European Foundation for the Improvement of Living and Working Conditions

EMCC company network

Managing change in EU cross-border mergers and acquisitions

Case example Schneider Electric: Acquiring to grow

emcc european monitoring centre on change

Wyattville Road, Loughlinstown, Dublin 18, Ireland. - Tel: (+353 1) 204 31 00 - Fax: 282 42 09 / 282 64 56
email: postmaster@eurofound.europa.eu - website: www.eurofound.europa.eu

The European Foundation for the Improvement of Living and Working Conditions organised a seminar for its company network on November 29–30, 2007, hosted by Santander at its corporate headquarters in Madrid, Spain. In intensive discussions over the two days, 32 representatives from companies, trade unions, universities, research organisations and the European Commission discussed the management of change in EU cross-border mergers and acquisitions (M & A). The Schneider Electric case was presented by Robert Immele, Senior Vice-President responsible for Corporate Strategy and Acquisition at the company.

Background to the company

Schneider Electric specialises in electrical power and control systems. The company is the leading provider worldwide of electrical distribution and the second leading provider worldwide of automation and control systems. The company provides home plugging systems and building control systems throughout the world. In 2006 it had an annual turnover of €13.7 billion generated in 190 countries. At the end of 2006, the company had more than 100,000 employees and 200 factories with a local presence in 106 countries. Nearly half (47%) of the company's business is located in Europe, where it has almost 50,000 employees.

Schneider Electric currently has several strategic goals, and mergers and acquisitions are seen as one tool among several at its disposal for reaching these goals. The company is seeking to expand its geographical presence throughout the world, develop new growth platforms, find new solutions to current energy problems (such as climate change) and invest in innovation and in research and development (it currently invests between 4% and 5% of its annual income in research and development). Over the last five years, 50% of its growth has come from acquisitions, which therefore form a very important part of Schneider Electric's current operations.

The Schneider strategy

Mergers and acquisitions have become a strategic tool used at Schneider as part of its new growth strategy. It has developed a sophisticated, strategically designed growth platform aimed at enabling the company to expand into new areas of the market. To facilitate this, the company has developed an acquisitions strategy focused on value creation, screening and integration – one that is designed to ensure that all acquisitions create value and are in line with the overall strategy.

Schneider seeks to acquire companies in adjacent sectors in order to create growth and revenue synergies, but also to give the company access to new channels and technologies. The acquisition process has four major steps: pre-deal work, the launching committee, the deal, and integration. These four major steps are broken down into many smaller steps, including a non-binding offer, due diligence, a binding offer, the signing process, pre-merger work, merger closing, and – finally – the integration of the acquisition.

The screening process

Screening is in many ways the most important phase of the merger process. Adequate screening can save a great deal of time and energy and expensive mistakes – for instance, the discovery that target companies are not genuinely complementary, making it impossible to follow through on the deal. Schneider Electric has a database of possible target companies, with between 500 and 1,000 companies at any given time. These target companies are analysed in terms of their annual turnover, performance and management. The intensive screening process is crucial to the success of the strategy: of all the companies it screens, Schneider Electric will end up acquiring between only 7% and 10%.

A key criterion is that acquisitions are never made 'because the opportunity is there', but rather are undertaken only when a clear value to Schneider Electric has been identified in line with its overall strategy. Therefore, all screening is directed by the priorities set by the explicit external growth strategy, which identifies the areas into which the company is seeking to move. In order to make such judgements, Schneider Electric needs data on these targets that go beyond a simple evaluation of their turnover. By combining the value the company would bring to Schneider Electric with its actual performance data, a score is developed that is used to rank the desirability of the target company and the feasibility of acquiring it. Before making an offer or going to the market, a sense of the possible synergies in a company and its integration potential is gained so that Schneider Electric can have a clear picture before making its move.

Acquisition and integration

Schneider Electric's acquisition strategy is a strictly defined, systematic process, which involves rigorous checklists. It begins with due diligence, which should involve all relevant parties. Schneider is focused on value creation and works on the principle that the implications of this should be clearly disclosed to all relevant parties whenever legally possible.

It maintains that the due diligence process should also be also as open and clear as possible. All parties need to know how Schneider Electric plans to integrate the target into its existing organisation – especially in terms of the management team, the overall structure of the target organisation, and the key people who will be involved. As the deal is negotiated, Schneider defines a 100-day plan that outlines the actions that will be taken immediately, where it is planned to create synergies, and its plans for restructuring the organisation. This plan outlines the strategy for retaining key people and, very importantly, sets out a plan for both internal and external communications. Relationships with customers, suppliers, shareholders and employees should all have their own information tailored to their specific needs.

As the merger progresses, synergies must be identified and achieved. By this stage in the process, Schneider Electric is generally aware of what these are, having investigated the different potential synergies during the screening period and having developed a timeline for their implementation. The overall understanding of the organisational structure gained during this process and the pre-merger planning should make this as quick as possible. Schneider Electric emphasises that, post-merger, speed of execution is key to merger success. Bad news for employees, the target company's management or shareholders should be communicated as soon as possible and acted upon promptly. The company tries to remain in active communication with all stakeholders in the process, and its communication plan gives firm directions on what information should be disclosed to whom and when. Finally, towards the end of the integration process, Schneider undertakes a strategic review, which enables an evaluation of the strategy as a whole and an assessment of the progress made towards reaching the strategic goals and of what may need modification. Integration can take as long as two years to be completed, so periodic reviews to make sure that the original intent of the merger is still valid and still being implemented are vital. This also ensures that the relevant managers keep remain aware of the task at hand, avoiding the distractions and diversions that can easily arise in complex change processes.

Acquisitions in action

Schneider Electric presented the seminar with an illustrative example of one of its acquisitions in the United States – American Power Conversion (APC). This company had a USD two billion turnover per year and was a world leader in the supply of critical power (power systems of the type supplied to data centres or hospitals). Schneider Electric concluded – as a result of its screening process – that it was an acquisition that was complementary in terms of APC's product lines, geography and channel access.

Schneider Electric worked closely with the APC staff to identify synergies. Schneider's HR department was heavily involved in identifying key people to retain, in working with local stakeholders and in preparing for most aspects of the merger so that, when the deal was finalised, joint working would be as smooth as possible. The organisational divisions were analysed and, as in other acquisitions, the general strategy required the retention of employees involved in production and in sales. However, a rationalisation of functions destined for integration into Schneider's existing systems, such as finance, information technology (IT) and human resources (HR) was called for. Antitrust issues were also considered, and, with clear information on all these aspects, the shareholders voted on the deal. The merger deal was signed at the end of November, 2006.

The project itself was organised around a steering committee with a 'control tower', a 'synergy team' and a 'functional integration team'. It was a good example of a strategic merger since it allowed Schneider Electric to enter a new area of the market in a situation where the shareholders of the target company also felt that the acquisition was in their best interests.

Outcomes and lessons learnt

Schneider Electric has identified several key measures that help prevent an acquisition project from failing. First, all parties in any acquisition project must be involved in the process and must agree on the course of action being taken. Second, direction should come from a clearly designated project leader who can ensure that the strategy outlined in the pre-deal research is followed and that the integration process is as smooth as possible. Third, it is essential that the company ensures that all its acquisitions are strategic and offer returns for the efforts expended on integration. This underlines the importance of the pre-deal assessment of the company being acquired, because mergers for the sake of mergers do not end up creating any value for Schneider Electric in the long term. Neither, in the company's view, is it ever worthwhile embarking on hostile takeovers: 'friendliness' is a key component of the success strategy.

Schneider Electric's success in acquisitions has come primarily through its emphasis on strategy and strong research and assessment of all potential targets. The screening process allows the company to understand both the culture of the companies they are acquiring and the synergies that can be created by acquiring them, and this in turn makes it possible to develop a detailed integration plan. This plan makes it possible to integrate the new acquisition as quickly as possible (although there is an understanding that full integration can take as long as two years). The emphasis during the merger process is on openness and honesty in communicating with the new employees; the company seeks to clearly outline the reorganisation processes that will take place, including, if necessary, spelling out the need for collective redundancies.

Following this acquisition strategy has enabled Schneider Electric to move into new markets (thereby doubling its market access), to increase its growth, to become less dependent on cyclical markets and to develop a more varied overall profile.

Ursula Huws and **Brie O' Keefe**, Analytica Social and Economic Research Ltd

EF/08/04/EN 5

