

CRACKING THE CODE TO SUCCESSFUL POST- MERGER INTEGRATION



“Closing the deal is only part of the battle—the most challenging work begins once integration starts.”

The global M&A market was strong in 2018 with transaction volumes reaching \$4.1 trillion, the third-highest year ever for M&A volumes¹. Against a backdrop of slowing economic growth globally and geopolitical tensions such as Brexit, North American deal volume decreased by 18 percent year-over-year. However, deal value increased over 15 percent thanks to 19 megadeals (valued at \$10 billion or more) in the first half of the year².

Closing the deal is only part of the battle—the most challenging work begins once integration starts. Without a carefully planned and executed strategy, the odds of completing a successful merger plummet.

The numbers aren't exactly reassuring. A study by [KMPG](#) estimated that 83 percent of all mergers fail to increase shareholder value, while a McKinsey report³ suggests 70 percent of mergers can be characterized as failures.

WHY WELL-PLANNED INTEGRATION IS SO CRITICAL

It's fair to say that post-merger integration is the determining factor in the ultimate success or failure of any deal. It should also be noted that there is no fixed “integration” period during the course of a merger. Rather, acquisition integration is a sustained process that runs from [pre-deal due diligence](#) all the way to present-day management of the new enterprise. Given the elevated multiples, companies are paying for acquisitions, successful integration has become even more important considering the difficulties in finding the right acquisition target.

The roadblocks to successful post-merger integration can arrive in a variety of forms. There are a few integration problems that crop up with alarming consistency. A [survey](#) by Roland Berger Strategy Consultants of more than 130 post-merger integration managers from around the world and across more than a dozen industries revealed the following:

- › 80 percent of those surveyed suffered from a lack of synergy management and incomplete integration
- › 50 percent failed to address the cultural compatibility between the buyer and the target acquisition
- › 30 percent felt that the price of acquisition was too high compared to the return value

There are, however, a variety of steps companies can take to mitigate these and other common post-merger integration issues. The following are examples of the most relevant.

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BEGIN INTEGRATION PLANNING FAR AHEAD OF THE ACQUISITION

As mentioned above, integration isn't a discrete phase—it's an ongoing process that should predate the signing of any deal. Issues relevant to the eventual integration of the acquisition should be explored during the due diligence period.

ALLOW THE PLANNING PROCESS TO BE GUIDED BY CORE PRINCIPLES OF VISION AND COMMUNICATION

Now is the time to discuss shared strategic choices and priorities for the new enterprise. Make sure expectations and goals are in alignment before moving forward. Open communication sets the stage for the harmonious integration of different cultures and management practices. A good first step is to create a communication plan during the due diligence and negotiation phases, so employees and stakeholders are informed as soon as the deal is closed.

FULLY COMMIT THE NECESSARY RESOURCES

Managing integration is a full-time job and should be treated as such. It should be considered a separate, full-fledged business function and handled no differently than marketing or finance. If the team doesn't have the expertise or the bandwidth for post-merger tasks, leverage the expertise of external resources to help get the job done.

DRILL DOWN TO THE ESSENCE OF THE DEAL

Keep the focus on the issues that will truly determine whether the integration succeeds or fails.

Is the deal generating buy-in? Is the communication plan strong enough? Is a retention plan in place? Is the integration adversely affecting day-to-day business? Has the synergistic potential of the integration been accurately mapped out?

By answering these key questions, companies can avoid having to play catch up during a critical transitional period.

TREAT HR AS AN EQUAL

Given their critical role in the transition, human resources should be treated as a strategic partner by C-suite leadership. Not every employee responds well to the introduction of a new corporate culture. By reviewing cultural gaps during the early deal stages, and helping employees acclimate post-deal, human resources personnel can help keep morale high, while preventing talented workers from departing as a result of sometimes uncomfortable changes.



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FOCUS ON THE KEY ELEMENTS OF SUCCESSFUL INTEGRATION

Successful deal integration boils down to prioritizing, detailing and demanding accountability for synergies; efficient targeting of the right functions for integration; allocating resources to support these functions; and, of course, strong, unwavering leadership.

THE TAKEAWAY

With the global M&A market appearing as strong as it has been in years, smart integration planning is more relevant than ever. By following the steps outlined above, companies will be in the best possible position to oversee a successful merger—something that corporate leaders, employees and shareholders will applaud.

LEARN MORE

Learn more about how CT can provide support for every stage of the deal, from due diligence to closing to on-going compliance. Contact a CT representative at 844-701-2064 (toll-free U.S.) or visit ctcorporation.com.

¹ 2019 Global M&A Outlook, J.P. Morgan

² Merger Market, Deal Drivers America

³ Perspectives on Merger Integration, McKinsey & Company