The First 100 Days

PE firms and strategic buyers should plan for the ownership start before a deal closes

Ed Kleinguetl

In private equity deals and corporate transaction integration activities, invariably people use the phrase: "the first 100 days." The first 100 days are so critical because the start of the transaction life cycle will ultimately determine whether the transaction evolves from promise to performance.

The first 100 days is defined the first 100 calendar days counted from the day the transaction closed.

In that period of time, an organization experiences its greatest propensity for change, absent a crisis. That's because people are expecing change to begin with the closing of the transaction. Those who capitalize on this inflection point are at the greatest advantage for creating transaction value.

The first days post-closing should be a period of intense activity.

The intial period of time after a transaction closes is marked either by a burst of energy or by intense pressure. In a successful transaction, the first days post-closing should be a period of intense activity – capturing the momentum of the closing as a triggering point and building on the momentum to create the changes needed to capture value, address risk and change behavior.

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Many studies show that after the 100-day period, the energy for change begins to rapidly dissipate and people return to a business-as-usual routine. Practically speaking, people can live inside a pressure cooker only for so long, and 90 to 100 days seems to be the magic number associated with a period of intense activity. Whatever changes or activities become anchored into the organization within those initial days, or are well underway by that point, are more likely to be sustainable than changes that come later.

Pre-planning for the first 100 days creates the momentum for change. While the first days are critical to transaction success, planning for change begins before day one. Consider the closing date as the fulcrum from which to leverage change. The maximum momentum for change is that which exists on Day One. The greater the momentum, the greater the energy for change during the first 100 days. It is difficult to increase momentum once day one is past. Rather, the period after Day One is the time to make use of the momentum that already exists. Without it, the change effort will be challenging at best; non-existent at worst.

Accordingly, experienced acquirers begin the process of building momentum prior to Day One. The general consensus is that more time is desirable. But the quantity of time prior to Day One is not always controllable in a nice theoretical sense, so the rule of thumb is to maximize whatever time exists – and make every day count. The more momentum on Day One, the more energy that exists within the first 100 days to drive necessary change.

Planning for post-closing generally begins somewhere in the confirmatory due diligence period and may include a formal integration or planning process prior to the closing of the transaction.

Given the critical nature of the initial time period, activities should be prioritized around two key areas:

- **Capturing the sources of value**
- **Mitigating the risks associated with the transaction**

Let us explore these two areas a bit further:

Generally, there is a rationale to why a particular transaction makes sense, but the rationale for doing a deal is extremely varied.

Let us say for example the reason for buying ABC Company is to take the technology and embed it into the technology of the acquirer. Accordingly, part of the first 100 days should include the tactical plan for ensuring that this technology embedding in fact occurs (meetings of the development teams, developing a clear path forward and beginning to execute on that path forward).

More likely than not, if this activity does not occur at the start of ownership, then two years later the technology will still not be embedded. The same applies to any cost or revenue synergies, leverage of a sales organization or manufacturing capacity rationalization.

It is not likely that manufacturing capacity will be rationalized and production transferred within the first 100 days. However, what should occur in the initial ownership phase are the associated scenario planning, risk identification and development of mitigation strategies, and development of the plan for the path forward – again capturing the anticipation of change from Day One versus allowing resistance to change to creep into the organization.

From due diligence, transaction risks are either validated or identified, and mitigation strategies should be developed. Generally, three of the most common risks are

- **Customer, supplier retention**
- **Key talent retention (intellectual capital)**
- **Cultural alignment**

Often these risks are associated with the sources of value and, accordingly, the planning should take both into account.

For example, the value of ABC Company is its technology. This technology may be highly dependent on a few key individuals in the research and development group, the loss of whom could clearly jeopardize the value of the transaction. Thus, as part of the planning for the early days, there should be a definitive mitigation strategy associated with the key transaction risks.

Intellectually, most understand the importance of the first 100 days. However, in practice, there are a number of dis-enablers that can undermine how effective this critical time is spent.

There are several misconceptions that undermine the effectiveness of the first 100 days.

- **Waiting until Day One**

The maximum momentum for change exists on Day One. Waiting until Day One to start does not create sufficient momentum to sustain the change effort. Use every day available prior to Day One to create momentum.

- **Succumbing to the illusion that there is plenty of time**

Do not squander the available time before Day One. Even if the closing is postponed, consider the extra time a bonus and press forward.

- **Taking a break (deal fatigue)**

Once momentum is lost, it is virtually impossible to regain it. True story: There was a transaction that took a long time to get across the finish line, and spring break was the week after closing. So the conclusion was made to take a week off at closing and then hit it hard after spring break. Bad answer. The acquired company was expecting change, but critical communications were delayed, the integration effort took a stutter step, and the momentum coming out of the due diligence effort was almost completely lost, and never regained.

- **Waiting until regulatory approval**

While there are strong gun-jumping rules, there is still a significant amount of planning that can occur without the exchange of sensitive business information or regulatory approval. Even though specific customer information and pricing cannot be exchanged, customers can be stratified (e.g., Tier A customers are those greater than $500,000 in sales) and specific Day One communications prepared.

- **Not prioritizing**

The first 100 days is intended to be an intense transformational effort. Activities should be prioritized around the sources of value and mitigating the identified transaction risks.

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