

Business Transaction Marketplace

Information about Business Valuations, M&A and Corporate Finance September 2011

Merger & Acquisition Integration

In the [March 2008 Issue](#) of *Business Transaction MarketplaceSM*, we began the discussion of growing a business through a merger or acquisition (M&A). The Business Acquisition Process involves four sequential activities: I Planning; II Research; III Negotiation; IV Integration. Unfortunately, one of the reasons many M&A transactions fail to create shareholder value is because insufficient time and effort is given towards integrating the target into the acquirer.



In this issue, we will be discussing what it's like being an acquired company, along with some key points in developing and managing an effective integration plan.

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What's it like being acquired?



- A State of Flux.

Being acquired or merged-in has a profound impact on the target company. It destabilizes the organization. Things get knocked around during this time of upheaval.

- People Leave.

When there is no coordinated retention plan, 47% of all senior managers in an acquired firm leave within the first year of the acquisition. Within the first three years, 72% end up heading for the door.

- Employees Want to Know:
 - Is my job safe?
 - What's the benefits package?
 - Who will be the manager I report to?
- Employees Can Adapt.

Human beings can handle a high level of change, if there is something solid they can adjust to. It's the uncertainty and ambiguity that create the most stress – not knowing what will happen, when it will happen, or how one will be affected. The longer these issues go unanswered, the more likely combining firms will lose productivity, as well as their people.

Integration Planning

- Develop an Integration Plan.

It should be written with specific time lines and milestones. There is only a brief but unspecified window of opportunity to reshape many aspects of the company before things settle back down and fall back into old routines. Top management should seize this opportunity before the window closes. The Plan must be flexible enough to be modified mid-stage after finding out what's really going on post transaction.

- Use a Project Approach.

Unless there is a carefully orchestrated project management approach, it's almost impossible to get through the integration without damaging the potential of the deal.

- Form an Integration Team.

The integration team should operate as a parallel organization focusing on the integration process. This may require outsourcing. Designate a project leader; have one person be in charge of the integration effort. Assigning individual accountability and responsibility is the best way to get a strong action orientation in support of the integration project. Due diligence differs from integration and requires different skill sets; here, the integration team is in it for the long haul.



Integration Management



- Focus on the Deal Thesis.

Every M&A needs a well thought out deal thesis – the business case explaining how the deal enhances the company's core strategy (see the [June 2011 Issue](#) of *Business Transaction Marketplace*SM for a discussion on identifying synergies within the various components of a business). A clear deal thesis shows where the money is to be made and where the risks are. It should be the focus of both the due diligence on the deal and the subsequent integration. The integration task forces are then structured around the key sources of value. Have each task-force team take a hard look at the combined organization to find every possible benefit and synergy. Continue to look for every cost cutting and revenue growth opportunity beyond what the deal makers originally identified.

- Execute the Plan.

It's a lot easier to *develop* an integration plan than it is to *execute* one. The program for action should not be so complicated that it can't be carried out. The role of the integration team is to ensure that the Plan is manageable and that task-force teams don't get sidetracked. Set deadlines for filling top levels and stick to it; people decisions only get harder over time. The sooner new leaders are selected, the quicker they can fill in levels below them, and the faster management can fight the potential flight of talent and customers.

- Invest Time and Money on People.

Many acquiring firms invest heavily on due diligence, but are stingy when it comes to spending on integration. This explains why so many deals go bad. Communicate with the target's key people. Educate them on the vision and mission of the new combined organization. You have to sell the deal internally, not just to shareholders and customers. Concentrate on what the deal will mean for your people, not only what synergies it will produce for the organization. Among other things, synergies usually means reducing payroll – and people know that.

- Culturally Integrate.

Cultural integration is definitely important, and it's why many deals fail. But don't get bogged down with the trivial stuff. Senior management must realize that they can't keep everyone happy when it comes to cultural change. Focus on what's mission critical. Ordinarily, only 5% of cultural issues truly qualify as mission critical; but this handful of traits account for 95% of the culture's influence on operating performance. Don't get distracted by the other trivial cultural issues which are more or less just noise. The company cannot afford to waste time and effort on cultural issues that don't drive the business.

- Final Thoughts on Integration.

- Successful post M&A integration requires well-planned, coordinated communications. Improvising communication – by just winging it – feeds the rumor mill, creates needless anxiety, and damages productivity.
- Be decisive. Integrate, consolidate, terminate, reorganize, or redirect as necessary in all functional areas. Being proactive puts you in the position to shape circumstances rather than a victim of them.
- Once integration is achieved, take the time to review the process. Evaluate how well it worked and what you would do differently next time. Create an integration process playbook, so the next time you'll be able to do it better and faster; thus, realizing more value from an M&A. The integration process then becomes a core competency within the company.

Upcoming Darrell Arne Presentations

Business Transaction Price Allocations and Adjustments
Minnesota Society of CPAs – BV Conference
Plymouth, MN; October 27, 2011

How to Maximize Your Client's Value in a Sale
M&A Source Conference
Phoenix, AZ; November 15, 2011

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