BEST PRACTICES IN INTEGRATING ACQUISITIONS

RESEARCH REVIEW
1 JULY 2016
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PROJECT SUMMARY

CLIENT REQUEST

Identify current best practices and trends in integrating corporate acquisitions.

SEARCH & DISCOVERY STRATEGY

Premium HBS resources used:

- ABI/ProQuest
  - Article search using the following search strategies:
    - (merger* or acquisition*) and integrat*
    - postmerger and integrat*
- Nexis
  - Article search using search strategy HLEAD((merger* or acquisition*) w/5 integrat*)
- Harvard Business Review
  - Article search using search strategy (merger* or acquisition*) and integrat*

Supplemental web resources used:
In 2014, the aggregate value of 40,000 announced mergers and acquisitions approached $3.5 trillion. Despite the huge stakes, M&A deals are not always successful. In a PwC survey, just 49% of companies reported “significant success in achieving financial goals.” Similarly, 30% of respondents to a Deloitte survey said that their integration “fell short of success.”

However, companies that successfully manage postmerger integration deliver a payoff of 6-12 percentage points higher total returns to shareholders.

In this context, what are the keys to success in this arena?

Most crucially, link the strategy, plan and objectives for integration to the initial deal rationale and goals. Clay Christensen and colleagues write, “Your approach to integration should be determined almost entirely by the type of acquisition you’ve made... Failing to understand where the value resides in what’s been bought, and therefore integrating incorrectly, has caused some of the biggest disasters in acquisitions history.”

Additional success factors include:

- Developing a plan that “optimizes the use of resources, budget, and timing”
- Enlisting strong executive support
- Communicating clearly and honestly with employees and other stakeholders
- Managing “the integration of organization culture with the same discipline and rigor as the operational and financial integration”

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3 Deloitte.
5 Doherty et al;
7 Deloitte.
8 BCG, “Twelve Imperatives.”
PLAN, PLAN, PLAN

START EARLY

Lay extensive groundwork before the deal is completed. “Companies have a critical window of time to get the most out of the merger or acquisition. Being ready at that juncture, at the close, provides a great platform for integration success.”9 The earlier in the deal process the planning starts, the better. In two integration surveys, the most successful integrations were those for which planning began before deal close – during or even before due diligence.10

Forming a clean team is one way to enable advance planning. Bound by confidentiality agreements, clean teams have access to data that would otherwise be off limits until after the deal closes. According to McKinsey, “a well-structured clean team almost always makes it possible to capture a merger’s value more quickly and can reduce the risk of failure.”11

Depending on timelines and budgets, one of three types of clean team could be useful:

<table>
<thead>
<tr>
<th>Clean Team</th>
<th>Timeline</th>
<th>Main Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library</td>
<td>1-2 months</td>
<td>• Gathering and harmonizing data</td>
</tr>
</tbody>
</table>
| Facilitator   | 6 weeks or more   | • Gathering and harmonizing data  
• Developing specific analyses, assumptions, and decision-making rules needed to determine how the expected synergies will be captured |
| Designer-plan | 2-6 months        | • Planning the integration of two companies  
• Reviewing business plans to identify key short-term issues to be resolved after the merger  
• Auditing the terms of suppliers and customers to identify the source and scale of opportunities or problems  
• Developing postmerger strategies in sensitive areas such as pricing and channels |

Source: McKinsey Smoothing Integration

SET CLEAR GOALS

Set explicit, quantifiable goals for cost, revenue and performance.12 Track progress and revisit targets regularly. “The best acquirers revisit value creation in a very formal way several times during the integration, both encouraging and resetting the expected synergy results to higher and higher levels.”13

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9 Deloitte.
10 Deloitte; PwC, “M&A Integration.”
Strategic and financial goals are easier to achieve than operational targets, which require a long term integration plan.\textsuperscript{14} PwC suggests having separate plans for the first day and the first 100 days postmerger, identifying the most urgent tasks before turning to more long term planning.\textsuperscript{15}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{integration_plan.png}
\caption{Source: PwC “Seven Fundamental Tenets of Successful Integration.”}
\end{figure}

**BE REALISTIC**

Plans and projections must be grounded in evidence. Consider the overall market and competitive landscape in addition to the merging entities; use available benchmarks.\textsuperscript{16} Increase estimates of costs and reduce estimates of synergies, especially revenue synergies, which are more difficult to capture than cost synergies.\textsuperscript{17} Increase estimates of integration-related costs as well; in one survey integration costs per deal averaged $50 million (over 10\% of average deal value).\textsuperscript{18}

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\textsuperscript{14} PwC, “M&A Integration.”
\textsuperscript{15} PwC, “Seven Tenets.”
\textsuperscript{17} McKinsey, “Where Mergers Go Wrong;” PwC, “M&A Integration.”
\textsuperscript{18} EY
PUT PEOPLE IN THE PLAN

LINE UP LEADERSHIP

“Insist on senior leadership that is active, committed, and highly visible.”
Looking at the integration management team, PwC emphasizes the importance of clearly defined responsibilities and reporting relationships.

LOCK UP KEY TALENT

Rosabeth Moss Kanter writes that “as the economy recovers, successful mergers will be those that have focused on integrating and motivating new talent.” However, postmerger organizations risk losing 25% of top-performing employees in the first 90 days, for reasons including poor communications, lack of engagement, and uncertainty about new roles. Identifying and engaging key talent early in the integration process is recommended.

COMMUNICATE

“Assume that it is better to have “too much” communication than too little.” Have a thorough communication plan, including a list of critical communications objectives and success metrics, and revisit these regularly.

TAKE A CLOSE LOOK AT CULTURE

Go beyond superficial indicators of culture to look closely at indicators like corporate values, how priorities are set and decisions are made, the types of individuals who are successful, and preferred approaches to control and change. This should happen at all stages of the deal process, and will likely continue well into the integration process. Kanter urges the postmerger company to embrace a collaborative, learning mindset to help unify two cultures.

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19 BCG, “Twelve Imperatives.”
20 PwC, “Seven Tenets.”
23 Ibid.
24 BCG, “Twelve Imperatives.”
25 Deloitte
28 Kanter.
MOVE QUICKLY, STAY THE COURSE

Speed of integration is absolutely crucial: “There is no value in delay. It is critical to focus on obtaining bottom-line results as quickly as possible to maximize shareholder value.” McKinsey cautions that “if synergies are not realized within the first year, they may fail to be realized at all.”

Speed is particularly critical in the following three areas:

- Aligning leadership within the first three months after close;
- Achieving stakeholder communication objectives in three months or less;
- Integrating operating policies in less than six months after close.

While moving quickly, companies must also commit to integration efforts over the long term. Companies often lose steam six months to one year after a merger, but surveys link long-term integration efforts to deal success. Particularly when integrating IT systems and people, expect a longer time horizon. Implementing a second wave or phased approach to integration allows more time to revisit ignored or unresolved issues.

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29 Deloitte; EY; Galpin et al; PwC, “M&A Integration.”
30 PwC, “Seven Tenets.”
32 PwC, “M&A Integration.”
33 Ibid.
34 Deloitte; EY.
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