



Latin lesson in M&A best practice

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David Furniss
Vice President
M&A Integration Practice
BT Global Services

BT’s seamless acquisition of Albacom cements its European credentials, secures major business, and sees double-digit growth

Eliminating the gamble

The evidence is overwhelming. Two recent reports concluded that around 50 per cent of mergers and acquisitions fail to create value or meet their cost savings targets. Meanwhile, a Goldman Sachs study of 3,876 mergers all the way back to 1929 concluded that some five per cent alone had shown a long-term positive return on the acquirer’s stock. Nevertheless, as Business Week noted in October 2006, M&A “remains the fastest and most powerful tool that a company can use to change its competitive game”.

But would any CEO stand up and tell the assembled throng at the AGM that the company intended to embark on a major initiative with a 50:50 risk of failure and, moreover, little chance of improving the share price? Not on your life. But show that you’re good at M&A... eliminate the gamble... get it right... and not only will your company’s prospects be transformed but others will beat a path to your door.

On that note, although BT’s hugely successful strategy in becoming a world-class services organisation has been widely reported in the press, its parallel concentration upon creating a world-class M&A capability has not been so well publicised.

M&A centre of excellence

In a conscious decision to eschew the use of external consultants, BT created an M&A Integration Practice (M&AIP). David Furniss, Vice President, M&AIP, BT Global Services, explains: “Leaving aside the strategic considerations involved in identifying an acquisition target, our team would focus upon the critical factors that would assure success in the acquisition exercise itself.” The unit would not only assure the integrity of BT’s M&A activity but, once proven, would also lend BT its own powerful M&A consultancy arm (as has, in fact, happened).

David Furniss continues: “In approaching a merger, the M&A Integration Practice is targeted with a single overriding objective: to deliver the financial and non-financial goals set out in the BT business case.” Along the way the unit also has to:

- Deliver the integration synergies and upsides for each acquisition
- Ensure key target capabilities are retained and not diluted (or even destroyed)
- Demonstrate continuous improvement by capturing learning
- Maintain effective communications with all stakeholders

A BT M&A Integration Practice case study

Albacom

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Integration Director
M&A Integration Practice
BT Global Services

An integration director leads an M&AIP engagement, taking over from the business development director when the deal is announced. At the core of the M&AIP way of working is an integration methodology that has become known as **in2great**. It ensures that all M&A exercises in BT follow standardised, consistent, and repeatable processes. Furthermore, the existence of **in2great** provides a framework that can be continuously populated with newly acquired internal and external best practice.

Marriage undertaking

Since 1995, BT had held a valuable 24 per cent stake in Italian service provider Albacom. BT decided to gain full control of Albacom in 2005 by buying out the 76 per cent held by joint venture partners ENI, BNL, and Mediaset. The objectives of the exercise were to:

- Gain a strong presence in the vibrant Italian telecoms market (which is Europe’s fourth largest)
- Deliver BT Global Services’ propositions to Italian-owned multinational companies, and provide those same propositions in Italy to other global customers
- Boost BT’s pan-European position while leveraging growth and synergy opportunities between the two companies

BT and Albacom were to completely merge and adopt common brands, products, and processes. The scene was set for one of the M&AIP’s first major outings, and the **in2great** integration methodology was born. Don Aaron, the M&AIP Integration Director responsible for the merger of BT and Albacom, says: “The clock really starts ticking when the deal goes public. To avoid the loss of prime customers and key staff the three top priorities are communication, communication, and communication.”

End-to-end integrity

The **in2great** integration methodology is a carefully graduated process that passes through four distinct phases: pre-transaction, integration, transition, and business as usual (BAU). The integration director is appointed and involved pre-transaction (during due diligence) and a formal handover to M&AIP takes place when the deal is announced. The critical integration phase – usually in the region of 12 months in duration – is characterised by monthly reporting to a programme steering group against achievement of weekly checkpoints. Moving into transition and through to BAU, reporting is relaxed to quarterly intervals.

Although there is sharp and specific focus upon key areas – for example, financial systems integration, organisational alignment, and employment package relativities – the **in2great** approach is in the main functionally agnostic. Don Aaron explains: “With the **in2great** methodology interdependencies are fully taken account of; and process mapping assures end-to-end integrity and drives cross-divisional synergies.”

Communication and culture change

The Albacom deal was signed in February 2005, and BT took its own need for culture change very seriously. Italian colleagues already within BT were drafted in to run cultural awareness workshops for the M&AIP people who would be working on the Albacom integration.

In line with Don Aaron’s “communication, communication, and communication” mantra, BT orientation activities and staff workshops took precedence. David Furniss says: “We identified two primary audiences – those actually working on the integration team and a wider group in Italy – and we used all forms of media to ensure that the direction was absolutely clear. But we also did lots of informal communication. For example, everybody in the team committed themselves to spending time in-country and getting to know their opposite numbers.”

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The implicit message to people in the acquired company is that this is something done *with* them rather than something done *to* them. Don Aaron explains: “We provide the big picture – what’s happening downstream as well as now. Our workshops are very professionally structured: a metaphor, in fact, for the quality of the process and of the relationship. Around 60 per cent of the people in the target company did not speak English and we saw to it that absolutely everything was properly interpreted and translated.”

Strength of purpose

As the project moved into the integration phase, which lasted right through financial year 2005/2006, a joint 150-strong team was quickly established, with both companies contributing about half of those people.

Corrado Sciolla, previously CEO of Albacom and now BT Vice President responsible for Italy, recalls: “The scope of the first quarter integration activity was breathtaking. Mapping of the organisational structure, service harmonisation, server consolidation, email migration... these were just some of the key projects that took place in those three short months.” David Furniss adds: “BT’s assuredness in its ability to pull off the integration reassures, in turn, the people within the company being acquired. Because the **in2great** methodology is designed to ensure that nothing is left floating, it provides that strength of purpose.”

The integration phase was not without its problems, however. For example in the network area there were technology choices to be made, which could mean that Albacom capital equipment plans might have to change. Supplier loyalty was an issue. Careful explanation and analysis was required to help people see the bigger global picture. In other areas, for example the outsourcing of functions like Albacom’s Palermo call centre, BT’s already-close relationship with Albacom paid dividends and it was possible to harness existing thinking.

Product and service harmonisation saw the cessation of some 51 Albacom products. Corrado Sciolla says: “This was a challenging exercise and we brought in BT Global

Services people from Ireland who had been involved in a similar exercise a year or so before. Products were aligned right down to SME level either by migrating them to a similar BT Global Services specification or simply removing overlapping offers. This was all achieved with a significantly positive effect upon customers’ perceptions.”

Double-digit growth

Prior to the Albacom acquisition, Italy was the smallest BT operation in Europe with some 30 people and less than €50 million in revenues. In just 2½ years that situation has been transformed and the country is now the biggest BT operation outside the UK, with in excess of 1,500 people and revenues approaching €1 billion.

Albacom was the second largest telecoms operator in the Italian business market, behind Telecom Italia, with an 11 per cent share of the data services market providing data transmission, voice, and internet services to more than 240,000 Italian businesses and international companies active in Italy. With 1,450 people the company reported revenues of over €650 million in the year to March 2004. Under the terms of the transaction, BT agreed with ENI, Mediaset, and BNL that it would manage a substantial part of their communications services for at least five years. The total annual value of these contracts was expected to be at least €150 million.

In December 2005, BT signed a five-year, €450 million deal to supply Italian automotive giant Fiat with network services in Italy and 39 other countries across the globe. In a separate linked deal, BT bought Fiat’s Atlanet subsidiary in Italy. With some 300 people, Atlanet achieved a turnover of over €150 million in 2004, of which a significant chunk came from outside Fiat, including banking and manufacturing customers.

Corrado Sciolla says: “Albacom, as was, would never have been able to pitch for the Fiat global outsourcing contract without the backing of BT. Our Italian operation is now achieving the kind of double-digit growth that has become the expected norm for BT Global Services operations around-the-world.”

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M&A market value

The M&AIP has now been involved in 25 M&A transactions in the past four years ranging from the acquisition of the €20-million 90-person Counterpane company to substantial deals such as Albacom and Infonet. In every case, synergies are resulting in that desired double-digit growth and costs are being optimised through, for example, migrating to common back office systems and processes, and gaining economies of scale.

The fact that these exercises have been handled quietly and without fuss owes much to the BT M&A Integration Practice and its **in2great** methodology. There is now an expanding community within BT with these advanced M&A skills who are practiced in the use of the **in2great** methodology. Collateral benefits are being felt in disciplines such as outsourcing, which shares much in common with M&A.

Don Aaron says: “Our success formula is: high visibility within BT and the target company; a consistent repeatable approach; and – as I said before – communication. Resource flexibility is another key factor.

In some deals we’ll have HR practitioners permanently on the team, but in others it will be a part-time commitment. For example in the Counterpane integration we have a team of 25 on each side but the only dedicated full time people were the integration director and his programme office.”

Ovum recently reported: “BT Global Services has sought to expand through M&A. Based on what we see BT is able now to pull off the deal and integrate the acquisition into the company without damaging profitability. BT has (at last, some may say) learnt how to expand overseas profitably.”

That turnaround in analysts’ perceptions is due in no small part to BT’s bold (and, arguably, counter-intuitive) step of creating the M&A Integration Practice. Leaving the final words to David Furniss: “Nothing succeeds like success and I am now under constant siege from people in other industries seeking to learn from us. In fact, the concentrated expertise that we have acquired has suddenly become a very marketable consultancy product in its own right.”

Offices worldwide

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