Post-merger integration

It's never too late to optimize transaction value

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Mergers and acquisitions can be an effective strategy to increase business value. Unfortunately, many transactions do not deliver their expected benefits due to a variety of breakdowns in the merger and integration process. The good news is that by focusing on operational and process improvement, it is not too late to drive significant value to the organization.

Organizations have the best intentions and normally develop a global strategy when approaching a merger or acquisition. Short cuts, limited resources and potential missteps can cause a merger integration to produce a diminished return on investment. The merger process often deteriorates if the strategy is not documented or linked to the integration plan, or if implementation is poorly managed.

These issues are not limited to small to medium-sized businesses. Even large companies often focus on tackling high-priority items, but overlook crucial details. If left unattended too long, what were once minor issues can become major concerns with the potential to derail an integration and the expected benefits. Whether it has been six months or six years since the completion of a transaction, these issues can be rectified to further optimize deal value.

There is no one-size-fits-all solution to merger integration. It depends on the deal, the strategic intent and many other factors. At the end of the day, the goal of a merger or acquisition is to drive added value. Integration is a critical component to realize operational and financial benefits. This white paper presents common integration problems, their impact to the organization, and examples demonstrating no matter how much time has passed after a merger or acquisition, significant opportunities remain to realize increased savings and efficiency.

How to get the true value out of a transaction

Realizing the value of a merger or acquisition starts with a comprehensive strategy and progresses to define the structure of the new, combined entity. Integration planning should start with determining whether the company has the right structure in place to effectively integrate operations. The process then continues to identify what systems, processes, staffing and roles will support the future, integrated business model moving forward in an efficient, scalable way. Taking a holistic, strategic approach to integration is critically important if the company wants to continue pursuing add-on acquisitions.

Many mergers are hampered by inefficiency and redundancy when the two firms continue conducting business with different approaches while processes should be standardized and organizations aligned.

Common pitfalls and challenges

Several common issues arise during the merger process that can directly lead to diminished value. If any of these situations exist within your organization, they should be recognized and addressed or they will limit the benefits realized due to missed opportunities. Depending on the capabilities of the organization, these problems may be addressed internally.

Lack of available resources

Many companies simply do not possess the bandwidth to perform an effective integration with internal staff. Internal employees chosen to perform critical integration tasks are typically high performers with multiple roles within the company. It's not that they don't have the knowledge or skills to work through issues, rather, they find it difficult to manage these additional responsibilities while continuing to perform their daily jobs. Finding enough internal resources with experience and availability in managing complex integration projects provides further challenges and risks to integration efforts. Experienced integration consultants may provide an objective perspective and project resources to accelerate the benefits of integration.

Intentional delays

There are some situations, especially in significant mergers, where companies will intentionally operate separately and retain current systems and procedures. Many of the existing departments and systems that are in place when the merger is initiated are retained and may not merge or integrate. Some integration points may be explored, such as how to leverage a common distribution channel to drive revenue growth, but many major areas involving back office and support functions largely remain the same.

Today, economic pressures are rising and many companies must find ways to create more value and efficiency out of their business. The remaining areas for integration are prime targets. Unfortunately, as more time passes after a merger, the more difficult integration may become. After spending time operating separately, pulling infrastructure and people together is often a significant challenge and in some cases requires breaking through cultural barriers. It is not impossible, just typically more difficult the longer an organization delays integration.

Selecting the best timing

Following a presidential inauguration, there is a window of opportunity, a 100-day honeymoon period where the public expects change. A similar scenario exists following a transaction. Employees often have a new energy, are eager to see what is going to happen and are engaged in the process. If that moment passes, and integration decisions are put on hold, it becomes more difficult to implement change in culture and processes down the road.

Sometimes acquisitions are straightforward, as one company is absorbed into the acquirer's practices. Systems and processes are quickly adopted. However, in many situations involving a merger or major acquisition, internal politics and other influencing factors can cause delays and result in significant pains. The unfortunate reality is that additional value and benefits may not occur if integration is delayed.

Case study — Recovering from integration delays

For a variety of reasons, a $2 billion financial services company decided not to integrate certain areas of the combined organization immediately following a transaction. Processes became cumbersome, while current operations and poor alignment hampered its efficiency and ability to react quickly to the market and develop timely new products. These difficulties finally reached a tipping point. The company experienced delays in launching new products. Problems occurred in gaining timely insights into product-level profitability, in addition to persistent process inefficiencies. All of these factors resulted in a significant financial impact to its business — until it integrated key functions.

Although integration was delayed several years, the merged companies are now experiencing integrated, simplified, consistent and systematic processes. The streamlined business benefits from timely, insightful information to support product launches and optimize product profitability. Most importantly, they have freed up resources to pursue higher-value work activities.

Rushing the process

On the other hand, some businesses attempt to initially undertake too much integration at once. Some executives are determined to integrate everything on day one. Snap decisions can be as damaging to the value of a transaction as delaying integration. To meet the demands of a growing business, it is critical that integration is planned and implemented holistically. Insightful planning should be completed to identify improvements in processes, systems and roles. Not following these steps can hinder and complicate key functions.

Organizations should not delay integration indefinitely, but an appropriate amount of time must be invested to ensure that the integrated process is pragmatic. The integration decisions should be based on proven rationale for the newly merged functions and in alignment with an effective business strategy.

It's not just about integrating systems

Many companies consider integration to be solely about data and technology systems. It is perceived that as long as a common system is in place, the businesses are sufficiently integrated. Good data, well-aligned processes, and clear roles and responsibilities—along with a common platform—are essential to operating optimally. If departments, locations or business units are utilizing different business processes and practices, common problems arise from disjointed operations and compromised communications that do not align with strategic goals. Ensure your business is taking a holistic and effective view of organizational and operational integration.

Case study — Costly focus on system integration

A $300 million medical distributor acquired multiple smaller companies over a two-year span as part of its growth strategy. It decided that a common system was very important. Implementing a new platform and transitioning all employees to that system was the exclusive, initial step in its integration strategy.

The company struggled while attempting to implement the system with internal resources. In the end, it took two and a half years to complete. As the project dragged on, executives acknowledged they were missing out on more than $1 million a year in integration savings opportunities, much of which could have been accelerated and realized straight forward by process and role integration. A multi-faceted integration approach would have resulted in significant value sooner rather than later.

Ill prepared for growth

Another common situation is illustrated when a business grows organically and through multiple acquisitions, but fails to build scalable integrated operating capabilities. The result is a larger organization, but one that lacks the operational capacity and efficiencies that are required by a larger enterprise. Relatively immature and inefficient operational capabilities add significant risk and complexity in supporting the company's further growth plans. Lack of timely integration may result in problems and excessive costs from processes unable to handle the increased volume.

Ignoring the need for a cultural shift

In the case of mergers or large acquisitions, it is critical for leaders of both companies to agree on strategy and direction of the combined company as delays can be expensive. If disagreements occur over roles, who stays and goes, and business practices and systems, the company will languish and profits will be at risk.

Emotions and politics sometimes complicate the process as people try to protect their own interests rather than making the best decisions for the combined company. Employees understandably become attached to processes and support tools, making change difficult. However, these political and cultural barriers must be overcome and managed in a timely manner. In this situation, an outside partner could provide the objective advice and help needed to make the difficult decisions while keeping the company's best interests in mind.

These examples just scratch the surface of the volume of issues that cause a transaction to be suboptimized. However, while these missteps can be expensive, it is never too late to refocus and obtain more value from the merger or acquisition.

Case study — Evolution problems

A $400 million organization has grown through the years and evolved into several different business units, all of which have separate operations. The company does not possess the unified scale of a large organization, instead it is a cluster of small businesses that do not have the capacity to support growing from $400 million to $800 million in revenue as desired. Because integration has been delayed, executives have come to the realization that the company is not in a position to accomplish its plans of doubling in size in the near term.

Growth through acquisition is a prevalent business strategy, but by maintaining separate operations, many companies are not positioned to handle sizable add-on growth. They have a significant amount of catch-up to do before they are in a good position to grow organically or complete another acquisition. Postponing integration may put future acquisitions at risk by not being able to take advantage of operational economies of scale.

The financial impact

Integration may become more daunting and expensive as each day passes. As mentioned earlier, a medical distributor was missing out on more than $1 million per year in efficiencies that would have been created by integration and streamlining of its warehouse operations, inventory management, back-office functions, supply chain vendors and other functions. Many companies do not have the foresight to estimate those potential savings. They often continue with business as usual and don't determine the financial impact before and after the merger or acquisition. In the end, did they achieve their growth goals?

A company that initiates integration in a timely fashion often faces a much easier process with quick economic wins. The staff expects change and is amicable to it, and severance packages are often seen as appropriate and generous early in a transition. A professional, efficient integration process can deliver timely and significant value to the new, combined company.

In a prolonged, struggling merger, the combination of unrealized savings, lower employee morale due to uncertainty and an unclear operational strategy can weigh an organization down and limit its ability to innovate and respond to opportunities in the market. It can also have an impact on the customer base if end-to-end processes are disjointed or if there are mistakes in areas such as billing and shipping. Your employees are the first line to your customers. If employees are unhappy, it is likely being communicated to customers or even to competitors.

While cultural implications may exist, the key business impact in delaying integration is definitely financial. By accelerating integration where it makes strategic sense, you can accelerate the financial returns. Drivers for increased financial performance include reviewing third-party supplier spending, streamlining organizational structures, aligning direct labor costs, better positioning to capture revenue through expanded geographies and channels, strategic pricing and margin management. Quick attention to implementing key integration tactics such as these are critical for capturing optimal value.

Conclusion

There is a reason that companies agree to a merger or major acquisition in the first place. However, for the integration to be successful, executives must work together and redefine the new company. When a merger or acquisition's potential is not fully realized, operational and financial benefits may evaporate. At best, a failed integration results in financial losses and decreased employee morale, while a worst-case scenario is that the company's future is at risk.

Whether an integration delay is due to a strategic decision or unintended circumstances, it is never too late to work towards optimizing integrated operating capabilities and realizing the benefits of a merger or acquisition. In fact, the best companies continue to identify tactics to further integrate and realize more value from a transaction. An experienced advisor can help objectively evaluate people, processes and technology to discover more integration opportunities that will drive increased financial returns and position the organization to effectively support plans for future growth.

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