

M & A Integration Advisor

Strategy Partners

Integration begins with Due Diligence

When one thinks about M&A due-diligence, it conjures up images of public accounting firms and lawyers pouring over target company financials, operational asset lists, customer profiles, and legal searches for fraudulent practices and misrepresentations.

It should be noted that the most common reasons for acquisition failure are in the "softer" more non-traditional areas such as "people" issues and issues related to organizational culture. Skillful acquirers conduct due-diligence analyses of these issues with at least the same amount of effort that they give to due-diligence in the more traditional areas. The information yielded by broader, more integration-oriented due-diligence inquiries is highly strategic and valuable to the long term success of the new entity.

"If either party perceives that there is nothing to be learned from the other, you will have a problem."

It is important to view the due-diligence process as an iterative one, like peeling an onion, it must be done and redone at deeper levels of detail as the deal progresses from initial contact to full integration.

Below are examples of "soft" areas that must be assessed in due diligence before an objective determination can be made of how (or even if) to integrate the two entities:

Level of Integration. You have three choices of integration levels (full, moderate, or minimal). Given the amount of cost savings/synergies that are forecasted to be captured, determine the level of integration that is needed in each area/department. In due-diligence, determine how difficult it will be to accomplish each level of integration given the culture, personalities, processes, etc. If the risks are unexpectedly high, then the synergy assumptions that were made to calculate the purchase price will need to be modified; or more resources allocated to assuring that the department is successfully integrated.

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M&A experience and depth. M&As will quickly consume key managers time and attention just at the time when their normal jobs need an important focus (i.e. to protect against customer defections). Take stock of how many people from both organizations

A Successful Integration Plan Requires (in ranked order):

- Retention of Key Talent
- Honest Communication
- Integration of Cultures
- Management of Resistance

Upcoming In Future Issues:

- Integration Coaching Points
- Structure and Staffing Decisions
- Integration Monitoring Systems
- Key Questions for Process Re-design
- Key Integration Components: Essentials for effective Integration.

About Strategy Partners

Strategy Partners is a merger and acquisition consulting firm specializing in integration planning and implementation. Successful integration planning needs to begin as early as the Due Diligence phase. Working with your management team, we develop detailed implementation action plans. Our involvement during the implementation phase is tailored to the client's needs. We con-

duct monthly follow-up meetings with the implementation team to monitor progress and make mid-course corrections. We also specialize as the "integration manager", executing a majority of the implementation action items. For more information, please contact us at 612-860-6984 or don@strategypartners.biz





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Merger & Acquisition Integration Planning and Implementation

Integration begins with Due Diligence(continued)

have the M&A skill set (who know the drill and have done it before). Is there a track record of successful integrations? Who is available to be assigned the job of Integration Manager. Consider these issues during due-diligence to decide if outside (consultant) assistance will be needed.

Governance, Power, and Authority. Who's policies will survive, under what organizational structure? What decision making rules and autonomy will exist? If you are accustomed to moving quickly and decisively and the acquired firm is not, every decision will be a challenge. One of the most frustrating things for many employees and managers is that they won't know who is really in control and how things really work. During due-diligence, seek to uncover the questions that employees and managers have. As soon as possible after closing let them know the guidelines for decision making, what decisions senior management want to make, and what decisions are to be delegated. With that knowledge, the business units will be able to function successfully as the integration plan is rolled out.

Strategic Fit and Portfolio Positioning. Don't forget that a high growth division and a cash cow need to be integrated differently. Are the synergies of the two organization's core-capabilities and market-opportunities going to be able to be captured effectively? Are the assumptions about sales channels and customer's behavior valid? Discovering these issues early and developing distinct integration plans for each is critical.

Predeal Positioning. Deals that are cut before the acquisition closes almost always cause problems down the road. Departing owners promise things like salary increases, profit-sharing payments, vacation accrual, etc. These need to be uncovered in due-diligence to factor them into the purchase price and to avoid making a "morale-busting" post-closing employee announcement.

Competition. Intense rivalries will continue long after the

combination has taken place. For the employees in the acquired company, it will seem like they have been conquered by a foe. If the two companies have had extensive trade interactions before a deal, they will have to contend with complex historical and interpersonal issues (i.e., inter-company supply agreements, former employees that are at the other company now, etc.) These situations create very difficult cultural and HR integration issues and must be identified early.

Workload. With M&As everything usually happens at once (board meetings, budgets, performance reviews, customer needs). Burnout can kill an integration process. Pacing is essential. It is critical to identify these schedule overloads and prepare people for the rigor of the integration process. During due-diligence, give them some idea of the schedule and pace of the integration plan.

Management Incompatibility. If particular individuals don't get along, their feelings will influence the deal and the perceptions of others involved in the integration process. Look for the incompatibility and intervene soon after closing to keep these situations from derailing the integration process.

Arrogance. If either party perceives that there is nothing to be learned from the other, you will have a problem. Emphasize the importance of learning and transferring knowledge to make the integration a success.

In conclusion, the above is by no means a comprehensive due-diligence list. Too often due-diligence is viewed as a go/no-go exercise or a search to find areas that justify a re-negotiation of the purchase price. The areas discussed above, however, do highlight the critical value of performing due-diligence to find critical issues to be addressed in the integration plan!