The Advisor – Fall 2013

Integrating the Target After Acquisition

One of the keys to a successful acquisition is to integrate the target properly into the buyer's operations. To not do this would be akin to throwing the baby out with the bath water. This newsletter discusses some of the steps a buyer should take in order to achieve this objective.

1. The rationale for the acquisition should be the basis for the integration strategy.

What are the main reasons for the acquisition? Is it to acquire technology? Management know how? Eliminate a competitor? The approach needs to be developed with the rationale for the acquisition being top of mind.

2. Decide on the integration strategy.

Strategies to consider include:

a. Preservation: the acquisition is of a non-related business so the need for integration is low.
b. Confederation: the buyer wishes to maintain the target's unique brand and/or customer base while controlling financial and operational risks.
c. Linking: similar to Confederation but involves integrating the target into the buyer's operational systems and processes. Often used in vertical or horizontal mergers; or
d. Absorption: full integration to exploit synergies and economies of scale. Used when eliminating competition.

3. The faster you implement the chosen strategy, the better.

The faster you integrate and impose your culture, leadership and decision making onto the target, the more successful you will be. The integration plan should include a schedule for the first 100 days after the acquisition and the key metrics to be achieved during this crucial period.

4. Nominate or hire a point person to execute the integration.

This person should have a clear understanding of the deal rationale and should be given the authority to make key decisions without delay and without having to defer to a higher authority. This could be an outside consultant with experience in integrating businesses or a key member of the buyer's management team.

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5. Communicate with target employees.

When it comes to retaining key employees, uncertainty is a retention killer. It is imperative that employees the buyer wishes to retain be spoken to as soon as they are made aware of the acquisition. It is no surprise that the most talented ones will be the first to leave if they are uncomfortable with the new owner or its go-forward strategy. Ideally, the buyer would seek to execute new employment agreements as a condition precedent to closing the deal but this is not always possible.

For employees who are not part of the buyer's long term plans, it is best to terminate them quickly. Communication to the retained employees about how they will be a part of the go-forward strategy will alleviate uncertainty and will re-establish some normalcy to what is otherwise an unsettling period for all involved.

6. Start the integration before the deal is closed.

Savvy acquirers will commence a soft integration during due diligence and prior to closing. This would include reviewing internal policies and controls and determining which will remain vs. which will be altered to coincide with the buyer's. The buyer will also involve themselves in key management decisions of the target during this period.

7. Hire your own CFO.

By hiring a CFO that is loyal to the buyer and has no history with the target, he or she can provide objective and unbiased reporting of the company's results. The new CFO should ensure that timely reporting and strong internal controls are implemented in order to objectively assess the results of the acquisition an ongoing basis.

Aries Advisory Group is uniquely qualified to assist you in the acquisition and integration of a business. We can support you during negotiations and provide guidance on strategy during the integration phase. And we can act as your integration point person in order to implement your strategy. If you require assistance on any of the above, please contact us at info@ariesag.com or at (416) 467-7878 to see how we can help.