



LIKE CLOCKWORK

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As Credit Suisse First Boston and UBS AG work to integrate their newly acquired U.S. investment banks, Donaldson Lufkin & Jenrette Inc. and PaineWebber Inc., respectively, they may want to look closely at a surprisingly successful cross-border example.

On June 7, 1999, the day Deutsche Bank AG officially closed its \$10 billion acquisition of Bankers Trust Corp., many expected the loss of clients, a glut of operational problems and a slow, cumbersome integration of systems. Instead, when what was called the "change of control" date hit, most of Bankers Trust no longer existed--from the sign on the doors, to computer and telephone systems, to business cards.

To be sure, the integration wasn't all smooth. As CSFB and UBS are finding out, it's hard to keep people on board. Deutsche Bank struggled against talent raids and defections. Its highest profile losses occurred in BT Alex. Brown in Baltimore, where CSFB snagged 24 members of its healthcare investment banking team.

Yet, in many ways, the transition was remarkable. Deutsche Bank -- which had been criticized for its handling of some integrations -- was buying a culturally different foreign bank where skepticism of the buyer's track record ran high. It didn't help matters that when Deutsche chief executive Rolf E. Breuer announced the deal Nov. 27, 1998 he said there would be "no autonomy" at the newly acquired bank. He did, however, recant a few months later.

But two years after that announcement, it's clear both banks are operating as single entity. To understand how quickly and smoothly the Deutsche-BT integration went, consider this: When Norwest Corp. merged with Wells Fargo Corp. in 1998, it gave itself three years to unify systems. Today, San Francisco-based Wells Fargo still operates on two different systems in Washington, Oregon and California -- it's biggest banking state -- and isn't expected to combine systems there until next year.

At Deutsche Bank the process was rapidly accelerated, as evidenced in two goals the bank set: 60% of the banks' systems would be unified on June 7, the day the deal closed, and full cost savings would be realized within a year of the close.

"It was the largest foreign banking acquisition at that point in time," said Philip Panaro, global head of mergers and acquisitions integration at [IM2 Consulting]1, who worked on the deal. "They had a very aggressive approach, basically to convert a majority of their positions right on the close, and they were successful in doing that.

At the outset, the bank identified four phases it would need to pass through to make the transition: due diligence, integration planning, implementation and achievement of synergies. When the department heads met shortly after the announcement, the message from Deutsche Bank headquarters in Frankfurt was simple: Get the most cost savings possible by the close of the deal.

To get there, Deutsche broke its own mold of decentralized integration. It tapped its global technology chief, Hermann-Josef Lamberti, to oversee the effort and hired outside firms led by IM2 Consulting1 to consult on the integration. Logistically, the bank set up "command centers" in Frankfurt, New York, London and Tokyo. To ease potential clashes between bankers, transition teams in each department were co-headed by representatives from each side.

At the outset it became clear that a full 100% integration would not be possible by June 1999. But what was proposed went far beyond industry transition standards, much less anything attempted in Deutsche Bank's history: a full conversation of the banks' fixed-income, cash equities, money market and foreign exchange businesses. That alone comprised more than 40,000 customer accounts, according to sources familiar with the transition.



Of the investment banking businesses that remained, many couldn't be integrated because of legal entanglements. Those included derivatives and structured products. What made the planning process unique was the tools Deutsche Bank used to make the transition day successful. For instance, each department used a template of milestones that synchronized each business effort. For most tasks there were strict deadlines.

The deadlines were emphasized because of the industry's historically poor record in meeting savings targets. Internally, the focus on meeting deadlines and emphasizing the most important tasks was called "ruthless prioritization."

Likewise, Deutsche was ruthless in picking which platforms would be used in the combined company. Those quick unwavering decisions were aimed at keeping second guessing out of the process. For example, Deutsche moved BT's fixed-income employees from their Liberty Street location in lower Manhattan to Deutsche's U.S. headquarters in Midtown -- a decision that traded short-term convenience for long-term efficiency.

Also, like many banks, Deutsche and Bankers Trust formed teams to handle the transition, but unlike its peers, Deutsche-BT teams were small -- in most cases, no more than 10 people for a product line -- in hopes of speeding decision making. Worldwide about 1,000 people were deeply involved in the execution.

Finally, two- to three-member "SWAT" teams were formed in each product line for troubleshooting on the weekend of, and days following, the conversion. On June 5, all those contingencies went into motion. E-mail accounts were combined. Client data was fused into a single database. Boxes were packed and shipped.

The next work day, and the first day the banks were officially combined, more than 3,000 employees showed up at their new locations to find most of their resources there as well. Within the next few weeks, 10,000 more were moved -- about a one-fifth combined bank's workforce.

In all, more than 50,000 tasks had been completed. Although there were glitches, most were contained early in the process. For instance, the company was quick to name executives to key posts that in some cases created morale problems and some defections.

But from a systems and operations standpoint, the transition exceeded the bank's internal expectations. By the middle of the first week, Deutsche Bank disbanded the SWAT teams because there were so few problems.

Perhaps the best measure of the combination's success is profitability. Within a year, the U.S. part of Deutsche, with BT in tow, contributed 35% of investment banking's revenue, up from 25% pre-BT. And, thanks in part to smooth integration, Deutsche's first-quarter results soared, compared with the same year-ago period.

Net income rose 50%, to 960 million euros (\$853 million), fee income more than doubled to 3.08 billion euros and trading income jumped more than twofold, to 2.46 billion euros. In many ways, that quick success was due to an equally quick integration. As in many mergers, Deutsche Bank lost bankers throughout the process. But people who worked on the integration say those losses were tempered by solid systems and a minimum of confusion.

"It was almost amazing," said IM2's Panaro. "If you told me 10,000 people would be involved and 50,000 tasks were happening, I wouldn't have believed it could happen that smoothly."

The integration's success was met with a low key celebration between New York and Frankfurt. Executives and bankers in both locations toasted each other via a video conference. They ate hot dogs in Frankfurt and strudel in New York. From the example, the Swiss may want to develop a taste for apple pie.