Post Acquisition Integration

Written by Alberto Elli

After so many years of being involved in business development, I think one of the most critical moment in an acquisition is the integration phase, when there are great chances to destroy shareholders' value.

Let's see where the resources are concentrated during the three major temporal blocks of an acquisition:

1) Strategic intent, target setting and proforma decision to justify the deal price. Great focus from top management, quite unrealistic expectations pushed both from inside (need for growth) and from outside (bankers driven by fees as a percent of acquisition price).

2) Negotiations and closing. Seller, buyer and advisors have strong vested interests to get the deal done, also stretching proforma. Maximum peak of resources involved: multi-functional team from the acquirer and handsomely paid consultants from outside: lawyers, environmental experts, tax experts and accountants, bankers for financing and for advising on the deal. Once Due Diligence is completed (and at times it is done too quickly and without depth) and Purchase Price is set, all these actors tend to disappear because they have reaped the biggest rewards.

3) Once Senior Management is on a new acquisition and the "clock" of external advisors has been stopped, the local team and a bit of divisional support is left with the huge task of integrating the new acquisition and to deliver the shareholders' value they are committed to.

RISK ASSESSMENT

To better understand the challenges of integration, an analytical risk assessment will help to highlight the areas that will need most management attention and dedicated resources. The following model can be run both in a qualitative way (describing the issues) and in a quantitative way (assigning values to each variable based on prior integrations experience). The latter approach is particularly valid for "serial acquirers" that will quickly size the risks and assign internal or external resources based on prior experiences and … lessons learned!

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Nature of the transaction

1 Clarity of Strategic intent
2 Board of Directors Approval
3 Highly leveraged
4 Proforma on more than 5 yrs.
5 Acquisition and integration costs budgeted
6 Target, public or private
7 New Market Entry
8 Bolt-on acquisition
9 Transformational
10 Joint Venture
11 Minority Participation

Complexity "up-front"

12 Sales $10 - $50 Mill. or more
13 Multi-divisional
14 Multi-geography
15 Plants to shut-down
16 People to reorganize / downsize
17 Due Diligence -> major adjustments
18 Net Worth Adjustments
19 Earn-out on multiple years

Customer Facing / Front Office

20 Key Management to retain
21 Criticality of customers – Sales retention
22 Criticality of customers - Terms&Condition
23 Bad Debts Reserve
24 Compliance issues / severity – FCPA specific

Back Office

25 IT integration complexity
26 ERP to implement
27 Business Intelligence
28 Supply Chain established
29 Production Planning
30 Safety Procedure
31 Inventory management / slow moving
32 Centralized Purchasing
33 Critical Suppliers
34 Finance - closing and reporting in less than 5 days
35 Finance - monthly B/S reconciliations
36 Finance - Cost Accounting

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37 Finance - Bank relationships, complexity
38 Finance - Cash Flow Management
39 Finance - Tax strategy
40 Risk Management – Insurance and Legal support
41 HR - Payroll (internal or Outsourced)
42 HR - Labor Contracts repository
43 HR - Benefits defined, perquisites definition
44 HR - Pension Plans assumptions understood and funded

Others

45 Culture, consonant or dissonant to acquirer
46 Regulatory and IP protection, criticality of issues
47 Warranties on long term sales contracts
48 Warranties on long term purchasing contracts
49 Documentation of Labs procedure
50 FX hedging in place

WHO HAS TO LEAD THE INTEGRATION PROCESS?

Every each integration is different but the best practices on the resources needed have informed the following considerations:

1) **CFO (Acquiring or the acquired).**
   Given the ultimate goal to deliver on expected shareholders' value creation, the involvement of the acquiring CFO is very important but cannot be the sole responsible, given the many others concurrent responsibilities. At times, the acquired CFO has been asked to lead the integration; results are mixed because the internal knowledge can be over weighted by the temporary nature of his/her mandate. Only if the acquired CFO will have a long term place in the organization, the integration role works pretty well, actually if executed with excellence is the best entry in the new organization.

2) **Internal Project Leader (Full time or part-time).**
   PMO skills are needed; either imparted through internal training or available in specific professionals but the true integration leadership is quite different: best is to have a manager that is slotted to become the leader of the acquired entity or the leader of another acquisition.
   Depending the size of the organization and the frequency of acquisitions, the investment of full-time resources is to be considered; the experience is usually multi-functional and the resource can be redeployed quite easily.

3) **External Project Leader.**
   Solution to consider when the acquisition is one-off or is particularly complicated from a geographical/cultural point of view. Difficult to recruit the right profile but once is individuated the scope, the timing and the cost is fixed, even more important is the independence from internal politics and divisional agendas.

4) **Internal Team (permanent or ad-hoc).**
   Best practice is to form a full-time internal group of experts that can be redeployed after the acquisition is integrated or kept as a team if more are foreseen. To be noted that integration can be a relatively compressed time frame but full achievement of synergies can be a longer effort, like for Supply Chain and for IT in the contest of ERP implementations.

5) **External Team**
   Risky proposition in term of having the right quality and number of resources for all the time needed to complete integration. Once a resource is hired for a functional area, always ask to identify a back-fill. If possible, try to shy away from time and material contracts in favor of closed end sum, or based on payment at milestones' achievement.

CONCLUSION

Clarity of the objectives to achieve, well defined timetable, proactive risk assessment and correct deployment of resources are key to a successful integration that will deliver the full value of an acquisition.

About the author:

Alberto Elli for the last three years has been Interim-Chief Financial Officer for private and PE-owned companies in the space of consumer electronics and fashion, leading processes of turnaround and exit strategies.

From 2008 to 2013, he was Vice President and Controller of Sherwin-Williams Global Finishes Group (OH) (Automotive Finishes; Chemical Coatings; Protective and Marine Coatings and Emerging Markets) with about $3 billion Sales. Since inception, in 2008, the Group grew sales 70% both organic and with several acquisitions. Alberto joined Sherwin-Williams in 2006 as Vice President and Controller of the International Division after ten year experience in the pharmaceutical industry with Schering-Plough. His first assignment was as Finance Director in Italy and he was later promoted VP of Finance for the Healthcare Division

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headquartered in US-NJ and after three years was named VP of Finance, Pharma International, a group of $4 billion Sales. From 1985 to 1996, Alberto held various financial positions in Italy, the last of which was from 1989 to 1996 as Finance Director for SCA, a leading Swedish multinational in paper and packaging industry.

Alberto earned his degree of Dottore in Economia e Commercio from the Universita' L.Bocconi, Milano, Italy

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