Congratulations you are the successful bidder! Oh dear… what now?

I liken this title to the recent US election. It seems many thought Trump wouldn't win, so there didn't appear to be a solid post-election plan in place and the carnage that followed was a direct result of this lack of planning. So too is the case in business particularly around mergers and acquisitions. The need to develop that plan is paramount.

Note from here on I will use the words acquisition and merger interchangeably and when used singularly I am referring to both an acquisition and a merger.

Ok so you have successfully acquired the business to take your organisation to the next level, so what now? Well to be honest if you are only just now asking yourself this question, then you are likely to fall in to the 70 to 90% bucket of failed mergers and acquisitions [(1)]. Failure in that they fail to deliver any boost to shareholder returns.

The fact of the matter is most acquirers spend a considerable amount of time identifying the synergies that a merger will yield - in most cases over-estimating these synergies - but then spend little time working out how they plan to extract these synergies. It is the merger integration that often lets acquisitions down and the failure to develop a sound plan to execute on post-merger. It's as if teams are so busy popping the champagne corks to celebrate the successful bid they forgot about the hangover that lurks behind the fifth glass.

So yes, celebrate the successful bid with a glass but this is only the start of the process, the execution is where your challenge really begins.

Through our extensive experience we have come up with a list of some of the greatest inhibitors to executing a successful merger integration. And this applies to organisations of all sizes, from the multi-billion dollar merger to the combination of two small SMEs, and from government departments to not for profits.

Top level misalignment and/or the lack of strategic rationale for the transaction

Often we see the rationale of a merger or acquisition being to grow revenue and shareholder value. This is not a strategic rationale that delivers value, so when you see it, run the other way. Or if you are a shareholder, demand the cash be returned to shareholders rather than reinvested in an acquisition. The strategic intent should be around improved performance, accelerating market access, acquiring particular skills cheaper than you can build them and so on. A clear strategy for the acquisition must be

[1] As highlighted by the Harvard Business Review article "The big idea: The new M&A playbook"

clearly articulated by the senior management team and the board. Misaligning or disagreement by key stakeholders for the reason of the acquisition can spell disaster.

Failure to put the customer at the forefront through the integration lifecycle

Too many times we have seen companies become so inward focused they forget why they exist i.e. to deliver the best possible outcome for their clients/customers. Any merger should be done with a view to enhancing the customer experience. If a company fails to incorporate the customer and take them on the journey with their organisation then a client is likely to get lost and seek alternatives. Through times of change organisations need to increase the time they spend on clients and be as open as possible as to the rationale for the merger. I have never heard a customer, or an employee, say stop communicating with me, I know too much. So communicate, and when you think you have done enough, communicate some more.

Making key leadership decisions

In a merger between two professional service organisations, when it came time to integrating local offices the decision as to who would lead the office was deferred and we had Presidents and Senior Partners all over the place. Besides duplication of costs it also led to staff being confused as to whom they ultimately reported to and it meant combining cultures was that much harder. Sure it eventually worked out as either the President or Senior Partner retired or moved on, but at what cost to the integration – and the merger synergies were never really hit.

Neglect of the people/culture side of the integration

Every organisation big or small has a unique culture which is driven by the owner or the board. No two cultures are the same and acquirers ignore this at their peril. Finding out what is important to staff and their expectations can go a long way to managing the cultural integration. Ensure there is a robust communication plan for all employees and communicate extensively. We can just about guarantee that all organisations do not communicate enough during the critical early stages of any merger.

Lack of integration governance and empowerment of the integration

The tone is set from the top. Develop a disciplined and coordinated plan of execution and approach. Process map things and track progress religiously. Hold people accountable for their actions or lack thereof. Empower the whole integration process by senior management taking an active interest and role in the process. If the owner or CEO, or even the board, is not invested then neither will senior and middle management or for that matter employees.

The merged company is not equipped to simultaneously manage the integration and maintain momentum of the current business

Do not underestimate the time it takes to successfully integrate two organisations. My advice to a client recently going through an acquisition was to make sure his existing core business continues to deliver and for him to not take his eyes off the core business because that is what got him here, if that falters then the ability to execute on an acquisition is fundamentally flawed. Managing an integration is a fulltime job, so unless you have qualified staff sitting around doing nothing then it is highly recommended organisations hire in the skillset to oversee the process on a fulltime or contract basis.

An attempt to do too much too quickly

Integrations rarely happen within one year. They are a continuously evolving process. But there should be day 1 to 100 day plans in place to clearly develop the implementation plan for any integration and for ongoing monitoring of the plans. A managed and controlled integration process is key no matter what size of organisation. To just push everything together in 2 weeks will not work and will lead to pain and lost revenue. There can be any number of items that need to be thought through and rolled out to ensure the integration achieves its stated goals.

Loss of focus on synergy objectives

Always keep the core objectives of the merger in the forefront of the process and measure the performance against this target. Remember why you are here and what it is you are trying to achieve and it will almost act like a guiding light. Lose track of this and watch the merger head off the rails.

Accumulation of "technical debt" due to complex decision delay and deferment

The first hard decision you made is to make the actual acquisition, but this is probably one of the easier ones you will face. Decisions will need to be made around staff, leaders and customers. For example, often management believe customers will not be impacted by a merger and therefore 1 + 1 = 2, but in one case we saw a major customer of two companies that merged turnaround and reduce purchases from the combined entity because they then had a concentration risk, so 1 + 1 = 1.

So if you are thinking about a merger or acquisition make sure you are doing it for the right reasons and plan accordingly. It is always amazing how much money organisations will spend up front on the acquisition in terms of lawyers and advisors on due diligence and deal structuring yet spend a fraction of this cost on the actual integration itself. Buck the statistics and make your merger or acquisition fall in to the 10% to 30% that actually deliver an increase in shareholder value. Engage the right professionals to help you through the integration of your dream.

The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals

Mike McCreadie
Senior Managing Director
Corporate Advisory Services
+61 3 9604 0612
michael.mccreadie@fticonsulting.com

EXPERTS WITH IMPACT

About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

©2018 FTI Consulting. All rights reserved.