M&A: Will integration be the reason your acquisition fails to deliver?

Insights from Stanton Blackwell
Thought-provoking analysis for transformational leaders

Over 50% of acquisitions fail to achieve the strategic objectives of the transaction

70% of those failures are a result of a flawed approach to entity integration

At a Glance:

- A methodical integration approach increases the likelihood of achieving the strategic objectives of M&A transactions.
- Consensus on a Target Operating Model early in the integration leads to a mature, scalable business platform that readily digests future acquisitions.
- A disciplined, phased execution timeline ensures integration completion.
- Value realization in an acquisition is delivered by a well-defined process for synergy capture.
- Effective change management honors the informational needs of customers, employees, and suppliers throughout the integration.

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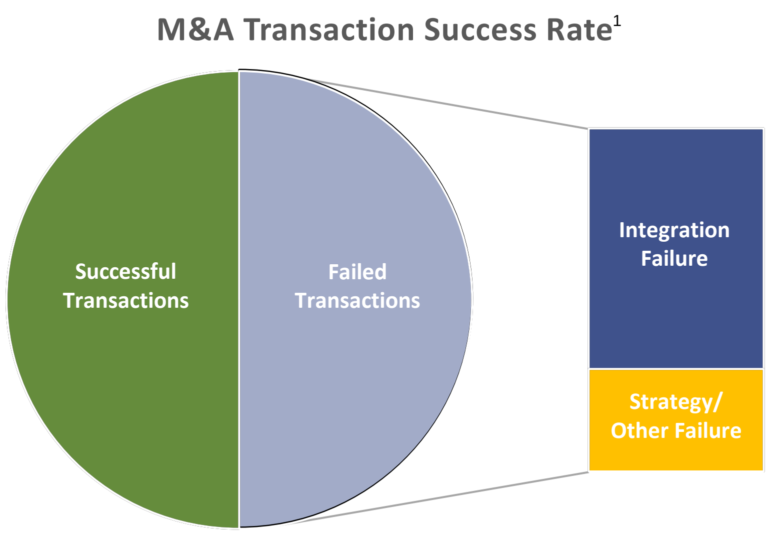
The High Failure Rate of Business Acquisitions

Business acquisitions in the middle market are a tempting accelerator for value creation. Even with the high risk of failure, many business owners pursue a merger and acquisition (M&A) strategy that, in a mid-sized organization, can be catastrophic. Multiple estimates put the M&A failure rate at 50%, some as high as 90%. A CEO contemplating such a large strategic bet should certainly ask, *"How can I mitigate the risk of transaction failure?"*



Failure to capture transaction value is rarely due to a flawed strategic assumption. It is most likely a failure to convert the strategy to implementation during the integration process.

Consistently, acquisition teams prioritize strategic fit over operational fit.

This makes integration effectiveness more difficult and at the same time, more important.

Successful integration in the middle market is even more critical due to the operational nature of acquisitions. While large companies often enter a transaction to exploit existing industry scale, middle market companies are trying to build the operating platform necessary to simply operate at scale. This is typically articulated as a rollup strategy. Middle market companies also pursue M&A activity to rapidly and cost-effectively expand skills, technology, and geography or to add new products that stimulate cross-selling to customers.

In short, all acquisition strategies rely on the creation or existence of a lean, scalable operating platform.

Strategically, growth through acquisition sounds easy - rapidly execute acquisitions and rationalize operations into a single, efficient business platform. In practice, many middle market businesses that pursue an M&A strategy find out quickly that the devil is in the details of integration. A disciplined approach to business integrations will increase the likelihood that the anticipated value of a transaction is realized. This paper highlights the key elements of a results-oriented integration approach.

The Stanton Blackwell Framework for Acquisition Integration

While many experts in the business integration space focus on the conceptual risks, this framework focuses on the practical. For example, cultural integration will, of course, be difficult. But addressing cultural issues is next to impossible if an organization operates with two CRMs and two compensation systems and has achieved no synergy savings or customer cross-sell. Baseline synergy execution and realization are the table stakes that make higher-order integration issues, like culture, easier.

All acquisitions are different. A merger of equals has unique challenges compared to a product bolt-on. Still, the objective remains the same: a practical integration approach that while flexible, has consistently demonstrated results. The methodology encompasses best practices and techniques developed through proven experience merging systems, operations, financials, and people – and ultimately realizes synergies and achieves strategic objectives. There are five practical and controllable elements, translated to actions, that lead to success.

Target State Operating Model
A documented vision of the scalable platform for efficient growth

Timeline
A rigorous yet achievable approach for progress and completion

Team
A commitment to assign the best of the best

Synergy Realization
A disciplined approach to achieve the intended results

Change Management
Thoughtful implementation focused on talent engagement

Integration Team

Ever heard the saying, "If you want something done, ask a busy person?" That is never truer than in acquisition integrations. Team members from both organizations must be viewed as leaders of their respective functions and have a command of the details. They must be natural collaborators. And most importantly, they need to have a reputation for execution and excellence. This is not the B Team.

The integration team is accountable to:

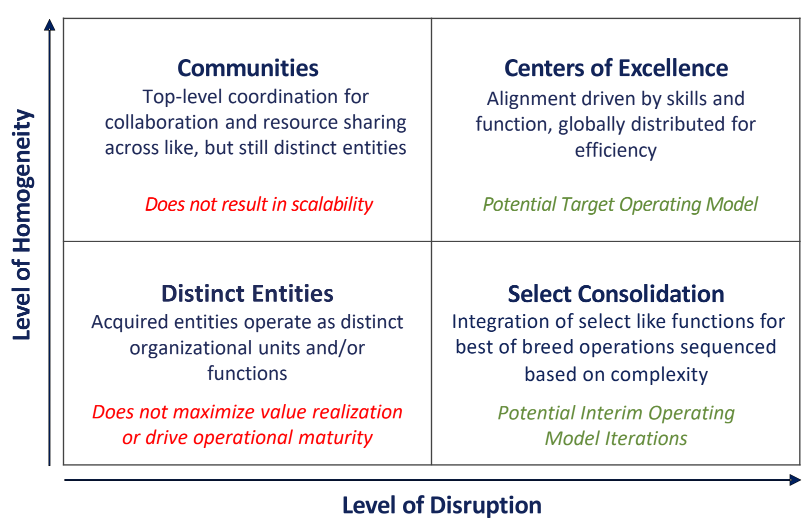
- Define the degree of integration across functions/geographies and the Target Operating Model
- Sponsor, lead, and execute integration activities
- Follow a disciplined methodology for status reporting and issue escalation
- Make timely decisions
- Own synergy realization

In addition to these integration Functional Workstream Leads, there is an Integration Leader who is the single point of contact for the integration. An Assistant Integration Leader is the lead and knowledge base for the newly acquired entity. Governance and project management come from an Integration Management Office. And finally, accountability resides at the top of both organizations. A Steering Committee has ultimate accountability for success and consists of executive-level leaders from both entities.

Target Operating Model (TOM)

Building consensus on a Target Operating Model early in the M&A strategy execution lays the groundwork for a mature, scalable platform that readily digests future acquisitions.

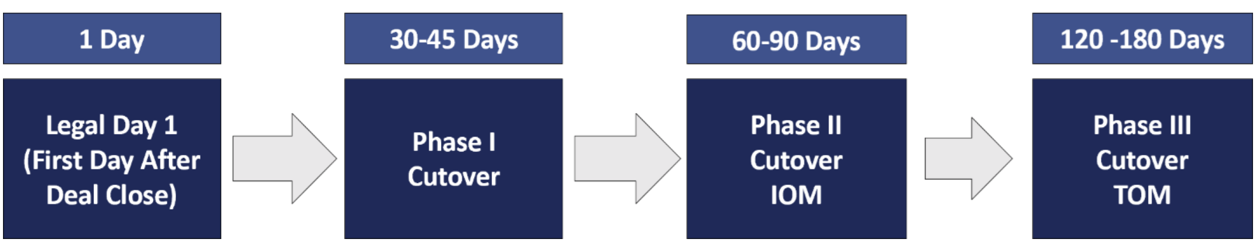
The integration team and functional leaders work together to determine the post-M&A integration TOM. For example, will the function need to rationalize to a single center of excellence to achieve scale? It is much easier to commit to difficult but necessary decisions well before a transaction is closed or has momentum.



When designing the transition to the TOM, the appetite for change, the pace of disruption introduced to the organization, and the cultural acceptance of the contemplated work environment should be considered. Full achievement of a TOM frequently requires a temporary transition phase or an Interim Operating Model (IOM). The objective is to manage disruption, leveraging IOMs where necessary, while pursuing a scalable operating platform. As maturity is reached, future integrations become simpler, faster, and lower risk. Business operations become easily scalable allowing an increased focus on the quick integration of products, customers, and employees.

Timeline

Too often, an acquisition integration takes years to complete, or it never gets done at all. *There is a limited amount of time when integrating a new acquisition is the top business priority.* The willingness to change has an expiration too, typically around the six-month point. As time passes, people begin to protect the status quo. After months of stagnation, synergies become less impactful or may not happen at all. Starting the integration planning with a phased execution timeline and hard cutover dates sets expectations and forces a conversation on resources. Once the TOM has been defined, rip the Band-Aid off and make it happen.



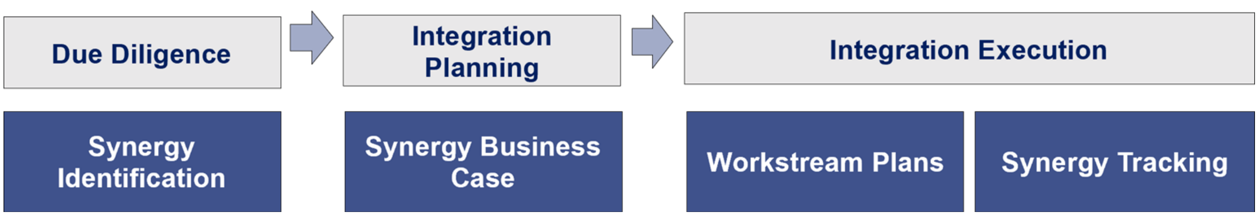
Early phase changes demonstrate progress but are a lighter touch. They are communication-heavy and focus on simply operating as one unified entity, especially with customers. The heavy lifting comes in later phases when the core operational processes are transitioned toward the Target Operating Model.

A cutover is the day that new processes and systems go live and the old are retired. Committing to a hard date on the calendar for each cutover forces focus, resource planning, and thoughtful change management. Each function has a detailed work plan that feeds a cross-functional dependency map for sequencing and prioritization.

Setting a firm calendar is how the Steering Committee makes or breaks an integration. Commitment to making tough decisions, allocating adequate resources, and big-picture thinking keep the integration moving forward.

Synergy Realization

Value realization in an acquisition is delivered by a well-defined discipline for synergy capture. During due diligence, synergies for revenues, costs, and working capital should be included in a "newco" financial model. These synergies are assumption-based due to limited information. Once the integration kicks off, accountability for each modeled synergy should be established. With the availability of key information, a Synergy Business Case can be created for each. The Synergy Business Case quantifies and documents what needs to happen when, what assumptions were made, how measurement will occur, and potential barriers and risks. With the completion of synergy planning, the operational impact of the acquisition can be included in the consolidated entity's budget and compensation goals. This creates firm accountability and executive ownership.



Change Management

The process for managing change during a business integration is not unique. But the stakes are higher, and the amount of change is extraordinary. Throughout an integration, the focus on "what's in it for me" never ends. Leaders need to anticipate the informational needs and potential sticking points for customers, employees, suppliers, and maybe even the public.

The first best practice for change management is communication, communication, communication. The absence of information encourages rumors. Don't let a competitor see your M&A activity as an opportunity to poach your customers, suppliers, or employees. Provide all stakeholders with the deal rationale and highlight why it is good news for them and what to expect. And if an acquisition isn't good news for an employee or supplier, be honest and provide an incentive to remain engaged. If information is timely and clear and an employee's value is recognized and rewarded, even a job elimination can be amicable. And finally, stakeholder communication for integrations is not one-and-done. *If it feels like you are over-communicating, you probably have it right.*

The remaining best practices focus on resistance to change and organizational exhaustion. An acquisition integration, executed well, is a massive project layered onto an already busy organization. Seemingly simple things, like change management analysis and preparation, tend to get lost in the shuffle. Selecting a model for change management (e.g., Kotter, ADKAR) is less important than consistency and provides a proven, disciplined approach to problem-solving. Change management typically starts strong and feels like common sense. As the rubber hits the road, follow-through becomes more difficult. And once the resistance to the change starts, it is very difficult to extinguish. Consistency and an IOM that takes this part of the process seriously is critical.

Conclusion

A common strategy for middle market company growth is merger and acquisition activity. But acquisitions come with significant risk, particularly in the business integration phase, and many transactions fail to deliver the intended results. A practical, disciplined approach to acquisition integration can minimize the risks of an M&A strategy. Executed well, acquisition integration creates a scalable operating platform for future growth and ensures the realization of synergies assumed during transaction negotiations.

1 According to KMPG Research, more than two-thirds of North American M&A deals fail to deliver value to the acquirer and 70% of value erosion is found to occur during the final integration phase. https://assets.kpmg.com/content/dam/kpmg/ca/pdf/2016/08/ca-insights-into-mining-post-merger-integration.pdf

At Stanton Blackwell, we leverage the experience of our team of seasoned professionals. Our leaders have decades of experience and have led large, complex acquisition integrations and transformations, while also demonstrating deep expertise in critical business support functions – finance, technology, human resources, and project management. Our team of leaders has devised an acquisition integration approach relying on proven best practices with a strong focus on two things: completion and synergy realization. In other words, measurable success.

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