

# MERCER

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MARSH MERCER KROLL  
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SERIES

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## PTTRM-Mercer collaboration in managing cultural changes

Case study: PTT to acquire JET

Dr. Krisanapol Komolboon, PTT Retail Management Company Limited  
Wittapon Jawjit, Mercer, Thailand

[www.mercer.com](http://www.mercer.com)

## Today's agenda

- Introduction to the 'deal'
- Initiative to acquire JET
  - Why and facts about M&A
  - The people side of M&A
  - Key concerns of integration
- Risks from execution
  - Quick-wins
  - Successful stories
  - The road ahead
- Summary: the lessons learned



## Section 1

# Introduction to the 'deal'

## Background & history

- Divestiture of the retail business due to COP's global portfolio strategy to focus on upstream business (Exploration & Production)



**Focus**



**Exit**

## Background & history (cont'd)

COP divest:

- JET/Jiffy in Thailand
- PROJET in Malaysia



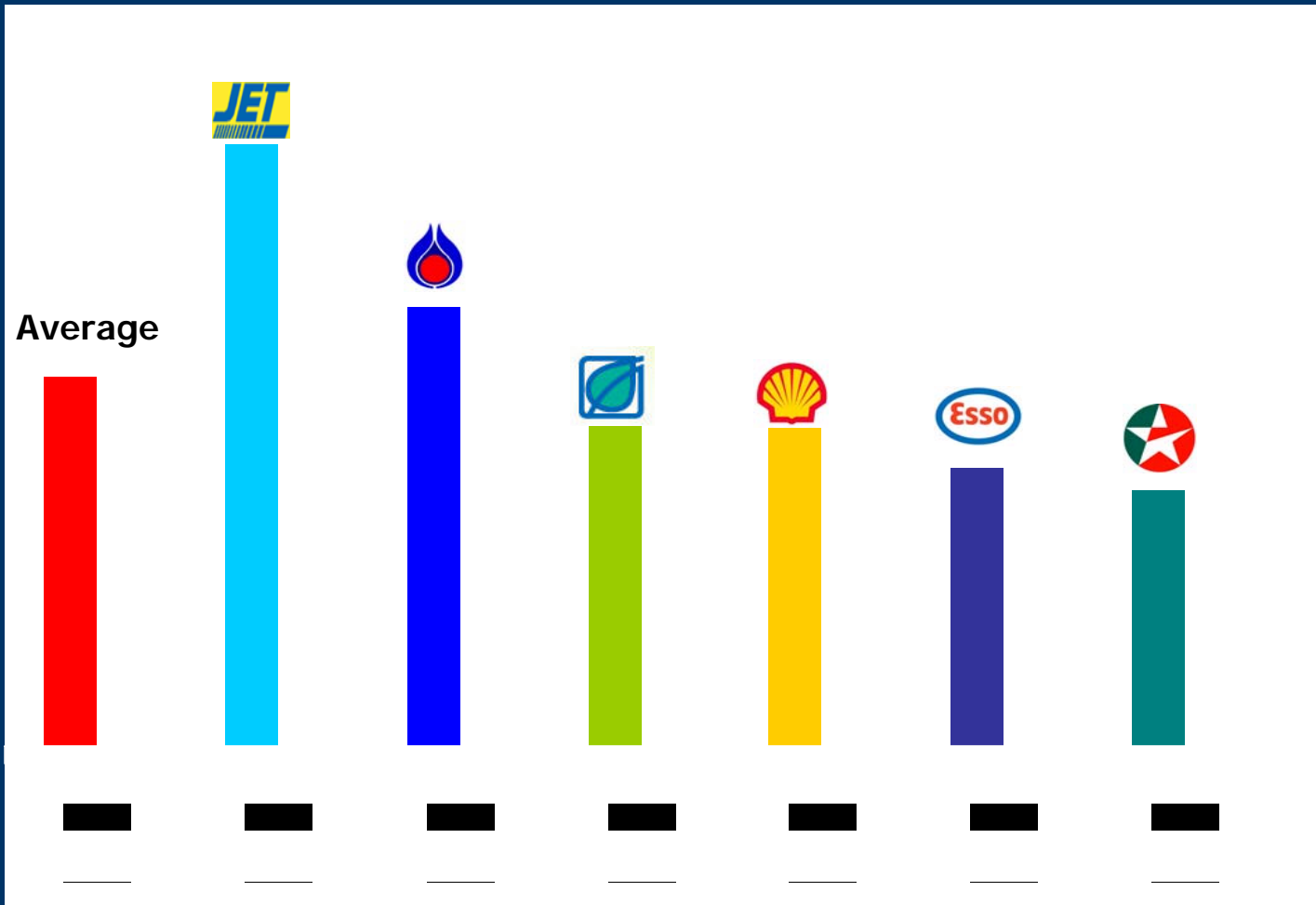
## JET/Jiffy in Thailand

### Thai operations:

- Premium stations with strong brand image; “JET” fuel stations with “Jiffy” convenience stores
- 146 COCO stations + 2 land banks + 1 terminal + training center
- Terminal: Total 85.5 MML (HSD 45 MML, ULG 15 MML, RBOB 25 MML, and Ethanol 0.5 MML)
- ~ 150+ head office staff and 3,200+ station manpower
- Revenue: fuel margins + c-store earnings + backcourt rentals



# Customer survey by Custom Asia



## PTT vs. top competitor

	PTT	Top competitor		Significant test	Best in class
Overall satisfaction	4.24	4.31		✓	
Fuel quality	4.33	4.35		×	
Price	4.31	4.21		✓	
Service station	4.28	4.45		✓	
Service quality	4.03	4.28		✓	
Co-branding	4.10	4.22		✓	
Toilet	3.94	4.33		✓	

## JET/Jiffy in 2006

- Fuel sale ~ 614,000 Lt. PMPS
- C-store sale ~ 2 MM THB PMPS
- C-store gross margin ~ 18.5%
- Co-branders: Dairy Queen, S&P, A&W, Black Canyon, Ban Rai Coffee, SCB



## Change of the companies

Former structure managed by COP



## Change of the companies (cont'd)

PTT's established PTTRB to acquire the share



## Strategic rationale

### a) Leap growth in premium segment

- Immediate addition of 146 premium stations with high volume sales and strong margins
- Prime locations
- COCO model enables quality control
- Replaces PTT premium station build-up plan (~ 60 MM THB/Site)



## Strategic rationale (cont'd)

### b) Defense of market & brand building

- To existing competitors, JET stations present sizeable platform for growth into premium segment and improve cost competitiveness
- To newcomers, JET stations are sizeable platform for market penetration

### c) C-store expertise

- Increase PTT's expertise in the area of convenience store operation
- Jiffy stores are widely recognized and accepted by customers
- Increase PTT's negotiation power with CP 7-11

### d) Unique recruitment opportunity

- Highly experienced and capable management teams
- Can immediately contribute to PTT in various business areas

### e) Additional refinery volume

- Opportunity for additional domestic volume and reduce exports by PTT Group's refineries
- Domestic margins are significantly better than export sales margins



## Section 2

# The initiative to acquire JET

- Why and facts about M&A
- The people side of M&A
  - Human capital risks in M&A
  - Strategic issues from PTTRM case
- Key concerns of integration

## Why and facts about M&A

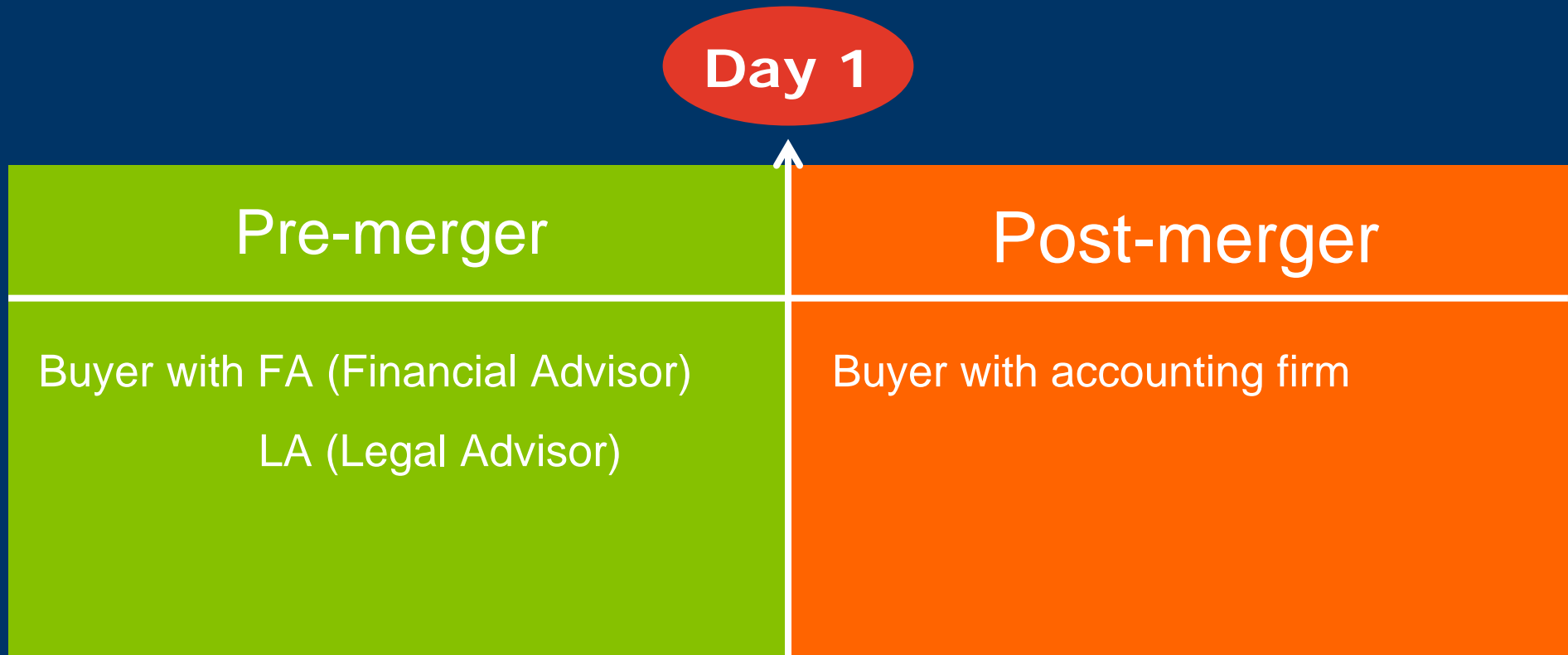
- Business seek profitable growth/ways to reduce costs
  - Banking & retailing
- This trend is rising in Asia ... especially with cash-rich Chinese companies
- Want quick market share, no need to develop from grass-root
  - Acquiring companies
- 93% of business leaders made traditional due diligence during the merger

## Why and facts about M&A (cont'd)

- 54% → Failure to audit non-financial assets enhanced the risk of a poor acquisition
- Human factor → Critical/landmine
- 78% of acquired company employees opposed merger
- 38% of the business leaders expressed dissatisfaction with the post-merger climate
- 22% describing early months as 'culture shock'

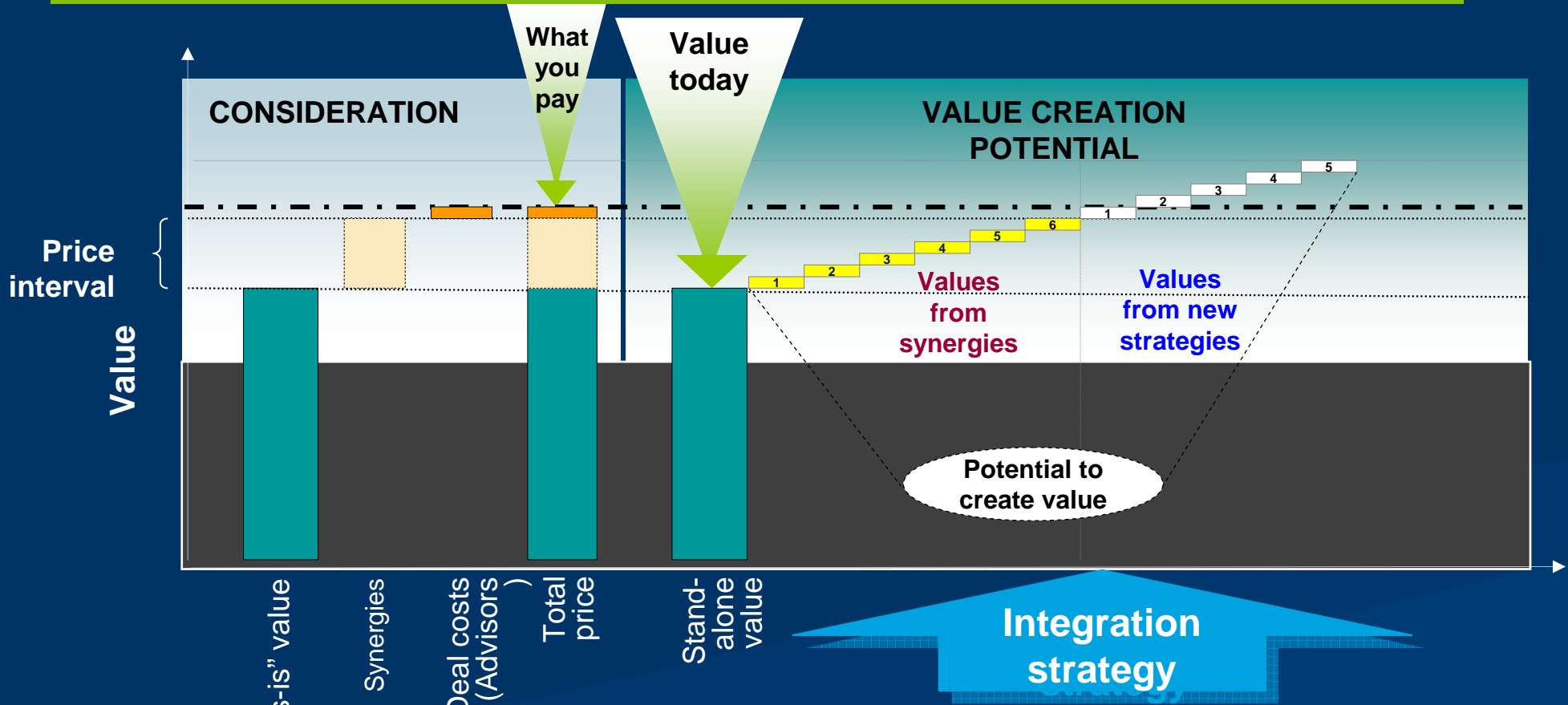
# Re-cap transaction

Project timeline

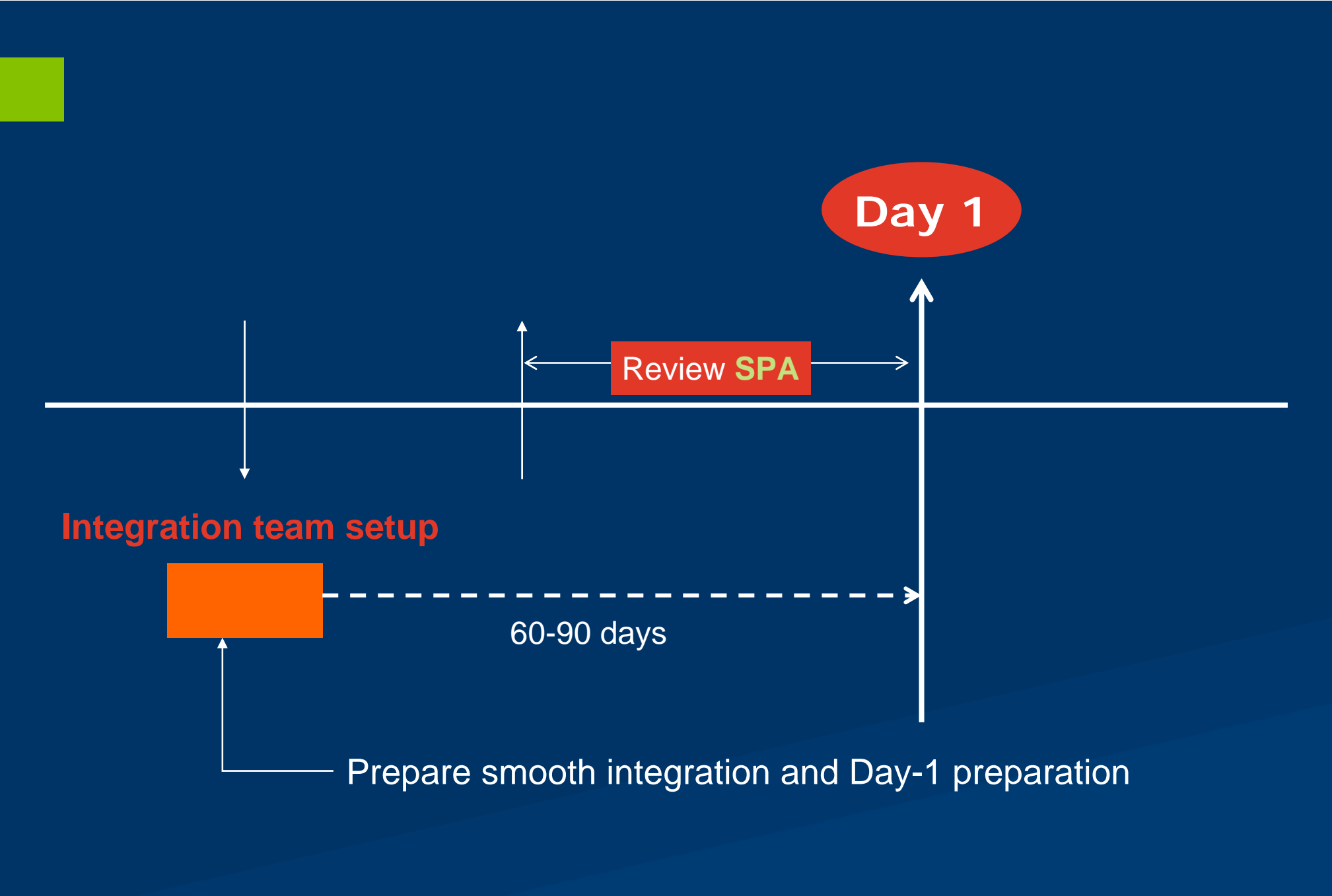


# Value creation potential

Value creation potential can be realized by early planning for integration strategy (with new strategies)



- Bring forward synergy delivery
- Avoiding communication vacuum
- Limiting risk of losing customers



**Integration team setup**

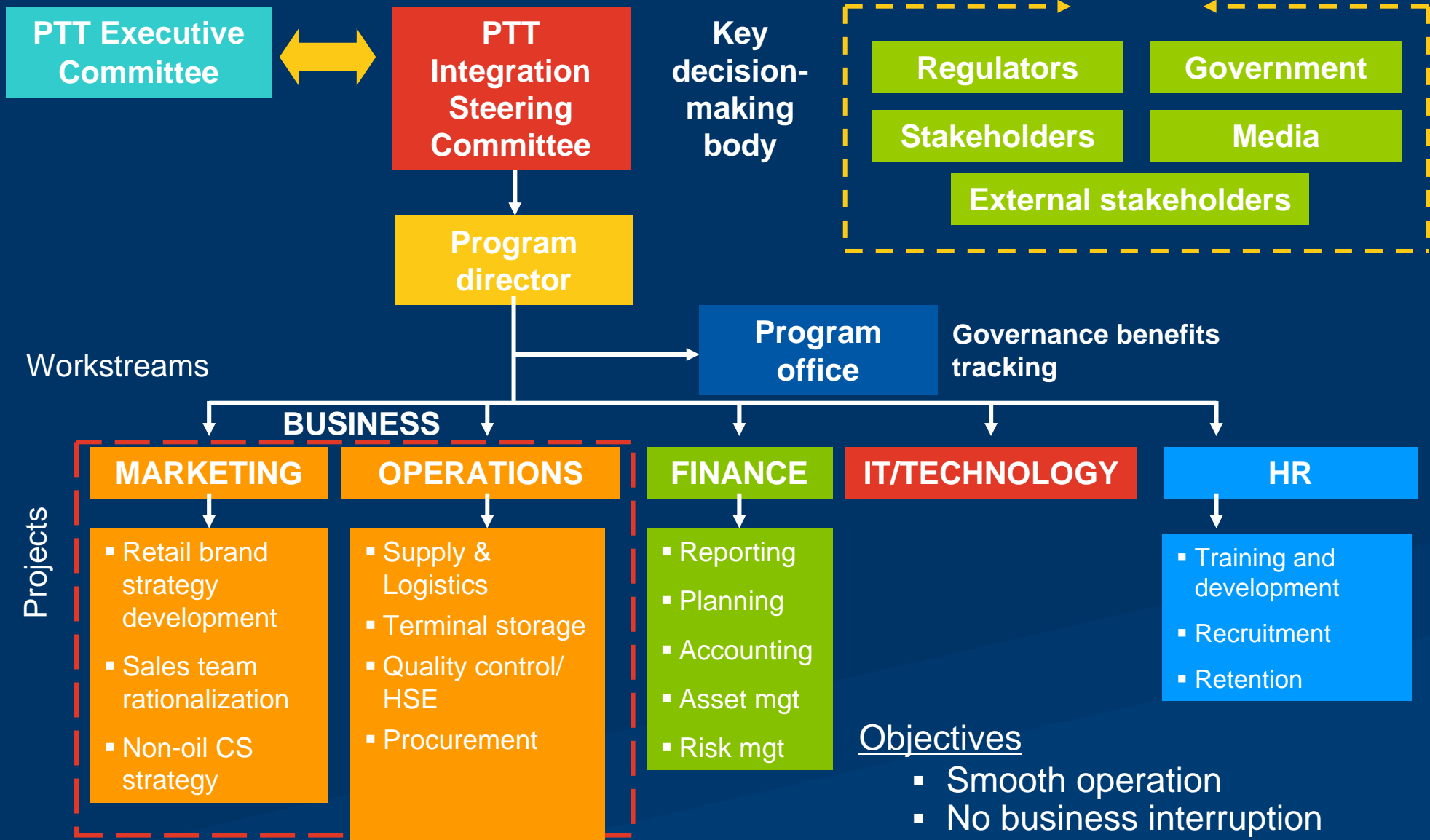
**Review SPA**

**Day 1**

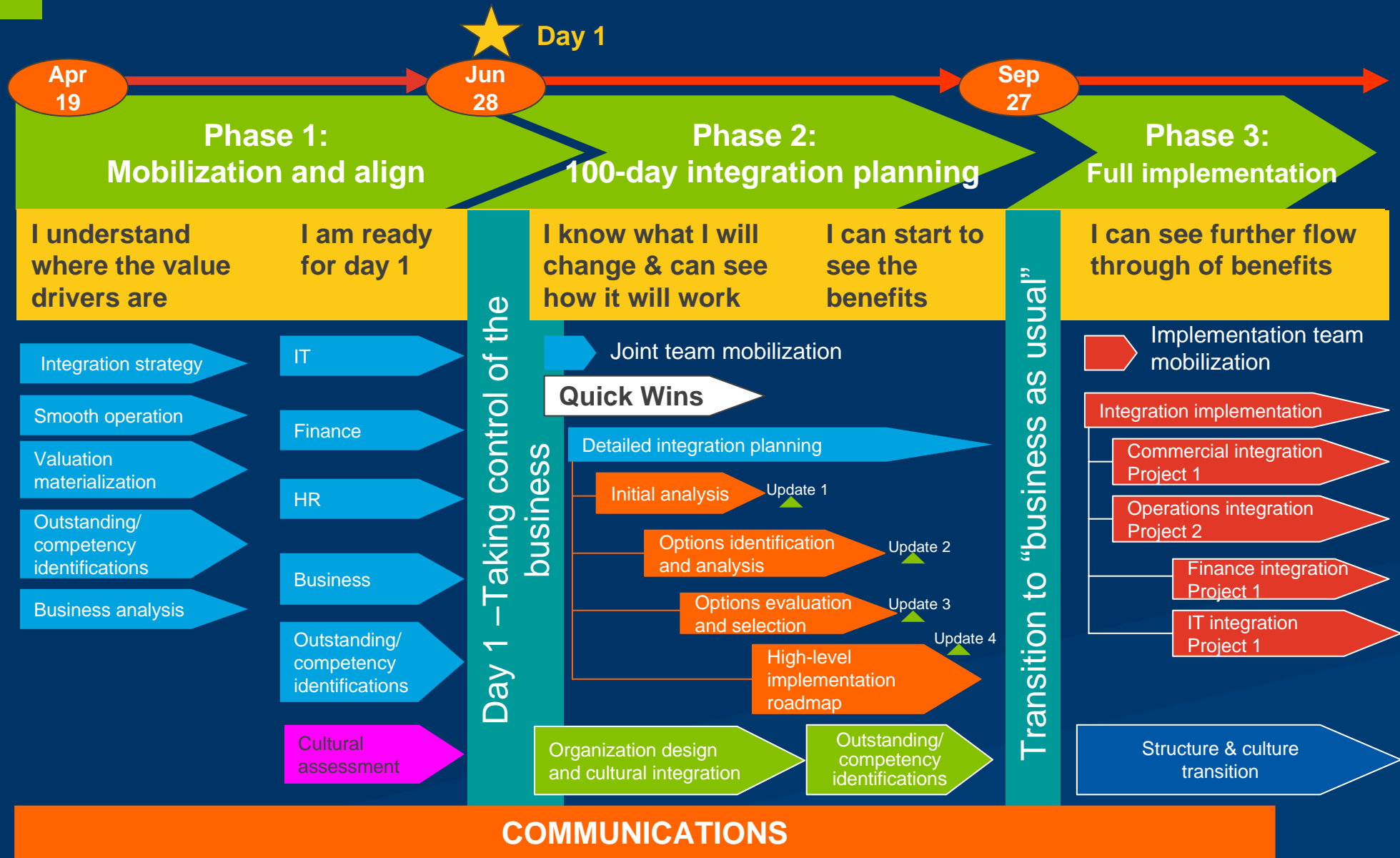
60-90 days

Prepare smooth integration and Day-1 preparation

# Day-1 preparation



# Integration plan – a three-phased approach

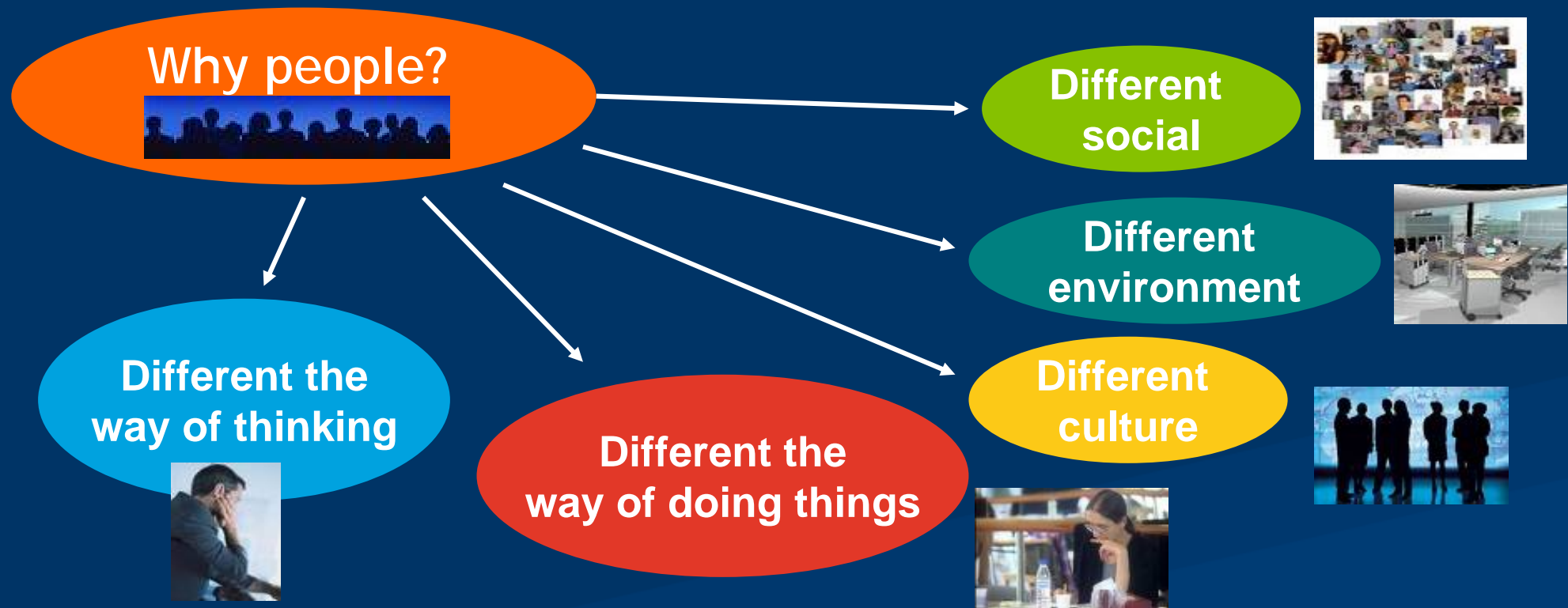


**COMMUNICATIONS**

**CHANGE MANAGEMENT**

## Post-merger concepts

- Any firm: people, process, technology
- Which one creates difficulty most → *people*



**PEOPLE**



FRAGILE



**“HANDLE WITH CARE”**

Could be



Head count



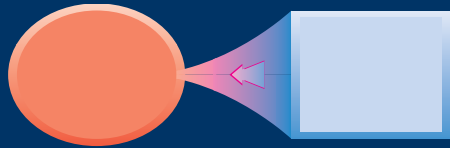
Human resource  
(Valuable asset)

- PTT → We focus on ‘**people**’ as ‘valuable resource’
- Engaged human resource advisor/consultant
- Did survey on culture change, organization change, process change (MERCER/ACCURAY/KPMG/HRM)

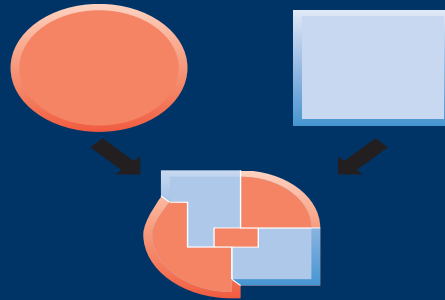
- 
- Focus on 'change management'
  - Key success is 'strong and effective communication to all levels'
  - Keep in mind: people resisting change is normal

# 4-type culture change

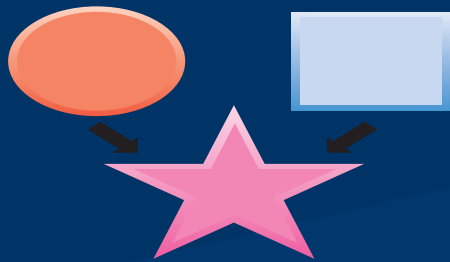
**CONSOLIDATION**



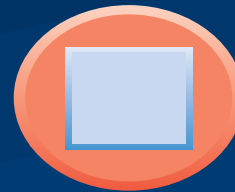
**Combination**



**Transformation**



**Preservation**

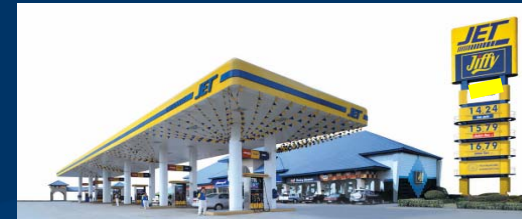
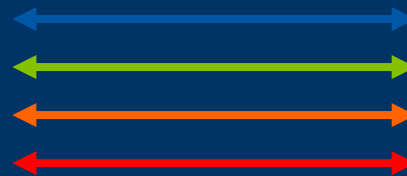


## The day after

- Still tracking and monitoring
  - What we have valued vs. what we are getting out



Both hard/soft synergies  
and  
quick wins



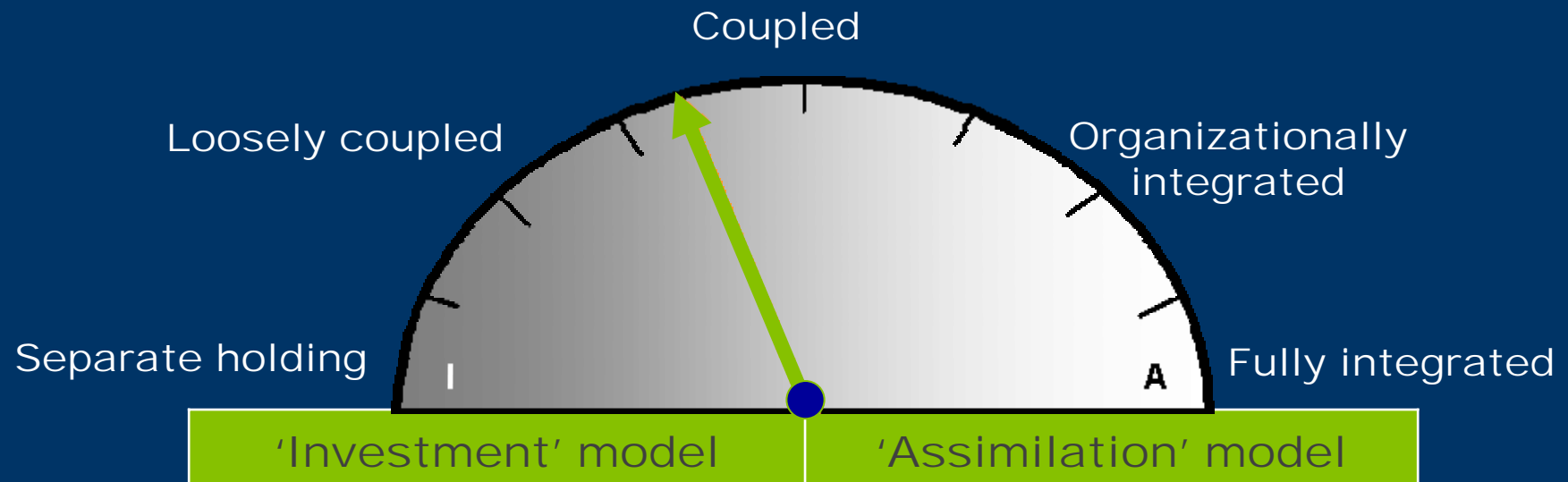


## Section 2

# The initiative to acquire JET

- Why and facts about M&A
- The people side of M&A
- Key concerns of integration

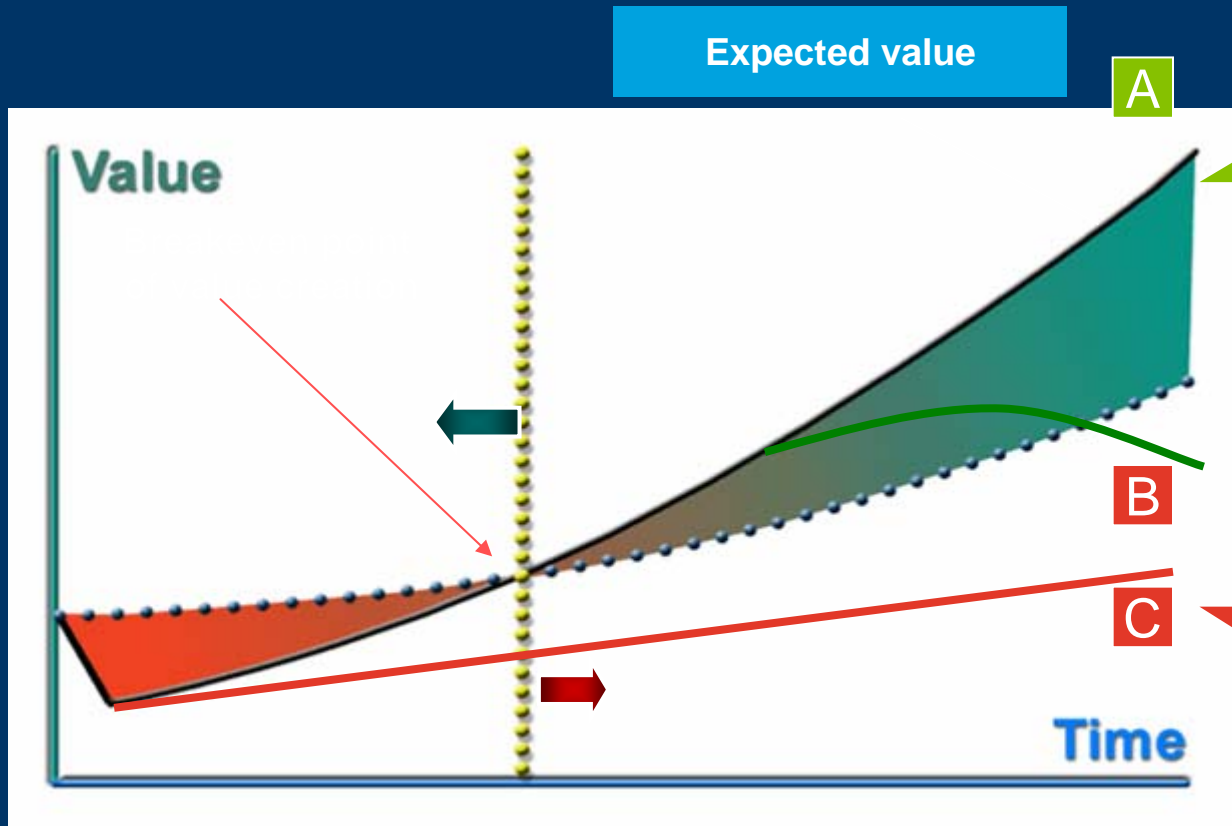
## Determining the degree of integration



Impact on HR

# The ultimate objective of PE investment

## Accelerating the values



A

### Drivers of value creation

- Coordination of employees/customers
- Cohesiveness of sales force
- Talent assessment/ retention
- Strong leadership
- Thorough due diligence
- Smooth integration aligned with the objective of M&A
- Efficient project management

B

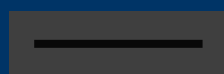
C

### Drivers of value destruction

- Flight of employees/ customers
- Mutual destruction of sales staffs of integrated companies
- Massive loss of human capital
- Loss of leadership
- Unidentified liability/risk
- Passive moves in integration



= Value creation: standalone state



= Value creation: with PE investment

## Human capital risks in M&A

- **'Wait-and-see' situation deteriorates productivity**
  - No clear business direction in due time
  - No senses of urgency
  - Understand values of M&A transaction but cannot see evidences
- **Neglecting importance of cultural differences**
  - Risks of losing talent
  - Destructive approach in integration and structuring organization
  - Reduced emotional rewards and engagement
  - Losing expected synergies
- **Multi-flow of communication during transitional period will raise confusion and frustration – wrong perspective against each other**

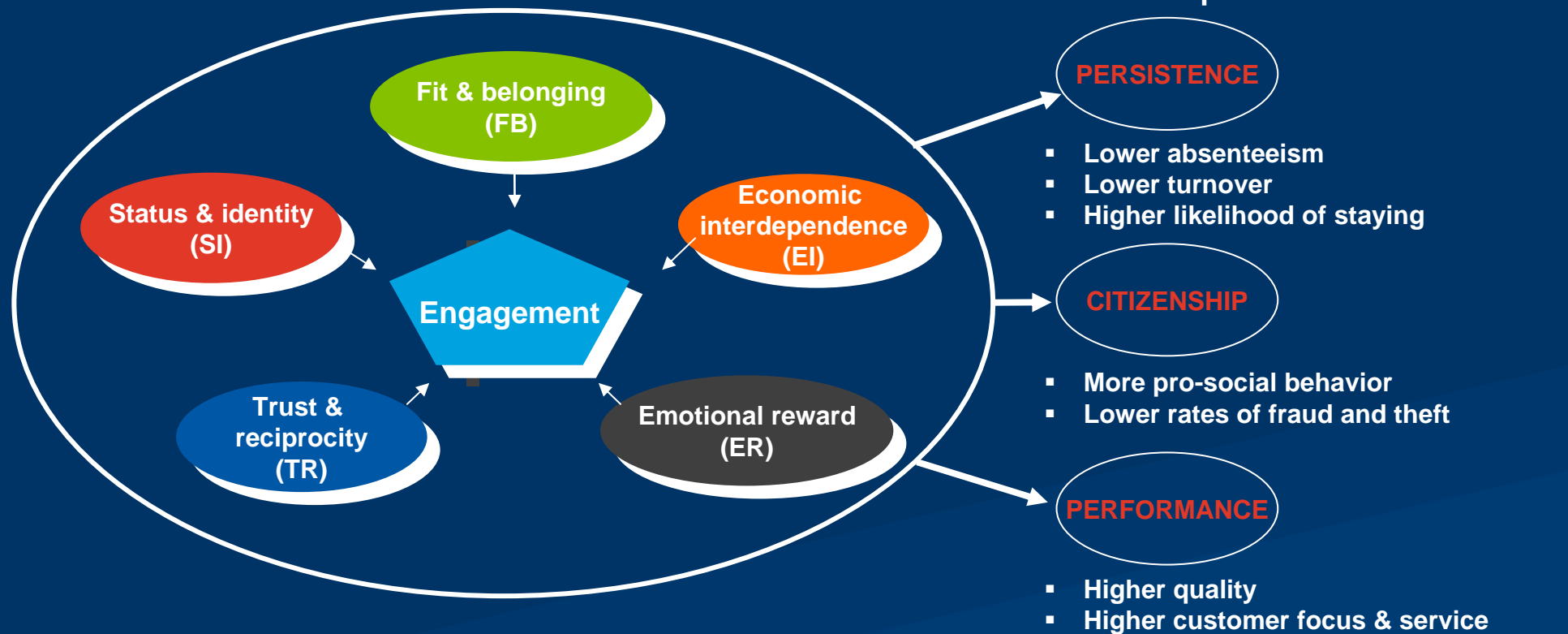
# Framework for assessing organization culture

## Mercer's Cultural Assessment Framework

<b>Achievement</b> <i>Individual - Collective</i>	<b>Environment</b> <i>Process - Outcome</i>	<b>Perspective</b> <i>Traditional - Innovative</i>	<b>Power</b> <i>Shared - Retained</i>	<b>Risk</b> <i>Avoided - Encouraged</i>
<ul style="list-style-type: none"> <li>■ Rewards</li> <li>■ Accountability</li> <li>■ Work</li> <li>■ Work-Life Integration</li> </ul> <ul style="list-style-type: none"> <li>• The extent to which the organization encourages a focus on individual achievement or group achievements.</li> <li>• Who is held accountable?</li> <li>• Who is rewarded? Is teamwork encouraged?</li> <li>• Is a work/life balance supported?</li> </ul>	<ul style="list-style-type: none"> <li>■ Managerial Focus</li> <li>■ Decision Focus</li> <li>■ Production Focus</li> <li>■ Pace</li> </ul> <ul style="list-style-type: none"> <li>• The extent to which the organization focuses on process or on outcomes.</li> <li>• Is the perception of fairness based on the process followed or the outcome reached?</li> <li>• Is emphasis placed on how tasks are done or on facilitating relationships?</li> </ul>	<ul style="list-style-type: none"> <li>■ Action</li> <li>■ Timeline</li> </ul> <ul style="list-style-type: none"> <li>• The extent to which continuity of practice and procedure, or innovation is encouraged.</li> <li>• Does the business prepare for or react to market changes?</li> <li>• Is success measured with short-term or long-term results?</li> </ul>	<ul style="list-style-type: none"> <li>■ Communication</li> <li>■ Conflict</li> <li>■ Decisions</li> <li>■ Status</li> <li>■ Structure</li> </ul> <ul style="list-style-type: none"> <li>• The extent to which differential power is encouraged.</li> <li>• Do employees have an opportunity to voice their opinions?</li> <li>• Are conflicts resolved?</li> <li>• Who makes decisions?</li> <li>• How formal is the organization?</li> </ul>	<ul style="list-style-type: none"> <li>■ Decisions</li> <li>■ Innovation</li> <li>■ Tradition</li> </ul> <ul style="list-style-type: none"> <li>• The extent to which risk taking is encouraged over risk avoidance.</li> <li>• Is risk taking acceptable?</li> <li>• Is innovation encouraged?</li> <li>• How conservative is the business?</li> </ul>

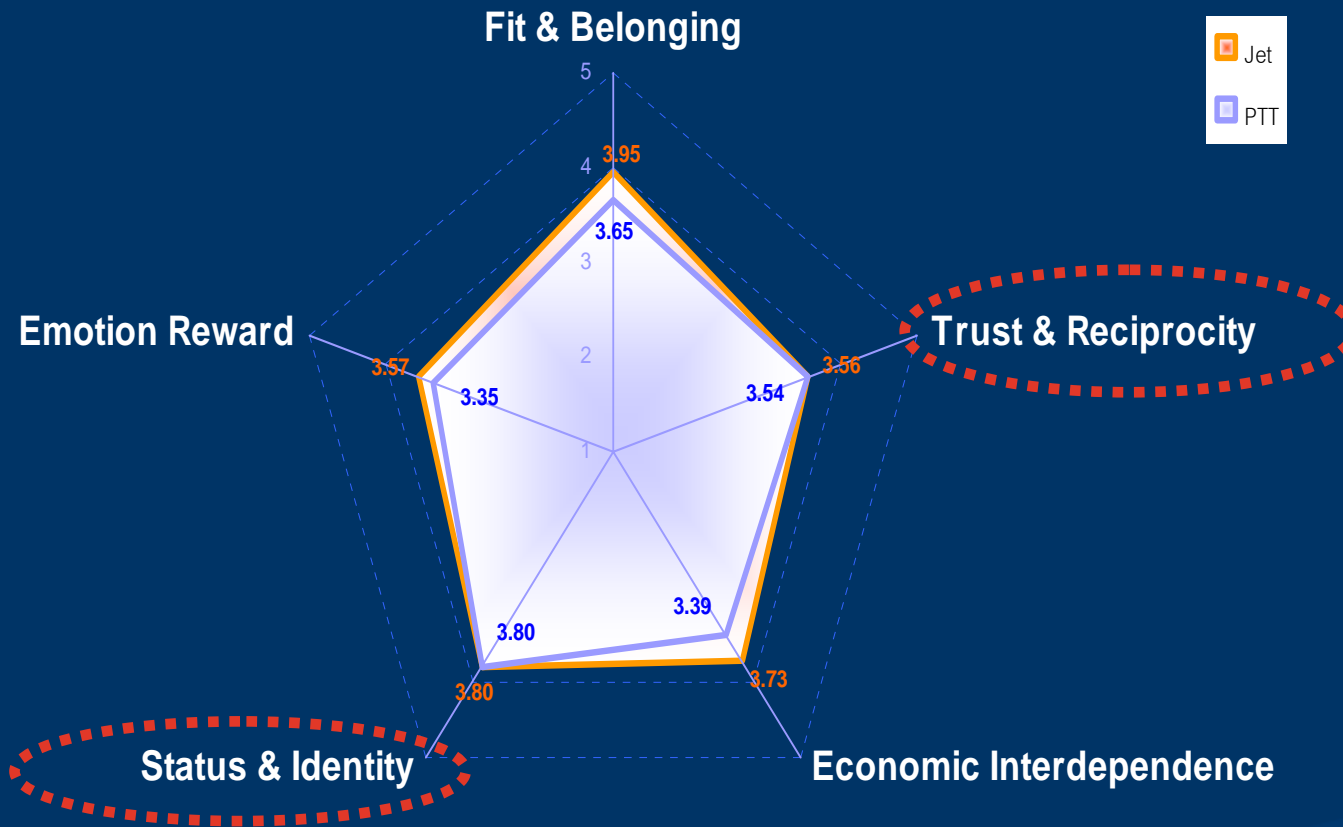
# Framework for assessing employees engagement

The model comprises five factors that describe employees' attachment to their employer, i.e. engagement, and which drive behavior:



# Engagement survey result (1)

SAMPLE

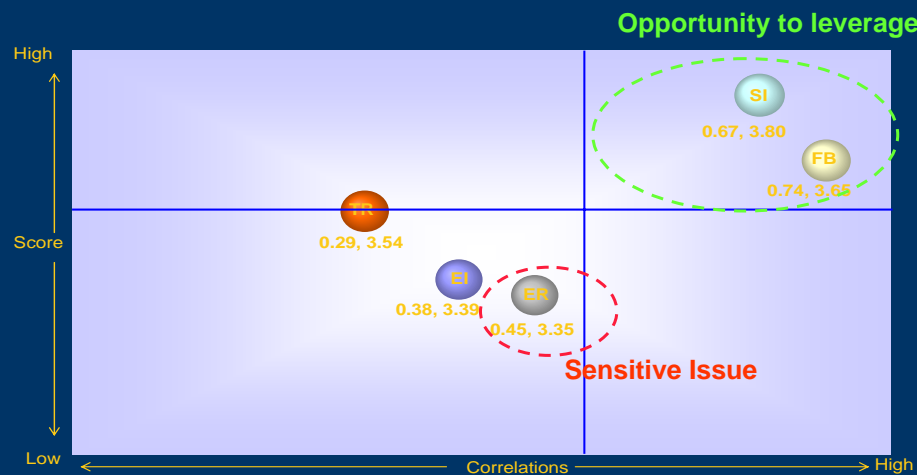


There are two factors that influence level of engagement of PTTRM people

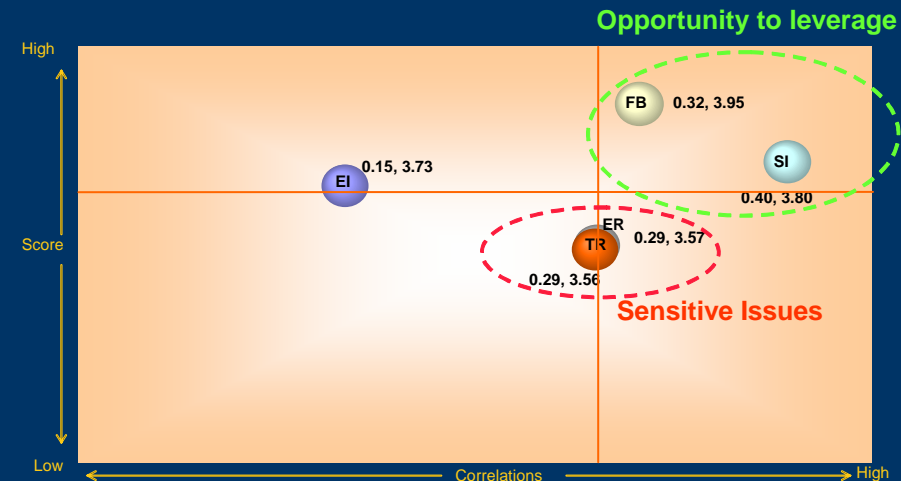
- **Trust & reciprocity:** Open and transparent communication – leadership quality
- **Status and identity:** The need to create senses of privilege in working for PTTRM

## Engagement survey result (2)

**SAMPLE**



**Ex-PTT employees**

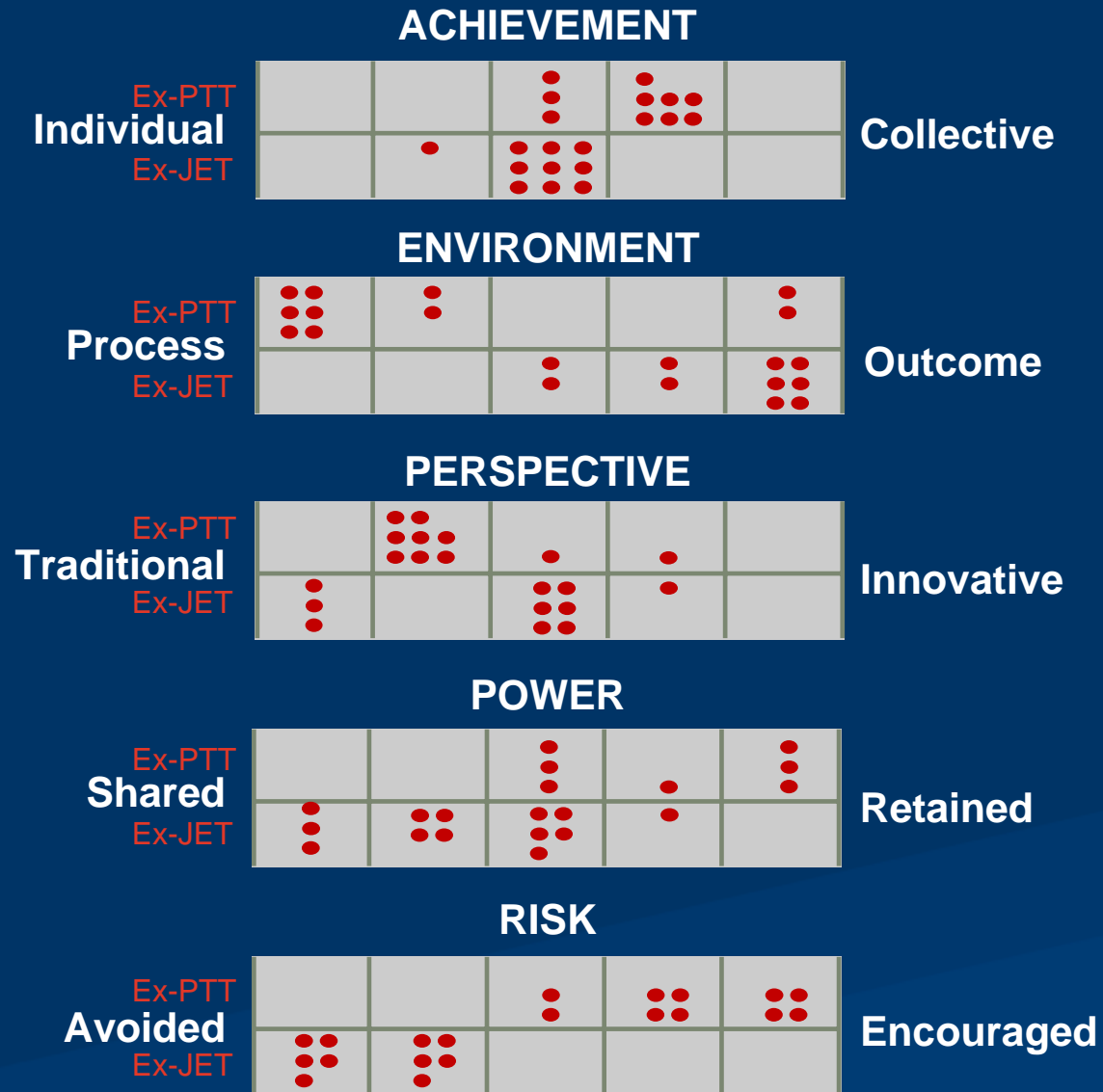


**Ex-JET employees**

- Create senses of 'status and identity' & 'fit and belonging' key mechanisms for improving employees' satisfaction and increasing level of engagement
- For ex-PTT employees, 'emotional rewards' (i.e. recognition, career opportunity, development opportunity...) is a sensitive issue to be closely monitored and listed as the first priority
- For ex-JET employees, 'trust and reciprocity' and 'emotional rewards' are sensitive issues
- In newly merged organization
  - People need to be ensured that their status and values are recognized
  - People need confirmation on their future opportunities
  - Positioning the new organization (in employees' perspective) as a very unique organization is a smart way to leverage employees' engagement

# Example of cultural survey result

**SAMPLE**



## Summary of cultural survey result

Cultural attribute	Results	Management implication
<b>Achievement</b>	Both groups need <b>more balance</b> between group-individual achievement	Performance management system and reward system should be also <b>balanced between rewarding team and individual</b>
<b>Environment</b>	Dilemma of <b>process-focused</b> and <b>result-focused culture</b>	<b>Subcultures exist</b> – leaders need to be effective conductor
<b>Perspective</b>	Both groups are short-term focused but would like to be more <b>innovative</b>	<b>Rewarding innovation</b> and ensuring long-term strategic developments are recognized and supported
<b>Power</b>	<b>Contrasts</b> between empowerment philosophy and centralized control	<b>Promoting informal culture</b> in parallel with implementing effective <b>internal control</b>
<b>Risks</b>	Ex-JET are very risk averse while ex-PTT are risk takers	Enhancing <b>learning opportunity</b> through <b>effective coaching</b> of managers

## Key concerns of integration

- Risk in human resource perspective – engagement factor – cultural integration
- Significant difference in culture and conceptual business operation between PTT and JET
- Communication of business direction after merging – critical step during transition to prevent value destroying

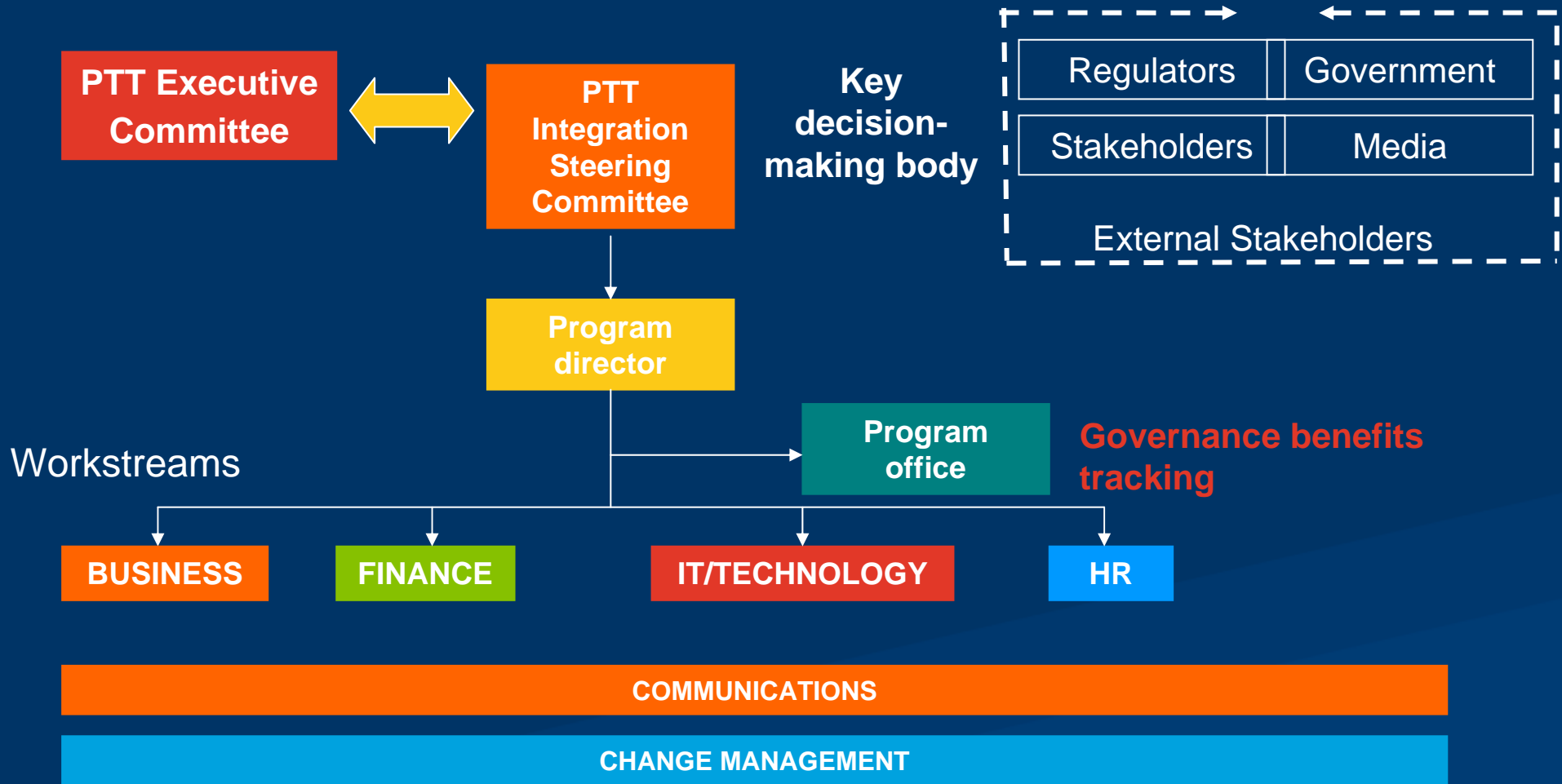
## Translating assessment results into management action

Area	Management issues	Mercer's recommendation
<b>Organization structure and governance</b>	<b>Should PTTRM be a part of PTT management structure or should be separated entities?</b>	<ul style="list-style-type: none"> <li>▪ Based on cultural survey and business model, PTTRM should be separate entities to preserve synergies and enhance business values</li> <li>▪ PTT will govern direction of PTTRM while empowering PTTRM to leverage PTT's retail business competitiveness through combined knowledge inherited in JET and PTT</li> </ul>
<b>Transition period management</b>	<b>Multi-flow communication problems</b>	<ul style="list-style-type: none"> <li>▪ Transitional period management should be executed by ONE integration team governing functional integration teams</li> </ul>

## Translating assessment results into management action (cont'd)

Area	Management issues	Mercer's recommendation
Employees value recognition	How to prevent employees from disengagement and 'wait-and-see' situation?	<ul style="list-style-type: none"> <li>▪ Leadership practices (from PTT) to ensure transparent communication and unity</li> <li>▪ Employees from both organizations participated in integration execution</li> <li>▪ Ex-PTT and ex-JET employees are both in charge of leading functional integration teams</li> </ul>
Culture	How to develop desired culture?	<ul style="list-style-type: none"> <li>▪ Aligning HR tools and systems with desired cultural attributes</li> </ul>
Talent management	How to retain talent during transitional period?	<ul style="list-style-type: none"> <li>▪ Conducting direct communication with each individual talent (preferably talent who are thought leaders) by PTTRM top management</li> </ul>

# Merger program Organizational structure



## Integration plan

- Licensed use of JET/Jiffy brands for the first two years
- Convert all stations into PTT brand within first two years (brand changing with minor changes)
- Continue using “Jiffy” or own PTT brand for C-stores after first two years
- Operate under same company structure for a period to reduce culture clash before implementing integration plan

# Integration timeline

We  
are  
here

← ~ 2 Months →

SPA  
Signing

Deal Closed



Mar 28<sup>th</sup>

Apr 19<sup>th</sup>

Jun 27<sup>th</sup>  
2007

Jun 26<sup>th</sup>  
2009

24 Months  License

PTT Day 1



### Section 3

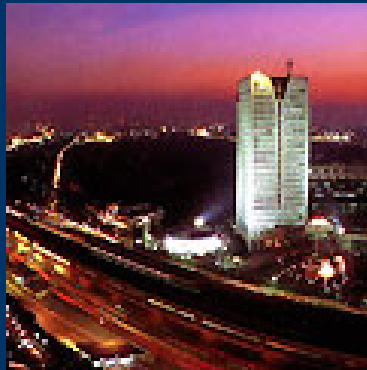
## Execution

- Risks from execution
- Some quick-wins and successful stories
- The road ahead

## Risk from execution

- Critical risks identified and mitigation measures:

Critical risks	Mitigation measures
A) Value destroying and loss of core competency	<ul style="list-style-type: none"><li>▪ Focusing on the conceptual business model</li><li>▪ Selective system harmonization</li><li>▪ Governance mechanism and empowerment</li></ul>
B) Customer loss due to change of brand	<ul style="list-style-type: none"><li>▪ Licensed use of JET/Jiffy brands for two years</li></ul>
C) Operational interruption due to IT system	<ul style="list-style-type: none"><li>▪ ICT team study</li><li>▪ Assistance from COP</li></ul>
D) C-store revenue reduction due to CP 7-11 contract	<ul style="list-style-type: none"><li>▪ Use 7-11 with new terms to reflect PTT's acquisition cost of Jiffy business; or</li><li>▪ Use PTT's own brand; or</li><li>▪ Continue using Jiffy</li></ul>



Don't try to breed two different DNAs at the beginning

# Synergy today



## Develop 'quick wins'

- Saving expat expenses

2006 ~ **53.00** MM THB

2007 (1/2 Yr) ~ **37.75** MM THB





- Lube sale in JET/Jiffy: First delivery date 16 August 2007 (15 products; ~28,500 liters), debut ~ 1 September 2007



## Hard synergy

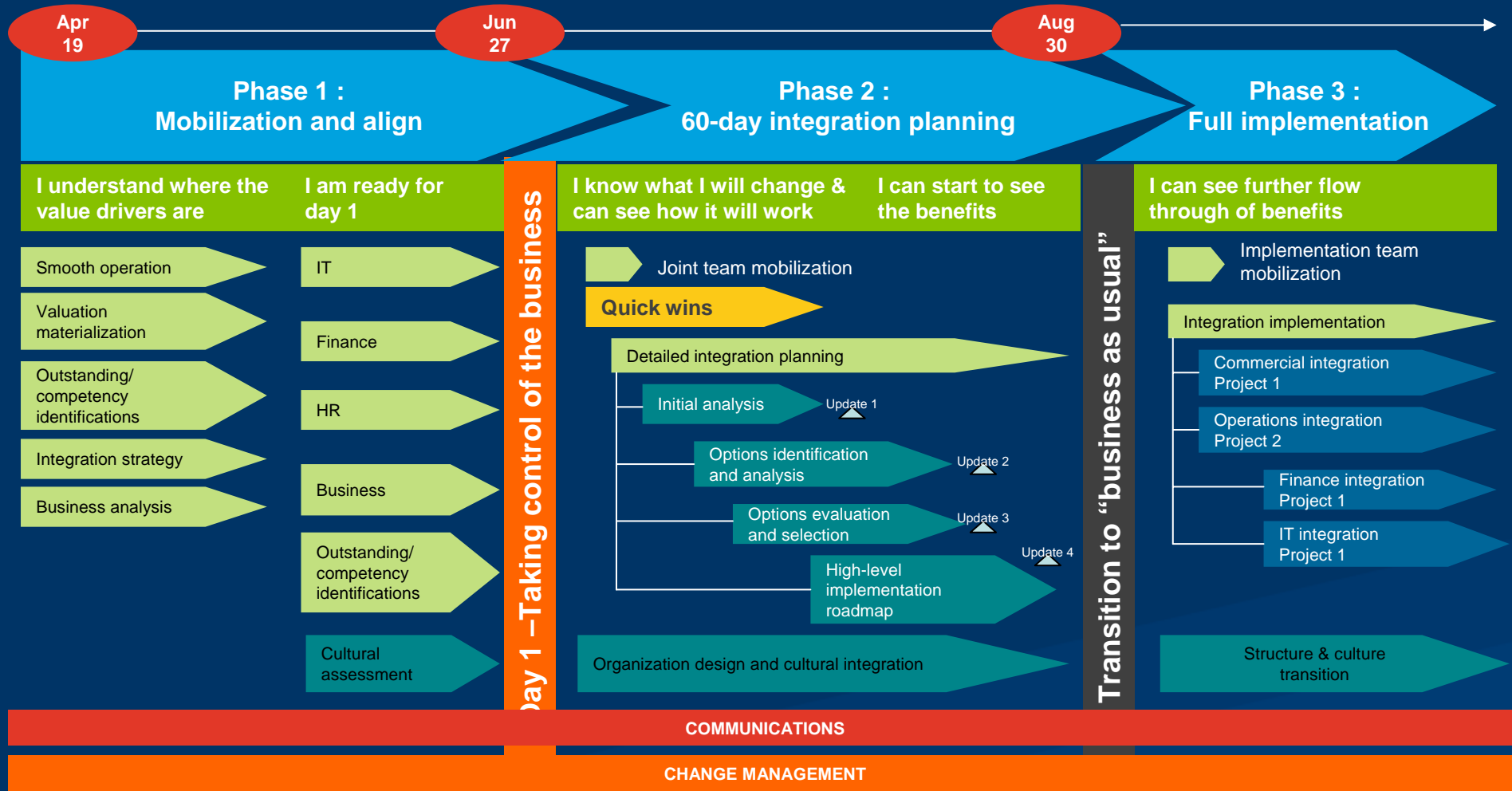
Descriptions	Details
1. Synergy from increased fuel captive demand	Getting 100% LO supply from PTT since Feb 08 ~ 85.9 MM THB per year
2. Displacement of premium station build-out plan	Replace premium station build plan (five stations per year) ; NPV ~ 71 MM THB per year
3. Expat management replaced by local management	Done (06 ~ 53 MM THB, 1H07 ~ 37.75 MM THB)
4. Increased lubricant sales	Started sale @ JET/Jiffy on 1 September 2007; first lot order 15 products (28,500 liters)
5. Redeployment of marketing and land procurement team	Done
6. Financial restructuring	Ongoing

## Soft synergy

Descriptions	Status	Details
1. Cost synergies		Ongoing: Utilize some resources together
2. Cost efficiency transfer		Ongoing: Reduce PTT COCO Opex close to JET Opex
3. CP knowledge transfer		Ongoing: Jiffy operation
4. Improvement in brand image		Reduce PR budget for penetrate high-end market

# Integration plan

## A three-phased approach



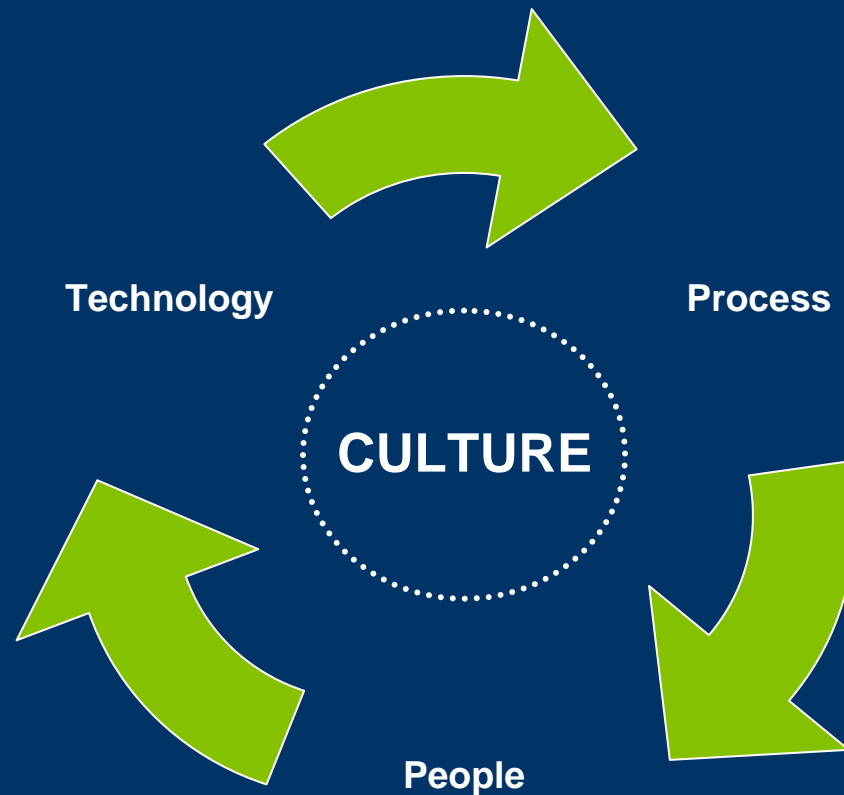
## Preparation for Day 1 (and ongoing integration)

- What we have done
  - Transition activities
    - Preparation for Day 1
      - Smooth operation (for Day 1)
      - No business disruption (for Day 1)
    - Ongoing integration
      - Integration team

## Preparation for Day 1 (and ongoing integration – cont'd)

- Supply & logistics
  - Coordinate for PTTRM to buy LO from ESSO via PTT (TOP Shutdown Oct – Dec 07)
  - 100% LO supply by PTT (since Feb 08)
  - Saraburi Terminal & PTT Logistics integration (ongoing)
- IT/technology
  - IT/GIS planning for smooth operation after transition
  - Coordinate to set up PTTRM IT/GIS regulation, standards (ongoing)
- HR
  - Coordinate to set up PTTRM rules /regulations as PTT subsidiaries standard
    - PTTRM job evaluation (done during transition)
    - PTTRM employee survey (done during transition)
    - New organization redesign (implemented in April 08)

## Any company or business



- What is 'culture': How people are doing things in such a way of their society directed.
- 'Culture' is 'macro'
- 'Behavior' is 'micro'

## Human capital management

PTTRM → Mercer → accuracy → “new organization”

Employee  
survey  
Both PTTRM  
& PTT integration  
team  
(Nov 2007-  
Jan 2008)

PTTRM  
organization  
redesign  
  
(Dec 2007 –  
Mar 2008)

1 April 2008

**Human capital is the main driver**

## Human capital management (cont'd)

- People development aligning with new business model is being done (both PTT & PTTRM)
- In case of **All PTT COCO Service Station managed by PTTRM**, purposed next step would be:
  - Merge RBA, MBC Land and PTTRS : To make standard for workforce at PTT service stations
    - On study process
    - Target implementing ~ May 2009

## Final transformation

- Very much depends on your future business value



Could be...



*A NEW CLASS OF TRADE*



**'PHYSICAL'**

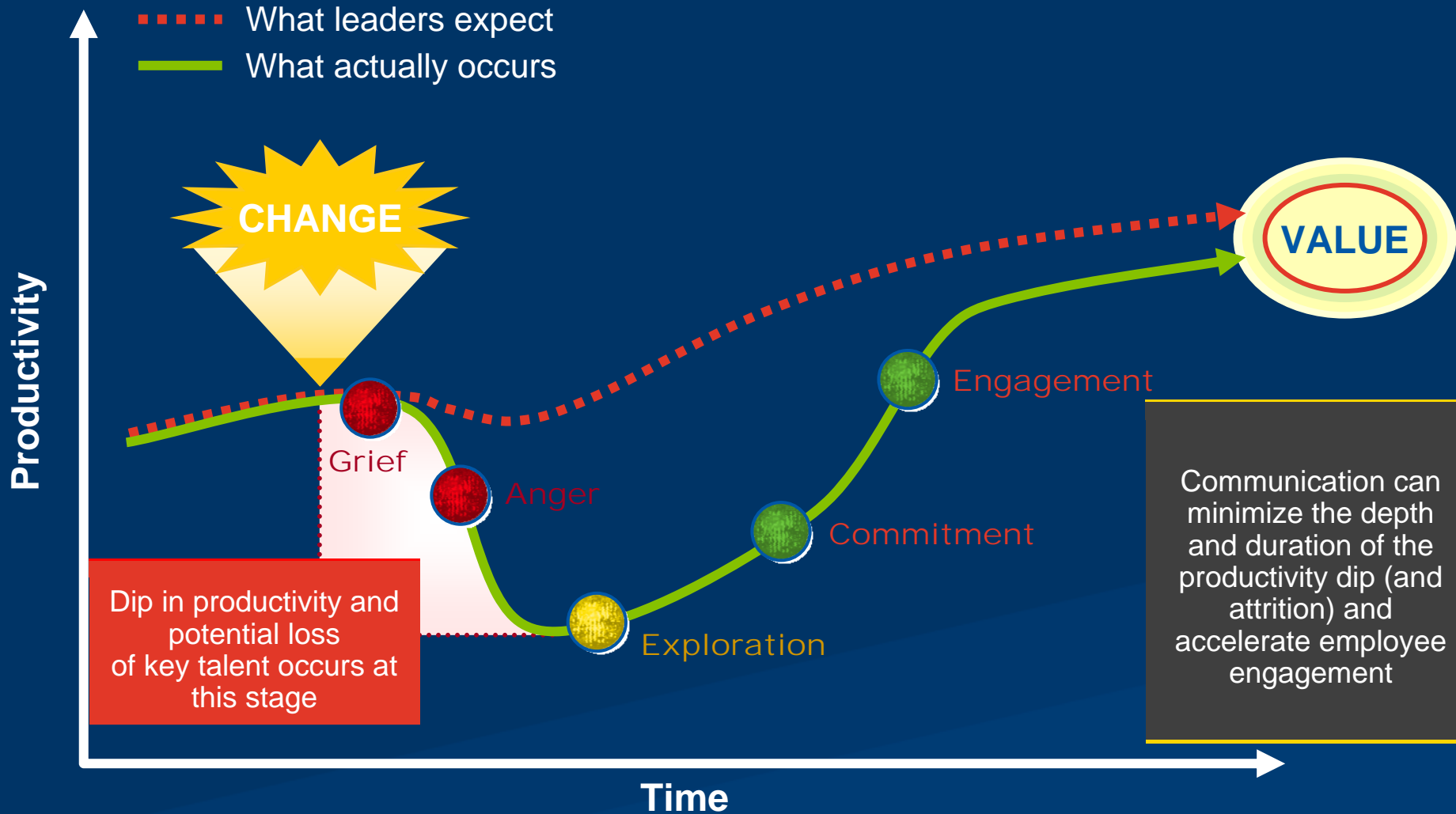




## Section 4

# Summary: the lessons learned

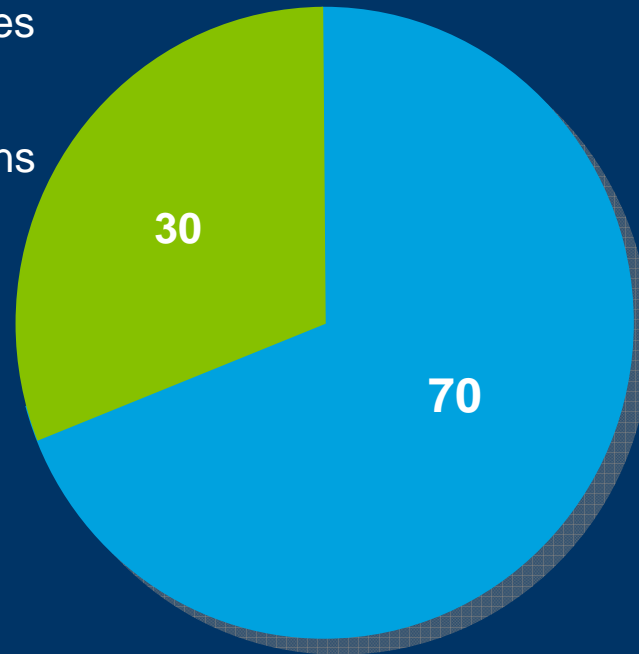
# Each employee must process and come to terms with the change, which takes time



# Why there are so few winners?

## Poor deal

- Unrealistic synergies
- Price too high
- Competitor reactions



## Good deal poorly implemented

- Poor integration management
- Failure to address cultural differences
- Customer losses
- Poor communication
- Poor tracking

Source: Interviews, MercerMerge



**Questions?**



# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN