Wickham

The wind of change for Management Consultants

On August 31st Arthur Andersen closed the doors on 89 years of audits. The remarkable decline of this professional services giant has taken less than 9 months with the remaining office-supplies in their prestige Houston office being donated to charity (not to the Enron shareholders!).

The winds of change that have begun to blow through the professional services industry, apparently catalysed by this event, are far reaching. One only has to compare the price offered for PricewaterhouseCoopers' management consultancy business by Hewlett Packard in 2000 (\$18bn) compared with the price actually paid for PwC Consulting 18 months later by IBM (\$2.5bn). What has caused this change and where is it leading?

It would be unfair, and indeed inaccurate, to lay the majority of the blame for this change on the Andersen/Enron doorstep, the history goes back several years and the background is more complex. At PSM, we have seen the changes moving in over the horizon over the last few years and we have realigned our business in anticipation.

Re-skilling the enterprise

The de-manning (and consequent deskilling) of the enterprise in the early 90s went too far. The corresponding rise in management consultancy services to fill this gap left the organisations perpetually denuded of key skills and continually reliant on consultancy services to fill that gap. But during the past couple of years there has been a noticeable shift in the efforts to re-skill the enterprise through focused recruitment. Perhaps consultants currently surplus to requirements will have a soft landing!

Increasing client confidence

With the new increase in skill level has come a boost in the confidence of clients to question the value added from consultancy services offered. This questioning is now not only being applied at the point of initial engagement of consultancy but also during key steps in the assignment. Consultants are now being focussed much more strongly on essential business issues, and are no longer hired, as was perhaps too often the case, simply to provide management comfort and fill capacity shortages.

Grabbing back the controls

And it is not just the value added that is being scrutinised with more vigour; the same increase in the level of questioning is now applied to the recommendations made by

management consultants, in particularly those who advise on strategy development. Looking back, there is a distinct feeling by many clients that strategy consultants have at times 'railroaded' the client into accepting recommendations without allowing or accepting the necessary challenge - perhaps this is one of the reasons behind the marked decline in the demand for strategy consulting.

Reducing the conflict of interest

The conflict of interest between auditing and consulting has been recognised for a good many years. Both the pressure to resolve it and the large professional services firms' responses were lukewarm, and commercial pressures have therefore allowed it to continue. Now numerous blue-chip companies have made public statements formally excluding their auditors from undertaking specific management consulting work.

Managing the Economics

The recent decline in corporate performance has significantly increased the focus on reducing discretionary spend - and Management Consultancy falls clearly in this area. This is likely to change considerably the nature of consultancy engagements. Gone are the days (perhaps with the exception of the public sector) where large teams of consultants would carry out work that the enterprise should have been doing. We now see a growing demand for small teams (or even named individuals) to provide experienced support and coaching to internal client teams - who now carry out the work.

These changes have been happening over a number of years, and the most astute in the profession have been evolving their value proposition. During the past few years in PSM we have made changes, which have allowed us to continue to grow rapidly against the turning tide in the profession:

- Basing our work on the principle of experienced coaching and guidance
- Recruiting people who have experience of running businesses
- Transferring our skills and experience to the client as a by-product of our involvement
- Focussing on the execution of change - not just planning it!
- Offering a value based fee structure, where appropriate
- Questioning the value-added jointly with our client

.... and finally turning down an attractive offer to be acquired by a large accounting practice!

Koen Smets

New faces at PSM Consulting



Koen Smets

'Koen Smets has a strong expertise in Change Management, Organization Development and Process Improvement and has been advising blue-chip companies in the electronics, consumer goods and technology and media sectors'



Sean Brown

'Sean has over 20 years of practical experience in transforming performance in manufacturing. With his background at Nissan Sunderland he has built up a track record of successful implementation of change.'



Frank Abramson

Frank had over 30 years experience in the finance, retail and pharmaceutical sectors, including directorships with TSB Bank, WHSmith Do-It-All and Guinness before becoming a consultant ten years ago.



Les Wallis

'Les Wallis is a chartered management accountant with extensive hands-on experience of commercial finance, business sales / acquisitions and contractual risk assessment'

Could your photograph be here?



Do you have the skills and experience to...

'Make a difference'

If so, please eMail your CV to:

admin@PSMconsulting.co.uk