THE CULTURE CLUB

Successful mergers require the successful merging of cultures.

By Norman Cooper, Contributor

When two companies merge or one company acquires another, the success of the merger depends on the success of the two organizations operating as one cohesive team to serve customers well and operate effectively and efficiently. This requires a successful merging of cultures, which doesn't just happen by itself. It requires planning, conscious choices, effective communication and consistent reinforcement.

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Why culture is important. Strong companies have strong cultures. Their employees have shared values, norms and beliefs that tie their people together, and inform how they act with customers and one another. For pest management companies, some of the factors include:

- How committed is the company to outstanding customer service? When there's a conflict between what's right for the customer vs. profit maximization, on which goal does the company focus and reward employees for?
- Is the company committed to hiring and training outstanding service technicians, or focused on the lowest-cost people who can do the job?
- When there's a conflict between short- and long-term goals, does the company focus on the long run or short term?

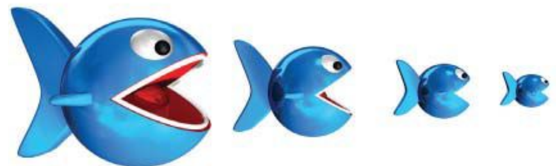
Unsuccessful mergers often trace their problems to cultural conflicts: Employees don't embrace and/or resist the changes, or key employees leave the company and take with them key client relationships or expertise.

The keys to successfully integrating cultures

Cultures need to be managed just as operations do. While most merger teams have operations task forces that focus on integrating the systems and operations of the businesses and capturing expected cost savings, few companies have formal plans to manage the culture of the combined entity.

Here are a few keys to successfully managing the merging of cultures:

1. Start the process when you start due diligence. When evaluating the financial and operating metrics of a potential merger partner, one should also consider the cultural compatibility of the prospective merger partner. Would the key employees fit into the new company, and do they share the values, training and professionalism of your company? If not, you should probably reconsider whether it makes sense to do the deal. The odds of success are low if you don't think the merger target's employees will fit in well into your company and thrive in your culture.



23.5% of PMPs say their companies might merge with a larger business within 15 months.

Source: PMP 2013 Merger Survey with 200+ respondents

2. Develop a 90-day plan. The first 90 days are critical after a merger. Employees are looking for clues as to what will change and what will remain post-merger, and they're deciding whether they are committed to the new organization. Many successful acquirers bring key management team members together from both sides to explicitly discuss the values and cultures of each business, and to develop new mission, vision and values statements for the combined entity. If positions will be eliminated, it's smart to deal with those impacted directly, as soon as possible, so people who aren't affected by the job reductions don't have to worry about their job security, and don't start looking for alternative jobs because they haven't been told their positions are safe. It's also important to communicate other material changes that will affect the employees (health plans, retirement plans, work hours, etc.) and what expectations the company has for each team member.

3. Develop a communications program to explain and reinforce the new organization's culture. Repetition and reinforcement are needed to make sure all employees understand the company's values and culture. Company meetings, employee newsletters and one-on-one meetings with employees can all be part of a communications plan, but to ensure people understand and believe the values, it's important to go beyond general statements and provide examples and stories. Award programs can also be an effective tool to reinforce the values of the merged businesses. For example, it's fine to say "We are committed to customer satisfaction." But it's better if the company also celebrates examples of employees who have gone the extra mile for customers. It's better yet if the company offers recognition and/or rewards that demonstrate this behavior.

4. Reinforce with employee feedback and rewards. It is critical management provide regular feedback to employees about what they're doing well, and areas of improvement to make sure they know how they're doing and any gaps in expectations. For the first 90 days, weekly or daily feedback is better than monthly or less-frequent feedback, even if it's very brief — a few minutes of discussion of what that employee did well or could do better next time. If an employee isn't on track or embodying the values of the company, it's important he or she knows it as soon as possible, so the individual can either try and get on track or find another job that's a better fit. In addition, the bonus/recognition/rewards program should provide incentives to those employees who demonstrate the values and achieve or exceed expected performance levels. **PMP**

Cooper is a pest management industry mergers-and-acquisition expert who has consulted on more than 50 pest management acquisitions over the past several years. You can reach Cooper, a PMP Hall of Famer and former president of the National Pest Management Association (NPMA) at normcooper@verizon.net, 914-698-8659.

Marketing Clout

Can merging with a larger company help you improve marketing with the power of a bigger brand and budget?

YES	NO	UNSURE
61%	20%	19%

Source: PMP 2013 Merger Survey with 200+ respondents

When you're ready, we're here.

Fred Murray, Senior Director of Mergers and Acquisitions

Sell your business and create opportunities for you, your staff and your customers.

When selling your business, you need someone who completely understands the business, not just a buyer. We'll do everything we can to make the process as seamless as possible so that you, your employees and your customers will be happy with the end result.

When you sell to Terminix, you can count on:

- Confidential guidance to prepare your business for sale
- Flexible timing—a quick sale or longer process: it's up to you
- True market value for your business with flexible financial terms
- A smooth transition that gives your customers multiple service choices and the strongest warranties in the industry
- Excellent career opportunities and competitive benefits for your employees and, perhaps, yourself
- A path that can protect both your investment and your future

Of course it's a big deal—this is your baby we're talking about. But with Terminix, beginning the next chapter of your life can be more exciting than overwhelming. We have the experience and personnel to make you feel comfortable every step of the way, and to help you make informed decisions.

Put our expertise to work for you.

Terminix has acquired hundreds of family operations, and we have an excellent track record of exceeding sellers' financial expectations. Plus, we understand that every situation is unique. You may not be ready to retire, or selling your business outright may not be what you have in mind. We're willing to sit down and work out a scenario to help both sides achieve their goals.

Terminix is looking for top-notch companies to join our family. With years of experience in acquisitions, we can help facilitate a fair value and a smooth transition. Let Terminix help make selling your business a positive experience.

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For confidential inquiries, call Fred Murray at 1-855-864-5685 or fmurray@terminix.com.

SELL IT, OR PASS IT ON?

The pros and cons of selling your pest management business to family.

By Norman Cooper, Contributor

HOW TO MAXIMIZE YOUR COMPANY'S TRUE WORTH

- Review your exit strategy or start now to develop one.
- Focus strongly on getting and retaining more recurring revenue accounts.
- Accelerate accounts receivable collections.
- Don't take on new equipment or expenses.
- Don't commit to long-term expenses (advertising, leases, etc.).
- Settle lawsuits and pending claims.
- Get rid of dead wood.

SELLING THE COMPANY

The purchaser of your business usually will pay a substantial percentage of the purchase price as a down payment, with the balance consisting of quarterly, semi-annual or annual payments, usually for a period of five years or less. Many larger pest management companies offer 70 percent of the total acquisition price as the down payment at closing.

Last year was a remarkably active year for mergers and acquisition in the United States, and the pest management industry was no exception. The threat of higher taxes and expiring tax cuts hasn't slowed down the pace of acquisitions in 2013. Acquisition prices in the pest management arena are still at a high level and don't appear to be abating.

The elements of an acquisition that eager-to-buy pest management companies keenly look for are good profit-and-loss (P&L) statements, regularly recurring revenue accounts, the seller's reputation, price structure, company culture and future compatibility with their routes and personnel. Ideally, they'd like to create or buttress a solid foundation for strategic integration.

Prices and terms favor sellers. Large pest management companies have instituted a seller-friendly tactic of accepting the fact newly purchased accounts that accept pest management treatment commensurate with their billing cycles and pay for those treatments will be calculated toward meeting the sellers' contingency requirement.

More pest management purchasing companies realize the acquired company's value lies primarily in its customer relationships. Many are keeping their fingers off the button so to speak and are concentrating on advancing the company's common goals. There's greater understanding that standardized, matrix-like procedures might be adapted to different situations.

Coinage Talks

Every business is for sale. The only question is "For how much?"

Source: PMP 2013 Merger Survey with 200+ respondents

Attorneys, accountants and lawyers

Your accountant is probably skilled at P&L statements; balance sheets; and earnings before interest, taxes, depreciation and amortization (EBITDA) multiples. He might have served you well for many years, handling tax code changes and securing significant refunds from the IRS for you. He's also vital at the proper time in the selling process. He should advise you about elements of the proposed purchase agreement that evolve and what would provide the best tax consequences for you.

Likewise, your attorney has familiarity with business law and provides essential information and suggestions, in addition to defining legal verbiage. Your attorney might have handled accident claims, resolved family matters and might even be related to you. However, if you expect the best price and terms for the sale of your company, you shouldn't have your attorney or accountant negotiate the primary selling price or terms. You should hire a savvy consultant who has significant buying and selling experience in the pest management industry rather than general selling experience

(commercial cleaning, real estate and other types of service businesses) that have different criteria and dissimilar valuations.

The ideal consultant should be familiar with the pest management market, who's buying and offering terms, and potential buyers looking for certain size companies in specific geographic areas. The consultant should have the respect and rapport with the principals of large, medium and smaller pest management companies, as well as with other nonconventional sources, including venture capital firms, investment banking affiliates and private equity groups. A broker with extensive experience in pest management evaluations will have the proper contacts and, in addition to bringing the right buyers to you, will walk you through these vitally important decisions step by step.

FAMILY SUCCESSION

Sibling rivalries are known to occur even in the best of families. When you add to the formula a set of parents owning and operating a prospering pest management business, the stakes can be multiplied tenfold. Remember succession, rather than promoting family harmony, can drive a wedge between siblings far too often. Succession can become a crutch or burden instead of a boost.

The most basic concerns voiced by senior adults contemplating the pros and cons of bequeathing the family business to their offspring involve phrases such as "sharing equitably," "reinforcing family harmony," "showing impartiality," "keeping peace in the family" and "avoiding favoritism." If the family is comprised of two or more siblings, these factors should be a significant consideration.

The old country way of bestowing the lion's share of inheritance and power to the oldest son doesn't cut it nowadays. Another undeniable reality is not all heirs might share the same desire, ambition or ability to manage a pest management company. This slippery slope can be scaled by the Solomon-like decision to treat family succession as two separate issues: Should the individual be part of the company management or a shareholder? Family shareholders can earn financial benefit from the earnings generated by the company and can use the earnings to follow whatever career paths they choose.

Consider the following before making your final decisions about succession planning:

- What are the conditions and terms under which the company can employ family members?
- Set rules for inactive family shareholders and family members engaged in the service and management sectors. Will family members receive fair-market salaries and benefits? If it's not in conformity with nonfamily members, would this cause animosity?
- Will nonworking family shareholders have a voice in decision-making? Can they veto management decisions?
- Will the company be able to protect against a liquidity crisis and not allow cash on demand from inactive family members?
- Should the company retain the right of first refusal via restrictive clauses if company shares are willed?
- Because of rising divorce rates, should the company delay financial rewards (excluding salaries and performance bonuses) for an agreed-upon number of years for sons- or daughters-in-law?
- Should the company attempt to sway incoming younger family members to gain business experience outside their family business for a few years?
- Consider family trusts as a financial tool, particularly if your tax strategy is to skip a generation.

If you need the equity in your company to fund retirement plans (golf, travel, investments, hunting, gifts, charitable goals, contingencies, etc.), or if you don't have a tried-and-true heir or manager in whom you have complete confidence, you might want to sell your company rather than pass it on. **PMP**

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FACTOR	SELLING THE COMPANY	KEEPING THE COMPANY IN THE FAMILY
DOWN PAYMENT	Seller receives specific amount of money (often 70%) as down payment at closing.	Typically, little or no down payment.
BALANCE OF COSTS	Balance (typically, 30%) paid throughout five years, quarterly or semiannually with interest.	Varies, but often there's no payment.
LIFE OPTIONS FOR OWNER	Owner has numerous life options — retiring, investing, fishing, golfing, travel, charitable giving, sharing in excess profit.	Unless owner can support retirement and long-term plans with previous savings, he/she has few options.
POST-TRANSITION IMPACT	Owner can remain with company as part-time troubleshooter after transition. Economic ups and downs and generational backup should have little or no impact.	Sluggish economy could have an effect. Booming economy should deliver positive effect, but could have a negative impact on the labor market.

Larry Pruitt, Terminix President

Answers to your frequently asked questions

When you're considering selling your business, you naturally have basic questions you need answered before you proceed. Here, Larry Pruitt, president of Terminix, provides some insight into how it assesses businesses that may be of interest to Terminix.

What factors/traits are important to Terminix when evaluating a potential acquisition?

Terminix looks for a good cultural fit, strong management, customer and associate focus, a healthy percentage of recurring revenue and assets that are marketable. For larger pest operations, we consider geographic footprint and the potential for growth to our service lines.

As a business owner who's considering selling, what should I expect from the Terminix acquisition process?

We strive to make the evaluation process as smooth as possible. After a confidential meeting with a potential seller, we create a profile that summarizes important factors, such as locations, customer service areas and revenue breakdown so we can prepare a valuation.

Once we complete our due diligence and have an agreement in place, we introduce sellers to key leaders and other contacts within our company, making sure both sides are comfortable before we finalize the transaction.

After an acquisition is complete, what helps ensure success?

A key element in post-acquisition success is having a seamless transition. It is vital to assure customers that the quality of their services will be maintained or improved and scheduled services and technicians will stay the same. We also meet with acquisition employees immediately to address any of their questions or concerns.

What role do acquisitions play in the future of Terminix?

Acquisitions continue to play a key role in the Terminix growth strategy. It is a means to grow revenue, employ highly skilled and competent people and possibly explore new practices. We may consider deals of all sizes, but we are especially interested in larger companies that are a good strategic fit. We are proud that we have acquired key personnel, including senior management, through many of our acquisitions.

TERMINIX®

Our goal is to negotiate transactions that are a win-win for both sides.

For confidential inquiries, call Fred Murray at 1-855-864-5685 or fmurray@terminix.com.

M&A LESSONS FROM OTHER INDUSTRIES

Not all merger-and-acquisition deals succeed. Experienced M&A broker Norm Cooper offers examples from which PMPs can learn.

By Norman Cooper, Contributor

If you're considering buying or selling your pest management company, or are part of a management team charged with making a merger succeed, various lessons can be learned from merger-and-acquisition (M&A) deals in other industries that either worked out or turned ugly.

Let's first examine two high-profile mergers outside the pest management industry that failed:

Why mergers aren't always a Snapple.

When Quaker Oats acquired Snapple for $1.7 billion in 1994, it thought it could repeat the success it had when it acquired Gatorade, and leverage the relationships it had with large retailers and grocers. They found out the hard way that after eliminating much of Snapple's sales and distribution team more than half of Snapple's revenues came from small retailers, such as convenience stores and gas stations. Quaker Oat's failure to understand how different the acquired company was in terms of sales, distribution and systems led it to make huge errors and lose critical people. Within two years of the acquisition, Snapple's revenues declined from $700 million to $500 million. After 27 months of ownership, Quaker sold Snapple for $300 million, a loss of $1.4 billion.

Polar opposites can create cold cultures.

Sprint's acquisition of Nextel in 2005 for $35 billion was supposed to combine two second-tier telecommunications companies into the third-largest telecommunications company in the U.S. Before the merger, Sprint served the consumer market mainly, with local and long distance wire-line telephone services, as well as a wireless service. It also had a reputation for poor customer service and the highest churn rate in the industry. Nextel was a pure wireless company with a strong business presence, particularly among customers with local transportation and logistics needs because of Nextel's exclusive press-and-talk feature.

Both companies served different markets and had different infrastructure systems. After the merger, many of the most-talented Nextel people left the combined business, citing cultural differences and incompatibility. While Nextel was entrepreneurial and customer service-oriented, Sprint was bureaucratic and wasn't customer-service orientated, they said.

While the combined company dealt with infighting and internal problems of integration, AT&T and Verizon were able to focus on upgrading their networks, making deals with phone manufacturers to get exclusive deals for the iPhone and other popular phones and focus on customer retention. By 2008, Sprint had to write off $30 billion of its $35-billion acquisition.

Now let's study two high-profile mergers outside the pest management industry that succeeded:

Integration details and experience key

InBev, which started in Sao Paolo, Brazil, is the world's largest beer company as a result of acquisitions throughout the world, culminating in its acquisition of Anheuser-Busch in 2008. InBev's growth was driven by a successful M&A strategy — a repeatable method of mergers and acquisitions supported by a disciplined management system. InBev formed by the merger of Interbrew (formed in 1987 by the merger of Belgium's two largest brewers, Artois and Piedboeuf) and AmBev (created in 1999 by the merger of the two largest brew-

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ers in Brazil). InBev has a dedicated team that focuses on M&A and has experience making sure potential deals will fit into the system and bring scale and/or new capabilities. This team also has a disciplined process to plan and execute the integration, focusing on the key To Dos for a successful merger.

Vision and strategic fits pave the way. Cisco's acquisition of cable television, telecommunications and broadband equipment maker Scientific-Atlantic in 2008 for $6.9 billion is the largest acquisition Cisco has made, but Cisco is a serial acquirer. The company has made more than 161 acquisitions to date, and these acquisitions — most of them small, tuck-in deals — account for more than 50% of Cisco's revenue. The company has an outstanding track record for success with acquisitions because it follows many of the same practices as InBev. It only pursues acquisitions that are aligned with its strategy and bring scale or scope (often, new technologies and access to market segments). It has a disciplined integration program that allows it to act quickly to integrate a new team, which reduces anxiety and creates a common vision for the future. This allows Cisco to retain much of the talent in the acquired companies.

Career Boost

Can merging with a larger company help you improve career opportunities and employee retention?

Source: PMP 2013 Merger Survey with 200+ respondents

Key lessons

■ **Deals outside one's core business are high risk.** Transformational deals that attempt to radically transform a company and take it into new lines of business are fraught with risk and often unsuccessful. These swing-for-the-fences deals often put the acquirer's own company at risk. Examples of these are AOL's acquisition of Time Warner and Mattel's acquisition of The Learning Co.

■ **There's a need for a successful integration plan, one that should start before the deal is consummated.** This plan should focus on the critical elements of success vs. the full laundry list of problems. For example, when Kraft acquired Cadbury in 2010, it had to integrate 41 country organizations. However, Kraft knew 11 countries accounted for 75 percent of the revenue, so leaders focused their efforts on those markets.

■ **Arrogance is fatal.** When the acquirer is arrogant and doesn't take the time to understand the culture and values of the acquired company, or when an acquired company is defensive and hopes the acquirer will leave the company completely alone, trouble usually follows. Mutual respect and honesty are necessary conditions to allow both organizations to work together to find synergies and identify the best practices and people from both businesses.

■ **Successful change management techniques increase the chances of success.** In any deal, various emotions prevail: fear (of losing one's job or benefits), uncertainty, optimism and pessimism. It's important to establish trust between the two management teams as soon as possible and devise an integration plan. While eliminating redundant job functions and positions is often one of the benefits of a merger, there often are other opportunities for quality employees in the acquirer's company. By being honest and dealing with the integration plan early, both sides can avoid a lot of political gamesmanship and retain more of the top performers. Many successful acquirers bring the two management teams together early to work through the integration plan as one combined team to identify synergies, talent, and a common vision. Then they work backward and develop an implementation plan together to achieve their goals. By working together — with participation by all members of the leadership teams on both sides — fear and uncertainty can be reduced, and buy-in and the odds of success can be increased.

A lot can be learned from the most successful acquirers, such as InBev, Kraft and Cisco. They are strategic about doing deals that increase their scale and/or scope; they prioritize and focus on integrating the key parts of the business first; they integrate both management teams into one team; and they develop clear plans of action together with the acquired team. These serial acquirers have merger approaches based on honesty, respect and a disciplined process that dramatically increase the chances of successful outcomes. This enables the combined company to retain top talent and capabilities while also achieving scale benefits. **PMP**

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