

Outline

Successful Integration

- I. Mergers and Acquisitions
 - A. Failures of mergers and acquisitions are not uncommon for two key reasons
 - 1. Integration plans have not been started soon enough
 - 2. Integration plans have not been properly connected to other key phases of the m&a process.
 - B. It is essential for the acquiring company to focus on integration in the earliest stages of the project and then coordinate essential integrative elements as the m&a process moves through its four typical phases:
 - 1. Strategy planning
 - 2. Candidate screening
 - 3. Transaction execution
 - 4. Integration

- II. Phase One: M&A Strategy
 - A. After identifying ways to build business value, the members of the strategy and acquisitions team will develop an m&a strategy plan for selecting candidates that provide identifiable synergies.
 - B. The operations and integration team will later use these synergies to identify specific key integration activities in four areas: asset acquisition, asset divestiture, organizational restructuring, and capacity changes.
 - C. Early creation of a draft operations and integration plan before the acquisition provides two benefits that strengthen candidate selection and support rapid executive approval.
 - 1. Integration draft identifies *integration-enabling characteristics* required of the candidate.
 - 2. The draft can identify obstacles to the deal in the early stages of the project.
 - a. A “*showstopper*” issue that could halt the process.
 - b. A situation in which *effective adjustment processes* can be determined to correct a problem before executing the integration plan in Phase Four.
 - D. Phase One planning can lead to success or failure in m&a projects.
 - 1. An example of successful early planning and excellent execution in all four m&a phases was at a company whose m&a strategy identified an opportunity to replace its systems network architecture (SNA) with transmission control protocol/internet protocol (TCP/IP).
 - a. The company created a detailed operations and integration plan in advance which allowed rapid and successful implementation.
 - b. Within two years of product launch incorporating the new technology, the company’s SNA-replacement product line was achieving an annual revenue stream of more than \$1 billion.
 - 2. By contrast, weak Phase One planning in another company led it to spend several billion dollars on unsuccessful acquisitions of technology products.
 - a. The operations and integration plan was not developed in either Phase One or Two and the company did not identify the conflict between the existing acquirer’s sales plan (selling small quantities of large, expensive products) and the new product line (selling larger quantities of smaller dollar-value products).

- b. Early planning would have highlighted the challenge in getting the sales force to handle both marketing approaches and identified a critical issue for action during the integration phase.

III. Phase Two: Candidate Screening

- A. The strategy and analysis team uses the strategic plan describing the synergies and integration-enabling characteristics to identify candidates for acquisition.
- B. The operations and integration team needs to immediately address situations in which the candidate lacks the ability to support a synergy or the planned approach for integration is not feasible.
- C. It is essential that the operations people have the power to influence the strategists' acquisition decision when there is a poor operational fit.
- D. As the screening proceeds, the operations team is completing its operating draft plan by covering the following areas:
 - 1. Best practices
 - a. Documentation of best practices for areas critical to combining the two companies is essential.
 - b. By identifying the practices in advance and planning for changes, the operating people can minimize employee confusion.
 - 2. Synergy Discovery: Special synergies represent business value from acquisition of a particular candidate.
 - 3. Motivation by Incentives
 - a. Incentive bonus plans are formulated for most of the employees affected by the acquisition with an emphasis on motivating the employees to complete a successful integration.
 - b. Incentives combined with effective communication encourage employees to see the acquisition as a personal opportunity and to accept the dislocations of organizational change as well as the increased work of the acquisition.
 - c. It is critical to include the incentive package in the operation and integration cost analysis section of the m&a project and to secure executive approval.
 - 4. Staged Integration: Short-term versus longer-term integration activities represent an important distinction in developing schedules.
 - 5. Communications
 - a. Continuous communications are the lifeline of a successful integration.
 - b. The operations team must use a variety of communication mechanisms to distribute information internally as well as to customers, vendors, partners, and stock market analysts.
 - 6. Training: Employees and outside parties must be trained about the effects of the acquisition, new products, pricing strategy, ordering, support, etc.
 - 7. Acquisition Announcements
 - a. Preparation of the acquisition announcement is a combined effort between the strategy and operations team.
 - b. The announcement, usually from the CEO, must convince audiences that the deal is a major positive step for the company, but at the same time, assess the integration challenges and organizational restructuring that will occur.

- E. At a company where there was no operations team to assist the strategy team with candidate screening and integration, the m&a resulted in failure.
 - 1. The acquired company's output actually duplicated a product that a division of the buyer was within two weeks of delivering and these internally developed products were already integrated into the product pipeline.
 - 2. The acquisition was unnecessary, creating unnecessary conflict and depressed morale at both companies. This could have been avoided if an operations and integration unit had been in place to implement Phase Two successfully.

- IV. Phase Three: Due Diligence and Transaction Execution
 - A. Thorough due diligence followed by rapid transaction execution must be accomplished for potential synergies to be achieved.
 - B. Phase Three is a period of intense activity, with legal constraints on who talks to whom and on what schedule, and proper time phasing is essential as integration proceeds.
 - C. Members of the operations team, with outside specialists, perform properly coordinated diligence work in a specific sequence to identify showstopper issues, but at the same time limit interaction between acquirer and target personnel to minimize legal risk in case the transaction is not completed.
 - D. The operations team should prioritize key integration activities with relationship issues near the top.
 - 1. Key Personnel
 - a. Emphasis should be given to singling out the target personnel most needed for successful operations and integration and determining how to keep them committed.
 - b. This requires a detailed examination of each person's work record and new role in the combined company.
 - 2. Commitment
 - a. The buyer's employees take on additional integration tasks after the closing, including the guidance and training of target employees.
 - b. It is important for the incumbent personnel to understand the value of the combined company and the relevant portions of the operations and integration plan so that they will convey a positive message of teamwork to their new co-workers.
 - 3. Customer Relationship: Assure that the integration and newly devised operations plans supports the key customer relationships and honors outstanding mutual commitments.
 - 4. Key Alliances: The operations and integration plan should recognize key alliances and business partners, who may be impacted by acquisitions, and provide appropriate transitions for the partners to the combined company's business model.
 - 5. Market Analysts Relationships
 - a. Industry analysts frequently stop covering the target's products after an acquisition.
 - b. Loss of market visibility can be deadly to market-related synergies, so the integration plan must pay attention to maintaining or replacing analyst relationships.
 - E. The operations and integration team's key contribution is to assemble the results of the study and guide specialists toward solutions that contribute to the success of the plan.

- F. The operations and integration people can use the diligence phase to augment the basic plan with a complete assessment of associated costs and incentive programs.
 - 1. This gives the acquiring company's executive management a complete handle on all the synergy values identified in the deal at the outset.
 - 2. The transaction that top management approves can reflect expected increases in business value from the acquisition synergies, net of operations and integration costs and required incentives and bonuses.
- G. Execution of Phase Three is essential to the successful completion of the integration process.
 - 1. A unique logistical problem that could have jeopardized the value of a deal shows the importance of early intervention by an operations team.
 - a. The target had an engineering group at a remote location and it was important to secure the intellectual property represented by those engineers and complete their current project—before they were relocated to the combined firm's main engineering location.
 - b. The operations team, with the HR, arranged to pay a project completion incentive (essentially double time for eight months) to the engineers, and the project was successfully completed on schedule without significant personnel losses.
 - c. Otherwise, the relocation would have caused the engineering group to leave before completing the work.
 - 2. Sometimes the target is allowed to continue operating as an independent subsidiary of the parent. In one case, the acquirer did not develop an integration plan that properly tied the acquisition synergies to key integration activities.
 - a. There were two major problems with this approach that should have been resolved during the diligence phase, which would likely have aborted the transaction if it had been found early.
 - i. There was no provision for the new subsidiary to develop products or technology that contributed to increasing sales of the parent's products.
 - ii. Market analyst communications to maintain the market presence of the subsidiary's products were overlooked.
 - b. The acquisition was a failure. The buyer was not able to achieve increased value in the combined business, either through increased product revenue at the parent or sales at the subsidiary (the subsidiary's product sales actually declined).

V. Phase Four: Integration

- A. After closing, the operations and integration (O&I) team is primarily responsible for the successful integration of the acquisition.
- B. The team that developed the plan should have significant responsibility for the management of the plan.
 - 1. Communications
 - a. At this time, the rationale for the acquisition, its synergies, and the integration plan are well understood only by the executives and the small m&a group.
 - b. There will be fears and rumors throughout both companies, and communications are critical.

- c. The first job of the communications program is to clarify purpose of the deal, confirm planned organizational changes, and show how and when they will occur.
 - d. Also, executives should communicate the specific assignments in the integration plan and the incentives for success, encouraging employees to support the effort and see personal opportunity.
 - 2. Schedule and Change Management
 - a. Timely task delegation is needed to support the integration schedule because one of the most difficult parts of integration is to manage organizational change.
 - b. Any confusion and issues created by change should be resolved quickly by the integration team through clarification of plans or fine-tuning of the organizational shifts.
 - c. Managing the schedule must include celebrating integration milestones as they are achieved to maintain momentum and prop employee morale.
- C. A company noted earlier—the acquisition of a TCP/IP networking systems producer by the firm that dominated the proprietary SNA market—was able to perform a challenging integration successfully.
 - 1. A competitor’s SNA networking division was committed to its proprietary approach and as a result suffered declining revenue and reduced market share.
 - 2. The company acquired the ailing SNA division for \$2 billion and became its competitor’s *networking partner*.
 - 3. The integration of the newest SNA division posed a difficult integration challenge because of prior competition
 - a. The acquirer, however, was able to use the integration plan that proved successful the first time for a second run.
 - b. It showed the acquired employees that the SNA product would still command a significant legitimate market and that the combined technology of the two operations produced an exciting new opportunity.
 - c. The integration was successful and the combined company came to dominate three key markets. The alliance resulted in billions of dollars in increased revenues for both companies.

VI. Review, Evaluation, and Renewal

After the acquisition is completed, the buyer’s management should review and evaluate the deal to determine task accountability and learn how to improve the m&a process for the next successful acquisition.

VII. Summary

This paper documents the need to interweave the integration process with the preacquisition work. This critical process has not been well documented in writing. Acquirers often give lip service to the idea, but they do not actually carry out these necessary interactive procedures in practice. Our failure examples demonstrate this in shocking fashion. Our success stories document the substantial benefits of linking preacquisition analysis to subsequent integration processes.