EXPERT SERIES

Managing successful M&A programmes

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Mergers and Acquisitions can lead to significant and sometimes highly sensitive change programmes that involve more than one organisation and sometimes very different cultures.

In this, the next in our Expert Series, we discuss why both the deal rationale and the right type of due diligence are the building blocks for a successful post acquisition integration.

Clarifying the deal rationale

There are many reasons why a company decides to make a business acquisition. This could be to reduce competition, obtain IP, achieve synergies, buy a customer base and contracts, or acquiring strategic staff – especially in the tech industry. Or maybe it's a great market opportunity to make a distressed purchase – something looming or in administration.

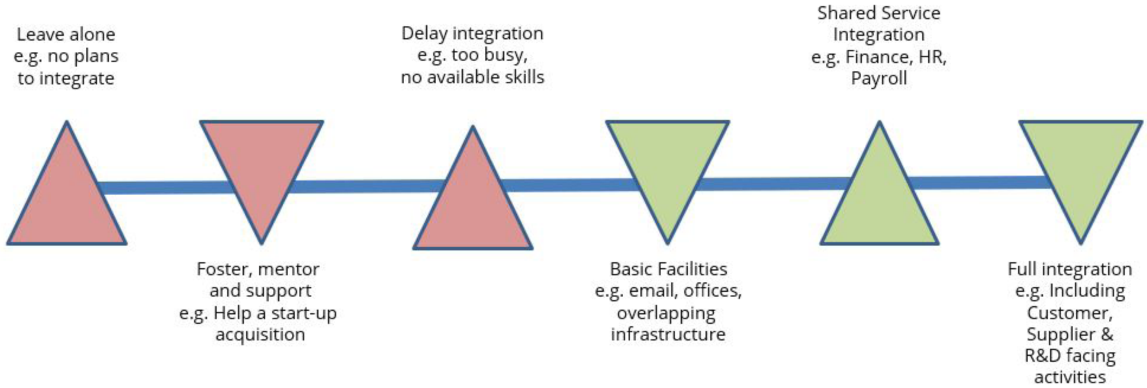
The deal rationale is an important concept that needs to be defined and communicated to the key stakeholders – essentially 'why are we buying this company?' This will need to drive the vision of the integrated business and the synergies you hope to achieve. It may sound obvious but not every company that makes an acquisition has fully thought through the deal rationale and the final target state.

Which then causes a whole host of issues upstream, as the following stats illustrate:

- 70% - both EY and PWC state that 70% organisations are unhappy with the outcome of their acquisition
- 45% of expected benefits from an acquisition directly dependent on effective IS integration (Toppenberg & Henningsson, 2013)
- Nearly 60% of projects aimed at achieving business change do not fully meet their objectives (IBM)

Which path on the integration continuum?

Depending on the deal rationale there is the opportunity to identify the path you want to take with regards to the degree of integration. There's a continuum from no integration, through back-office integration only, to full integration.



Any type of integration will need some type of post-acquisition plan or activities. Here are some initial guidelines on how to approach this to best achieve your objectives.

The building blocks of a positive post-acquisition integration (PAI) experience

Even during the Covid pandemic there has been an increase in M&A activity, including in the technology and financial services sector. Many companies are approaching an acquisition for the first-time and may not have the knowledge, skills and resources to achieve their expected synergies. As PAI is becoming a well-known concern, their lenders and convertible note holders are requesting acquirers to obtain tried and trusted resources.

There are very few PAI projects that are implemented perfectly, and it can be thought of as an additional complex project in addition to running the two businesses. The deal rationale should have clearly stated the vision, the integration options chosen and the synergies that you are hoping to achieve form buying this company.

These synergies can range from increased revenues from a larger customer base, additional IP, new or additional skilled resources and the ability to rationalise and provide a more effective solution to your customers.

Deeper Due Diligence will transform your post-acquisition integration

Major decisions need to take place to choose the right path for your organisation either during due diligence or at the point you make the acquisition. Traditional due diligence covers the following:

- The legal and regulatory aspects of the acquisition
- The commercial and financials of the targeted business
- Business outcomes and the deliverables to achieve them
- Risks to put the acquisition into a financial and operational context.
- A review of integration opportunities and synergies

To enable a transformational PAI - a deeper Integration Due Diligence should take place, which will enable the post-acquisition integration to be activated from day one of your new ownership. To be effective, your deeper due diligence will cover:

- A better understanding of the organization design, processes and applications
- Real operational understanding, mystery shopping the experience
- Cultural assessment of the acquirer and target and how they can be aligned
- Including the Integration Manager as part of the Due Diligence team
- Initiating the development of a Target Operating Model, which will drive out initial possibilities for integration, before the deal is signed.

In conclusion, if this deeper due diligence and integration planning can be brought forward prior to the acquisition, it will give you a better basis upon which to confirm what you thought about your target company and an appreciation of the real hurdles ahead. Of course, this will increase the costs if the acquisition does not pull through, but will ensure you can reap the benefits you expected from your new company, and make integration faster and less painful for all the people involved.

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