

# Successful acquisition strategy development

The first step towards capturing value



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The continuing growth in Asian insurance markets is encouraging an increasing number of European and US insurance and financial services groups to establish and expand their presence in Asia. CEO's and senior management in domestic Asian insurers are faced with the challenge of determining how to build Asian groups that will be able to compete with these new players.

How can these domestic Asian insurers respond, how should they go about identifying targets, how they should assess the fit, how should they approach the target and how will they capture the value? In this, the first of three articles on converting a corporate's acquisition vision into post deal value, we focus on developing the acquisition strategy.

### Learning from experience

European and US groups moving into Asia generally come from markets that have experienced consolidation in response to a variety of factors, including capital market pressures, convergence of

financial services products and markets, increasing need for access to new/alternative distribution outlets, globalisation and the threat of new entrants. Some of these factors are increasingly the cause for the arrival of foreign players into Asia and are in turn forcing Asian insurers to consider consolidation within their own markets.

The consolidation process that has taken place in the European and US markets has enabled these foreign groups to learn from past mistakes and develop successful approaches to preparing and implementing their acquisition strategies. As a result they are well placed to avoid repeating mistakes and to quickly develop and implement acquisition strategies in Asian markets. Domestic Asian insurers generally have not had the same level of experience, although new regulatory regimes are increasingly forcing them down the consolidation path. However, domestic Asian insurers do have natural advantages in their home markets over European

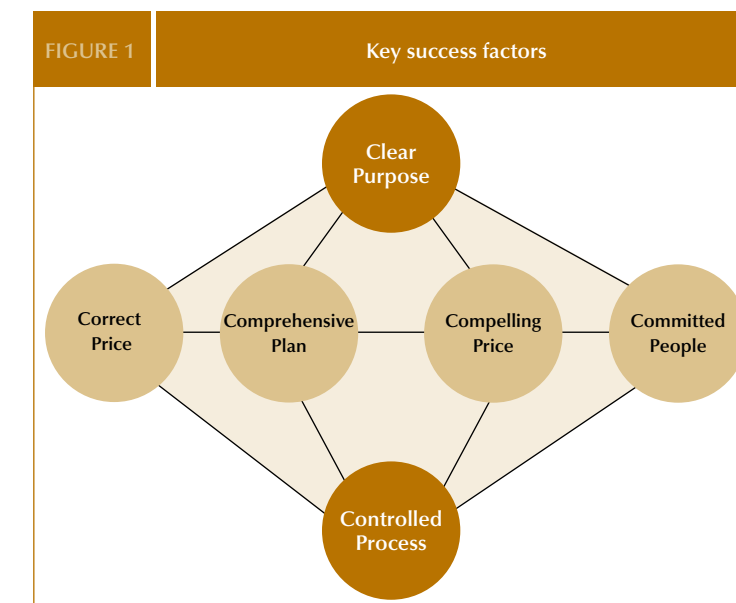
and US groups and with access to research and skills have the potential to be more than able to compete with the foreign players in the development and execution of acquisition strategies.

### Key success factors

Research performed with a large number of acquisitive European and US groups, which looked at

reasons for successful and unsuccessful acquisitions, identified six key principles that need to be followed in order to deliver successful acquisitions. These six principles are as follows:

The research highlighted that a documented acquisition strategy is the first essential to a successful acquisition process. Once



# Successful acquisition strategy development *continued*

documented, this strategy needs to be referred to continuously in order to ensure that the purpose of any proposed transaction is consistent with its original rationale as set out in the acquisition strategy. However, significantly the research also noted that, amongst the groups interviewed, on a number of occasions, deals had been concluded by the acquiring company despite their failure to deliver on key elements of the acquisition strategy. The most common cause for this was that the original acquisition strategy had not been referred to prior to the conclusion of the deal. Instead, it had been overtaken by a strategy of beating the competition or doing the deal at any cost. This was often a recipe for disaster.

The increased number of European and US insurance groups pursuing acquisition strategies both in their own and other markets, instead of pursuing organic growth or setting up new operations, is a reflection of how difficult it has proved to be to grow market share through organic growth. For example, in most European markets, aside from the development of bancassurance, insurance companies have found it extremely difficult to significantly increase their market share through organic growth. Whilst some Asian markets, such as China, are showing strong organic growth, this is by no means universally true. Evidence is growing to suggest that the difficulties in growing organically will increase in some Asian markets and growth through acquisition will become a more important. Certainly, in highly fragmented markets, like the Taiwan life market, this can be expected to be the case.

## Determining an acquisition strategy

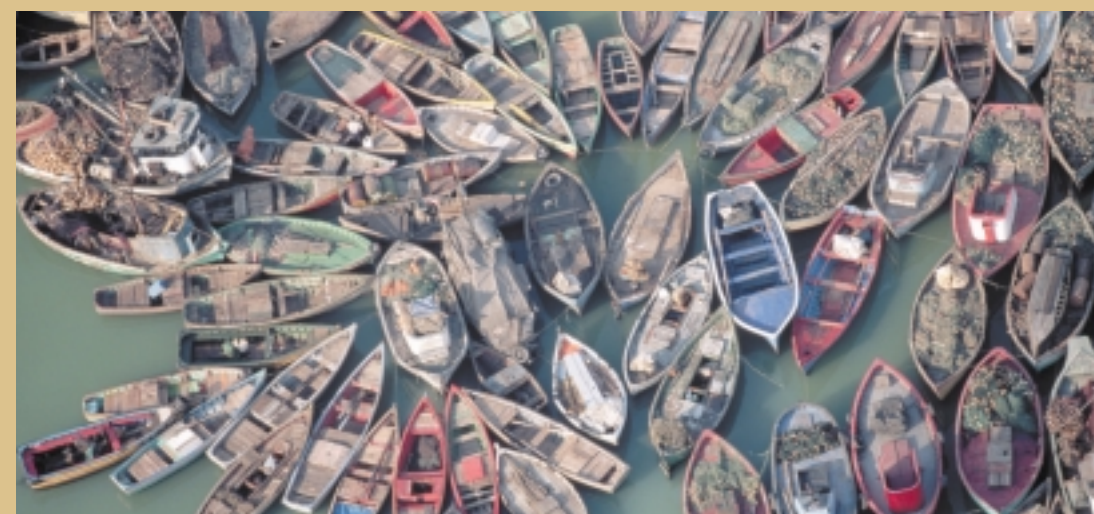
For insurance companies, growth through acquisition has been most successful where it is also linked to delivering on strategic objectives such as access to distribution, systems and products. On the other hand, the riskiness of an acquisition increases depending on whether the acquisition is in market or cross border and whether the acquisition is in a related or non related business as detailed below:

Therefore, an acquisition strategy involving expansion into an unrelated business in another geographic location will generally be much riskier than a strategy to acquire a similar business in the domestic market. Considerations such as this make it important to think through and document an acquisition strategy well before any specific acquisition is contemplated.

## Documenting the strategy

When documenting an acquisition strategy, it is important to define a clear strategy under the following headings:

- **Geography** – indicating the area of the domestic / foreign market that a potential target should cover highlighting those areas that are of high priority.. In addition, the geographic areas that would be a negative should be documented.
- **Market sector** – in light of the broad variety of potential areas of insurance (e.g. non-life – motor, liability, MAT, property, reinsurance; life – individual savings, protection, pensions, group pensions, group protection; health – individual and group hospital care or income support) the sector into which the company wishes to expand should be clearly defined.
- **Market share** – will limit the search for targets to match the needs of the acquiring company. Multiple acquisitions instead of a single acquisition to achieve a specific growth in market share can lead to considerable difficulties as a result of the need to integrate and take control of the entities acquired, consuming significant amounts of management time that would normally be concentrated on the development and monitoring of the existing business.
- **Products** – many acquisitions are designed to provide the acquirer with access to product expertise that does not exist within the acquiring company. In addition, some targets may have products that are unattractive to the acquirer due to their support needs and potential liability consequences. This is particularly an issue for long tail business both on the life and non-life side.
- **Culture** – a frequently underestimated aspect in an acquisition strategy that has resulted in the failure of many transactions. With all acquisitions there will be cultural consequences both for the acquirer and the acquired. It is important that an acquisition strategy specifies the desire of the acquiring organisation with regard to the level of cultural integration envisaged and the type of culture that would be considered acceptable going forward.
- **Management** – it is unlikely that the management skill and resource base will be sufficient in the acquiring group to replace that of the acquired entity. Therefore, it is important that the acquisition strategy specifies the type of management skills required in the target company. This will also reflect the management style of the acquiring entity, be it centralised or otherwise.
- **Financial Strength** – in order to ensure that issues such as financial ratings and solvency capacity are considered in the acquisition strategy, limits with regard to the financial strength of a target should be documented in the acquisition strategy. It may be necessary to consult with rating agencies and other parties such as reinsurers and fronting companies, if relevant, to determine this aspect of the strategy.
- **Infrastructure** – if cost synergies are a key objective from the acquisition strategy, specifics with regard to the required infrastructure of a target should



be detailed in the document. A key part of the infrastructure would be the IT software, particularly its functionality, its development potential and overall support requirements.

- **Distribution and customer profile** – many acquisition strategies have the expansion of the distribution network or access to an increased customer base as the key objective. In defining the characteristics that a target should have, the acquisition strategy should detail the type of distribution required (e.g. agent, independent broker, direct sales force, telesales) and the nature of the customer base (e.g. individuals by product penetration, by wealth banding and corporates by size). Obviously, avoiding targets that will provide access to the same distribution network and or customer base is important.

## Setting priorities

Having formulated a strategy which addresses each of the above, the would be acquirer should rank

each of the above criteria by reference to its business plan as it will rarely be possible to find a perfect match when the time comes to execute the strategy. It is important that this ranking is done in isolation of any specific target if the priority placed on each criterion is to be sufficiently objective.

The development of an acquisition strategy is only the first step in the long journey to securing the value from an acquisition. However, research has confirmed that the potential to successfully conclude a transaction and deliver value to the acquirer from the deal in the absence of a documented acquisition strategy is considerably reduced. Furthermore, the acquisition strategy must be referred to through all stages of the deal evaluation, conclusion and integration planning in order to ensure that the objectives specified in the strategy are delivered on through the deal and the subsequent integration.

A final step that many organisations have found beneficial prior to the execution of

their acquisition strategy, is to perform an internal evaluation of their own readiness to perform an acquisition and to incorporate the results of that review in their strategy. This process involves looking at the tasks that will need to be performed in connection with an acquisition and the changes that will need to take place in the existing organisation in order for the objectives set out in the acquisition strategy to be achieved. It also looks at who will be responsible for key aspects of the process and examines what plans exist or need to be developed to ensure that the necessary resources and skills are available to support the acquisition process through to the delivery of value. Companies that wait to do all this until a target is identified not only will find an acquisition much more complex but also will run the risk of losing focus on their existing business.

