BOOSTING POST MERGER INTEGRATION SYNERGIES

By John Ruther

When 400 middle market executives who had just completed acquisitions were asked to list the pain points of their experience, a majority ranked integration (both technical and cultural) as either extremely or very challenging. In the past three years, 70% of middle market companies that made acquisitions had little or no previous merger integration experience, and 90% of the companies sold had little or no experience. Given the infrequency that most middle market companies do deals, it is not surprising to learn that integrating two companies creates stress and difficulties. Unfortunately, this often impacts the combined company's ability to achieve the synergies it expected to gain from the acquisition.

Fortunately, there are several steps a company can take to boost its post-merger integration capabilities. The first step is for the acquirer to prepare its own business early in the process (even years before). This requires looking in the mirror to understand the company culture and documenting it. I like to develop a matrix that can be compared to the company being acquired. In the matrix, be sure to assess the values, decision making process, core competencies, and functional hierarchy of the company. Preparing the business also requires well written and up-to-date policies & procedures - this will come in handy when disseminating information to the new company. Furthermore, it is important to gauge the workloads and expertise of the company's existing team. Updating accounting and IT infrastructure may be necessary to handle additional transactions, along with consolidating disparate systems. A last crucial aspect of preparing your business is to ensure your external advisors – legal, tax, accounting, banks, insurance – have merger and acquisition experience.

Once the business is prepared, and due diligence is under way, it is vital to develop a narrative conveying the strategic value of this acquisition. Explain what makes this company a fit, such as entrepreneurial spirit or technical expertise. Define the uniqueness of the company being acquired and the admirable differences to be retained in the new company. Outline the synergy goals and provide insight as to why they are beneficial to all stakeholders. Ensuring everyone involved in the integration keeps the narrative at the top of their minds is an enormous key to success.

Next, the acquirer is expected to take the lead. It is imperative to have an integration plan. Start with Day 1 and First 100 Day integration task planning templates (many can be found with a quick Google search). Remember, due to workload or knowledge constraints, you may need to use experts to carry out some of the tasks. Be sure to only integrate what makes sense. For example, asking an acquired distributor to implement a manufacturer's costing system would provide little to no benefit. This is also the time to compare the cultural matrix developed earlier to the acquired company to determine how to address differences. Let's say a manufacturer has its policies well documented and prides itself on efficiently producing highly engineered products, while the distributor they are acquiring relies on tacit knowledge and focuses on customer relationship building. In that case, the acquiring manufacturer may want to have the distributor document its procedures but keep a customer focus rather than adopting a product centric culture. Assembling a cross functional integration team with members from both organizations, along with a team lead with strong project management skills is the final planning component. Many acquisition teams hire outside consultants to assess the target's culture with the compatibility of the acquiror. The adage that bad culture crushes good strategy is not lost on PE firms trying to add to their portfolio.

Be sure to give the team the tools they need to succeed and establish a prescribed escalation plan with a steering committee for decision making. Of course, a formal communication plan with a feedback loop to keep all stakeholders involved will help motivate and provide a comfort level.

When the deal closes, and the execution of the integration begins, all the effort put into preparing for this day will provide a solid platform to achieve company goals. However, not every situation will be anticipated. Unintended consequences both good and bad will arise. Remember to provide a framework for change. Most combined organizations will look different than expected. Adapting cultural components into the overall organization may prove valuable. Ceasing attempts to change certain cultural aspects of the legacy business may also prove advantageous. This is the true key to boosting acquisition synergies.

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