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Advisory Alert: Integration playbooks drive long-term M&A success

Introduction

Only about 50% of mergers or acquisitions will succeed — no matter how attractive the deal looks initially. And often the newly created company will not deliver the hoped-for financial results.

With more and more companies growing through acquisition, acquirers need a better way to make deals work long term. The answer lies in improving the integration process — merged organizations must develop and follow through on a fundamental, sustainable integration plan.

Why integration doesn't work

When it comes to integration, even companies who do acquisitions on a regular basis seem to go through the process as if it were their first time. These companies designate a new integration manager for each acquisition, with good intentions — this is a major job and the right person may be the one with specific experience. But inventing a new integration wheel for each acquisition fails to leverage the experience of those who have gone before. Institutionalizing this knowledge into a sustainable, repeatable process is critical for future success.

Too much planning and institutionalization can also stifle creativity and adaptability. In these cases, the integration process becomes so structured and rigid that it loses its agility. An effective integration playbook provides the structure for both pieces of the puzzle.

A case study in overplanning

When a Fortune 500 technology company acquired a Boston-based supplier, members of the acquisition team went through a robust due diligence process that included an integration checklist with several thousand line items. All the boxes got checked, but integrating the acquired company's health plan turned into a major mistake when it became apparent that the new plan had no providers in the Boston area. Despite the attention given to the integration process, the acquirer just couldn't see the forest for the trees.

Finding a balance

Seventy-five to 80% of integration tasks are repeatable, which is why it seems that having a good integration process and checklist is the right solution. The problem with the checklist approach is twofold. First, as illustrated by the Fortune 500 acquirer discussed in the case study, human thought and common sense are integral to the process. Second, when staring at a massive checklist, the first reaction can be to simply start checking off tasks. Yet, not all tasks carry the same level of importance.

As an example, putting people on the acquirer's payroll and taking steps to retain key employees are both part of a typical checklist. Yet one is much more important than the other. Finally, people would rather get back to their day jobs rather than labor through busywork, so often they are more focused on simply getting through the checklist rather than prioritizing the tasks within it.

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The bottom line is that no integration plan can consist solely of checklists. There must be some stage in the process in which standard activities are tweaked and additional tasks are added in order to address the unique attributes of each transaction. This, in turn, can lead to a sustainable, repeatable process for M&A.

Getting integration right

There are two areas — aligning the vision and assessing the risk — that are often missing from many checklists. These require significant thought in order to lay the foundation for a successful integration effort.

Align the vision

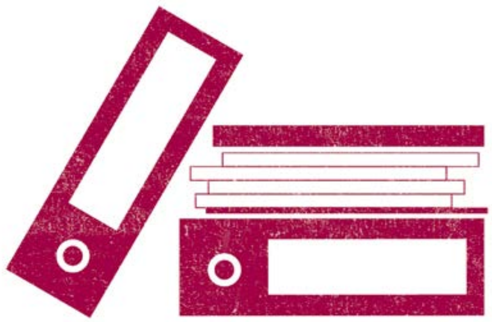
Probably the single greatest reason that acquisitions do not achieve the anticipated returns is because the vision is not clearly aligned with the integration plan. The vision is the investment thesis — or the why — of the proposed transaction. For example, if part of the value proposition of the transaction is attaining certain synergies, the integration plan should prioritize specific tasks to capture them.

Another critical part of aligning the vision to capture value lies in effectively engaging people when taking control of the acquired business. Without clearly understanding what each employee does and how their job outputs are supporting the investment thesis, the acquirer's chances of success diminish.

Assess the risk

Performing a comprehensive risk assessment must be an integral part of the integration plan. Risks can come from a variety of sources, from competitors to key employee retention to meshing the cultures and so on. Only when the company properly identifies the risks can it develop mitigation strategies as part of the integration planning process.

The following is a framework for assessing the most important transaction-related risks. Risk assessment is vital to identify potential areas of concern so that mitigation plans can be developed. These mitigation plans should then be translated into a series of tasks that would be addressed by the appropriate integration teams.



Aligning the vision to capture value

Infrastructure

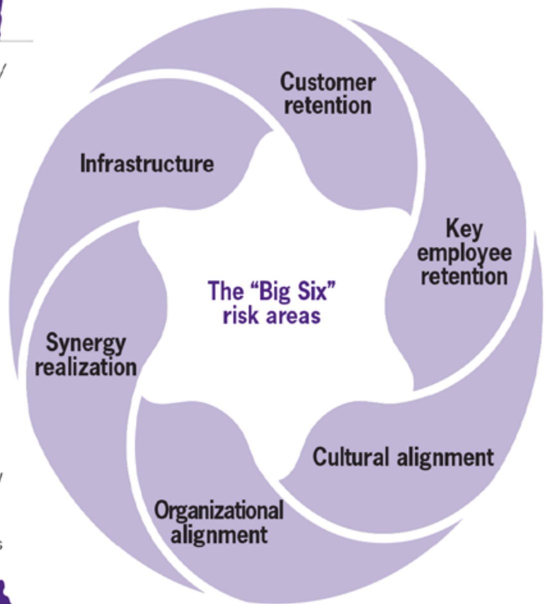
- Supporting continuous financial/ operations tracking while evaluating, designing, implementing and migrating to a long-term recommendation
  - IT systems
  - Accounting processes
  - Internal controls

Synergy realization

- Developing capture plans for identified sources of value (targeted cost reductions, process improvements, changes)
- Improving operating margins by rationalizing core and noncore functions and businesses
- Rationalizing noncore operations

Organizational alignment/ operating policies

- Designing an organizational structure:
  - Enhance the value of the combined organization
  - Focus on revenue enhancement, cost reduction and cost avoidance
- Identifying critical Day One operating policies



Customer retention/ strategic relationships

- Identifying key customer, prospect and strategic relationships
- Identifying key opportunities for revenue growth
- Stabilizing operations

Key employee retention

- Identifying and retaining employees key to commercial relationships and business continuity
- Reducing productivity decline
- Addressing potential lapses in safety during transition

Cultural alignment

- Aligning behaviors to achieve the desired strategic objective
- Leveraging commonality, addressing the differences
- Recommending an end-to-end solution to reduce productivity decline

Developing the integration playbook

An integration playbook codifies previous experiences and helpful tools, and contributes to the M&A intellectual capital of an organization. This can be extremely valuable for future transactions, because it capitalizes on past lessons learned. Furthermore, integrating a methodology within the playbook that provides for establishing a basis for emphasis areas and efforts (i.e. Critical, Significant and Other areas) provides for enhanced agility and flexibility in the process of applying prior experiences to new transactions.

Start by developing an integration framework — which functions or areas will be integrated and which will the newly acquired company have some ongoing latitude to keep as is? It is interesting to note that when we begin this analysis process, most clients initially think that 25–50% of the business processes will be integrated. However, after we complete the assessment, they often discover that 75% or more both can and should be integrated.

As an example, most accounting, financial reporting, tax and treasury processes are generally integrated as soon as possible. This is particularly true with public entities, because it is important to move quickly toward a common control environment. Closely related to this is the enterprise resource planning platform, which is also generally aligned. HR, employee benefits and insurance programs are also prime candidates, as are safety policies, since there is risk when a company has varying standards for safety and health.

Often, both sides want the sales organization to remain independent. But even if they remain independent, it is still important to align sales management processes, forecasting, legal review of contracts and other related processes.

Common sense trumps a checklist every time.

This ultimately leaves functions like operations and R&D, where there may be some latitude for independence. Thus, as part of the assessment process, a company can decide which parts of the business will be integrated and which will remain autonomous.

All this creates an integration framework tailored to the acquirer's specific needs for each future acquisition. It also provides a control — there has to be a valid business reason to deviate from the defined framework. Finally, it often creates goodwill during the negotiations and transition when an acquirer can be transparent with the target regarding its integration framework.

One size may not fit all

A highly acquisitive company may have more than one integration playbook. For example, one might be established for homogenous, tuck-in type transactions. Another might exist for a transformational deal, such as creating a new growth platform where there will be relatively greater autonomy than a tuck-in deal.

Humans are required

People with actual integration experience are still required to execute the playbook. It takes experienced insights to make the decisions that are necessary to align the vision of the transaction with the integration process. It also takes experience to accurately perform the risk assessment. The truth is that common sense trumps a checklist every time.

Not everyone associated with an integration effort needs to have prior experience, which is why the process should be codified. While the playbook is a useful tool to provide guidance and structure, the integration leaders do need experience so that they can evaluate the nuances of a particular transaction and make the appropriate adjustments to maximize success. As we have said, while 75–80% of tasks are generally common across all integrations, there is still a portion that needs to be aligned to the specific circumstances. Generally, it is experience (either an internal resource or external adviser) that bridges this gap.

Choosing the right integration leader and capturing their learnings

For those organizations that want to create a sustainable, repeatable process, the No. 1 challenge to creating internal intellectual capital is the retention and availability of the knowledge gained through experience.

Creating the next generation of company leaders

On a typical integration effort, the integration leader will see every facet of the acquisition, creating invaluable insights for the COO or divisional leader of the acquiring organization. In fact, it is not uncommon for the integration leader to take on an elevated role or, in some cases, to end up running the acquired operation, because of the knowledge gained by going through the process.

The long-term solution comes when the acquiring organization maintains a process coach.

Conclusion

An integration playbook can be a powerful resource to create a sustainable, repeatable process within a highly acquisitive company. It provides the necessary intellectual capital and only improves with continued lessons learned. Such a playbook must be more than a series of checklists, however. It requires a well thought-out foundation, linking the value drivers and vision of the transaction to the overall integration process, and completing an adequate risk assessment, which requires significant experience. In addition to the integration playbook, actual experiential knowledge is also important, and the effort must be driven by a strong leader.

Bibliography

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