Successful M&A Integration

GUIDELINES • APPROACH • ACTIONS

+1.214.912.8550
Contact@SGC-Partners.com
www.SGC-Partners.com

Executive Summary

Mergers and acquisitions which are well-conceived and properly executed can deliver greater value. As deal activity accelerates, some companies are improving. Although 10+ years ago about 50 percent of mergers in the US underperformed their industry index, recently, only about 30 percent were underperforming. One explanation is that some companies have learned to pursue deals closer to their core business, which increases the odds of success. More-frequent acquisitions have also motivated companies to develop repeatable models for successful integration. Despite these successes, many acquirers leave value on the table.

Companies continue to stumble in three broad areas of post-merger integration:

MISSED TARGETS:

Companies fail to clearly define the deal's primary sources of value and its key risks. They don't set clear priorities for integration, and the target company's people don't integrate themselves. Others do have an integration program office, but they don't get it up and running until the deal closes. Still, others mismanage the transition to line management when the integration is supposedly complete, or fail to embed the synergy targets in the business unit's budget. All these difficulties are likely to lead to missed targets or an inability to determine whether the objective are achieved.

LOSS OF ESSENTIAL PEOPLE:

Many companies wait too long to put new organizational structures and leadership in place; in the meantime, talented executives leave for "other opportunities." Companies also may fail to address cultural matters - the "soft" issues that often determine how people feel about a changing culture; talented people drift.

Executive Summary

POOR PERFORMANCE IN THE BASE BUSINESS:

In some cases, integration soaks up too much energy and attention or simply drags on too long, distracting managers from the core business. In others, uncoordinated actions or poorly managed integrations lead to active interference with the base business and may result in, for example, contradictory communications with customers. Competitors will take advantage of the confusion.

SUCCESSFUL INTEGRATION:

Successful integration is the key to avoiding the risks of a merger or acquisition and to realizing its potential value. And it is complicated by the simple fact that no two deals should be integrated in the same way, with the same priorities, or under the same timetable.

Ten Essential Guidelines can make integration more manageable and lead to the desired outcome:

1. A clear deal thesis – money and risks
2. Design the integration program to the deal
3. Quickly settle organization issues
4. Start integration planning before close and integration immediately after
5. Manage decisions
6. Handpick the leaders of the integration team – the “rising stars”
7. Commit to one culture and stick to it
8. Win hearts and minds – sell the deal internally
9. Maintain momentum of both companies
10. Invest in building a repeatable integration playbook

At SGC Partners, we are enthusiastic about the future of the Private Equity industry. We look forward to continuing to work alongside the industry and support its efforts to enhance the success of all stakeholders.

Successful Integration

Essential Guideline	Description
A clear deal thesis – money and risks	Shows where the money is made and where there are risks. It clarifies the five to ten most important sources of value and danger, and it points you in the direction of the actions you must take to be successful. It should be the focus of both the due diligence on the deal and the subsequent integration. It is the essential difference between a disciplined and an undisciplined acquirer.
Design the integration program to the deal	Scope or Scale? Scale deals are typically designed to achieve cost savings and will usually generate relatively rapid economic benefits. Scope deals are usually designed to produce additional revenue. The answer to the scale-or-scope question affects a host of subsequent decisions, including what you choose to integrate and what you will keep separate; what the organizational structure will be; which people you retain; and how you manage the cultural integration process.
Quickly settle organization issues	The sooner you select the new leaders, the quicker you can fill-in the levels below them, the faster you can fight the flight of talent and customers, and the faster you can get on with the integration. Delay only leads to endless corridor debate about who is going to stay or go and spending time responding to headhunter calls.
Start integration planning prior to close and integration immediately after	Ideally, the acquiring company should begin planning the integration process even before the deal is announced. Make as many of the major decisions as you can, so that you can move quickly once the close day arrives.
Manage decisions	The most efficient integrations employ a decision management structure; and integration leaders, by contrast, focus the steering group and task forces on the critical decisions that drive value.

SGC partners

Successful Integration

Essential Guideline	Description
Handpick the leaders of the integration team – the "rising stars"	An acquisition or merger needs a strong leader. He or she must have the authority to make triage decisions, coordinate task forces and set the pace. The individual chosen should be one of your rising stars. One solution is to put the No. 2 person in a country or function in charge of the integration task force. The chief can take over the No. 2's responsibilities for the duration.
Commit to one culture and stick to it	One of the biggest challenges of nearly every acquisition or merger is determining what to do about culture. Executives from the CEO on down then need to manage the culture actively. Commit to the one culture you want to see emerge from the integration, talk about it and put it into practice.
Win hearts and minds - sell the deal internally	"Sell" the deal internally, not just to shareholders and customers. Concentrate the message on what the deal will mean in the future for your people, not on the synergies it will produce for the organization.
Maintain momentum of both companies	The CEO must set the tone here. He or she should allocate the majority of time to the base business and maintain a focus on existing customers. Below the CEO, at least 90 percent of the organization should focus on existing business, and these people should have clear targets and incentives to keep those businesses humming. By having No. 2s running the integration, their bosses should be able to make sure the base business maintains momentum.
Invest in building a repeatable integration playbook	Once you have achieved integration, take the time to review the process. Evaluate how well it worked and what you would do differently next time. Document the playbook and the names of your integration experts, so that next time you will be able to do it better and faster, and you will be able to realize that much more value from a merger or acquisition.

SGC partners

Approach to Scale Deals vs. Scope Deals

	Scale Deals	**Scope Deals**
Degree of integration:	▪ **Integrate all activities comprehensively** ▪ **Coordinate the integration approach** across functions, businesses, and regions	▪ **Integrate selectively**, only where there is overlap ▪ Ensure business models align and cross-fertilize strengths
Organizational structure:	▪ **Blend structures**; assimilate where the target is small or under-performing ▪ Make decisions early, but **don't sacrifice more informed decisions for speed**	▪ Keep organizations **separate**; blend governance at points of intersection ▪ Define the role of the center and regional/functional superstructure ▪ Make decisions as **early as possible**
Executive selection:	▪ **Select a portion** of the target's executives; select more where the target is larger or better performing ▪ **Make decisions early**, ideally before announcement	▪ Retain a **high proportion** of the target's executives ▪ **Make decisions at announcement** ▪ Make retention a priority and **offer retention incentives**
Employee retention:	▪ Target talent **critical to the transition and integration activities**	▪ Target talent critical to **success of the company**
Cultural integration:	▪ **Integrate the two cultures** when both companies are similar in size, ideally by selecting the "best of both" or grafting best practices of the acquired company ▪ Win the hearts and minds of **both companies'** employees	▪ **Maintain the two cultures if necessary** to preserve acquired business model and team ▪ **Harmonize culture at a leadership level** (clarify "way of working" and decision making)

Recommended Actions

1. ***Provide a strategy continuity*** from due diligence through post-acquisition integration, operation, and divestiture
2. ***Focus senior management*** and integration taskforces quickly on the critical decisions
3. ***Clearly, articulate*** the financial and non-financial results you expect, and by when
4. ***Carefully coordinate the timing of decisions***, and everyone needs to understand the impact their actions have on others
5. ***Map out who is responsible for each decision*** and communicate that to all involved
6. ***Focus on decisions***, not on process for process's sake
7. ***Align leadership*** and change errant behaviors

Regardless of where you are in the process the time to start integration is <u>now</u>!