FINANCIER WORLDWIDE REVIEW REPRINT

Value Beyond the Deal: Best practices for PMI

We invite you to read this complimentary article published by Financier Worldwide. In the article, BDO's Jonathan Hughes emphasizes the importance of defining an M&A integration strategy that is aligned to the strategic rationale of the deal. The article also highlights the potential pitfalls of post-merger integration including not having an integration management office (IMO) to oversee integration and failures to retain key talent.

THE ARTICLE ORIGINALLY APPEARED IN THE NOVEMBER 2023 ISSUE OF FINANCIER WORLDWIDE

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BDO

Published by Financier Worldwide Ltd

FEATURE ARTICLE REPRINT November 2023

Value beyond the deal: best practices for PMI

BY FRASER TENNANT, ASSOCIATE EDITOR, FINANCIER WORLDWIDE

Executing an M&A transaction is one the defining transformational events in the life of any company. The process can take anywhere from six months to several years to complete and consists of a series of key stages

However, not all stages of the M&A process – which includes assessment and evaluation of target, due diligence, signing the contract and closing the deal – are considered equally important. Some, such as merger integration, are often neglected if not ignored by executives.

Neglected but essential, merger integration or post-merger integration (PMI) is the process of aligning the strategy, culture, operations and systems of the merged entities to achieve expected synergies and value creation. It can be a challenging and complex stage of the M&A process, requiring careful planning, execution and communication, particularly amid a world transformed in recent years.

"Many of the recent shifts in how businesses operate have implications for merger integration efforts," says Jonathan Hughes, a principal at BDO. "The increasingly virtual post-COVID-19 workplace carries both risks and benefits. Remote work has to some degree hampered the communication and cooperation that stemmed from individual, in-person connections, but companies are also employing new collaboration technologies to compensate.

"Artificial intelligence (AI) is another factor impacting and complicating PMI," he continues. "Such tools can greatly improve effectiveness and efficiency, and, in many cases, fewer people are needed in certain functional areas. Merging companies need to give careful consideration to how disruptive forces like AI will change their business models, processes and staffing requirements in their integration plans."

Thus, with such forces likely to disrupt and reshape the global M&A industry, integration strategy should be viewed as integral to the deal thesis. There are a number of PMI best practices that can help merging companies toward achieving a successful outcome.

Establishing an integration programme

It is generally estimated that billions of dollars are lost every year because companies fail to properly implement integration after an M&A transaction. Indeed, research by KPMG indicates that 70 percent of the value erosion for deals that fail occurs at the post-integration phase of an M&A transaction.

"Most companies lack sufficient internal integration experience, especially for larger and more complex deals," explains Mr Hughes. "Merger integration can be a chaotic process and there are many potential pitfalls, from not standing up an integration management office (IMO) to oversee integration, to failures to actively retain key talent.

"In any transaction, it is critical to define an integration strategy and align that strategy with the deal rationale," he continues. "Involve people from both merging entities in integration planning and assign a single leader for each integration workstream. Select these leaders based on competence – avoid defaulting to personnel from the acquirer."

According to Dealroom, certain steps, outlined below, will help to create a game plan and M&A integration checklist for employees, as well as set goals, track progress and allow open communication.

First, start planning right from the get-go. Integration planning must start at the beginning of the deal and goals need to be re-evaluated regularly throughout the integration. Teams should also be assembled around aligned cross-functional goals.

Second, hold a kick-off meeting. A kick-off meeting should be held at the commencement of the deal. At this meeting, a list of people to be included in this phase must be generated. During this stage, it is critical to clarify governance and determine the operating post-merger integration framework.

Third, conduct due diligence. While due diligence is not historically categorised as a part of PMI, successful M&A integrations keep a sharp eye during diligence. Tools such as M&A software can help companies plan for PMI before the deal closes.

Fourth, conduct a pre-close review. Again, not technically part of PMI but essential to a positive outcome, pre-close synergies should be reviewed and confirmed, and teams and team leaders should be established.

Fifth, establish communication channels. Team leaders are advised to institute communication channels and reporting via weekly or monthly stand-ups.

Finally, conduct a post-close review. Here, teams review and evaluate the post-acquisition integration throughout constant short iterations, thus making it easier to realign a team and its goals as new information arises.

"Successful integration requires a clear common understanding of the strategic rationale of the deal and sources of value; which could be cost synergies or positive revenue synergies, and could be driven by combining or rationalising physical assets, data assets, intellectual property, brands or sources of value," adds Mr Hughes. "What is integrated, how and at what pace should be tied to this."

Assembling a PMI playbook

While no two transactions should be integrated in the same way, with the same priorities or to the same timetable, it is nevertheless advisable for companies to devise a playbook on PMI that is tailored specifically to their internal teams, structures and ways of working.

"Companies planning to pursue multiple acquisitions should develop M&A capabilities as a core competency," advises Mr Hughes. "Serial acquirers typically have an integration playbook that helps institutionalise their methodology, such as identifying individuals across functions who are repeatedly tapped to support integrations.

"A playbook helps ensure that deal value drivers are analysed, planned for, measured and executed," he concludes. "But integrations are, by definition, not business as usual, and require capabilities above and beyond what is required in the normal course of business." ■