

Profit from Integration: Imperatives for Success

Throughout a merger or acquisition, financial and emotional pressure is intense. All parties understand that more than 50% of M&A deals fail financially and the initial transition determines ongoing profitability. Unforeseen challenges surface daily, across functions. While successful integration management requires close attention to detail, today's environment mandates "do it right and do it quickly". The following practices can accelerate and ensure profitable results.

1. Include operational integration analysis as part of due diligence

The due diligence team should look beyond the financial terms of the deal to document integration issues and project the associated costs and benefits. Employee benefits, compensation practices, company culture, technology, sales practices and operations vary profoundly from one organization to another. These differences directly affect the market outcomes of business integration.

For example, a public telecommunications firm purchased a fast-growing privately-owned Internet Service Provider to leverage the dynamic sales team and innovative technology expertise. However, the corporate managers were simply not able to adapt their culture and practices to accommodate the entrepreneurial flair key to the smaller company's success. The result was predictable. Within months, sales dropped, product development halted, and the best executives walked away in frustration. Operations were completely shut down at great cost to the corporation, and great disappointment to the formerly enthusiastic team of talented engineers and businesspeople.

When comparing the relative strengths of the two companies, do the organizations compliment each other, or reinforce existing problems? How and when will the acquiring company be able to benefit from the strengths of the purchased entity? Will the purchased entity flourish or flounder under the new set of rules? Considering these factors early on improves the accuracy of estimating integration costs, including tax effects and the impact on overall valuations.

2. Define acquisition goals in specific, measurable terms

Don't settle for a textbook mission statement – goals should be specific and achievable. Define performance metrics specific to the deal at hand such as operational benchmarks, sales targets, margin levels, or other relevant factors. Recognize and reward staff and managers for achieving strategic objectives, in ways that are meaningful to each individual or group. Calling attention to the wins sets the stage for more!

- Broadcast the objectives throughout the company. Employees should understand their mission as clearly as the crew of the *Starship Enterprise* understands theirs.
- Checkpoint progress monthly for the first six months and quarterly thereafter, adjusting goals in line with evolving business conditions.

3. Plan integration before "Day One"

Effective planning begins long before the ink dries on the final agreement. Designate an integration leader and potential integration team members when the deal is 50% certain. If it falls through, you may have dedicated some premature effort. But if it proceeds, you can hit the ground running and drastically improve your chances of success for a minimal time and cost investments. Your returns include: media communications with more impact; a workforce that doesn't panic; and business partners who are prepared.



- Excite your customers with a fresh brochure or web page highlighting the added value the transaction brings them.
- Prepare personalized employee packages to welcome new staff aboard. Dedicate a manager to answering questions calmly and attentively. It makes a great impression and offers tremendous reassurance to people who will soon be part of your team.

4. Assign a leader to coordinate your efforts

This is a full time job for a dedicated internal or contracted resource. During such a complex period, it helps all parties and expedites progress to have a point person to field conflicts and concerns when they arise. Someone has to be in charge of putting out fires and preventing minor problems from becoming major distractions. It is the strategic role of the Integration Manager to monitor transaction objectives and status. On a tactical basis, the Integration Manager oversees detailed plans covering practical matters across functions (HR, Finance, Systems, Legal, Facilities, Sales) and assigns tasks to specific member or members of the Integration Team. Accountability and coordination ensures everyone understands priorities, prevents duplication of effort, and promotes synergies across functions and entities.

5. Get off site to get on track

It's hard to believe that companies investing millions of dollars on acquisitions don't dedicate senior management time to focus on strategic decisions. If you do nothing else, organize an off-site meeting with senior managers from each major function. Even half a day without emails, voicemails, or other interruptions will put you far ahead in the game. Execute a targeted, comprehensive integration review, covering major decisions from modifying marketing plans to coordinating financial policies. Setting direction up front enables middle managers and staff to work effectively and independently, rather than resolving one issue at a time.

6. Take care of the people who take care of your business

As the expression goes, your most valuable assets walk out the door to go home each night. They will either drive or impede your ability to achieve maximum performance during and after integration. Despite the high intrinsic worth, it is difficult to place a financial value on providing a sense of security to employees of both companies. Establishing credibility through straightforward communication and keeping promises garners loyalty and appreciation that goes a long way towards smoothing over some of the rough edges of integration. You won't get dynamic solutions from people worried about their next paycheck. But, if you create energy and excitement, there is no limit to what you will receive in return.

- Prioritize human concerns, including healthcare, benefits, and compensation.
- Stop the rumor mill before it distracts your workforce and let people know where they fit in the new environment.

7. Lock in star performers

Reduce risks and protect your investment by identifying key players across levels. Start this analysis during due diligence and keep your eyes open throughout the integration process. It's not only senior managers that add the most value. Does one "superstar" salesperson drive the whole unit? Is there one customer support rep who always finds solutions? Identify these individuals during due diligence through in-depth discussions and do what it takes to keep them engaged and enthusiastic. Make sure that their future looks bright enough to prevent them from posting their resumes on the Net. If not, you risk losing far more than these leaders.



8. Your partners should hear it from you, not a chat room

Strong relationships with customers and suppliers are critical to generating profits and maintaining a strong market presence. In a merger or acquisition situation, customers and suppliers should be the first to know, and the last to worry. As soon as legally possible, inform every major customer and supplier of both companies about the deal, and any benefits and changes they can expect. Contact all others immediately thereafter, and designate a liaison to respond promptly to any questions or concerns.

9. Manage change strategically to keep revenue flowing

Maintain stability in the face of change. Don't complicate lives and workflow by changing too many operational procedures too soon. Instead, empower the sales and marketing teams to reap the benefits of expansion from expanded products and services, a broader customer base, and more resources. Motivating your sales force generates both cash flow and morale. Implement incentives to encourage cross-selling and foster productive brainstorming sessions to encourage maximum revenue bookings during the transitional phase. If you allow flexibility, you can unleash enough creativity and ambition to energize the entire company.

10. Talk about it "early and often"

Three to four months down the road, run an organized "Integration Debriefing" to collect lessons learned, reinforce achievements and expand on successful business initiatives. These insights transcend the integration period as valuable input for your ongoing business development strategies. Facilitated discussion also gives participants a constructive forum to discuss their views, reflect on experiences, and express concerns. Transitions are always stressful, but there is no success factor more important than open communication.

11. Don't reinvent the wheel – hone it!

No single template works for all situations. However, beginning your planning process with proven tools and procedures gives you a significant head start towards success. If you are planning multiple acquisitions, document and refine best practices for your specific industry and needs. For example, compiling an Administration Checklist covering integration tasks, from ordering new signage to updating Intranet directories, will save untold time and money for the next project. This approach also supports training and development efforts to build expertise within your organization.

The sum can be greater than the parts. With focused efforts, the sum can be even greater than your expectations.

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