NAVIGATING THE PATH TO SUCCESS:
POST MERGER INTEGRATION

EDITED BY THE DEAL
Companies face an often-daunting prospect of making their hard-fought acquisitions work well and making their purchase price worthwhile, tasks made all the more difficult as competition for deals heats up and target valuations spiral higher. Post-merger integration is absolutely critical to that effort, but the process can also be unpredictable and demanding.

A panel of experts articulated many of the issues acquirers face—and the steps they need to take—during a recent roundtable panel, “Navigating the Path to Success: Post Merger Integration.” The Deal LLC and Intralinks co-sponsored the Webcast.

Panelists included Steven Ross, Director of Integration Services at Lockheed Martin Corp.; Todd Henrich, Senior Vice President of Corporate Development at The Priceline Group; and Hyman Buchwald, Vice President Corporate Development at Xylem Inc.; Ben Collins, Vice President of Product Marketing, Corporate Development at Intralinks, served as moderator.

“There are so many unknowns and uncertainties,” Henrich said, when asked about advice for post-merger integration. “I hate to sound like a Nike commercial, but just do it right.”

Post-merger planning should start long before the deal is signed, the panelists stressed. “As the company is developing its business case, assessing revenue and cost synergies, you need to think about how you’re going to actually achieve those synergies and that value,” Buchwald explained. “Post-merger planning should start as part of the due diligence process.”

Panelists advocated strongly for an integration leader to be named in advance of the deal itself. “It all starts with taking a leader that everybody respects, somebody who has a deep understanding of the organization,” Buchwald said, suggesting that an individual who has done integrations in the past will expedite efforts. “You need somebody who’s going to be very disciplined.”

“You can’t bring a deal forward to the board or our investment committee without an integration leader named,” Ross added.

Steering committees are another important element of a post-merger integration. “We’ve gotten more into a governance structure as well, so we’ll set up steering committees that help drive the integration for key decisions,” Ross said.

Buchwald, who also has led acquisitions and divestitures at IBM and ITT, said the composition of the steering committee on deals he’s worked on depends on the “size and impact of the transition.” A large, transformational transaction will involve the CEO, CFO, general counsel and other senior executives. A smaller, bolt-on transaction may comprise just the sponsoring executive and his or her direct reports.

All three panelists use an integration playbook. That provides “guidance, structure and consistency with respect to the integration process,” Buchwald explained.

However, the size and complexity varies. Buchwald talked of a playbook with “many, many checklists, it has templates to help save time.” By contrast, “our integration playbook is pretty small and straightforward,” Henrich said.

Get Your Priorities Straight

As integration begins to unfold, the newly merged entity needs to reassure employees. To do so, Buchwald said, the CEO or other executives must articulate the new structure and integration process as well as communicate the purpose and the vision for the deal and what they hope to accomplish. “If you can do that, and if you can get the buyer and seller’s employees to understand that they’ll be more excited about it, and they’ll give you a little bit of a leeway in terms of how things are going.”

Some aspects of integration are more critical than others. Cybersecurity is one. With Priceline, for example, the negotiating and diligence teams are assessing the security protocols of the target and what needs to be done after a deal closes. “They are communicating that to the other side even before we may a deal,” Henrich said. “They need to understand, ‘this is what you’re going to have to do, we’re not messing around on this point.’ ”

On the other hand, transition services, where the seller provides infrastructure support after the deal closes, is something to be either minimized or avoided altogether, panelists said. “Neither the seller nor the buyer really wants to deal with transition services,” Buchwald explained. The seller just wants closure, and the buyer either wants to perform these services or outsource them. If they’re absolutely necessary, the goal should be to get them as quickly as possible, he said.

“It’s just another layer of risk on the transaction,” Henrich added. “It’s just another layer of complexity and distraction for an organization.”

A cross-border deal is especially complicated, Ross said. While culture may vary, depending on the countries involved, “the systems are always different,” he explained. He cited a range of issues from taxes to work council laws. “You’re
dealing with Australia, and the U.K. and the United States, we’re all speaking one common language, but we’re doing things completely different.”

Panelists said they rely on outside legal counsel with a strong international presence and transaction advisory and global accounting firms to help educate them on offshore company integration. Buchwald said that in those cases, he would have an open-ended discussion even before the deal is completed, asking questions such as, “How is it normally done? What are the things that I need to watch out for? What are the biggest concerns in terms of doing a deal in, pick a country?” That helps to shape post-merger integration, he said.

While Henrich agreed that there’s a real need to understand the regulatory and legal framework of an offshore acquisition, one way to minimize cultural and operational-related problems is to let the acquired company “run on their own,” he said.

The softer aspects of post-merger integration may be more difficult to assess, but they’re important as well. One is corporate culture. Having compatible work cultures is desirable. Having an acquired company buying into the new parent company’s culture is crucial. “There’s going to have to be some element of recognizing, ‘hey, we’re all in the same boat together. There are things that we do need to share amongst ourselves, together, and build that organization,’ ” Henrich said.

Henrich stressed, however, that Priceline approaches M&A differently from many companies. “The vast majority of our deals we have maintained as standalone companies,” he said. “We’ve wanted to maintain that sense of independence and self-reliance, even at the cost of perhaps not optimizing every dial on potential integrations.”

Acquired companies in some cases actually compete with each other and with Priceline itself, Henrich explained. “A big part of our success has been each of the brands willing to live in this frenemy world,” he said.

He also warned that the higher the acquisition costs and the steeper the valuation, the more synergies become necessary to make the deal work. “The more risk you’re creating in that transaction,” Henrich believes.

A reliance on cost synergies, Buchwald acknowledged, means that it becomes more difficult to keep the acquired business separate. “You’re not going to achieve the results that you want,” he said, “so you need to think about back office integration, you may need to think about consolidating facilities, you may need to think about employee layoffs.”

But Buchwald also stressed that flexibility is also important in the integration process. He cited compensation. It might make more sense, and better boost morale, to defer the integration of compensation and benefits of the acquired company “because their comp and benefit structure, and the way they motivate their sales folks, are different than, let’s say, the mothership.”

However, he added, it’s good to understand that during the diligence process so the acquiring company can plan for it ahead of time and communicate early on with the new employees, to assuage fears.

It’s important to impress on integration managers that the process is both exciting and demanding and needs time to work. Ross said he always tells integration managers from the onset, “This isn’t like you’re coming in until we get things done for three months and we declare victory. You’re here so you need to live it and run it.”

Ross quoted a tenet at Lockheed Martin: “Let’s do the right deal, but let’s do the deal right.” Post-merger integration, he said, is all about doing the deal right.