

# Navigating a Successful Merger

## *How Aon and Valley Oak Joined Forces*

**M**ergers and acquisitions (M&A) are on the rise. Capital, competition and a lack of organic growth opportunities have driven M&A activity in recent years and industry experts expect the trend to continue.

Yet, although M&As have played a significant role in corporate growth strategies, such an undertaking must be approached with caution, expertise and due diligence, because while M&A activity may be high, success rates are not. One-half to two-thirds of all ventures perform poorly or fail outright. As a result, companies that are beginning to identify and court potential targets must understand what makes these endeavors successful and how to avoid the common pitfalls.

The recent merger between Aon and Valley Oak Systems can serve as a useful example for other companies that may be undergoing their own M&A process.

### **Expanding the Distribution Channel**

One of the most critical factors in M&A success is selecting the right company. Three years ago when Valley Oak Systems (VOS) first started looking for strategic business partners, being acquired was the furthest thing from management's mind. "We weren't shopping the company around, but we were open to an acquisition, if the right factors were in place," said Randy Wheeler, founder and CEO of VOS.

Founded in 1994, VOS, based in San Ramon, California, has gradually established itself as a leader in claims management software. Demand for its flagship product, a browser-based claims system known as iVOS, quickly drove company growth and nationwide expansion, which had historically maintained a growth rate of 30% per year. Over time, however, this rate was becoming more difficult to sustain, so VOS began looking for potential partners.

Aon Corporation was one of the potential partners VOS soon identified, as it targeted the same audience but sold different products and services. A Fortune 250 company, Aon is recognized as the largest pure placements insurance broker in the world. The company has a widespread global network of more than 500 offices in 120 countries providing services and solutions in insurance and reinsurance brokerage, risk management and human capital consulting.

"We recognized that Aon could play a critical role in our growth strategy," said Brian Mack, vice president of sales and marketing at VOS. "Pretty quickly, we saw the potential for more than just a partnership and began discussing the possibility of an acquisition."

**by Ritza Vaughn**

In addition to its more well-known services, Aon also has a technology solutions division, which began operating five years ago. In this short amount of time, Aon eSolutions Group has experienced tremendous expansion, growing 25% a year by offering various risk management tools. Despite the early success, Aon wanted to broaden its claims management offerings. “Rather than build a claims system from the ground up, we scanned the market for a company with the right technology,” said Kathy Burns, managing director of Aon eSolutions Group. “It didn’t take long to zero in on Valley Oak.”



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#### **Pre-Acquisition: The Due Diligence Checklist**

Once Aon had identified VOS as a potential target, the company relied on its internal expertise in the M&A arena. Within the company, M&A experts had developed a 360-degree due diligence platform to identify any problems or liabilities that could potentially affect a buyer’s bottom line.

By using this checklist, VOS was identified as a potential target acquisition, and the first factor Aon looked at was its financial and operational performance.

“When Aon asked to look under our hood, we knew we would easily pass any type of litmus test they put us through,” said Wheeler. “They wanted to closely observe our internal workings, so we showed them everything. As an entrepreneurial company, our internal operations were highly optimized for efficiency and effectiveness, so there was really nothing to fine tune.”

Aon was pleased to see that this was indeed the case through its investigation, which put VOS’ growth at nearly 500% over five years. “Against our checklist, all indications pointed to a positive acquisition,” said Burns. “We saw a software company with tremendous potential for future growth...All that was left to do was convince Valley Oak’s executive team that the acquisition was the right move for their company.”

#### **Overcoming Hesitancies**

“As an organization, we had a 100% self-awareness of our corporate culture,” said Wheeler. “We knew what we needed to succeed. If all the right factors weren’t in place, we were willing to walk away from the deal.”

VOS’ management looked at all the angles, and they saw many alignment opportunities, especially when it came to product strategy. VOS had a claims system; Aon had a RMIS. Put together, Wheeler believed they could develop two best-in-class solutions.

Despite this, VOS still had some reservations, which came down to one major factor. “Our main concern was whether we’d fit into such a large corporation,” said Wheeler. “As an entrepreneurial start-up, we needed a company that could accommodate our culture.”

Another factor prompting Valley Oak to move forward was Aon’s successful acquisition of RiskLabs three years earlier. RiskLabs was also an entrepreneurial start-up that originally developed Aon eSolutions Group’s successful RMIS, RiskConsole. Aon invited Valley Oak’s executives to visit RiskLabs’ headquarters in Marietta, Georgia to meet the team.

“Since the acquisition, RiskLabs had leveraged Aon’s distribution network to increase sales by 500%,” said Wheeler. “Its product expanded internationally, available in various languages and currencies. The company also retained its entrepreneurial and innovative spirit, which led us to believe our culture would remain intact as well.”

VOS management also flew to Chicago and spent time with Aon’s executive team, including CEO Greg Case, Kathy Burns and Ted Devine (who was then Aon’s head of corporate strategy). In this meeting, they began to more fully understand Aon’s interest in VOS. “They had the same goals and vision for Valley Oak’s future as we did,” said Wheeler. “Our organizations had a much closer match in terms of culture than we initially thought. With alignment in all the right areas, we decided to move forward and announced Aon’s intent to acquire our company in December 2006.”

#### **Post Acquisition: A 75-Day Integration**

After the acquisition officially closed on March 16, 2007, Aon and VOS immediately began integration of the two companies and their respective products.

“From my experience with mergers and acquisitions, I’ve learned some valuable lessons on how to handle the integration process,” said Burns. “First, developing a strategic integration plan at the onset is critical.”

As a result, Aon and VOS set up seven functional teams, which included (1) finance, (2) sales, (3) marketing, (4) client support services, (5) product

development, (6) information technology, and (7) human resources. Each team identified the integration tasks that required immediate action within 75 days after the closing date.

“We chose a 75-day period because it was the perfect timeframe to facilitate teamwork and create momentum toward integration of our people, processes, and cultures,” said Burns. “Each team’s 75-day plan essentially served as a checklist and dealt with very practical, day-to-day concerns.”

They also developed an executive steering committee that reviewed each team’s plan, and made recommendations and decisions. The committee consisted of three VOS executives and three Aon executives, and sought to make sure each plan covered all the important issues—and could realistically be completed in 75 days without taking away from the staff’s regular jobs.

Because the two product lines were operating independently, it was also important to establish a product governance team, which was responsible for sharing information to prevent redundancies on each side.

### **Product Strategy: Continued Focus on Sales and Growth**

For the sales and market teams, three initiatives dominated their 75-day plans: continued focus on sales, a joint marketing message and leveraging

Aon’s distribution network.

“Over the years, we witnessed other competitors being acquired,” said Mack. “This often disrupted their sales and marketing efforts...We knew the acquisition would mean additional responsibilities, [but] we didn’t want it to affect our aggressive sales and growth goals.”

A key challenge was communication. Both VOS and Aon needed to inform the market of their new partnership and alert it to the added-value they hoped this integration would create. They soon devised a joint marketing strategy and VOS began utilizing Aon’s network of risk managers, insurers, brokers and third party administrators. Its sales team also hit the road to meet face-to-face with some of these people at industry events and Aon set up financial incentives to encourage its staff to promote the iVOS claims system.

“We’re already seeing solid, qualified leads from these sources,” says Mack. “Now that we have access to these channels, fostering these relationships is going to be our biggest challenge moving forward.”

### **Managing Employee and Client Concerns**

The next step was for Aon eSolutions and VOS to solidify its communication program to inform clients, the broader market and—most impor-

tantly—their own employees that this was a positive acquisition.

“We knew clients and employees were going to be concerned about change,” said Burns. “We wanted to reassure them that the acquisition would have a positive effect. Straightforward communication was the only way to dissipate these concerns.”

In addition to using direct mail, marketing, public relations, conference calls and in-person meetings to target clients, they held informative “town hall meetings” where employees could present their questions and concerns. “Many employees were worried about job security, as acquisitions often lead to layoffs,” said Mack.

Since VOS was still focused on growth, however, this notion never entered their picture. In fact, it is even now in need of more people and actively recruiting.

“The goal was to eliminate miscommunication,” said Wheeler. “There were still some rumors and misconceptions, but proactive communication definitely helped to minimize it.”

Clients also had concerns of their own. Many had lived through vendor acquisitions, and consequently, experienced a decline in service, support and product development. Because of this, many in the marketplace adopted a “wait-and-see” approach after the acquisition. Thus, VOS made sure

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Kathy Burns, managing director of Aon eSolutions Group, and Randy Wheeler, CEO of Valley Oak Systems

to proactively address any and all client concerns, and also was careful not to reassign clients so as to minimize any perception of service and support disruption.

Thus far, it seems to have been successful. "We've retained all our existing clients," says Wheeler, "and even obtained new business as a result of the acquisition."

### **Beyond the 75-Day Plan**

In today's mania of merger and acquisitions, the Aon-VOS deal has emerged as one of the success stories. Utilizing proper due diligence, the companies were able to carefully evaluate each other to ensure a proper match. In addition, seven teams each with 75-day integration plans allowed the companies to accomplish much in a short time—uniting two

cultures, integrating two products, signing new clients and creating momentum towards organizational alignment.

"It was simple, yet effective," says Wheeler. "Our integration teams made small changes, yet the steps we took were the most critical to success...When people ask me how it all turned out, I say it was better than I ever could have imagined." ■

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