Growth and innovation

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Point of View

Many Paths: alternative integration strategies and the drivers that make them work

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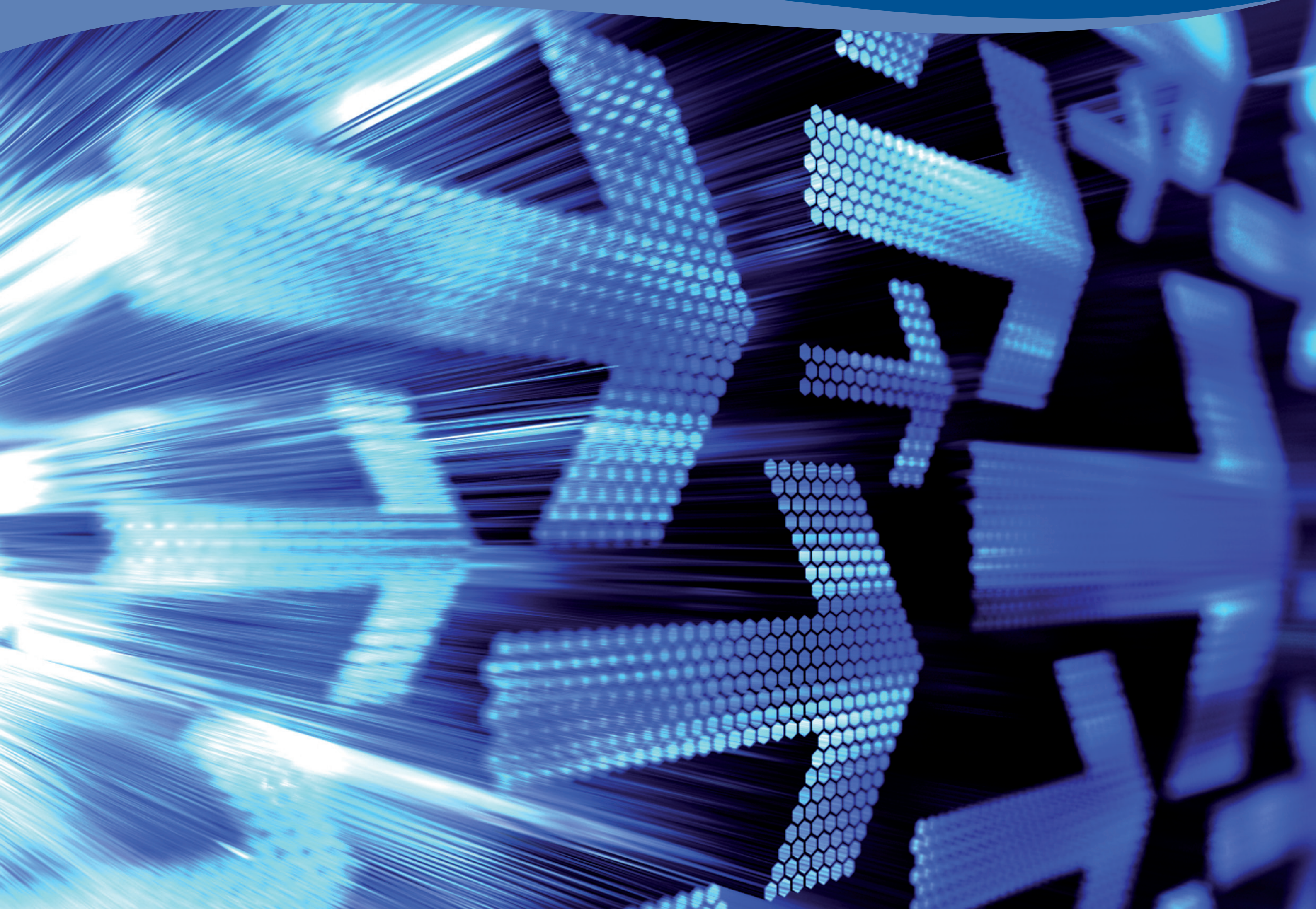


Integration – a business reality

Integration is the process of pulling things together – combining, mixing, sometimes assimilating two or more entities into one. It is the term used for the process businesses go through during mergers and acquisitions yet it is can also be applied to the day-to-day business of companies, government departments and non-profit organisations. All organisations as they change, as they restructure, as they try to become more efficient, go through integration. In IT departments for example, consolidating systems and data is a continuous process. In marketing, product groups and brands merge or separate over time. Sometimes financial imperatives necessitate the integration of business units or a move to shared services in HR or procurement.

Although integration is a regular feature of business life mergers involving two separate organisations bring another level of complexity altogether as there are many diverse, often culturally different, processes and projects involved. Typically there is a lack of the right sort of information. The people involved in the integration are concerned about their own jobs and this plays on their minds. When you add in financial pressures and lack of time as managers try to do their day jobs whilst getting involved in integration activity it is little wonder corporate life during a merger becomes a little more confused and chaotic.

Integration strategies

When a merger or acquisition takes place there are several different strategies for approaching integration. The right one may differ every time and will depend on the size, industry and age of each company, the reason for the purchase or merger and so on. Whilst some flexibility is desirable in M & A there are two proven strategies that merit consideration:

Standardisation:

Large serial acquirers may wish to'slot' the new company into existing structures, changing its processes over and requiring people to conform to proven, standard ways of doing things. This is an excellent way to deliver vast cost synergies and to ensure the combined businesses move forward as one single company But there are also disadvantages; many people may become disenfranchised or irritated by the apparent lack of consultation, resulting in poor morale and absenteeism, reduced productivity or resignation. However, for many acquisitions or mergers this is a clear integration strategy and a good one.

Best in breed:

Choosing and preserving what is best in both companies and bringing them together is a strategy that can deliver significant improvements in costs and productivity. Take time to work through each area of the business, benchmark where possible and also seek to understand the cost base and processes of your competitors. Plan to deliver cost savings by splitting up the planning process into smaller areas - easier to track, manage and deliver. Break them down into different functional areas and then into sub-projects.

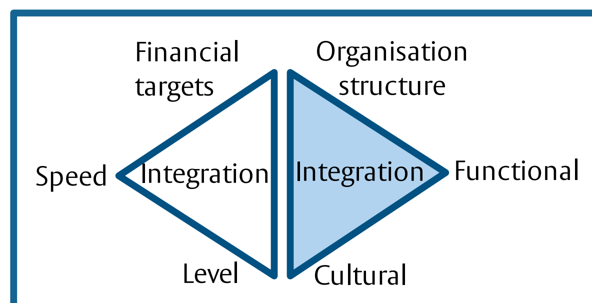
***Case example:** Two companies, each with large finance departments, join together – one has three thousand people working in finance globally, the other has four thousand. Initially, integration looks to reduce the total to four thousand. However, when studying other companies in similar sectors it is found that for corporations made up of 100,000 people all the competitors work to a ratio of 2,000 finance people per 100,000 employees. Food for thought.*

It is also important to study the differences in culture between the merging companies. In our case example will having extra people in finance perhaps bring in more sales and/or help create more profit? What do the finance people do? It is very easy to assume finance can be cut in half but this may lead to future problems. Some of the people may be engaged in statutory work, some in planning, budgeting and marketing which may increase sales. Avoid looking at one department in isolation, fully understand the cultures when looking at benchmarks and avoid taking a simplistic view on reducing numbers. Unless people's roles are fully understood, there is a risk of removing competitive advantage.

Integration drivers

As you look to plan for integration ask yourself - what are you trying to integrate, and why? The value of the business is not driven by the back office, but by the core business. To increase value you need to understand what this is and stick to it. A transaction is stressful enough without setting overambitious and possibly unrealistic integration targets. And in M&A you have to be flexible – you have to accept you may not be able to get enough visibility before the deal to write a full 100 day integration plan.

There needs to be a starting point for integration. A blank page helps no one. The diagram below offers a model or tool can be used to facilitate discussion at the highest levels. Use it in meetings to get people thinking and to start conversations.



Using the 3 drivers on the right compare and contrast the two companies; what are the differences between them? Differences in structure and culture for example? And what are the similarities? All levels of the organisation can use this to help a round-the-table discussion. What do all agree on and where are the differences? Obviously as we change the structure of an organisation we necessarily change the culture.

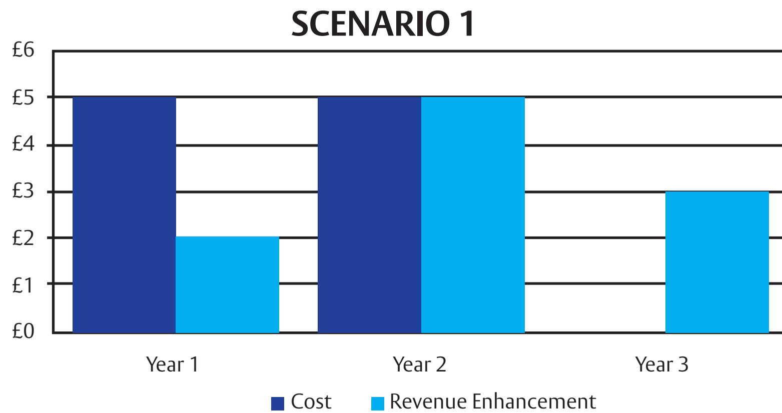
The drivers that move integration forward are on the left of the diagram – financial targets, speed and level and they are all interconnected: as one is changed, necessarily the others must change too. This can be a difficult concept to grasp in the midst of an M&A transaction.

'To gain speed we need a small implementation team'

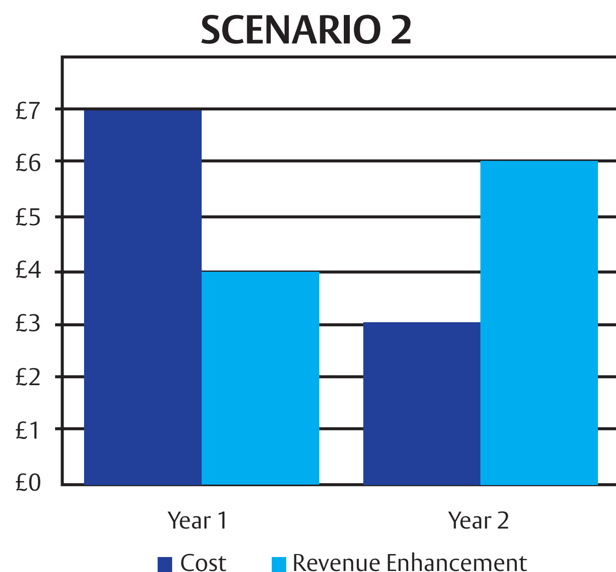
Dina Matta
Head of Transformation, BT

Drivers: speed, finance, level

The interrelationship between these three drivers is clear. Delivering an integration faster, will cost more and may affect the financial targets, of the integration or the company. However through a faster delivery business costs will be reduced more rapidly and thus revenue will be improved earlier. For example, if the plan is to spend £10 to gain £10 this is affected by time, for example:



Scenario 1: The delivery projects for the integration spend £5 in year 1 and £5 in year 2, with synergy benefits accruing to us, £2 in year 1 and £5 in year 2 and £3 in year 3, we do eventually get our £10 return and have the full £10 saving or benefit in year 4.



Scenario 2: Spend is £7 in year 1 and £3 in year 2, a much faster delivery programme with the same £10 of delivered benefits accruing faster, with £4 in year 1, and £6 in year 2. thus starting year 3 with an increased profit of £10 a full year earlier that Scenario 1, we gain that additional £10 profit in year 4, the same as we would in Scenario 1.

In Scenario 2 our company makes more money over the 4 year period by moving speedily. It is slightly more complex than this simple example suggests and always possible to end up spending £11 or £12 to gain the speed. However, the simple way to look at it, is this if I can have an additional £10 profit, why would I wait an extra year to deliver that to my bottom line. In most cases the improvement seen by the business through delivering the synergies early, far outweighs any additional costs.

A slow and cumbersome integration on the other hand, may well cause employee and other stakeholders to go through the change curve at a much slower rate, thus creating a productivity 'dip' and a real dip in profit.

Finally, the 'Level' of integration, (how far to integrate the entities: partially, fully or anywhere in between) will affect the speed and cost of delivery. The strategic decision on how far to integrate the companies, will be affected by the corporate strategy and financial objectives, usually laid down pre-deal.

Drivers: people (culture) , structure, functions

These too are interrelated. Think how the functions of the new, merged organisation will be affected by the overall structure and culture of the merging companies. Decisions on that new functional structure will necessarily affect decisions taken on people and organisational structure. A chain of events is set up as one business decision affects decisions in others.

As integration happens in various different functions and projects there are associated costs, in removing people for example there is the cost of the analysis involved in deciding who should go, managing their removal and redundancy payments. But there are also cost savings in the longer term; fewer salaries, less payroll costs and less HR support costs (e.g. supporting eight instead of ten people).

Many integration change activities will also increases sales. It is necessary to attack the profit line from both above and below to make the new company more profitable.

Financial objectives are the over-riding driver. The initial business model developed when a merger is agreed contains the expected synergies and costs that determined the price paid for the transaction. Underlying any merger or acquisition is a belief that the combined company can be run more effectively and achieve more growth than the two organisations operating separately. Often companies talk about transformational change, with structural change to core functions made at a rapid pace, but fail to provide the budget to enable this. This can result in overspend and the financial objectives of the merger are not met or something else must be cut or watered down.

Will we succeed?

No matter what the strategy, how can we improve the chance of success in each integration we undertake?

- Understand where each of the parties is. From this starting point move forward to plan goals and routes to achieve them. Solid planning will improve delivery. Move from pre-deal thinking through to a high level plan and then drill down to the point where every individual is sure of their part in creating success. Take a 100 day plan and then start to move to a delivery phase where these plans are turned into actionable projects.
- Understand how ready each function is to move forward, plan and deliver, whilst tracking and managing the risks that crop up. Use a 'business readiness tool' to assess different parts of the business. Each will be at a different stage of readiness.

Learn from each integration process – even if your organisation does not consider itself a 'serial acquirer'. Document each transaction and review the integration once it is considered complete. Most importantly encourage the individual's managing it – often high performers who will move on to new roles – to download their experience in a form that will provide genuine guidance to others managing such processes in the future. If templates, checklists and spreadsheets are passed over then real organisational learning can occurs and a feedback loop is created to ensure the same problems do not occur when buying and integrating future targets.

Danny A. Davis

Danny is a Programme Director at Henley for M&A. He brings a unique background that combines experience as an international sportsman, sales and marketing in large corporates, a strategy consultant and a decade of deal making. This background means he understands the theory but combines this with a proven ability to deliver M&A integration and large transformations in highly complex organisations.

Danny has worked on deals from small to large; a 100 employee company taking over a 25 employee, through to a deal worth $16bn. His contributions have ranged from 2 days to plan integration through to 3 years planning and running a $6bn deal across 30 countries.

Danny has served as the youngest ever trustee (Non-Executive Director) on the board of the Chartered Management Institute, also chairing the Marketing and Policy Committee. He speaks at numerous conferences and recently chaired the M&A integration conference in Europe. He writes for publications targeted at CEO's, CFO's, HR directors, and IT directors across Europe. His blend of strategic theory, practical experience and real-life war stories make him unique in this field.

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