DAVID BUSHKO

# AN INTERVIEW WITH JOHN DRZIK, PRESIDENT OF MERCER OLIVER WYMAN

In April of this year, Oliver, Wyman & Company merged with the financial services strategy and actuarial consulting divisions of Mercer Inc., forming a global financial services consultancy aimed at addressing a full range of financial services strategy and risk management issues. The new business unit has 650 employees at 26 offices in 11 countries and initial revenues of approximately $200 million.

*C2M* talked with John Drzik, formerly chairman of Oliver, Wyman and now president of Mercer Oliver Wyman. A Princeton University graduate, he joined Oliver, Wyman in 1984 and became chairman in 2000. The author of numerous articles on the financial services industry, he is a frequent conference speaker in both the United States and Europe. He also has spoken at leading industry and regulatory forums sponsored by the Basle Committee, the Federal Reserve, Federal Financial Institutions Examination Council, and World Bank. In addition, he is founder of the Oliver, Wyman Institute, a cooperative venture between the firm and leading academics that accelerates knowledge transfer between the academic community and the financial services industry.

In the following interview, Drzik discusses the trends in the consulting industry that have led to an upswing in industry mergers, the factors that drove the merger of Oliver, Wyman and Mercer, the process he thinks will make this merger successful when so many others are not, and some considerations he feels others should take into account when they believe one and one may make more than two.

*—DB*

**C2M:** Over the past year, as you point out in one of your press releases, there has been an upsurge in consulting mergers and acquisitions (M&A's). Perot purchased two specialty firms—ADI Technology, Ltd., and Soza & Company, Ltd.—to build a government service unit. IDC and Meridian combined forces to create Financial Insights and gain a larger foothold in the financial IT consulting space. In the three months preceding your deal, about 20 others were announced. Could you tell us why you think this trend is occurring?

**DRZIK:** Since it has been a tough market for consulting recently, a lot of firms have been thinking hard about how they can combine forces with others in ways that will make them more effective competitors. The pressure clients are applying to their overall consulting expenditures is causing people to refocus and revisit their strategy. This is underpinning some of the changes in the general landscape and leading to more consolidation.

**C2M:** So tighter budgets are forcing consulting firms to change their offerings?

**DRZIK:** Yes. This trend is making firms think about combining to provide positive value to clients. It's not just an issue of let's get bigger. The economic climate puts pressure on making sure you're delivering tangible, practical value. Relative to a few years ago, clients are more focused on things that provide immediate performance improvement. The result for strategy consulting is a shift in emphasis from planning growth strategies beyond existing businesses to improving operational performance within existing businesses.

**DAVID BUSHKO** *is CEO of Aegis Communications, Inc., and President of FirsThink, Aegis's consulting division.*

**C2M:** How did these factors affect your merger?

**DRZIK:** They played a part, but they weren't the dominant reason. It wasn't the external economic conditions and client pressure on expenditures that made us get together. [*Editor's note:* Oliver, Wyman has had an annualized growth rate over the past five years of roughly 20%, while the industry overall has contracted.] What each firm saw in this merger was a way for us to combine firms that offer different things in the same client space. So what drove our merger was similar—but not identical—to the general factors driving the overall consolidation within the consulting industry. Let me elaborate on that a little bit.

If you take the financial industry and divide it into subsectors of capital markets, corporate banking, retail banking, insurance, and risk management; Oliver, Wyman's historical strength and market position leaned toward the wholesale side, meaning capital markets and corporate banking. We had a presence in retail banking and risk, but we were seeking to expand it significantly and bring it to par with our wholesale side. Mercer's financial services business was strong in retail banking and insurance. By combining that business, as well as another piece—Mercer RFI, an actuarial consulting firm—with ours, we are gaining critical mass in areas where our market position wasn't as strong. In combination, Mercer Oliver Wyman covers the waterfront in financial services with a very strong market position, which is what we each wanted to achieve.

Similarly, there is a geographic complementarity between firms. For example, Mercer has a very strong office in Paris that works with the leading French financial institutions, whereas Oliver, Wyman has a very strong office in London, which covers the United Kingdom and some other Western European markets. In combination, we will cover the European market extremely well.

**C2M:** There are a number of studies that show M&A activity hasn't produced the results that were touted when the deal took place. I've seen failure-rate numbers as high as 89%. Why will this merger be different?

**DRZIK:** I am sympathetic to your point, which is why both firms spent over two years thinking through questions like How can we make this work? Will it work? and so forth, to ensure that we didn't run into some of the land mines that many mergers encounter. Our goal was to ensure that the business complementarity and the cultural fit were really there, because ultimately that will be what makes the merger successful. During these discussions, we discovered a tremendous amount of business that we can pursue jointly but not alone.

> *What drove our merger was similar—but not identical—to the general factors driving the overall consolidation within the consulting industry.*

These opportunities exist at two levels. First, there is the opportunity to be a stronger competitor in financial services strategy consulting with our critical mass, wider sector coverage, and stronger geographical coverage. The second level is our complementarity as Mercer Oliver Wyman with other consulting entities within the Mercer family, such as Mercer Delta, an organizational design and change management firm. Mercer's biggest consulting business is in the HR and benefits area. A piece of that business focuses on performance measurements and incentives. So if you think about these three entities—Mercer Oliver Wyman, Mercer Delta, and Mercer HR—and what we're trying to do for financial services clients, you can see that by combining capabilities, we can deliver more tangible and immediate value to our clients. This brings us back to the theme I talked about earlier: Through consolidation you can actually create a different and better offering for clients by combining capabilities.

As a strategy consulting firm, we would have had difficulty building world-class change management and compensation and incentives practices. Those already existed, however, in the Mercer family. By combining forces for client engagements, we can give the client deep specialization in each of the three areas under one umbrella. And we will coordinate the assignment across the Mercer family, so clients won't have to act as their own general contractor. I think that's something people will be looking for.

**C2M:** This is a good theory, but it often fails to work in practice. The integration simply doesn't happen. What do you plan to do to put the theory into practice?

**DRZIK:** These three companies will be, in effect, sister companies, maintaining their own specialties, cultures, and so forth. That means that the success of any integration will depend upon our ability to build very effective processes for coordinating client assignments.

**C2M:** But that separateness makes togetherness at the client level both more difficult and more critical. How will you build those processes?

**DRZIK:** There are really two ways we can coordinate. The first is the simple one:

just a referral to the sister company. To enable this, we have assigned point people within each organization who receive referrals and channel them to the people in their organizations who have the right expertise for the assignment.

The second coordination approach offers more value to the client. In this approach, the various Mercer entities work as a joint team coordinated by one party or the other, depending upon where the emphasis is in the assignment. This could be a problem if our organizations had overlapping capabilities that led to severe territorial struggles. In reality, however, the three organizations we're talking about have almost all complementarity and almost no overlap, so there's really no territorialism to deal with. It's just a question of how we can combine our capabilities to meet a certain set of client needs. The combinations might differ, not because of territorialism, but because the client's needs are different.

© C2M; EMS/Sid harris, www.ScienceCartoonsPlus.com

*"And how did you feel when you noticed profits were falling?"*

**C2M:** Aside from coordinating with your sister firms, you also have to coordinate the firms that will comprise the new business unit, Mercer Oliver Wyman. That entity's success will depend upon its ability to integrate Oliver, Wyman with Mercer's financial services and risk consulting businesses. What are some of the things you need to do internally to make the merger succeed?

**DRZIK:** This is certainly where the deeper integration has to take place. We found in our discussions with Mercer Management Consulting that we did have fairly similar cultures. Both sides felt that without this, the merger wouldn't work. Both firms, for example, are oriented toward the development of analytically based intellectual capital. So at both the Mercer and the Oliver, Wyman level, there was actually a high degree of compatibility in terms of how we approach the same set of client requirements. Also, both firms have collegial, informal cultures. There is a predisposition to be collaborative. People don't overly rely on rules and rigid hierarchies; instead there's a network kind of organization that fits well with Oliver, Wyman's historical culture.

**C2M:** Over the years, I have heard two consistent client criticisms of large firms. First, those who sold the deal, usually senior management people, don't seem to have much to do with the solution. Instead, it's the result of work done by young, less experienced people. Second, although the client contracted for the expertise of a global firm, what it got in the end was a local team of three or four people. If I were to raise these as potential problems in dealing with the new Mercer Oliver Wyman, how would you alleviate my concerns?

**DRZIK:** At Oliver, Wyman, those two dimensions were exactly what differentiated us and gave us a competitive edge. First, we have a very strong tradition of involvement by our senior people. When we show clients how much time our senior people put in on their behalf, they can see they are getting advice from senior professionals. Second, the nature of the financial services assignments we've handled has been such that we've had to go beyond a local or regional bias and use internationally mixed teams. Again, while this might not be so with other firms, in our case, we ensure that the benefits of our international reach get to the client.

**C2M:** Your company promotes its "quantitative approach to strategy formulation." Can you tell us a bit about that and how it works?

**DRZIK:** One of the things that has distinguished Oliver, Wyman and will continue to distinguish Mercer Oliver Wyman is that we take both an outside-in and an inside-out approach, and apply our analytical tools to both. Let me describe what I mean.

The inside-out approach considers where and how the client is making money now, and how that fact base shapes thinking about where the strategy should go. In other words, this

approach takes existing performance and looks forward.

The outside-in approach looks at market dynamics and trends, assembles a fact base and perspective, and uses that to shape thinking about where to take strategy. Ultimately, you want to position an organization for both profitability and growth, so you want to appreciate what might change in the external environment and what discontinuities might be there, as well as where the existing profit dynamics are and how your strategy shifts might affect your underlying profitability.

> *Some might criticize us for spending two years thinking through this transaction; but in the end, it allowed us to get our expectations aligned on both sides.*

Financial services economics are actually quite opaque. Without a very rigorous analysis and disaggregation of the economics, which requires quite a bit of quantitative work, it's hard to appreciate on a risk-adjusted basis which customers, products, and businesses are making money and where a firm is really adding to shareholder value. It's quite easy to get these things wrong by estimating incorrectly the risk of different activities or failing to quantify the risk at all. A fair amount of quantitative sophistication is required to put any kind of risk adjustment into performance measures of financial services.

Oliver, Wyman has a long-standing tradition that is very rigorous on exactly that point. The outside-in quantitative techniques are fairly widespread, but the inside-out techniques—the economic disaggregation for a financial institution—are really quite a differentiating factor for Mercer Oliver Wyman. And when we add Mercer's actuarial capability, we deepen our quantitative ability to understand where insurance companies, for example, are making money.

**C2M:** What advice do you have to offer to our readers who are undertaking—or planning to undertake—a merger or acquisition?

**DRZIK:** M&A activity needs to be done very carefully and thoughtfully. Some might criticize us for spending two years thinking through this transaction; but in the end, it allowed us to get our expectations aligned on both sides, and this has been very beneficial.

In the process, you need to look at two things. First, where is the real juice in the combination? Sometimes mergers are done rather superficially. One firm has "A," and the other has "B," so together they assume they must be better. If they actually broke down the impending deal, however, they might find they could have achieved the same thing through some kind of partnership or alliance without having to go through a merger. We looked in depth at where there was actually an opportunity for both organizations to improve by combining. When we did this, both sides came away feeling very confident that there was real economic merit, a real business case, for this merger.

The second thing we spent a lot of time on was the cultural fit and both sides' expectations about how the combined company would operate. As a result, before the merger we took care of many of the issues that in other cases are resolved after a merger. This has eliminated many of the problems that disrupt the process when two companies combine.

Given the poor record of mergers in general and those in the consulting industry in particular, I think it's important, whether you're on the buy side or the sell side, to go through some sort of process like this. In many situations, the business case doesn't make sense or the cultures won't fit, but you may not discover this until you're too far along to turn back. ■

*Readers' views regarding matters to be addressed in this column, as well as alternative views on issues and trends, are welcomed. Contact David Bushko at dbushko@firsthink.biz.*

**INDEXED UNDER:**
***Consulting firm, merger and acquisition; Mergers in consulting***