



PERSPECTIVES ON MERGER MANAGEMENT

# Integration Agility: Tailoring the integration approach to deal rationale and sources of value



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Late Thursday afternoon Carmela Jones sat at her desk reflecting on the failed acquisition of ACME. Carmela had expected to retain most of ACME's leadership team, but they were fleeing, and customers were following suit. If not stopped, this deal could destroy significant value.

How could this have happened? In her five years as head of M&A, she had led the successful integration of over 50 companies. How did the same top-notch team, using the same well-developed playbook and world-class tools, get it so wrong this time?

After staring at the data and reviewing all the deals the company had done, Carmela finally realized what had happened. The vast majority of earlier deals had been product bolt-ons or roll-ups of small competitors.

The ACME deal was different. It fell outside the company's typical bailiwick, and the company was counting on ACME to help transform key businesses—making them faster and more entrepreneurial. Of course, in hindsight, Carmela saw that this acquisition required a totally different approach.

## Tailoring the integration approach to deal specifics

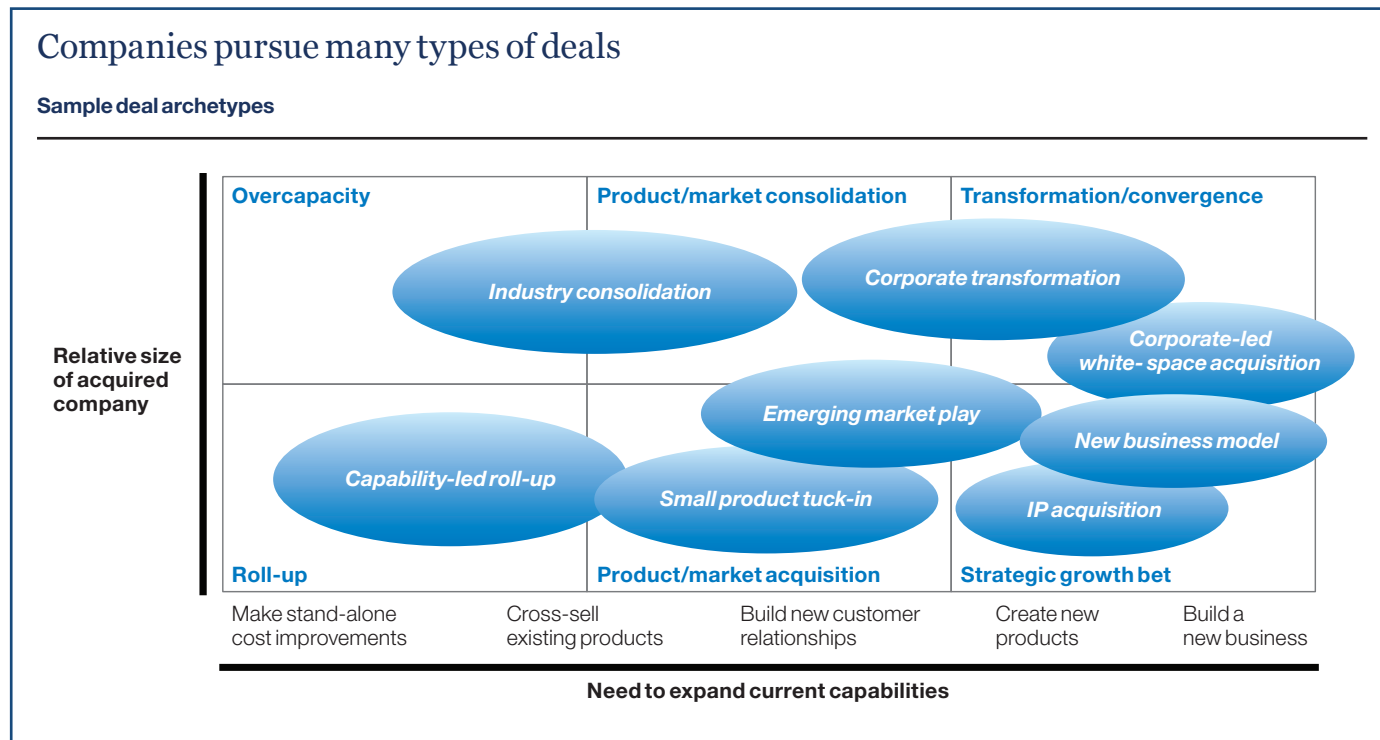
Like any muscle, integration requires practice to build both strength and agility. Practice also builds muscle memory that can last for a long time.

Companies doing their first deals can learn much from active acquirers that have experienced M&A deal teams and sophisticated integration playbooks to get integration off to a fast start. But even active acquirers may stumble, as their experience may encourage over-reliance on a standard approach (the muscle memory built by long practice). This one-size-fits-all mentality can be particularly risky in today's environment where deals are increasingly bigger, more complex, and focused on revenue growth, not just cost synergies.

Serial acquirers can learn much from agile acquirers. Our research shows that serial acquirers do not out-perform first-time acquirers unless they consistently tailor their integration approach to the specifics of each deal.



Exhibit 1

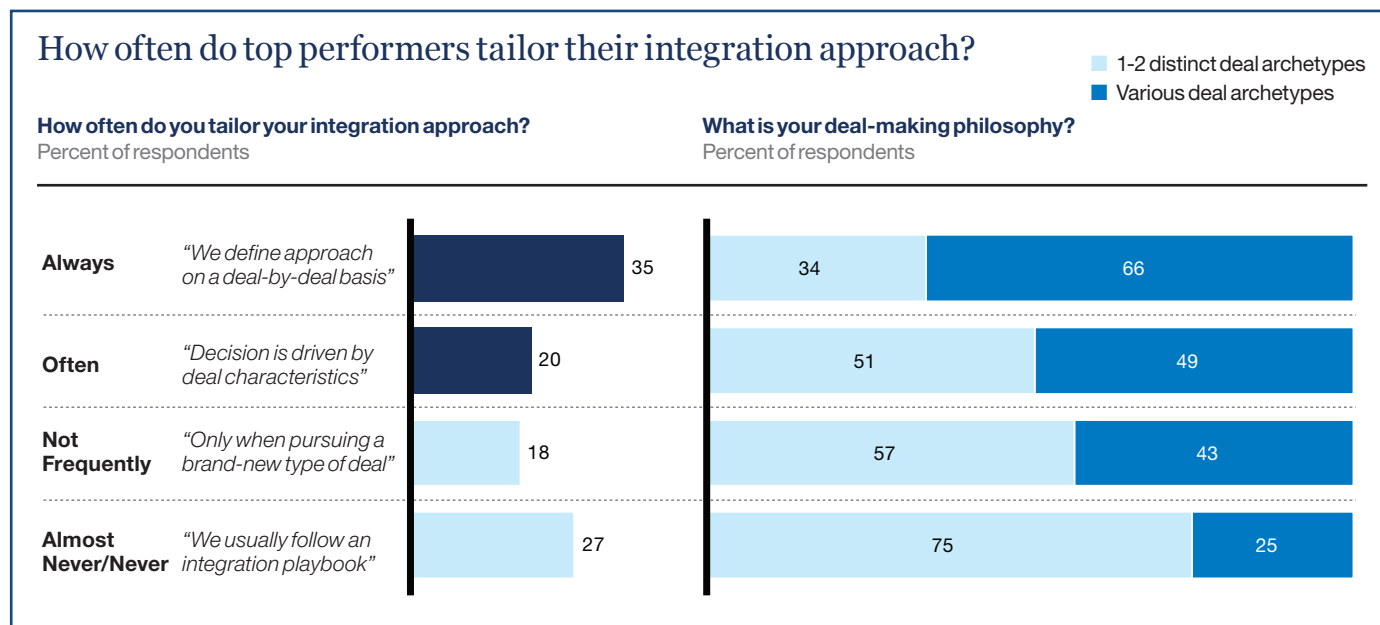


To understand whether, when, and how M&A-driven companies tailor their integration approach to deal rationale and sources of value, we surveyed 638 experienced merger management leaders across a broad range of company sizes, industries, and geographies. We also assessed the impact of tailoring on the deal performance reported by the companies.

## Whether to tailor

We found that more than half of M&A top performers (those that consistently achieve revenue and cost objectives) tailor their approach to deal rationale and sources of value.

Exhibit 2



This is especially true of top performers that pursue multiple types of deals (at least three distinct types), as the deals' different sources of value are likely to require different integration approaches. For example, the goals and integration requirements look very different for deals to consolidate company presence in mature markets, deals to expand geographically, and deals to place strategic growth bets on new businesses. According to our research, among companies that report doing several deal types, low performers are 44% more likely to follow a standard approach than adapt their approach to the specifics of each deal.

## When to tailor

Not surprisingly, top performers said that three factors signal the need to tailor their integration approach:

- The cultures of the target and the acquirer differ significantly—the values they stand for and the way they get things done are materially different.
- The target's core business is relatively unrelated to the acquirer's core business.
- The target is large relative to the acquirer.

These factors reflect the complexity of integrating two companies that differ markedly in fundamentals like culture, business focus, or size. Top performers emphasized the importance of change management efforts in these situations.

## What to tailor

More than 80% of the top performers reported that they always or very often tailor their approach to five critical dimensions of integration:

- Governance: who leads and how they do it
- IMO architecture: who coordinates the integration effort and through what organization
- Scope: what to integrate and to what extent
- Speed and pace: how fast to go and how coordinated the effort should be
- Culture and talent: how to handle people.

## Governance

Top performers adjust the allocation of decision-making authority between acquirer and target management to fit the objective of the deal. They likewise structure the leadership of the integration teams to help them meet that objective.

For example, a large deal that would require building a new culture and fostering collaboration might call for organizing the integration management teams to include mirrored leaders from the two organizations and splitting decision-making authority equally. But a deal done primarily to retain the acquirer's culture and operating model would probably see most integration teams and decision-making authority assigned to the acquirer's leaders.

A global information company set its sights on acquiring a slightly larger target with a much stronger international presence. The acquirer expected the deal to achieve significant cost synergies but also saw retention of the target's mid-level and top talent as critical to future international business success.

Therefore, the acquirer gave target executives considerable leadership responsibility, during and after the integration. A target executive led the integration effort and, months before close, was announced as the new COO. Leadership of the IMO workstreams was mirrored, with each co-leader given a fair shot at the final job. These efforts paid off handsomely, as the combined company realized synergies rapidly, increased market share over the #2 player, and retained all critical talent.

## IMO architecture

Top performers tailor three key aspects of IMO architecture to deal specifics:

- Size of the IMO (number of staff and funding level)
- Use of dedicated and specialized teams (dedicated to value capture, clean team, change management, culture, or communication)
- Structure of the integration teams (by geography, business unit, function, or a hybrid).

A serial acquirer in the pharmaceutical industry typically acquired relatively small companies that marketed products through overlapping physician call points. This acquirer typically staffed a small IMO team and assigned integration responsibility to ongoing business owners so they took control of the target as soon as possible.

Preparing to acquire a high-growth specialty pharma company with a stronger reputation in certain disease areas, the company realized that disturbing the target's commercial relationships would put significant value at risk. To avoid that risk, the acquirer organized a larger IMO, including a clean team tasked with assessing the degree of physician overlap and the strength of relationships of both salesforces. The company then organized three commercial teams focused on key account retention,



contracting review, and sales redeployment. This tailored approach minimized disruption to relationships and captured incremental synergies.

A top biotech company acquired a similarly sized player in a similar therapeutic area. While setting up the integration team, the acquirer realized that the two companies had very different operating models. The acquirer was organized geographically, with a small corporate center, while the target had a global business unit structure.

The acquirer decided to roll out a new matrix-based operating model. Recognizing the tension this would create, the acquirer created an org design team in the IMO, with a dedicated business partner for each integration team. The responsibilities of the business partner included rolling out the new structure, managing talent selection, and communicating the operating principles of the new model. The company moved quickly to the new structure, announcing all L3 positions before deal close (and only two months after deal announcement).

## Scope

As appropriate to deal specifics, top performers tailor decisions on the breadth and depth of integration required for critical capabilities, such as sales and marketing, R&D, and product development.

For example, deals to access new technologies or enter high-tech product areas often require decisions on whether to leave the target alone, integrate selectively (some HR and

business support functions), or integrate fully to bring the acquired product to new levels rapidly (when the target's product concept is relatively close to acquirer products).

When a large, mature, industrial conglomerate acquired a small, innovative growth engine, the last thing the acquiring CEO wanted was to crush the target's unique capabilities. He delivered an edict: "no one would visit, meet with, or call" the target without his personal written consent or face termination. A favored global functional leader who ignored the edict was terminated immediately, setting an example for the rest of company's leadership.

A large universal bank opted for selective integration when acquiring a specialized financial services company. The acquirer achieved expected cost synergies by fully integrating most target support functions and several BUs but took a different approach to two major BUs.

For one BU where attrition as high as 70% looked likely, the integration leader postponed all action until he had met with every team around the world. This delayed integration for two months but limited attrition to a much more manageable 30% and prevented significant disruption of BU activities.

The acquirer transplanted the target's core BU virtually intact in order to preserve a product line new to the bank and take advantage of the BU's access to capital. The protected BU flourished—launching new products while the integration proceeded elsewhere, losing no key employees, and increasing revenue 20% over the next three years in a declining market.

## Speed and pace

Integrating as quickly as possible usually maximizes value, but not always. Top performers take deal specifics into account as they make decisions on which processes and systems to maintain, how long to evaluate alternative systems in order to find the right answer, how quickly to proceed with integration, and how to pace the integration of each function into the organization. Almost half of top performers (43%) called tailoring integration extent and pacing, function by function, critical to their integration approach.

To capture the value of cost synergies, companies tend to make decisions on talent selection and organization well before close, execute right after close, and integrate the target into the acquirer's systems and processes as fast as possible without slowing to evaluate "best-of-both" opportunities across the two organizations. But this approach can destroy key capabilities or slow business momentum if not aligned with the deal's sources of value.

For example, when a multinational energy corporation acquired a software firm to manage smart grid equipment, leadership realized that a one-size-fits-all approach to integration would undermine deal value. Back office integration started in September, but the acquirer shielded target commercial capabilities until the new calendar year to avoid disrupting the target's annual revenue cycle. The target sold software through annual subscriptions, and most clients renewed their contracts in November and December.

Many companies launch activities to capture revenue synergies, while delaying cost integration efforts due to regulatory factors (e.g., workers' council review) or reputational factors (e.g., union relationships). In a recent airlines merger, the company rapidly introduced new alliances and routes, revamped network planning, and revised the customer loyalty program, while slowly integrating day-to-day operations.

## Culture and talent

As warranted by deal specifics, top performers tailor decisions on which employees to retain and how to align company cultures. Almost half of top performers (47%) called efforts to align cultures critical to their integration approach.

In a transformational or new white-space deal, the integration approach usually includes broad retention programs and measures to protect the target's culture. But in a deal to improve a target's underperforming operations by strengthening management and introducing superior processes, the integration effort typically moves to capture cost synergies quickly and fold the remaining target employees into the acquirer's structure and culture.

When two retail banks with high-performance track records and strong results-oriented cultures merged, leadership paid little attention to culture because the banks looked quite similar. But the planning/budgeting process uncovered two very different cultures—one focused on cost management and the other on growth. The new company had to weather a long, painful change management effort, including a new incentive and compensation structure and training programs, to align on a new dual mission.

Later this same retail bank did a deal to expand into a new geography. Recognizing its limited relationships in this region, the acquirer was determined to retain 100% of target staff and so let cultural integration proceed gradually. For a year the acquirer treated the target as a bank within the bank, operating with considerable autonomy, while the acquirer slowly added key executives to target leadership in order to start the transformation

from the top. Today the bank enjoys growth in the region 1.5 times the rest of the industry and has lost no key management staff to competitors.

## Parting thoughts

The examples outlined above show some of the real challenges posed by integration and the choices that companies must make to address the challenges. Many merger management leaders who have tackled these challenges call the effort a career-defining moment that pays huge dividends down the road. Their experience suggests the value of putting integration agility on the agenda of every integration leader.

Carmela Jones learned that lesson the hard way in the ACME acquisition. She set her playbook aside and brainstormed with her team a simple list of questions to ask themselves before launching the execution of any deal:

- Do we understand and agree on our reasons for acquiring this target?
- What distinctive capabilities do we have that will add value to the target?
- What distinctive capabilities does the target have that will add value to us?
- Do we understand how the deal will create value (e.g., increase sales, cut costs, leverage capital)?
- Do we know which BUs or functions will account for most of the value created? Do we know which BUs, functions, or processes (if any) we should shield from disruption?
- Do we know when we should integrate each department, function, or geography and why?

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