



# Six Tips to succeed in a Post-Merger Integration

In newsletter as well as through press releases we are constantly greeted with the news that company A has acquired company B. The future is always painted bright as to the position the new constellation will conquer. The market welcomes the initiative and expectations are built.

Mergers and acquisitions (M&As) are often seen as a quick way to reach growth and there is often impatience from both the owners and the board to see the expectations realized. But when we hurry, things are bound to go wrong. Perhaps the acquisition was made upon the heels of a large cash flow and a sudden opportunity; perhaps it was done as a defensive move to minimize the competitors' possibilities to improve their positions. Many companies, however, devote much time to their acquisition strategies before it is time to carry out the actual transaction. Management consultants perform extensive market analyzes and driving forces influencing the market are rigorously studied. The acquirer's positioning is defined, the competition is analyzed, and other possible complementary acquisitions that would fit strategically are also thoroughly dissected. When it is finally time for the acquisition the board seeks

the assistance of several experts for the transaction itself; auditors and corporate finance- and legal expertise. The whole acquisition process can end up costing the company a fortune.

Nevertheless, recent research shows that about 70 to 80 percent of all acquisitions failed to achieve the desired results.

Why is it then that after the deal closes, the acquisitions sour? In our experience it is almost exclusively in the integration phase, popularly termed *Post Merger Integration* (PMI), things go awry. Certainly the company valuation may be too high or the market overestimated, and as a consequence too high of a price is paid; but usually this only means that the pay-off time drags on. The acquiring companies can of course also encounter a negative earnings surprise if a skeleton in the closet is revealed, but it is rarely a cause for more severe problems.

We have both had the privilege to be involved in successful M&A transactions, as well as in acquisitions that should never have taken place, but mostly we have been involved in integration projects that should have been managed in a completely different way. We have, based on our extensive experience of PMI, identified six key success factors that must be addressed and mastered in order to secure the value of an acquisition.

**1** Integration is a Skill

- A great CEO does not necessarily has to be an expert on PMI
- If in-house integration expertise is lacking—get external help directly

**2** See Things for What They Are

- Understand the corporate culture and the business dynamics within the acquired company—first
- Keep a clear head—it's never as good as it looks, and it's never as bad as it seems

**3** Create a Common Goal and Plan

- Create a common Goal
- Establish an integration plan and create a PMO office if necessary
- Clarify responsibilities and take an active role in the post-merger work

**6** Human Resources Experience is Crucial

- Let HR play an active role in the post-merger process
- Be objective regarding your own and the other company's competence

**PMI EXPERIENCES**

**5** Tackle the Functional Areas in the Right Order

- Secure that you understand in which order to address the functional areas
- Avoid doing everything at once
- Do not lose focus on the top line

**4** Communication is Key

- Do not underestimate the power of honest and clear communication both internally and externally
- Set the pace of integration and if necessary, adjust the speed

## 1. Integration is a skill

The most common mistake made by the board and management is that they overestimate their own ability to manage a complex integration. Certainly, many of them are great business builders and integrators but the higher in the hierarchy, the less likely it is that someone will admit that they lack the necessary skills. Even though the board and management usually consist of highly skilled and ambitious people they often lack solid experience of PMI. They overestimate long and extensive business experience and underestimate the complexity of leadership and the importance of good project management skills during the integration.

*Example: When a previously highly accomplished CEO, whose leadership was based mainly on successfully running independent profit centers with a top line growth focus, was entrusted to acquire larger companies from where synergies would be extracted everything went wrong. Due to his lack of communication skills and ability to run integration initiatives, very large values were suddenly lost. After over two years of struggle, a change of CEO and major contributions from employees in the organization, the company finally managed to steer the acquisition in the right direction. There were by no means anything lacking in regard to the first CEO's general competence, but the board as well as he himself did not realize that an entirely different capacity was required.*

*Example: An industry player acquired quite a few small entrepreneurial driven companies with the ambition to form a market leader in a growing industry. As President and CEO the board elected a colorful businessman who was the founder of one of the acquired companies. The key factor driving the appointment of the CEO was the individual's extensive industry knowledge. The problem that arose was that the person in question lacked both knowledge and interest in establishing a group and all he really wanted to work with was his own area of expertise; namely business development. The new group showed repeated losses year after year and was nothing more than a diverse collection of joint businesses that operated under a new corporate name. At middle management level there were many enthusiastic and committed individuals but unfortunately they lacked experience of working as leaders in a broader context. We can surmise that the assessment of market attractiveness was on point as well as the purchase price for the various businesses; however, the assessment of the skills needed to achieve the synergies was totally wrong.*

*Example: In a major merger an equal competitor with headquarters in another country was acquired. The CEO chose to adapt the leadership to the new situation and*

*recruited an almost entirely new management team. The required qualification of all new team members was a solid experience in business integration. The new production manager would have to have extensive experience of transferring manufacturing between plants in different countries, whereas someone else would have to have experience of integrating parallel sales companies in the same country, and so on. This proved to be a recipe for success, and showed that to have specialized experience was, then and there, much more important than broad industry knowledge.*

To acquire one or more companies increases complexity and suddenly new demands arise. What we need to reflect on is whether the present management really has the ability to navigate a PMI process. If not, the question will then be; how do we get these skills onboard quickly?

## 2. See Things for What They Are

It is safe to assume that the acquiring company is well informed as to the financial and operational aspects of the target company's business. However, while the market position and product range is studied in detail, many overlook the "soft" values. We fail to address questions such as; what culture does the acquired company have? What kind of relationship does it have with its customers and distributors? And how should we relate to this in order to achieve a successful integration?

In many cases the buyer faces certain challenges if the target company is a privately owned company in which the CEO has exerted a dominant leadership. That, as in a regular company, can be found in the processes and procedures are rather in the head of the seller. The employees of such an organization have often been with the company for a long time and are very loyal to the original owner, but rarely do they hold a holistic view of the business nor do they have experience from other activities. "This is the way we do things around here", is a common phrase in these companies and staff members seldom make decisions without management approval. The new owner quickly becomes aware of the existing culture when new processes and operations are to be implemented. To minimize the culture clash the barriers that stand in the way for a successful integration need to be addressed from day one.

If you acquire a unit from a larger groups non-core business you are often faced with other challenges. You will meet people that are taught to act in a certain way and have difficulties in navigating through change.

As an additional factor, of course, there are cross-border barriers when expanding into foreign markets. To acquire a French company is quite different compared to acquiring a Norwegian company. All business cultures have their specific characteristics in terms of management practices.

Companies also tend to overestimate the positive effects of an acquisition and often fail to see the costs associated with reducing capacity in unprofitable segments of the new business constellation. Few target companies consist of only good things; there are also parts that are not in line with the long-term corporate strategy. Perhaps a company is acquired to gain access to valuable distribution channels but at the same time the cost to phase out the own products is not taken into account.

*Example: One of the authors was at one time responsible for a relatively large number of international sales companies. In one of the neighboring Nordic countries there was a very successful and dynamic CEO. At one point he raised the issue of potentially acquiring a local competitor that had relatively strong sales channels in precisely the section of the market where they were less successful. A few days later, the CEO withdrew the proposal on his own initiative, when it turned out that the target company did not provide any real value, i.e. was not in line with their strategy or operations. Six months later he returned with another acquisition proposal. This time it was a company that consisted of service engineers and had an excellent reputation. The service engineers had just started to recognize their limitations and the fact that they had no products of their own. On the other hand, the local CEO realized that the service engineers were the channel to the customers and identified potential synergies for both parties. Just as the CEO had predicted, this turned out to be extremely successful.*

## 3. Create a Joint Strategic Vision

It is not unusual that the management during the integration phase puts much responsibility on individuals further down the line that will have operational responsibility in the future. This is a good intention, but the integration will likely stumble if too much responsibility is placed on people who lack hands-on experience of organizational change and PMI. To heap all responsibility onto people who do not have the right skills, and at the same time not providing them with a clear vision, can be downright disastrous.

There is an important, yet often overlooked, difference between general improvement activities and integration. Whereas the first puts an emphasis on continuous improvements, the latter is always centered on visions, a holistic approach and sufficient management capacity. Just because you or people in your organization have been successful in one of the areas does not necessarily place you at an advantage in the other. It is therefore always management who must take responsibility for creating a vision and ensure the development of an integration plan. In the end, they must also take full operational responsibility by taking the lead. A fundamentally healthy but underperforming company is not automatically revitalized just

because it gets a new owner or a management team on a prestigious address in the city.

A clear indication of lack of a common vision and plan is when the entire company is rushing to put out a fire in one corner, i.e. the new acquisition, while losing control over the own company and their customers. Therefore, we recommend having a rough draft for how to navigate the PMI process ready before the deal closes. Clarify the roles and responsibilities of all parties, set deadlines and prioritize. Focus on what really matters and get the ball rolling.

Two deals illustrate this point well.

*Example: At a relatively complex merger CEO, HR and CFO constituted the business integration's "core team" and was the troika that management-wise led, monitored and followed up all integration activities. As an example, the CEO was abundantly clear that he wanted the group's sales manager to focus on the day-to-day running of the business and not get too involved in the integration process. It did not mean that the sales manager was not included in the decision-making process within sales and marketing issues, but only that he in order to secure sales and profits was kept away from time-consuming integration activities. This was a solution that produced excellent results.*

*Example: After a major acquisition the sales force took on a new range of sophisticated products without having respect for the product knowledge required. It all ended up in declining sales for both existing products as well as the ones newly added through the acquisition.*

## 4. Communication is Key

Few executives deny the importance of communication but a lot can go wrong in terms of how the communication is carried out. How many times does not the PMI start with the message that it is a merger between equals and that everyone is to take equal part in the process? If a top executive opens up with this phrase, then they have to really mean what they say. All too often, we find examples of when statements of this kind are declared and then foreseen shortly thereafter. If the acquired organization will not be able to exercise any influence it is better to make clear who is in charge from the beginning. Just remember, no matter which route you choose, clear and effective communication is a must.

Never cheat or lie to your employees. If there is ever a time when strategy and vision need to be elaborated in great detail it is in connection with a PMI. It is of the utmost importance to mobilize the staff and engage them in building the new business culture from the very start. Since they play such a big roll, the rationale behind the deal must be thoroughly explained and it must also be communicated who is responsible for pushing the process



forward. This must be done in a clear and transparent way. Once you develop and establish a coherent policy it can be re-used and repeated throughout the integration process, no matter if you are dealing with the management or the floor staff. Never mind if it is tedious; nagging pays off. This also means that the day-to-day decisions can be related to the original message.

*Example: One integration took place in an industry that was in revolutionary change. Two main competitors merged to create a platform for survival. The CEO presented three slides that were used at virtually every meeting during the integration phase. The first slide described the background to the deal and pretty much concluded that there were no other options besides a slow death. Slide number two showed the consolidated value in the newly merged company and how it could be used as a springboard to the future. The final slide showed where the new company would be in about three years and also presented guidelines for how the integration should be done. The presentation were constantly used to more or less force feed the overall strategy regardless of whether it was on a board meeting or on a factory floor. After three years the new group achieved exactly the vision that was presented in the final image.*

There are many examples of highly acclaimed business leaders who went on “shopping sprees” and acquired companies in a never-ending pace but unfortunately failed to give any thought as to how to generate synergies and integrate the companies. It tends to be a considerable challenge for the next heir to the company throne to explain to the board and shareholders why the merger failed to deliver the promised value.

A PMI requires a considerable presence of the senior management. To lead a PMI is not something to indulge in once in a while. For a period of time it is more or less a full time job, which means that someone higher up in the corporate ladder is required to be physically present. You have to lead the battle, rather than to give orders from behind a desk. Sometimes an authoritarian leadership style is needed; other times a coach and a sounding board. Integrating businesses is often something quite unglamorous consisting of an endless stream of activities that require travel and follow-up meetings. Many top executives shy away from the dirty work and delegate downwards with devastating effects.

*Example: In another case, the acquiring company, which had its geographical location in a country far away from the acquisition object, chose to replace the entire management of the company it acquired. No one from the new management team chose to reallocate to the country where the acquired company was located, and instead tried to run the comprehensive restructuring largely at*

*a distance through e-mail and telephone conferences. It was a disastrous decision by the new owner and the company was within short time drained on both staff and expertise. The lesson learned is that you always have to be on location.*

Be wary whenever you hear the phrase “In our company we have always been cost-conscious.” It is important that this permeates the entire integration process.” Do not be stupidly stingy and prolong the decision-making process in order to cut costs in the short-term. All kinds of restructuring charges must be included when calculating the total cost of acquisition and ultimately make the decisions whether to go through with the deal or not. In the long run it is more costly not to factor in the necessary operational costs.

## 5. Tackle One Functional Area at a Time

### Finance—How Choosing the Right CFO Can Make or Break the PMI

If a large corporate group acquires a small company the role of the CFO does not change significantly. The target company is simply incorporated within the day-to-day operations and it falls upon the line managers to realize synergies. However, the role changes radically if the transaction results in the merger of headquarters and/or parallel sales companies on the same market, transfer of manufacturing, plant shutdowns or a product discontinuation. Decisions taken will have wide-ranging effects on the financial performance and from an early stage you must analyze all decisions from both a financial and operational perspective. This means that the CFO will have to have a different managerial background than what is normally required in such a position. This place great demand on knowledge in areas such as strategy and supply chain management paired with skills in leadership and communication. It is our experience that too many traditional CFO’s remain in a “desk jockey” role with a focus on reporting and explaining deviations rather than being operationally involved in the on-going integration process. It is vital as a CFO to be able to understand and influence a decision prior to being finalized.

If a business plan for a newly acquired company is developed without being firmly anchored with the local sales force in terms of initiative, ambition and realism, it has a slim chance of succeeding. We have seen a lot of financial plans not the least bit anchored in reality, developed by top management without the involvement of the staff on the floor. These are generally nothing more than lip service, with the sole purpose of appeasing the board, just in time for them to approve next year’s budget.

During the integration phase, it is important to develop key performance indicators (KPIs) that measure and drive the process of realizing synergies and economies of

scale. There are of course a number of individual decisions that in themselves are difficult to assess the impact of, but all activities that can be measured should also be measured. If you notice that the KPIs start moving in the wrong direction you need to step in and take corrective measures.

*Example: A large Swedish company did a strategically important acquisition in the United States. In the role as CFO, an engineer with extensive managerial experience, not only in business but also in supply chain management and product development, was appointed. This was done with the intent of underlining the holistic approach in decision making, but also in order to deal more quickly and effectively with the consequences of the integration from a financial perspective. They thus had a clear picture of all financial implications and risks before the final decisions were taken. After about two years and a successful integration, the CFO went on within the company and a more traditional CFO was recruited as successor. This is an excellent example of how different roles require different skills at different times depending on the agenda to be driven.*

*Example: A new Swedish billion dollar group was formed and 95% of sales were outside Sweden the CFO was so involved in all local initiatives in the sales companies and plants that the numbers of travel days were at approximately the same level as for a normal export manager. The communication with the local managers was so intense that the CFO was usually able to put together the consolidated result one month prior to when reporting occurred. When things fell into place and work had developed into a day-to-day rhythm a more traditionally trained CFO took over the helm.*

### Sales and Marketing—Maintain Customer Focus

Integrating sales organizations and sales companies is undoubtedly the area that often time prove to be the most difficult and sensitive. There are many things that can go wrong and no CEO or board wants to see a declining top line.

A frequent mistake is that we forget to involve the most important player in the integration process; the customer. To immediately take control over the information flow to the customers in a B2B business and involve them on an early stage can provide many benefits. You need to promote the benefits of the merger and highlight that it ultimately will enhance the quality of the product or service offered. A customer who, albeit fictitiously, feels involved is also less susceptible to grim pictures painted of the scenario by the competitors.

*Example: A foreign private equity player had acquired a relatively large Swedish company. The company had*

*almost all of its sales through wholly owned foreign subsidiaries. After a few years, it had developed into a nightmare for the acquirer with declining sales and substantial losses. After reaching out to various customers in all markets it turned out that about every fourth of the contact person information was outdated and often-times the person in question had stopped working at the customer. The picture was common in almost all of the sales companies. This shows quite clearly that the entire sales organization, including all subsidiaries were part of a management problem with poor governance, both from the head office in Sweden and at a local level. These problems were obviously already there when the company was acquired. It is this type of warning signs you can pick up on from the customers at an early stage instead of getting it as a surprise after two years.*

Prior to the start of the integration work with the sales organizations you must also have conducted an in-depth analysis and mapping of the current situation. Who sells what to which customers in which districts? What is the status of the sales development of different customers and how profitable are they really? Which customers do we see potential in? It is not uncommon for companies that have been on the market a while to sell everything to everyone out of habit.

*Example: Two companies were involved in a comprehensive integration in which sales would evolve towards more demanding customers with a complex product portfolio. At the same time it was understood that some customers would demand less sophisticated solutions in the long term. This placed great demands on the evaluation of the sales force as it became of importance that every individual seller had both knowledge and interest to develop in this direction. What was a successful seller one day would not necessarily be that later.*

To constantly be alert to market movements is always vital but perhaps even more so during a PMI. It is easy to fall into the trap of neglecting the customers because you are busy with internal organizational work or failing to see the market signals.

*Example: Once a newly formed Swedish group was busy working on process efficiencies and internal improvements while at the same time competitors from other countries with a very different cost base attacked some segments. It ended up costing the group a quarter of operating revenues in a year.*

Finally, we want to extend a word of warning not to be nonchalant when acquiring companies with large export sales volume when you as the acquiring company have your own sales company. It will not be long until your new

distributors will call each other with concerns on when the new owner will let its own sales company assume sales responsibility. To end up in a vacuum, with uncertain distributors, is a sure road to several years of declining sales. We have closely followed this happening, in cases when the sales force and the own sales company's CEO were very nonchalant and when central management was incapable of making the strategic decision of keeping sales through distributors or have sales through its own sales company.

#### Research and Development—A Shared Vision

In the short term, small changes within the sales force will potentially have a huge impact since it in just a few months can affect the revenue greatly. However, the importance of successfully integrating the R&D operations is usually at least as important as integrating the other functional areas. In the long term, a successful merging of separate product portfolios and R&D departments is indeed of the utmost importance.

Our experience is that knowledge of how to manage and create synergies within R&D post-merger is often deficient in the owners, the board and sometimes even management. Certainly there are companies and industries where knowledge of product and technology is of such considerable importance that top management possess the required knowledge, but in smaller companies R&D is considered somewhat of an “inventor function”.

There are a number of issues that must be addressed during the post-merger process:

- > Do not underestimate the importance of developing a joint strategic intent for market development, product and customer segmentation and brand identity. An excellent way to accomplish this is through workshops involving the various companies' product experts.
- > Rapidly build a shared vision for the product development process and the management of this.
- > Use a joint production cost model to avoid unnecessary conflicts.
- > Separate new development from product maintenance when discussing the integration process.

When two direct competitors merge and group together their products so that they converge in terms of functionality, they will also gain access to a bigger set of consumers, which is of major strategic importance. If the expected synergies are indeed realized it will provide an opportunity for cost savings that immediately reflects on the company's financial statements as well as a chance to focus on product development in other segments.

Sometimes there are advantages to centralize all R&D development functions instead of having them geographically scattered, but that is not always the case. It may be that the proximity to the development on a specific market

or access to certain local skills is more important than the potential efficiency gains.

*Example: In another acquisition case, a Swedish company operating in international markets decided to move product development back home to gain better control and cost efficiency. However, it turned out that the previous proximity to the local market and the knowledge of it was extremely important, and to some extent critical for success in that specific market. There were apparently good reasons why the previous owner had chosen not to do the same centralization maneuver.*

#### Production—A Matter of Assessing Cost Efficiency

To consolidate production and revise the manufacturing processes is usually the area in which most cost synergies are achieved. It may, for example, be about the utilization rate of equipment, fewer inventory items and purchasing synergies in terms of supplier consolidation and the reduction of overhead costs. To oversee if what you produce in-house in low volumes might be subject to discontinuation or have production transferred to an external party is another important issue to address.

Usually it is on the market side the driving forces for an acquisition exist and, as a consequence, we sometimes take lightly on problems in the production area. To get a number of plants on our hands in countries where we for different reasons should not have production in is something that occurs frequently. Being aware of the structural changes underway and especially with regard to labor-intensive production, is something that the acquiring company unfortunately does not focus sufficiently on.

#### 6. Human Resources—Experience is Crucial

Senior HR managers are worth their weight in gold in the integration process. HR issues should perhaps be ranked as the most challenging area in a PMI. The expression “an iron fist in a silk glove” is more relevant than ever. Issues regarding leadership, organizational development and communication should be high on the agenda. We have to remember; it is people who carry out successful integrations not systems. The importance of that the acquirer's company culture matches the one of the acquiree cannot be stressed enough.

*Example: Two small companies were to merge and form a new business platform. One of the entities came from a large corporation with good financial health. All of the employees had a company car and a salary level that was above the market average. The other entity came from a government agency and was influenced by that culture. No one had a company car and salary levels were obviously below the market average. Both the companies had little to no experience of operating as commercial entities with high demands on ensuring profit. The first*

*year of activity as a joint company was marked by disastrous results. To unite the company and create a common business-driven corporate culture thus became perhaps the single most important measure to generate profits. It came to be about strengthening the knowledge and understanding of the business, but also making a number of tough decisions where some employees had to find a future outside the company. In this case, one can very well say that it was the HR issues that were crucial for the future of the business and profitability. After a chaotic start the company cracked the code of successful HR-processes and became a highly profitable market player.*

PMI is not quite as easy as it looks. Our experience is that too much emphasis is placed on the pre-merger analysis and due diligence at the expense of ensuring the right skills for the integration itself. Our firm belief is that every board and management must objectively assess whether they, at the current moment, possess just the skills required, and if not, how to permanently or temporarily tie it to themselves.



#### About the authors

Björn Henriksson, Managing Partner at Nordic Interim, has hands on experience driving transformation and company integration in the role as COO

Owe Wedebrand, Management Consultant at Ohde & Co and professional Interim Executive, has extensive operational experience in company integration in the roles of CEO and CFO

