# Acquisition Integration: How to Do It Successfully

by David Sadtler

## Executive Summary

- Successful integration of an acquisition by the acquiring company is often the most important determinant of the overall success of the acquisition process.
- Gaining financial control of the acquired company and tight cash management are essential from the start.
- Integrating management processes and systems can be difficult and time-consuming, but it is essential if the newly acquired management team is to be involved and empowered.
- Use all available sources of information to make key management appointments as quickly as possible.
- Ensure that the key drivers of value creation are known to all involved in the project, and that the process of searching, negotiating, and integrating reflects the most important of them.
- Move as quickly as possible when integrating.

## Introduction

Acquisitions of any size are a major undertaking for both the acquirer and the target. Substantial returns—in particular returns in excess of the cost of capital employed in the entire initiative—are required not only to create stockholder value, but also to justify the enormous investment of managerial time and effort that goes into a takeover. Many acquisitions succeed. Indeed, many corporate acquirers do a large number of deals and become really good at it. Making money through acquisition, for them, is a key skill to be nourished and developed. But, as repeated studies have demonstrated all too well, many acquisitions—according to some, the vast majority—fail to justify the investment involved.

The success or otherwise of acquisitions is a much studied field, and we can therefore readily identify the principle causes of failure and disappointment.[1] Among them are the payment of excessive prices, missing problems during the due diligence phase, and even the use of faulty financial logic. But perhaps the biggest contributor to the failure of acquisitions is inadequate attention to the process of integrating the newly acquired business.

## Major Causes of Failure

- Paying too much—especially likely in an auction.
- Targeting the wrong company because the value creation logic is inadequate.
- Power struggles among top management and disagreement about who is to be the boss.
- Cultural obstacles, especially in cross-border deals.
- Incompatibility of IT systems.
- Applying obsolete strategic rationales such as sector diversification, vertical integration, financial synergy, and gap-filling.
- Resistance by regulatory authorities and pressure groups.
- Use of faulty financial logic—i.e. getting the numbers wrong.
- Sloppy due diligence.
- Poorly planned and executed acquisition integration.

Successful integration requires that four tasks be done well. The more attention and skill that is marshaled for this purpose, the better the result is likely to be. The four tasks are: assuming financial control, integrating processes and systems, making key managerial appointments, and ensuring that the value creation logic for the acquisition drives the whole process. Inattention to any of them can cause big trouble.

## The Four Key Tasks of Successful Integration

### 1. Assume financial control

Serious acquirers know that it is essential to assume immediate control over financial performance and cash management. In some cases, the target may have been left vulnerable to acquisition by poor financial management. Such businesses will need special attention in this area.

This phase involves steps such as installing corporate financial reporting procedures and clarifying expenditure-level authority. In some cases it may also involve more frequent reporting of critical cash flow components, until the required systems are bedded in and the management team of the acquired business becomes familiar with what is expected of it. For example, weekly sales figures may temporarily require early scrutiny to ensure that commercial performance has not deteriorated owing to the demands of the acquisition experience. This phase lends itself to detailed checklists and procedures, constructed with expert help and developed and honed through corporate experience.

### 2. Integrate processes and systems

If the newly acquired business is to play its part in the larger organization, its principal managerial processes—business planning, budgeting, capital expenditure approval, and human resource management—must be integrated with those of the acquirer, so that the target can begin to function as part of the larger whole as quickly as possible. The sooner operational managers can become familiar and comfortable with the new process requirements, the better able they will be to concentrate their efforts on securing competitive advantage and on realizing the benefits expected from the combination of the two organizations.

A major and sometimes seemingly overwhelming aspect of this phase of integration is that of bringing together IT systems. In recent years the IT structures of large organizations have become more all-embracing and, in the case of so-called enterprise systems, may even constitute the digital backbone of the entire business. In such circumstances the criticality of ensuring that the target's systems are quickly and effectively integrated with those of the acquirer is obvious. But sometimes the process is simply too difficult. A number of mergers and acquisitions in the so-called bancassurance sector have floundered because of IT integration problems. The prime rationale for such mergers is usually that of cross-selling—selling the products of the acquirer to the customers of the acquired company and vice versa. This is a difficult goal to achieve at the best of times, and one that is critically dependent on the effective interfacing of the merging organizations' IT systems. When this does not happen, the merger is bound to be a financial disappointment.

### 3. Make key appointments

The aim here is to do the best possible job in the shortest possible time by putting the right people in charge of the newly acquired business and moving aside those who have not made the cut. Some will say it is not possible for corporate overseers to know which managers are best for the key jobs until they have been observed in action for some time. The existing management team—the same people who perhaps failed to perform well enough to keep their business independent—may thus be left in place.

Typically, the most demanding step in this phase is the decision about who is to run the new business. Who is to be the boss? All possible sources of information about prospective candidates must be pressed into service. Managers who have experienced prior dealings with the candidate should be interviewed, the directors of the acquired business surveyed, and even individual performance reviews scrutinized. Getting this right is perhaps the most important task of all. If the right candidate is appointed, delays and failures in other areas are more likely to be remedied to everyone's satisfaction. But the wrong appointment can result in long-lasting problems and disappointment.

The object must be to find the right trade-off between speed and the effectiveness of the managerial appointment process. This may mean acting with less certainty, as opposed to delaying the decision until everyone is completely satisfied with the selection.

### 4. Ensure the primacy of value creation

Most of all, acquirers must be crystal clear about the value creation rationale for the acquisition, and they must ensure that this thinking drives the entire acquisition process, including that of integration. All involved in the acquisition—analysts, negotiators, professional advisers, the top management of the acquiring company, and those who will be responsible for integration—must be clear about how the acquisition is to make money for the stockholders of the acquirer, and must be constantly reminded of this throughout the process.

The value creation rationale is first proposed, clarified, agreed, and approved when acquisition criteria are developed and target candidates are identified. The thinking behind how the combination with the prospective target is to enhance competitive advantage and thus generate superior returns must be clear. That rationale should drive the contract-negotiating process and the due diligence work which backs it up, so that the important drivers of value creation continue to be reflected along the way.

Finally, the small number (perhaps only two or three) of initiatives that will create the value must be given the highest priority when it comes to integrating the new business. The sooner these initiatives are successfully completed, the greater the payoff, owing to the greater present value of the cash flows achieved.

## Making It Happen

- Design the entire acquisition process to focus on the key drivers of value creation, and ensure that the integration process deals with each as a high priority.
- Prepare a complete plan to action the four key areas—financial control, the introduction of new processes and systems, key appointments, and the pursuit of value creation—as soon as ownership changes hands.
- Develop a cadre of specialists to speed the acquisition process so that operational managers can focus on the business itself.
- Don’t delay. Move fast.

## Other Factors That Contribute to Success

Finally, a comment about speed. There is widespread agreement among serial acquirers that moving as quickly as possible is best. It may be tempting to keep the pressure off the acquired organization, at least temporarily, because they have been through a demanding and possibly anxious time. But momentum can be lost, benefits delayed, and the acquired management team even led to believe that the acquirers are less than serious about achieving the projected financial benefit. Speed is best.

One major UK retailer got this one wrong. To its credit, it was quite clear about its value creation rationale for the acquisition, which was that of implementing its proven EPOS (electronic point of sale) systems in the acquired company. It saw from its observation of the company—and confirmed this during the diligence process—that introducing its technology would impart major operational benefit to the target company. Inventories would be reduced, stockouts would decline, and overall customer satisfaction would increase. But it delayed implementation, reasoning that steps to integrate the target into its organization and enabling the new employees to become comfortable in their new surroundings were necessary for good morale. Sensing a lack of commitment to change, the acquired company’s supply chain and IT specialists took the initiative to bolster their systems and make it hard for any subsequent changeover—along with the potential for staff reductions in the process. Operational integration was delayed for over a year and the financial benefits suffered accordingly. The corporate development director, who had been the project manager for the acquisition, commented that this was the biggest mistake in the entire process and that it would never happen again.

In larger organizations, and especially those that regard acquisitions as a key source of future growth and competitive advantage, specialists are often developed to perform the tasks of integration. Dedicated teams can reduce the possibility of delays of the kind described above. Smaller companies, and those with less experience, may not have the luxury of maintaining a dedicated staff, but if deals become a way of life, it is probably advisable that a specialized group be formed to capture the company’s experience and institutionalize emerging best practice.

## Conclusion

Integration is a tough and demanding job, but one that frequently spells the difference between success and failure in an acquisition. The task must be treated as one of the highest priority and responsibility apportioned to the people best suited to doing it. If this is done, and if the four tasks enumerated above are handled quickly and effectively, the chances of financial, strategic, and operational success will be that much higher.

## More Info

Books:


- Galpin, Timothy J., and Mark Herndon. *The Complete Guide to Mergers and Acquisitions: Process Tools to Support M&A Integration at Every Level.* San Francisco, CA: Jossey-Bass, 2007.
- Sadtler, David, David Smith, and Andrew Campbell. *Smarter Acquisitions: Ten Steps to Successful Deals*. Harlow, UK: Pearson Education, 2008.


## Notes

1 The major causes of acquisition failure are dealt with at some length in Sadtler, Smith, and Campbell, Smarter Acquisitions (2008).

## See Also


Best Practice

- Cultural Alignment and Risk Management: Developing the Right Culture
- Due Diligence Requirements in Financial Transactions
- Mergers and Acquisitions: Patterns, Motives, and Strategic Fit
- Mergers and Acquisitions: Today's Catalyst Is Working Capital

Viewpoints

- Viewpoint: James E. Schrager

Checklists

- Achieving Success in International Acquisitions
- M&A Regulations: A Global Overview
- Planning the Acquisition Process
- Structuring M&A Deals and Tax Planning
- Using IRR for M&A Financing

Thinkers

- John D. Rockefeller

Finance Library

- Managing Across Borders: The Transnational Solution

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