M&A Keys to Success

# Approaches to Post-Merger Integration: Deal Type Is the Driver

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## Premise

Most companies with any level of acquisition activity have challenged themselves to take a more rigorous and repeatable approach to post-merger integration. There are few areas that defy a one-size fits all approach more than integrating acquired companies – mainly because there is a myriad of different deal drivers that require very distinct approaches to integration. This does not mean we cannot take a rigorous approach with a well-defined methodology – however, it does mean that we need to understand the major "groupings" of deal drivers and then establish corresponding integration frameworks that ensure we are maximizing deal value.

## Deal Types

While there are many different motivations for one company to acquire another, we have identified five main deal types that describe the majority of acquisitions.

| Deal Type | Examples | Primary Deal Objective |
|---|---|---|
| **Cost/ Consolidation** | • American Airlines' merger with US Air<br>• Schwab's proposed acquisition of TD Ameritrade<br>• Fiat Chrysler's proposed acquisition of Peugeot | Drive out costs and gain economies of scale through consolidation. Cost-driven mergers and acquisitions are most often found in mature, consolidating industries and/or in industries where scale advantages are very pronounced. The trigger for these deals is usually a combination of oversupply, low pricing power (airlines and financial services), increasing input costs, and flat or shrinking markets (automotive). |
| **Product Expansion** | • Broadcom's acquisition of CA Technologies<br>• Keurig's acquisition of Dr. Pepper Snapple<br>• IBM's acquisition of Red Hat | Gain access to acquired company's products, technologies and/or development engine faster/ cheaper than building it organically. Broadcom was able to add an enterprise software division, Keurig was able to add cold beverages and distribution muscle, and IBM was able to add open source and cloud capabilities. |
| **Sales Channel Expansion** | • Aon's acquisition of acquisition of Hewitt<br>• Kraft's acquisition of Cadbury's<br>• Unilever's acquisition of Dollar Shave Club | Acquire a new sales channel that drives a level of growth and value creation beyond what could have been achieved as a standalone company. Aon gained access to Hewitt's large corporate clients as well as cross-sell opportunities for consulting and brokerage. Kraft used Cadbury's to enter high-growth emerging markets. Unilever was able to establish a new direct-to-consumer channel. |
| **New Business Platform** | • Walmart's acquisition of Jet.com and Flipkart:<br>• CVS' acquisition of Aetna<br>• Amazon's acquisition of Whole Foods | Enter into a strategic adjacent market where acquirer has little to no presence. The acquired business is different enough that it generally has different business processes and HR programs which are attuned to the market in which they operate, but are materially different from the acquiring company market practices. Walmart used its acquisitions of Jet.com (US) and Flipkart (India) to catch up with Amazon on ecommerce. CVS' acquisition of Aetna was driven by improving care coordination and getting upstream patient access. Amazon is using its acquisition of Whole Foods to break into the one element of retail where it wasn't successful i.e. grocery. |
| **Portfolio Play** | • Berkshire's acquisition of Precision Castparts:<br>• Disney's acquisition of 21st Century Fox, Marvel, Pixar etc.<br>• JAB's acquisition of Panera Bread | Add a company to the portfolio as a financial play, with no requirement on the acquirer to drive deal value. This type of acquisition has become increasingly common, especially with the rise of private-equity owned companies and is generally driven by a belief that the company is underperforming and/or undervalued. In addition to Private Equity companies, most of Berkshire Hathaway's acquisitions are of this type. Some major acquisitions by companies like GE, Disney, Alphabet etc. can also be categorized as portfolio plays, since there isn't any expectation of integration (at least in the short to medium term). |

Many deals are hybrids of the above; however, majority of deals have (or should have) a predominant deal type.

## Integration Parameters

In order to better evaluate the best integration framework, we explore three areas for which integrating acquired companies would vary significantly, based on deal type.

| Degree of Business Process Integration | Degree of HR Program Integration | Degree of Organization Changes |
|---|---|---|
| The extent and speed with which core business processes such as product development, sales, marketing and operations need to be integrated to realize and maximize deal value. | The extent and speed with which programs and processes such as Compensation, Benefits, HR Policies, Learning & Talent Management need to be integrated. | The extent and speed with which the organization structure, roles & responsibilities, and communication/ coordination mechanisms need to be integrated. |

The following chart displays the relationship between deal type and integration approach. While the chart reflects the five deal types defined above, many deals may have a primary and secondary driver, in which case it may be necessary to implement a hybrid of the integration approaches noted.

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| Deal Type | Business Processes | HR Programs | Organization Structure |
|---|---|---|---|
| Cost/Consolidation | • Deep and rapid integration across most or all processes<br>• Processes can be prioritized by synergy impact and business disruption | • Programs and policies should be integrated quickly, economies of scale should be leveraged (e.g. in benefits) and consistency should be a key objective | • Depends on relative size. If unequal, the smaller company should fold into acquirer's structure quickly. However, if it is a merger of equals, it may require strategic restructuring to maximize benefits, and organization integration will be a two or three-step approach. |
| Product Expansion | • "First - Preserve the value" approach for Product; Same logic may also apply to Sales and Operations if those functions are closely aligned to Product<br>• Long-term integration should sustain the product line | • Requires careful & objective consideration of what elements need to be kept distinct to preserve value e.g. compensation, job structures and career paths for unique product roles. Integration/ harmonization in these areas should be concurrent with, or slightly lagging, business process integration.<br>• Elements that aren't essential to preserving value (e.g. policies and benefits) can be harmonized quickly, though with some consideration to different workforce demographics | • Product and sales teams may have a prolonged transition. Product roadmap and future state selling model will dictate the extent of integration.<br>• Acquired sales and support teams generally operate in the near-term as sales/ support specialists dedicated to their product line<br>• If acquired company is kept intact as a business unit for a period of time, corporate functions may continue to "dotted line" to the acquired BU leader, though solid line should move to global functional leader.<br>• Deliberate communication & coordination mechanisms have to be created between non-integrated functions. |
| Sales Channel Expansion | • Near-term selling motion established immediately<br>• Near-term and end-state selling model will guide other aspects of integration<br>• In majority of cases, core business/ operations processes will be integrated rapidly | • Ultimate goal is a consolidated set of HR policies, processes, systems, grade structures although the timing may vary<br>• Sales incentives, training, competencies etc. may remain distinct and may even be adopted by the acquirer | • Corporate functions integrate quickly<br>• Leveraging all channels may require significant reorganization in Sales<br>• Sales Ops plays a major role since accounts/ territories may need to be remapped, and metrics, interlocks and plays revisited |
| New Business Platform | • Deep and rapid integration for back office processes<br>• Processes unique to each business model may be modified to drive coordination, but not be fully integrated. If there is a need to integrate core data (e.g. patient records), it will typically drive a very long and complex integration. | • Similar to Product Expansion – requires consideration of what elements need to be kept distinct to preserve value of the new business platform. Elements that aren't essential to preserving value can be harmonized quickly.<br>• One difference from Product Expansion is that integration/ harmonization isn't a given. Depending on the size and uniqueness of the new platform, some of their HR Programs may be retained permanently. | • Core business remains as a distinct business unit; certain teams of acquiring company may be moved into the acquired unit.<br>• Corporate functions integrate quickly while retaining a "secondary axis" that serves the acquired business unit<br>• Back office functions (e.g. billing, customer support) are brought into the corresponding organization structure quickly; however, integration into a true shared services model depends on considerations like legacy systems, unique processes and institutional knowledge. |
| Portfolio Company | • Minimal or no integration, except where there are purchasing power benefits across the portfolio | • Minimal to no integration of HR programs and policies. There may be a re-assessment of select HR vendors/ providers to leverage existing relationships, discounts, etc. to improve cost and service. | • By definition, there is no organizational integration. If it is an underperforming asset, executive leaders may be replaced. |

Every deal is different, and no one framework can provide the right answer for every possible variation. However, we have found the framework above to be extremely useful in helping executive leaders (CEOs, CHROs, CFOs and Chief Integration Officers) to tee up two strategic questions:

- What should we integrate?
- In what sequence?

This framework is best used early in the process – ideally in the first integration strategy session, right after the deal is signed. As time passes and Close date approaches, executives find themselves pulled into urgent but tactical decisions – Day 1 communications, network access, payroll cutover dates, mapping charts of accounts, etc. Trying to answer the strategic questions becomes a luxury that no one has time for. Under time pressure, the default assumption becomes either "we need to integrate everything/ as fast as possible", or "we don't need to integrate much/ we can wait".

Both assumptions can lead to squandering precious resources or unrealized deal value. The correct answer always lies in a close examination of the deal type.