



School of Business,
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Pre-acquisition planning in mergers & acquisitions

The Fazer-Lantmännen Färskbröd Case

Bachelor Thesis in Industrial and Financial
Management

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Year of birth:

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Acknowledgements

Our thesis has focused on one acquisition case between Fazer and Lantmännen Färsbröd AB which has enabled us to focus on the specific factors of the case. It has been an interesting process and we have got an understanding on the complicated issue of working with mergers and acquisition. Our hope is that this thesis will both provide the reader with knowledge and capture the interesting factors of the specific case.

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Abstract

Bachelor thesis in Industrial and Financial Management

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Title: Pre acquisition planning in mergers & acquisitions – *The Fazer-Lantmännen Färskbröd Case*

Background and problem: The high failure rate in mergers & acquisitions presented in previous research points to the fact that a majority of the M&A activities do not seem to achieve the potential synergies expected. In an acquisition process, the pre-acquisition planning plays a part in the outcome in defining the potential synergies.

Purpose: The purpose of this study is to assess the importance of the pre-acquisition planning process by studying how this potentially affects the key factors for the success of an acquisition.

Method: The thesis is a case study of one acquisition process. The approach is an explorative study where the empirical data has been gathered by qualitative interviews.

Results and conclusions: There is a connection between extensive pre-acquisition planning and post-acquisition performance in the investigated case. The pre-acquisition planning can be linked to the key factors of the success in the integration process. Information & communication, the creation of a culture and the speed of the integrations are all factors affected by the quality of the pre-acquisition planning.

Suggestions for further research: To follow up this thesis by conducting a study on several organizations to increase the validity of the results. Further it would be interesting to assess the importance of the factor external communication for the success of the acquisition.

Key Words: “Mergers and acquisitions”, “Post acquisition performance”, “pre-acquisition planning”

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1 Introduction

1.1 Background

At the beginning of 2009, Oy Karl Fazer Ab (Fazer) acquired the Swedish bakery Lantmännen Färsbröd AB (LFB). A brief introduction of the organization can be found in appendix 1.

The bakery had been showing negative results of more than SEK 1 billion, over a period of six years, and was in need of strategic change in order to stop the bleeding. Fazer, as a competitor in the bakery market, took advantage of this opportunity and started an investigation of a potential takeover which later resulted in an acquisition.

Fazer initiated an extensive integration and implementation process which started with a planning process in 2008 and resulted in the integration process starting shortly after the ownership transfer had taken place. The planning and execution of the integration required effort from both organizations. Fazer managed in 16 weeks to apply their desired changes and to reconstruct the business in accordance with their strategic plan.

The result of the acquisition was interesting in financial terms. The annual report of 2010 shows EBITDA¹ of €95 million; while the 2009's annual report states a loss of €11 million for the organization. In two years, after the ownership transfer had taken place, Fazer had managed to integrate LFB in the organization and become profitable (Fazer, 2010).

1.2 Problem discussion

The fact that Fazer seems to have accomplished synergy effects after acquiring LFB is interesting, when taking into account that at least 50 percent of all mergers and acquisitions fail to achieve these effects (Hunt, 1990).

The high failure rate presented in previous literature has been established more than once. As mentioned, Hunt (1990) finds that 50 percent of all M&A-processes fail to achieve synergistic gains. Cartwright & Cooper (1995) claim that a fair estimate would be 77 percent and

¹ The term refers to "Earnings before interests, taxes, depreciation and amortization"

Hubbard (2001) comes to the conclusion that 83 percent fail to achieve the goals set. It seems as if successful M&A-processes are in minority and in need of further evaluation.

When discussing the effect of an acquisition, one applicable method is measuring post-acquisition performance. By definition, this term means performance after the ownership transfer has taken place (Nupponen, 1995). The performance tends to vary widely depending on the success of the integration process, which is the process where to organizations are physically integrated.

Previous research is focused on the effects of the quality of the managerial efforts after the ownership transfer has been completed. This is illustrated by Pablo (1994) who claims that post-acquisition management is the key to all value creation in mergers and acquisition. Nupponen (1995) further notes that the organizational integration, which is the process of combining people and culture within a merger or acquisition, creates the potential synergies that could be released in the integration process.

Part of managing a merger or an acquisition is pre-acquisition planning of the objectives and motives behind it. The process prior to the ownership transfer taking place is decisive for defining the acquisition candidate and evaluating the possibilities from a strategic point or view. Previous research, for instance Nupponen (1995) acknowledges the pre-acquisition planning process as important for evaluating the fit of the target organization from both a strategic and an organizational point of view. Shanley and Correa (1992) stress the impact of strategic fit for the success of the acquisition and Datta (1991) points out that organizational fit is important for creating a culture.

That pre-acquisition planning is of importance in an acquisition of a company is clear. Evaluating the target beforehand leads to more knowledge about the organization. What although can be further established is how the planning process of an acquisition affect the realization of synergies directly. As mentioned, Pablo (1994) claims that post-acquisition management is the key to all value creation in M&A activities, but the effect of pre-acquisition planning on post-acquisition management might provide an answer for the outcome of an acquisition. The answer might provide an explanation to why some of the attempted acquisition processes fail.

From the discussion, this thesis will focus on the following problem statement:

- *To what extent is the pre-acquisition planning process of importance for the realization of synergies in an acquisition process and how does it affect the key success factors of the acquisition?*

1.3 Purpose

The purpose of this thesis is evaluating the effects of pre-acquisition planning on the key success factors for the realization of synergies. By evaluating the effects on the certain key factors, this thesis further aims at assessing the importance of the pre-acquisition planning for the success of the specific case.

2 Methodology

2.1 Research Approach

2.1.1 Case study

The approach of this thesis' research problem is conducting a case study of an acquisition process. The strength of conducting a case study is, according to Backman (1998), that it enables the researcher to get a deeper understanding of a larger phenomenon. As mentioned earlier, the high fail rate in merger and acquisition processes creates the need for a deeper understanding of the current subject. A case study including only one, or a few cases, is thereby applicable for gaining enough depth to achieve the purpose of this thesis.

The provided time limit further motivates the choice of a case study. To be able to present the required knowledge to achieve the purpose of this study, only a few objects can be studied. Due to the complexity of the subject at hand, this thesis only includes one case.

2.1.2 Abductive approach

The entry point of this study is the deductive method. Patel and Davidsson (2003) define the deductive method as a procedure where existing relevant theories decide which empirical data that is necessary to collect to achieve the purpose of the study. The method is applied in this thesis by pre-studying existing literature within mergers and acquisitions. After, departing from theory, the research problem has been formulated and a theoretical framework for analyzing the empirical data has been gathered. To apply the deductive method as the entry point of this thesis is necessary to gain enough information to be able to complete the analysis.

During the process of gathering empirical data, changes have been made to the theoretical framework. This was done in order to, in a more accurate way, analyze the data. Applying changes to the framework is more connected with the inductive method, where empirical data works as the entry point of the study. Hence, empirical data decides the structure of the theoretical framework (Patel & Davidsson, 2003). The research approach of this thesis can therefore not solely be defined as deductive.

The term abduction is defined by Alvesson and Sköldbberg (1994) as where theory and empirical data both apply as the entering approach of the study. They argue that the method is superior to both induction and deduction because it includes an understanding of the problem during the investigation process. This argument is applicable for this thesis due to the complexity of studying mergers and acquisitions. To capture the uniqueness of the specific case, the abductive approach is necessary to apply.

This thesis is further defined as explorative. It will take an explorative approach in aiming to present knowledge about how factors of success in acquisition process are affected by the strategic planning process. According to Andersen (1998), an explorative study aims at presenting knowledge where there are potentially unknown, or less known, factors. The abductive method is thereby motivated by the explorative study.

2.1.3 Qualitative method

The qualitative method explains how data is collected and analyzed. The strength of a qualitative method consists in the possibility of being able to measure data that is difficult to quantify in a meaningful way (Patel & Davidsson, 2003).

Backman (1998) further states that the qualitative method is superior when aiming to describe a process and its underlying factors, especially if the process is characterized by interaction between people.

Since this thesis aims at presenting underlying factors of success in an acquisition and to connect them the pre-acquisition planning, the choice of a qualitative method is natural. To quantify this type of information in a meaningful way will not provide the same depth in the gathered data. The information has been gathered through interviews within the organizations. This process will be further developed later in this chapter.

2.2 Data collection

The information collected to conduct this thesis can be divided into two main groups; primary data and secondary data. The reason for this is that the secondary data can provide a

theoretical knowledge from previous research and primary data will provide information about the specific case.

2.2.1 Collection of secondary data

Secondary data can be described as data collected for another purpose than the one of the current study (Andersen, 1998). These data have been applied in this thesis for several reasons. Initially, previous research was studied to obtain a general understanding of the problem. From these data the problem discussion and the purpose of the study was formulated. Secondary data have also been applied in order to build a theoretical framework for analyzing this study's empirical findings.

Secondary data have been used in terms of both literature and articles on the current topic. The search for the data has been conducted primarily through Gothenburg University's library. The key words for the search have been "mergers & acquisitions", "post-acquisition performance", "post-acquisition management" and "strategic planning". The key words have been translated into Swedish to widen the search and they have been used both separately and in combination.

2.2.2 Collection of primary data

Primary data can be defined as data gathered by the authors for the purpose of the study (Andersen, 1998). These data have been collected in this study by conducting qualitative interviews. When discussing the results of an interview, the primary concern that needs to be considered is the interview's level of structure. A low level of structure provides the respondent with the best opportunity to illustrate the situation from his point of view (Patel & Davidsson, 2003). In our choice of interviewing technique, the importance of not influencing the respondent and still being able to make comparisons between interviews, were argued. With these factors taken into consideration, our choice was to conduct interviews with a semi-low level of structure.

2.3 The interview process

The primary data has been gathered by semi-structured interviews, this is mentioned under section 2.2.2. The reason for choosing interviews is that the knowledge about the acquisition

is focused among managers in the organization. Their view of the process is what will provide deeper insight in this case.

2.3.1 The interview guide

Before the actual interview process we constructed an interview guide (provided in appendices 2 and 3), with open-ended questions, to apply our first condition of making interviews comparable. From these broader questions we made the interviews more of a discussion, primarily led by the respondent's answers. The reason for this was to apply our second condition of giving the respondent the best opportunity to illustrate the problem from his perspective.

The interview guide differentiates depending on the respondent. If the respondent had a strategic position within the organization "Interview guide 1" has been applied. "Interview guide 2" has been applied for other employees in order to further improve the interview by specializing on the knowledge of the specific respondent.

2.3.2 Interview preparations

According to Patel & Davidsson (2003), there are four preparations that should be considered when conducting interviews, these are:

- Evaluating the interview guide to conclude that it covers every aspect of the problem.
- Evaluate the importance of all questions, since unnecessary questions move focus from the problem.
- Make a pilot study to test the functionality of the interview guide.
- Practicing interview technique and be confident about the content of the interview.

The preparations above have been considered by, first of all, studying as much literature as possible before making the interview guide. The reason for this was to lower the risk that the questions would not cover the entire problem, but also to be more confident about the content of the interview.

A pilot study with one of the respondents was also made for the purpose of evaluating the questions and testing the functionality of the interview guide. The result of the pilot was that

several questions could be combined because they provided the same information. Further, several of our questions could also be reformulated to increase the respondent's understanding. The pilot study was a phone interview with one of our respondents and the interview was later remade in the same manner as the others.

2.3.3 Selection of respondents

The selection of respondents has been one of the most important aspects of this study. When studying mergers and acquisitions of this magnitude there are only a few people that possess the knowledge required for analyzing the process and its outcome. The idea behind the selection was to cover a vertical spectrum from the board to an actual salesman.

Per Sandberg (CEO, Fazer Bakery and Confectionary, Sweden) was responsible for the entire project of organizing the integration process and managed the workgroups which were in charge of the planning and integration process. The interview with him was conducted in order to receive his strategic perspective on the acquisition. This interview was conducted first, which provided the possibility of consulting him on the further selection of respondents. This was an important aspect since it enabled changes to be made in the selection of respondents.

Stefan Grip (Sales manager Fazer Bakery, Sweden) and *Claes Ahlqvist* (Business manager, Fazer Bakery, Sweden), both of the respondents were part the workgroup responsible in reorganizing the distribution. From the first interview we got information that the most interesting factors in the acquisition process were the changes made in sales and distribution, which motivates the interviews listed above

Martin Karlsson (Manager of the south region, Fazer Bakery, Sweden) was prior to the acquisition working at LFB. The idea behind this interview was to provide the possibility of comparing the acquirer's perspective with the perspective of the acquired organization.

Karsten Slotte (CEO and President, Oy Karl Fazer Ab) was involved in the strategic process of choosing the acquisition candidate. He was in front of the board responsible for the entire project. The interview with him was conducted to widen the strategic perspective of the acquisition.

David Karlsson (Distributor and salesman) was prior within the organization LFB and could provide us with information on how the changes had affected him and other employees. Further he had been an operative part in the integration process and could thereby provide the possibility of comparing the manager's strategic view with his perspective.

2.3.4 The interviews

During the interviews a tape recorder was used in order to be able to retrieve the information again if something would not be covered in the notes. Jacobsen (1993) addresses the issue of affecting the respondent by recording the interview. He suggests that this might lead to an interview were the respondent could withhold information. This aspect was discussed but considering the topic of the interviews, the risk of withheld information was considered unlikely.

When the interview was finished, the respondents were asked if they could be reachable for further questions. This was a useful tool for quality control in this study. This provided the possibility of sending notes to the respondent to verify that the interpretation of the answers were in accordance with the respondent's opinion. This process provided the possibility of making corrections and to add information that were missed during the interviews.

After the interviews the important part of the interviews were immediately written down. A discussion about the interviews was carried out, in order to make sure that both of us had interpreted the answers the same way. According to Eriksson and Wiedersheim-Paul (1990) there is an advantage of having a second part to discuss the answers provided with, this to further minimize the risk of mistakes being made.

2.4 Validity and Reliability

Lekvall and Wahlbin (1993) discuss the potential issue of errors while measuring. The potential problems consist of low validity and/or low reliability.

2.4.1 Validity

According to Arbnor and Bjerke (1994), validity can be divided into three main groups: *face validity*, *internal validity* and *external validity*. Face validity can be achieved, through the entire process, by evaluating the reasonableness in the findings. Internal validity can be achieved by logically evaluating the relevance between the findings and theory. External validity can be achieved by being able to generalize the results to the entire population.

Since this study only includes one case the discussion of external validity will not be further developed. Our findings will only be discussed as the results of this case and are not to be generalized. Further, the findings will only be stated as hypothesis.

Effort has been put in trying to establish internal validity by studying as much theory and literature as possible on the current subject. Multiple sources have been used to establish a fair understanding of previous research. This was the best way of both linking the findings to theory and uphold a critical view on all findings during the entire process.

2.4.2 Reliability

High reliability indicates that the study could be performed again, by another researcher, and would still present the same results and conclusions (Lekvall & Wahlbin, 1993). The problem is illustrated in this study, due to the fact that the empirical data has been gathered by qualitative interviews. Yin (1994), states that qualitative research is in need of a certain level of subjectivity, which will consist of the researcher's thoughts and ideas. Focus should rather be on ensuring that the information gathered could be described as trustworthy, reliable and reasonable. The term is designed to minimize the influence of chance in the study.

To establish reliability several preparations have been made. For instance, a tape recorder was used, the questions were sent to the respondents in advance and the interview notes were sent back to the respondent for quality control. All of these actions are further developed under the interview process and are methods of increasing the reliability of this study.

2.5 Limitations to the study

The purpose of this section is to illustrate the potential weaknesses of our study. It is important to point out that these problems have been noted beforehand, and the focus has been to minimize the effect of these issues.

2.5.1 Translations

The first limitation is that a majority of our data have been collected in Swedish. This leads to the need of translating the results into English. The potential problem when translating is errors such as misinterpretations. This factor is important to consider but it is also important to point out that the reliability of this thesis would be lower if we would have conducted the interviews in English. This is due to the fact that, forcing the respondent not to speak their native language could potentially lead to a decrease of quality in the answers. To minimize this risk efforts have been put in evaluating the quality of the translations, by primarily using business dictionaries. The use of secondary data originally written in English has also helped improve the quality of our translations.

2.5.2 Inexperience

Due to the fact that this is a bachelor thesis, the factor of inexperience becomes noticeable. Neither of the authors has conducted a case study with interviews before, which potentially could affect the results. To have been more familiar with interviewing technique would potentially have led to more accurate information. It would also have helped in lowering the risk of misinterpreting the data gathered. The factor of inexperience affecting the result has been considered by putting efforts in reading method literature.

3 Theoretical framework & previous studies

3.1 Mergers and acquisitions

The term acquisition can be used to describe any form of overtaking of an organization (Nupponen, 1995). The definition includes mergers as well, although our study will only focus on acquisition processes.

When discussing strategies behind mergers and acquisitions, the Federal Trade Commission (from Larsson, 1990) has the following definitions:

- *Horizontal expansion* – An acquisition is horizontal when companies produce at least one of the same or very closely related products.
- *Vertical expansion* – An acquisition is vertical when the relationship between the companies prior to the acquisition could have been a buyer-seller one.
- *Product extension* – Is defined as an acquisition where the products acquired do not directly compete with the acquirer's own products.
- *Market extension* – When an acquisition leads to expanding in the same product group on new geographical markets.
- *Unrelated* – Unrelated organizations

The strategies above are connected with different motives behind the M&A strategy. One of the most common motives is the potential realization of synergies. The definition of synergy is widely discussed but a standard definition usually provides the *2 + 2 = 5 effect* (Gaughan, 1996). Basically, two organizations have the potential of working more efficiently together than apart.

Another motive for applying the M&A strategy is to increase an organization's total market share. By acquiring another organization, the potential of expanding becomes noticeable. McDonagh and Bengtsson (1992) state that the goals of expanding, by increasing the market share, are rarely met due to the fact that competitors tend to expand while the integration process between two organizations is taking place. Therefore the M&A strategies are not always optimal when aiming to increase an organization's market share.

A third motive is to expand or change an organization's product portfolio. Organizations that carry products that do not directly compete with the companies own products, could add strength to the organization. McDonagh and Bengtsson (1992) point out the danger of a larger portfolio and scale might lead to potential problems and make the integration more difficult.

There are more motives behind applying the M&A strategy. For instance, market defense strategies, international expansion, reaching critical mass and personal motives (McDonagh & Bengtsson, 1992).

3.2 Measuring post-acquisition performance

When discussing the effect of an acquisition, the term *post-acquisition performance* is applicable. The term is created in order to compare relevant figures before and after the ownership transfer has taken place, to be able to evaluate the success of the process. There are several methods of conducting this comparison, and focus is on the financial measures available.

3.2.1 Stock price analysis

A measure introduced in the 1970s was the *stock price analysis* (also known as event or residual analysis). The idea of the measure is to observe the movement of the company's stock price prior and after the acquisition. Based on the assumption that a free competitive market has the ability to evaluate the net present value of cash flows and therefore, the future value of the acquisition deal, the effect of a merger could be spotted when observing the price (Nupponen 1995).

3.2.2 Accounting based measures

Accounting-based measures have become more frequently used when discussing post-acquisition performance. The use of public financial statements has advantages in form of being a simpler tool for managers. The problem with this method is that it does not solve the isolation problem, discussed in the stock price analysis, and has further implications in form of the issue of evaluating performance in a certain time window, for instance a financial year. This is illustrated by the question: when is it possible to evaluate the effect of the acquisition? The answer is that it could take up to several years. When this condition has been met, other

market specific occurrences may have taken place and isolating the performance to the acquisition might be impossible (Lubatkin, 1983).

Venkatraman & Ramanujam (1986) also raise the issue of applying different accounting policies. They argue that it makes the comparison more difficult and Ravenscraft and Scherer (1987) illustrate the problem by stating that the choice of depreciation policy directly affects the result in the financial statement.

Nupponen (1995) argues for the use of primary financial data, instead of using secondary data as annual reports and financial statements. He claims that most of discussed limitations could be solved by using figures gathered directly from the company. This is due to the fact that the need of aggregation is no longer an issue and primarily, the issue of having to include external interpretations disappears (Venkatraman & Ramanujam, 1986).

3.3 Pre-acquisition framework

There are pre-acquisition factors that have potential effect on the post-acquisition performance. The planning and implementation process takes place up to the point where the ownership transfer is completed.

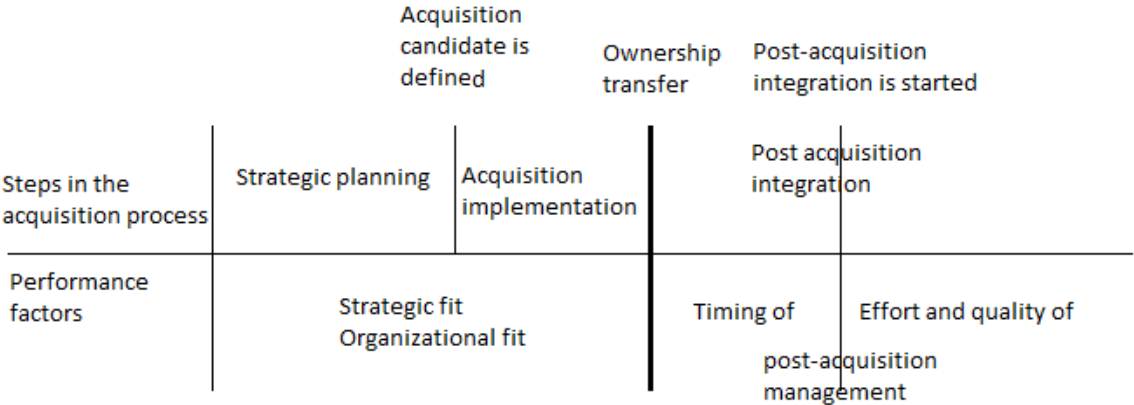


Figure 3.1: *The acquisition process according to Nupponen (1995, p.65)*

The figure 3.1 describes an acquisition process and the factors affecting the planning process. Nupponen (1995) argues for the evaluation of strategic and organizational fit.

3.3.1 Strategic fit

Strategic fit is defined as to how well the acquired organization's strategy correlates with the parent organization's strategy. There is a discussion regarding how important this is to consider when making an acquisition. Theoretically, the highest potential synergy can be achieved when two organizations with similar strategy are combined.

Shanley and Correa (1992) noted that synergies are often created by differences rather than similarities. In fact, the potential synergy between two organizations with high strategic fit might instead be smaller due to the need of more post-acquisition management (Shanley & Correa, 1992). Either way, the strategic fit of the organizations is of importance when evaluating the potential synergies that the physical integration can release (Nupponen, 1995).

3.3.2 Organizational fit

Organizational fit is defined as the match between organizations in terms of culture, personnel and practices (Datta, 1991). Basically, it describes how easy the organizational integration will be. A high organizational fit indicates that the integration process will consist of fewer problems within the organization. A high organizational fit is also associated with a higher level of success (Nupponen, 1995).

Previous studies have focused on the cultural fit between organizations when evaluating post-acquisition performance. Differences in management style, incentive systems and overall culture has been found to have a negative impact on the performance (Datta, 1991).

A low level of organizational fit does not automatically equal failure. However, it does imply the need of more active post-acquisition management to be successful. This is due to the fact that more situations, problems and uncertainty will arise.

3.4 Post-acquisition framework

When expanding according to the mergers and acquisition strategy there are always an integration process that has to take place before synergies can be released. The extent of the integration differentiates depending on the organizations involved.

The integration process is primarily defined with post-acquisition management. The management that is taking place after the ownership change has been communicated. Pablo (1994) defines this as the key factor to all value creation in an acquisition process.

Nupponen (1995) argued for the factors affecting the post-acquisition performance, and the realization of synergies, are: (Which are illustrated in figure 3.1)

- *Post-acquisition management - The quality of organizational integration.*
- *Post-acquisition management - The quality of physical integration*
- *Post-acquisition management - The timing of the integration*
- *External factors*

3.4.1 The quality of organizational integration

The organizational view of an integration process tends to focus on the human side of the problem, hence, how do employees within the organization react when being acquired? The theoretical idea is trying to define the human “issues” that arises in the process. Humans can feel both distrust and tension towards the acquirer which can lead to tension within the organization. Larsson (1989) claims that this is one of the explanations to why a substantial part of all M&A processes fail. He bases his theory in the term *employer resistance* which he characterizes as a function of:

- *Low acculturation*
- *The perceived hostility*
- *Negative career implications*
- *High or low transfer of control*

The last factor above is based on the assumption that too high transfer of control could generate resistance. Further, a low transfer of control could generate a struggle for dominance. To illustrate the problems with organizational integration Walsh and Ellwood (1991) study the top management turnover rate after an acquisition was made. Not surprising, the rate is higher compared with similar companies where no M&A strategies have been implemented. Another interesting factor is that the turnover rate among the top-management is not higher in organizations with poor pre-acquisition performance than high performing ones. This

indicates the failure in the organizational integration; high performing organizations will benefit less from restructuring than low performing organizations.

3.4.2 The quality of physical integration

Physical integration focuses on the actual integration of organizations with assets, products, and costumers. The physical integration is therefore the perspective that focuses directly on realizing potential synergies. The integration process often requires a substantial amount of time and effort to achieve synergy (Larsson, 1990).

Nupponen (1995) studies synergy effects based on Kitching's (1967) research. He claims that the primary synergy effects are realized within the financial sector, the second largest effects are realized through marketing and the third are through technology and production. This is interesting since most people illustrate synergy effects as technological and production advantages.

When studying the production and technological aspect of the potential synergies it will probably be in this area that most of the potential gains are. But they also seem as the most difficult ones to achieve. Nupponen (1995) proposed that this might be due to that employees are less likely to abandon their own production platforms and innovations which lead to poor integration between the organizations.

Previous studies indicate that synergies consists of people rather than technology, hence, releasing the synergies will be dependent on how well the integration process will motivate the employees in working together (Nupponen, 1995).

3.4.3 The timing of the integration

Another factor when discussing post-acquisition performance evaluation is the timing factor. It was noted prior in this chapter that it is important to keep employees motivated. This is the factor that in theory links the physical integration and the organizational integration together.

The organizational integration has to start prior to the actual physical integration. This is due to the fact that a physical integration is very likely to fail when the organizational integration has not taken place (Nupponen, 1995).

3.4.4 Speed of the integration process

The speed of the physical integration process has been researched and generated different results. Trice and Beyer (1993) concludes that a slower integration leads to a deeper understanding of an organization's strategies and culture, and will therefore create more value. This differentiates from Hadijan (2000) who concludes that a quicker integration process is more effective, due to that the factor of uncertainty is minimized. Feeling of uncertainty triggers the feelings listed by Larsson (1990) above which could lead to employer resistance.

When further discussing how long the optimal integration process should be, theory does not provide a general timeframe. The time factor can decide the success of the process but since every M&A process is unique, the time frame differentiates.

3.5 Cultural aspects

Another aspect when integrating organizations after an acquisition is the issue of dealing with two different corporate cultures. Cartwright & Cooper (1996) suggest that there are three different scenarios that are possible to consider when dealing with acquisitions:

- The parent organization works for implementing its own culture in the target organization.
- The two organizations' cultures are integrated and become one.
- The organizations can decide to maintain two different cultures.

These three alternatives cover the cultural integration, but one of the choices might not cover the entire integration process. Different cultural integration might be applied on different areas of the organization which can result in the creation of a new culture.

Trice and Beyer (1993) claim that most companies and organizations are multicultural and they further propose that in an acquisition the process it is simpler due to the fact that the parent organization can impose their strategy on the target.

3.6 Information and communication

Communication and information are important factors when making organizational changes. Previous research presents the explanation that insufficient information in the organization, could lead to failure in acquisition processes. Habeck, Kröger and Träm (2000) state that 86 of all companies asked were of the opinion that the organization had failed to communicate the new strategies sufficiently. This may provide a framework for explaining why employer resistance may arise.

In order to achieve sufficient information between the management and the employees Habeck et al (2000) state that the goals of the communication need to be described and understood. If they are not, they will not be communicated properly. Further the audience of the targeted needs to be defined and their needs and situation has to be understood when communicating. To formulate the information properly the need of knowing how it will be received is important.

4. Empirical data

4.1 Motives behind the acquisition

4.1.1 Market position

According to Per Sandberg, Fazer has a vision of becoming market leader in the Swedish bread market. In 2001, the company had about 4.9 percent of the market and has been expanding since. Stefan Grip illustrates the growth up to 2008 as organic and slow where Fazer had gained market shares and had about 8.9 percent of the market. Karsten Slotte characterizes Fazer, before the acquisition, as a specialized supplier in rye bread. In Slotte's opinion Fazer had two strategic choices. The first option was to further specialize in the rye bread segment and the second option was to expand by acquiring LFB and thereby becoming the second largest actor on the Swedish bread market. Karsten Slotte believes the second option was necessary in order to create shareholder value in a longer perspective.

To expand by organic growth was described, by all respondents with a strategic position, as difficult. This is due to the fact that Fazer's main competitor Pågen had such a substantial part of the market and thereby a dominant position among the local dealers. Martin Karlsson illustrates this issue by the fact that Pågen had the possibility of dictating the terms for the local dealers. Martin Karlsson is of the opinion that the local dealers were in need of a larger actor that possessed the strength of competing with Pågen.

4.1.2 Potential synergy effects

Per Sandberg and Karsten Slotte both define the potential synergy effects as one of the main motives behind the acquisition.

4.1.2.1 Sales and distribution

Fazer applied a new sales and distribution strategy to be more effective in the 1960's. This strategy was based on the idea that every distributor of the company has the role of a salesman. The distributor is responsible for the district he or she is working in, with approximately ten dealers to attend to. The salesperson is in charge of ordering bread from the bakery, distributing the bread to the local dealers, unpacking the bread in the store and

removing expired products. The selling distributor further deals with the interaction with the customers and is in charge of marketing new products and campaigns to the dealers.

This concept is applied by most of the competitors of Fazer, such as Pågen and Polarbröd. Per Sandberg assumes that not to use this concept in the bakery market today, would lead to a difficult position, due to low profitability.

The advantages of the strategy are first of all that when the selling distributor is responsible for his own district he develops knowledge of the local demand structure. His knowledge improves the accuracy of the estimated sales. Before this system was implemented, the bakeries produced bread according to estimates from the central organization. Stefan Grip concludes that this knowledge, required for making decent estimates, could only be achieved locally. The result of this new way of working was less expired products in stores, fewer products not sold in the bakeries and thereby cost reductions were achieved.

David Karlsson points out that an additional benefit of this way to work is that he, as a selling distributor, is more flexible. The flexibility is described in terms of his ability to allocate products between the local dealers. If David Karlsson finds that a certain product has been less consumed than predicted he has the possibility of moving the excessive quantity to a dealer where the demand had exceeded his expectations. Since David Karlsson after the acquisition is working with an incentive system, in form of commission, he feels more motivated to optimize the allocation of products.

4.1.2.2 Production

The selling distributor also helps improving the production process. Prior to implementing this strategy, the bakeries had to pack the various products to every single store. This process was ineffective and a lot of personnel were needed to conduct the packing, according to Stefan Grip. The new system made this more effective, since it was possible to pack bread in larger quantities. Per Sandberg concludes that a fair description of the new system is to say that the distributor is more or less the customer of the bakery, since he or she is the one placing the orders. This further helps in reducing the costs in the bakeries.

Another potential production synergy was the possibility of concentrating the production to fewer bakeries which could further improve the costs reduction according to Stefan Grip.

4.1.2.3 Brand synergies

Per Sandberg points out that one of the potential advantages of acquiring LFB was the brand synergies. In the market Fazer was, pre-acquisition, linked to the rye bread segment where their position was strong. Overall, Fazer's brands could be described as unique and genuine.

LFB was, pre-acquisition, more associated with Swedish core products which had more of a dominant position among the customers. When evaluating the effect of adding LFB's brands to Fazer portfolio, clear benefits were noted and according to Per Sandberg and Stefan Grip, the brands were very well matched. Stefan Grip further illustrates the advantages of the brand synergy by concluding that Fazer became a more complete supplier of bread. Fazer could cover a larger part of the market products and become a more obvious competitor to the market leader Pågen. The brand synergies are therefore important in order to increase the effect of gaining market shares, according to Martin Karlsson.

4.2 Measuring performance

4.2.1 Pre acquisition performance

Pre-acquisition, LFB had problems being profitable. Per Sandberg illustrates the problem by studying the company's results since 2003. Between the period of 2003 and 2009 LFB had a total loss of over SEK 1000 million. Martin Karlsson believes the reason for these excessive losses during this period was that LFB had not been able to keep up with the competitors, in terms of effective logistics and sales solutions. This is further illustrated in the cost structure of the company, which had presented itself a lot higher than the cost structure in comparable competitors.

Claes Ahlqvist further concludes that LFB was in need of strategic change. Their operational business, primarily their sales and logistics, was not optimized for reaching the performance goals but rather to create value for the customers. Ahlqvist illustrates this issue by the fact that LFB always made deliveries as soon as the dealers ran out of bread. This differentiated from Fazer, who delivered on certain days of the week to eliminate the risk of driving empty trucks. Martin Karlsson agrees to this description of the situation.

4.2.2 Post-acquisition performance

The post-acquisition performance is illustrated by the result of 2010. According to Per Sandberg, the 2010 bakery performance resulted in a profit of SEK 96 million, which is a company estimate of EBITDA. In only one year the increased performance is obvious, especially since the Fazer bakery organization, including the acquired LFB, showed a negative result of SEK 11 million in 2009.

The post-acquisition performance, described by the comparison above, is a clear indication of improvement and realization of synergies, according to Per Sandberg. He claims that the positive effect on the result in 2010 years books can undoubtedly be explained by the acquisition and integration of LFB. Sandberg also refers to the fact that the overall market for bread decreased by four percent in 2010, compared with 2009. This is a further indication for the success of the acquisition.

4.4 Strategic planning process

Before an acquisition is made, a strategic plan is necessary in order to have an understanding of how to proceed when integrating the organizations. Per Sandberg characterizes the planning process as approximately a year of hard work to consider all aspects of the acquisition process.

As project owner, Per Sandberg led the planning process by studying LFB in the beginning of 2008. Karsten Slotte had been in contact with LFB since 2005, to discuss a potential acquisition. When he received an indication that the deal was achievable, Per Sandberg initiated the planning process.

The first step in the process was to evaluate the problems and the potential strategic changes that could be applied after an ownership transfer. The primary planned strategic change, according to Stefan Grip and Per Sandberg, was the rationalization of the distribution. Per Sandberg also explains that Fazer noted the possibility of rationalizing the production by concentrating to fewer and more efficiently placed bakeries. By strategically evaluating the acquisition candidate, Per Sandberg further explains that he received an understanding of what was needed to be done in order to successfully integrate LFB into the organization after the acquisition.

Another important factor in the first step of the planning process was the possibility of evaluating the product portfolio of LFB. According to Claes Ahlqvist, it was possible to discuss changes and analyse the target structure of the new portfolio. Per Sandberg is of the opinion that the first step of the planning process was important for defining if the acquisition candidate was appropriate to acquire from a strategic point of view. He and Karsten Slotte are both of the opinion that an acquisition must be driven by strategic reasons.

The second step of the planning process was awaiting acceptance from LFB. When it became official, Fazer conducted a Due Diligence² on the organization to further improve their knowledge. Per Sandberg states, that the Due Diligence allowed him to obtain relevant figures from the organization, which was useful for verifying the earlier estimates. He further hired a group of consultants to work with in order to systematically break down all business units in LFB and evaluate effects of the potential changes. All cost reductions was evaluated, which made it possible for Fazer to make a preliminary estimate of the company's potential total reduction of costs after the changes had been implemented. Per Sandberg adds that it is not possible to depend on consultants to plan the entire process and he stresses the importance of actually knowing the target company and its business.

The planning process continued by appointing managers responsible for each planning area. The structure is displayed in figure 4.1.

² Refers to the pre-acquisition process of gathering and analysing information from the target organization

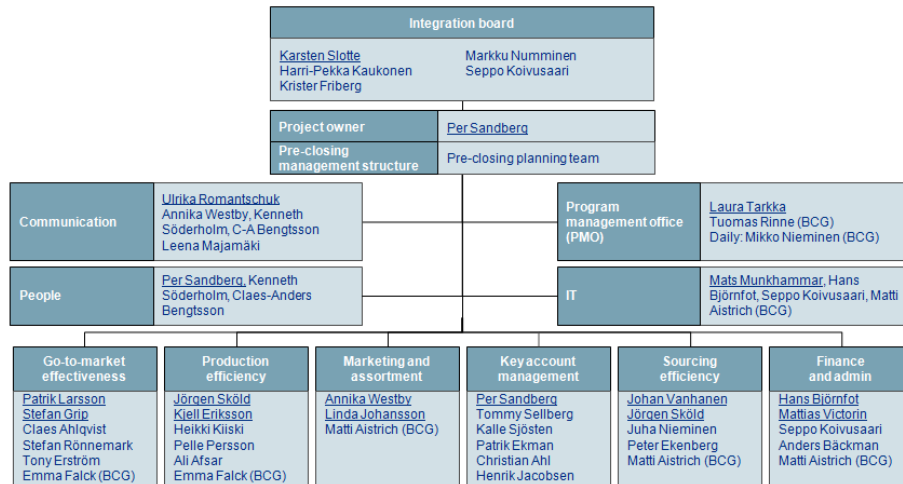


Figure 4.1 *Responsibilities of respective areas* (Based on the interview with Per Sandberg, 2011)

Figure 4.1 illustrates the organization of the planning and the integration team organized into smaller workgroups with managers in charge of each planning area. The workgroups were consisted of managers from both Fazer and LFB, where about half of the managers in each group were representatives from LFB. The reason for this was, according to Per Sandberg, that in a merger or an acquisition it is important that both organizations are represented in the planning process, in order to combine their knowledge and create an equal atmosphere where everyone feels involved.

Per Sandberg concludes that the strategic planning process was the key for the entire integration process. He further explains that it is all about having a clear and well-defined strategy of what you want to do, before you launch the project. The risk appears when you deviate from the plan when facing integration problems. He therefore stresses the importance of sticking to the plan. Karsten Slotte explains that in order to implement a new strategy or make any changes within an organization, you have to make the strategy as simple as possible so that every person can understand it.

4.5 Implementation and integration process

4.5.1 Communication

When the planning process was completed and the ownership transfer had taken place, Fazer launched the integration plan. The process was initiated by Stefan Grip, who on the same day,

went to Stockholm, Gothenburg and Malmö to inform the employees about the upcoming integration plans. By doing this a majority of the employees received the message on the same day, which he thinks is important in order to include everyone in the process. Stefan Grip believes that it is possible to avoid suspicion, fear and other emotions that might arise by informing everyone at the same time.

Per Sandberg also explains that Fazer in an early stage provided information packages for employees, which he believes was of importance in order to create an understanding of Fazer. Since Fazer had a clear strategy of what they wanted to accomplish, Per Sandberg himself appeared in all bakeries and depots to present the strategy and inform about the changes Fazer intended to conduct. He stresses the importance of making everyone feel involved, especially since the integration of two organizations requires a high pace and a lot of effort.

David Karlsson explains that Fazer had transferred control, but he also appreciated Fazer's way of providing a clear message of what was needed to be done. He valued Fazer's message that was given the first day; "We want to make this organization profitable. If you make money, we make money so go out and start selling. This will benefit all parties."

Karsten Slotte describes one of his responsibilities as being the one who makes sure that there is a proper schedule for the plan and creating an atmosphere and a culture. He therefore thinks it was of importance to visit all of LFB sites. He believes it was of importance to communicate the message through the entire organization and not just down a level in the organization's hierarchy.

Per Sandberg further explains that one factor that contributed to the successful integration was that Fazer never pointed out that they had acquired LFB, but rather tried to create an atmosphere of a merger between two companies. Karsten Slotte is of the opinion that this was necessary in order to avoid feelings of hostility towards the Fazer organization.

The mixed management team created in the planning process was another aspect to consider when communicating within the organization. Fazer believed that the mixed team could both increase the competence and help creating a culture that was appreciated by both Fazer's employees and the former employees of LFB, according to Per Sandberg.

David Karlsson explains that he receives a letter from the management team every week. These letters provide him with information about general business performance, sales statistics, campaigns and market trends. Karsten Slotte explains that the content of these letters is not of importance. The important part is rather the fact that the letters include the recipient's name. Karsten Slotte explains that this shows that the company has a personal interest for their employees.

In addition to the weekly letters, David Karlsson further explains that Fazer has sales boards and sales statistics in their depots, which illustrate the performance of the selling distributors. This system further works as an incentive and motivates the employees to constantly increase their performance.

Claes Ahlqvist admits, that one communication factor was, to some extent, missed when integrating the organizations. The communication might have been too focused within the organization. He stresses the issue of communicating the same message to the customers of the organizations. They will experience the same feelings of uncertainty, as the employees, which can result in potential losses of customers if they do not have confidence in that the acquisition process will succeed. External communication concerning the acquisition is important in order to inform the stakeholders that you are in control of the situation, according to Claes Ahlqvist.

4.5.2 Integrating the product portfolios

Per Sandberg explains that Fazer's product portfolio contained a lot of brands before the acquisition was made. If LFB's product portfolio had been added to Fazer's the result had been that Fazer would have carried over 400 products, most of them with a relatively low turnaround.

The product portfolio was adapted to the new sales and distribution concept, with focus on the products with higher turnaround. The increased number of products available in the portfolio made it possible for Fazer to select a better structure and become more competitive on the market. It also helped in removing several products that generated low or no profit. About 75 percent of the products were removed which led to a substantial loss in turnaround. Per

Sandberg believes that this was a necessary step in order to make an effective combination of products.

4.5.3 Rationalization of production

One part of the strategic plan was how Fazer should dispose the bakeries acquired in the deal. Per Sandberg clarifies that they received control over five bakeries when acquiring LFB. Stefan Grip explains that Fazer could shut down two of those, in order to cut costs in form of personal, machines and other fixed costs.

4.5.4 Organizing new districts

Claes Ahlqvist explains that his job in the implementation process was to coordinate the regions and districts, which he conducted together with the managers responsible for each region.

Martin Karlsson, who was responsible for the southern region, clarifies that he had approximately 40 districts which should be changed in one day. This obviously demanded a lot of planning. He had a very short period of time to reschedule the deliveries, which made it impossible to consider alternatives.

Claes Ahlqvist explains that the main concern was how often the selling distributors would deliver products to the local dealers. LFB had pre-acquisition, visited the local dealers with a low turnover or situated far from the city, up to six times per week. This was according to Claes Ahlqvist not acceptable from an economic point of view. He further states that the system was based on how much each store is selling. When this was established they decided the number of visits paid, to respectively dealer.

The reaction of the reduction, in the numbers of visits paid, was that some dealers showed great discontent, says Claes Ahlqvist. David Karlsson mentions that not only were the numbers of visits reduced, the deliveries were often delayed during the integration process. He further explains that due to his good relations with his dealers he managed to convince them that the situation was going to stabilize.

The changes in distribution led to some major conflicts. This mostly concerned the smaller dealers and not the larger organizations such as ICA, Maxi and Coop. They were still assigned the same amount of visits paid due to their high turnover.

4.5.5 Education and competence

Since Fazer's acquisition of LFB meant substantial changes for a majority of the employees in both companies, educating the employees was necessary to be able to conduct any changes at all, according to Per Sandberg. Martin Karlsson confirms this by stating that education was an important step for him, in the integration process. The education primarily focused on the former drivers from LFB who faced a new concept of selling distribution, but the salesmen at Fazer were also in need of education in order to improve their knowledge about the new products. Martin Karlsson explains that because LFB had a non-selling distribution force, the drivers were not familiar with customer relations or sales.

The educations took place a couple of weeks before the physical integration in each district, according to Claes Ahlqvist. David Karlsson explains that the educations consisted of two parts, one out on the field and one indoors in larger groups.

The first part took place during the fall of 2008 and worked as a base education where they learned about logistics, PDA's³, sales, marketing strategies and operation, says Claes Ahlqvist.

During the second part of the education they placed two distributors in every truck, one from LFB and one from Fazer, for a shorter time period. This made it possible for the distributors to support and learn from each other about the new products or the use of a PDA, says David Karlsson.

Claes Ahlqvist and Martin Karlsson point out that several of the old drivers managed to adapt to the new concept. The few drivers that were not willing to adapt left the company voluntarily. David Karlsson, who worked at LFB for three years, clarifies this by mentioning that many of his former colleagues did not like the new distributing concept.

³ Personal digital assistant, is a small computer suitable for out of office work

Stefan Grip explains that the employees, that were unwilling to adapt to the new concept, were relocated or forced to leave. David Karlsson further states that this did not cause any substantial conflicts, because of the fact that Fazer's new strategy were accepted among a majority of the employees at LFB.

4.5.6 The speed of the integration process

Fazer had, in the planning process, decided that the changes needed to be completed very quickly after the integration had begun, according to Per Sandberg. The integration team decided that after 16 weeks, the organizations should be fully integrated and fully operatively functional in accordance with the new strategic concepts. All respondents that were included in the planning of the acquisition agree that the speed of the integration was a very important factor in making a successful transition. Karsten Slotte illustrates this by saying that the speed of the integration process is more important, than doing everything perfect. Stefan Grip explains that there were no alternatives to a quick integration process because when making such a substantial change in the organizational structure there is no turning back. Per Sandberg believes that a slower integration process, in the acquisition of LFB, would have enhanced the feeling of uncertainty among employees, customers and other stakeholders.

Martin Karlsson also points out the importance of homogeneity when discussing the speed of the integration. If Fazer would have slowed down the process, it would have resulted in that different districts would have used different systems for a longer period of time. Claes Ahlqvist further illustrates the problem, of not having the same system, by the fact that the coordination of the actions becomes more difficult. Since all districts could not be implemented at the same time Fazer aimed to integrate them to the new concept as quickly as possible.

Martin Karlsson and Claes Ahlqvist explain that they were both worried that the integration was progressing too fast for the organization. They were also considering slowdowns in some of the implementation areas, but since sticking to the plan was such an important factor for the project managers, they carried on as planned.

Karsten Slotte states that the overall aim with a quick integration is to surprise the actors. They should not have the possibility to develop a doubt of the plan, and this concerns both

internal and external actors. Karsten Slotte further believes that you have a maximum of 100 days to conduct the changes required. The factor of surprise makes people, in some ways, paralyzed and they will not have the time to resist the changes. To make radical changes quick is therefore of absolute essence if they are to be conducted at all.

5 Analysis

5.1 Acquisition classification

In the acquisition of LFB, Fazer acquired a company carrying several closely related products which completely or partly competed with brands in Fazer's own portfolio.

Based on the FTC's classification of M&A strategies (Larsson, 1990) Fazer's acquisition of LFB can be characterized as a horizontal expansion. Further, the acquisition can be described as a product extension as well, due to the fact that Fazer in the acquisition received control over several products that did not directly compete with their own product portfolio.

5.2 Acquisition strategy

The strategy behind the acquisition of LFB can be primarily defined as a method of gaining market shares. Fazer had encountered issues in competing with their main competitor Pågen who controlled a substantial part of the total market. The increased market share had the potential of making Fazer a larger actor on the market and potentially a major competitor to the market leader. Further, another strategy that Fazer applied was the potential of improving their product portfolio. LFB carried products that had the potential of making Fazer more of a complete supplier of bread.

Another strategy behind the acquisition was the potential synergies that could be realized through the integration process. A new sale and logistics system and the rationalization of the production are examples of the potential synergies.

McDonagh and Bengtsson (1992) claim that increasing the organization's market share and expanding the product portfolio, are important strategic motives behind an acquisition process. These motives are clearly applicable for the Fazer-LFB case.

Gaughan (1996) states, that the potential synergies are the most important motive behind an acquisition. This motive can also be applied to explain the strategy behind Fazer's acquisition of LFB.

5.3 Realization of synergy

When measuring if Fazer achieved any synergistic gains by acquiring LFB, accounting based measures have been applied in order to measure post-acquisition performance. The primary financial data gathered from Fazer shows an undeniable increase in profitability 2010 and the first quarter of 2011. The financial data indicates that synergistic gains have been achieved.

When evaluating if synergies has been released it is also important to consider external factors to exclude the possibility of the increase in profitability could derive from another factor. The evaluation of the total market shows a decline in demand of bread of 4 percent in 2010 and no other major events among competitors has taken place. This further indicates that Fazer has achieved synergies by acquiring LFB. Based on the financial based measure (Nupponen, 1995) the increase in profitability can be explained by the acquisition of LFB.

5.4 The planning process

5.4.1 The structure of the planning process

The acquisition planning process of LFB followed the structure displayed in figure 5.1. The company vision of becoming a larger actor on the Swedish bread market was the starting point where the Karsten Slotte evaluated potential candidates for acquiring. The process ended with the definition of LFB as the acquisition candidate where Per Sandberg was appointed project owner.

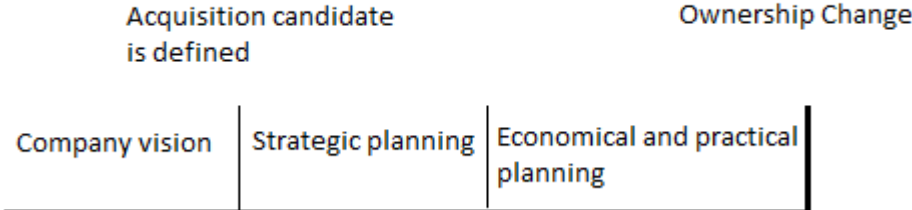


Figure 5.1: *The planning process of the acquisition of LFB*

The second part of the planning process led by Per Sandberg was the strategic planning process where the potential strategic benefits of the acquisition were determined. The primary benefits were the potential strategic changes in sales and distribution, according to all respondents, and the possibility of acquiring new products, which could make Fazer a more complete supplier.

The third stage of the planning process was to make complete calculations of what the strategic changes would mean in terms of effect on the result. This concerned the changes in production, sales/distribution and administration. When all three steps had been carried out, the ownership change took place.

Nupponen (1995) presented his view on an acquisition process (provided in figure 3.1) where the strategic planning takes place up to the point of defining the acquisition candidate. When the candidate is defined the acquisition implementation can begin.

When comparing the pre-acquisition process with Nupponen's (1995) view of an acquisition process, his general concept can be used to describe the planning of the acquisition. The deviations from the model, concerns partly the first step where the Fazer case was driven more by a long term company vision, while Nupponen (1995) describe it as a product of strategic planning. The majority of the strategic planning took place after the acquisition candidate was defined.

5.4.2 Strategic fit

When evaluating the strategic fit between Fazer and LFB, the result is that it was rather low. The companies worked according to different strategies in key areas of sales and distribution and the majority of their products did not directly compete with each other. LFB also had a strategic vision of increasing customer satisfactory, rather than focusing on profitability.

In the planning process the factor of strategic fit are of importance when evaluating the acquisition candidate. Shanley and Correa (1992) proposed that synergies are rather created by differences in strategy, than similarities. This statement appears applicable in the Fazer-LFB case due to the low strategic fit.

5.4.3 Organizational fit

The organizational fit between the organizations was in the case of Fazer-LFB can be characterized as low. There were substantial differences in both incentive systems among the staffs and overall culture. For instance, the Fazer distributors worked with an incentive system based on commission which LFB's did not.

Datta (1991) states that a low level of organizational fit create the need of a more active post-acquisition management to be successful. He focused on the aspects of management style, incentive systems and overall culture. This indicates the presence of active post-acquisition management to explain the success of the integration in this case.

5.5 Organizational integration

5.5.1 Information and communication

After the ownership change, Fazer communicated their acquisition strategy to the employees in all districts at the same time. From the top management both Per Sandberg and Karsten Slotte participated in the communication program. Karsten Slotte stressed the issue of simplicity when implementing a strategy in an organization and states that all employees have to understand the message in order to be able to effectively make the changes desired. Slotte's communication strategy correlates with Habeck et al (2000) which stressed the issue that the goals of the communication must be described and understood.

The fact that David Karlsson states that the company's future plans were well defined and communicated during the entire integration process, further illustrates a successful communication strategy, in the integration process. Considering that Habeck et al (2000) state that 86 of all companies asked claimed that they failed to communicate the new strategies sufficiently in acquisition processes this factor must be considered of importance for the success of the integration.

When further analyzing communication in an acquisition process, the focus in previous research has primarily been within the organization. In the Fazer-LFB case there was an important factor in communicating externally as well. Stakeholders, such as customers of the acquired organization, experienced the feeling of uncertainty which led to loss of customers.

5.5.2 The creation of a culture

Fazer arranged an education program for all employees at the start of the physical integration, which was similar regardless if the person prior had worked at Fazer or LFB.

Further, the fact that Per Sandberg constructed a mixed management team in the organization, improved the process of creating a culture appreciated by the representatives from both companies. Fazer never imposed their culture on LFB, but rather focused on involving and engaging people from both organizations to work together in accordance to the strategic plan.

David Karlsson's illustration of the weekly letters during the integration process and the system where selling distributors from both Fazer and LFB initially worked in pairs, were further important factors of creating a common culture.

Cartwright & Cooper (1996) suggest that there are three different cultural scenarios possible in mergers and acquisitions. In the Fazer case, when integrating the organizations, the second alternative of integrating cultures was applied, the creation of a common culture. The two companies merged in the aspect of culture.

5.5.3 The timing of the integration

The communication, education and further efforts in the process of creating a culture are to be viewed as steps in the organizational integration.

Nupponen (1995) proposes that the organizational integration has to precede the physical integration in order to achieve a successful integration process. The fact that these steps in the Fazer-LFB case were concluded prior to the physical integration shows that the organizational integration have taken place prior to the physical.

5.6 Physical integration

By concluding that the entire process, in all areas of the integration, was conducted in 16 weeks and that every district had an individual integration period of 5-6 weeks, leads to the fact that the process must be described as fast. All respondents have argued for that the

quickness of the integration process acted as a key factor in making the integration successful. The quick process led to minimizing of the period of uncertainty among the employees as well as the customers.

The speed of the integration can be directly linked to the quality of the strategic plan. Per Sandberg concluded that it was the quality of the plan that allowed the integration of the organizations to precede that quickly. All business units led by their respective workgroup knew what was supposed to be done and acted thereafter; a lot of the issues were planned beforehand.

Previous research provides different views on the duration of integration. According to Trice and Beyer (1993), a slower integration could help in creating a deeper understanding of the culture among the employees, while a faster integration process could benefit from the factor of surprise (Hadijan, 2000). For this case, Hadijan's (2000) findings are applicable for explaining the success of the integration. The element of surprise was of importance.

6 Conclusions & further research

6.1 Conclusions

The purpose of this thesis is evaluating the effects of pre-acquisition planning on the key success factors for the realization of synergies. By evaluating the effects on the key success factors, this thesis further aims at assessing the importance of the pre-acquisition planning for the outcome of the specific case.

We can conclude, after analyzing the empirical data, that the acquisition of LFB was a successful acquisition in the measured timeframe. The increase in result is noticeable and indicates that Fazer managed to achieve synergies after integrating the organizations.

We can also conclude that the key success factors in this case were:

- The quality of the pre-acquisition plan enabled Fazer to keep focus on the integration process rather waste time solving problems that were not considered of importance for the success of the integration.
- The acquisition was driven by strategic reasons. Fazer had a clear strategy of how an acquisition could benefit the organizations.
- The speed of the integration process was crucial for quickly applying the desired changes and to avoid that a longer process, including stakeholders, such as employees and customers, feeling uncertain of the organizational structure.
- The communication was clear from the management and the information about the changes reached the entire organization at approximately the same time. The employees were continuously updated during the integration process.
- The creation of a new culture deriving from both organizations, which were accepted by most of the employees in the acquired organization.

To achieve the purpose of this thesis, we have linked the key success factors to the pre-acquisition planning, in accordance with Figure 6.1

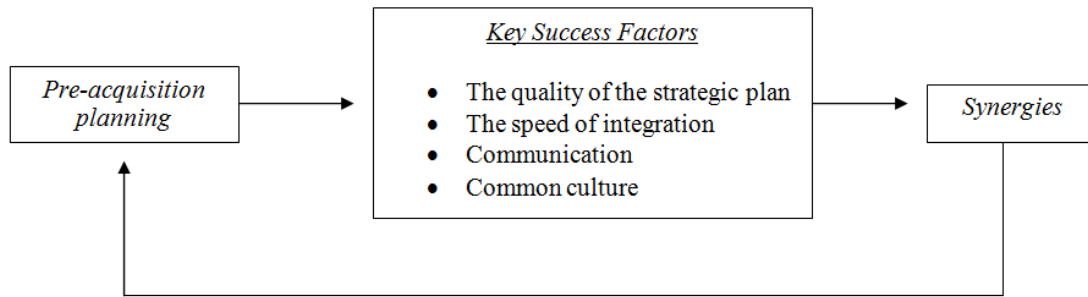


Figure 6.1: *The effects of pre-acquisition planning*

The fact that the pre-acquisition planning process is decisive for assuring that the acquisition is driven by strategic reasons is obvious. Through the entire process we have noted that the strategic changes have been implemented, which have improved the result.

The speed of the integration can also be linked to the pre-acquisition planning. The extensive effort put in analyzing the organization beforehand made the plan possible to execute in a short period of time.

Another part of explaining why mergers and acquisitions tend to fail is insufficient communication from the management. The pre-acquisition planning process was also decisive when discussing this factor, because in order to communicate the strategic changes desired in a sufficient way, the message has to be understood. In the Fazer-LFB case the extensive planning led to that the top management knew what changes were to be made beforehand, and was able to communicate the message to the employees. To communicate future changes, which have not been planned properly, will lead to uncertainty since the message might not be understood. Further, we found that in this specific case the factor of external communication to stakeholders had effect on the outcome of the acquisition. This leads to the general hypothesis that the communication strategy, towards external stakeholders, potentially affects the outcome of the acquisition.

The creation of a culture, appreciated by the employees, is an important factor and also the most difficult to link to the pre-acquisition planning. Fazer considered the aspect of culture beforehand by the plans of creating a mixed management team and educating all employees

regardless of which organization they were from. However, these factors are more relevant in the post-acquisition process and create the need for successful post-acquisition management.

We can conclude that the quality of the strategic plan were decisive for the key success factors in this case and is thereby crucial for realizing synergies. This leads to the conclusion that the value creation in this case was focused before the physical integration had taken place. This leads to the general hypothesis that value creation in acquisition processes are focused prior to the physical integration rather than after and that the high fail rate in previous research is the result of an unsuccessful pre-acquisition planning.

6.2 Suggestions for further research

Since this study was based on one case it would be interesting to redo the study with a larger selection of research objectives to make the results more valid.

When studying this case the focus have been on the key success factors. An interesting point of view would rather be to focus on problems in the integration process, and link them back to the pre-acquisition planning.

A last interesting factor discovered during the investigation process was the fact that Fazer in the acquisition put effort in communicating their changes internally. The customers of the organizations claimed that they had wanted more information during the integration process to avoid feeling uneasy. It could be interesting to further investigate the external communications effect on the result of the acquisition.

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Interviews

Ahlqvist, Claes (*Business manager, Fazer Bakery, Sweden*)
Gothenburg 2011-02-05

Grip, Stefan (*Sales manager Fazer Bakery, Sweden*).
Stockholm 2011-05-02

Karlsson, David (*Distributor and salesman, Fazer Bakery, Sweden*)
Gothenburg 2011-05-10

Karlsson, Martin (*Manager of the south region, Fazer Bakery, Sweden*).
Gothenburg 2011-02-05

Sandberg, Per (*CEO, Fazer Bakery and Confectionary, Sweden*).
Stockholm 2011-05-02

Slotte, Karsten (*CEO and President, Oy Karl Fazer AB*)
Helsinki 2011-05-06

Financial Statements

Oy Karl Fazer financial statement 2010

Appendix 1 – Company presentation

The origins of Fazer Group lie in a family company founded in 1891 when Karl Fazer opened his first café in Helsinki. Today the Group offers meals, bakery and confectionery products and operates in a total of eight countries. Its operations are based on passion for customer, quality excellence and team spirit. The Group operates in two business areas which are committed to creating taste sensations: Fazer Food Service and Fazer Bakeries & Confectionery.

Fazer Group's turnover for 2010 was over 1.5 billion Euros. The Group employed ca 16,500 people in 2010, including 3,300 in Sweden.

Fazer Food Services is a leading contract catering company in the Nordic and the Baltic countries, offering customers delicious food and tailor-made service solutions. Fazer Amica has almost 1,400 restaurants in the Finland, Norway, Denmark, Estonia, Latvia and Russia, including 300 in Sweden.

Fazer Bakeries & Confectionery. Fazer is Finland's leading bakery company and one of the leading companies in the Baltic Sea region and Russia. Fazer has a total of 21 bakeries and the bakery products are manufactured in Finland, Sweden, Estonia, Latvia, Lithuania and Russia. The brands, in addition to Fazer, are Oululainen, Skogaholm, Hlebnyi Dom, Druva and Gardesis. Bakery products are exported to over 15 countries.

Fazer recently acquired Gateau, located in Stockholm, which is the leader in handmade bread and confectionery products and a forerunner in its field in Sweden. Gateau has 160 employees and the turnover in 2010 was 84 million Swedish crowns.

In confectionery business Fazer is Finland's leading company and a strong player in the Baltic Sea region. The confectionery factories are located in Finland and the confectionery products are exported to 27 countries. Fazer has many strong confectionery brands, for instance Karl Fazer, Geisha, Dumle, TuttiFrutti, Marianne, TyrkiskPeber, Pantteri and Xylimax.

Source: www.fazer.com

Appendix 2 – Interview guide 1

The following questions were used as guideline for the interviews, whose material is presented in chapter four. Follow-up questions are not included.

Organizational questions

- What is your position in the organization and what part did you play in the acquisition of LFB?

Pre-acquisition planning

- What were the underlying strategic reasons for the acquisition?
- How was the planning process organized?

Implementation process

- Is there a plan, at Fazer, regarding the implementation of goals and strategies?
- What do you think are the major challenges in the implementation of goals and strategy and how are they being handled?
- What were the major changes made and how were they communicated?

Integration process

- How was the integration process conducted?
- How did Fazer act, in order to involve and engage the employees?
- Which do you consider are the keys to the successful acquisition?

Overall

- How successful do you consider the acquisition has been?
- How has the result of the acquisition been measured?
- Previous research shows that between 50 and 83 percent of all acquisitions and mergers fail. – What do you think are the reasons for this?
- How important do you consider the pre-acquisition planning is, in order to achieve synergies in mergers and acquisitions?
- Is there anything in the process which could have been done better?

Appendix 3 – Interview guide 2

The following interview guide was applied for employees that did not have a strategic position within the organization.

- What was your first impression when you found out that the Fazer would acquire LFB?
- How were you informed, when the acquisition took place?
- What are the major changes concerning your work?
- What have the acquisition and its changes meant to you?
- Did you experience the acquisition as a major transition? – If so, how did the transition take place?
- Did you undergo any education in connection with the integration? – If so, how was it conducted?
- What do you think about your current way of working, compared to before?