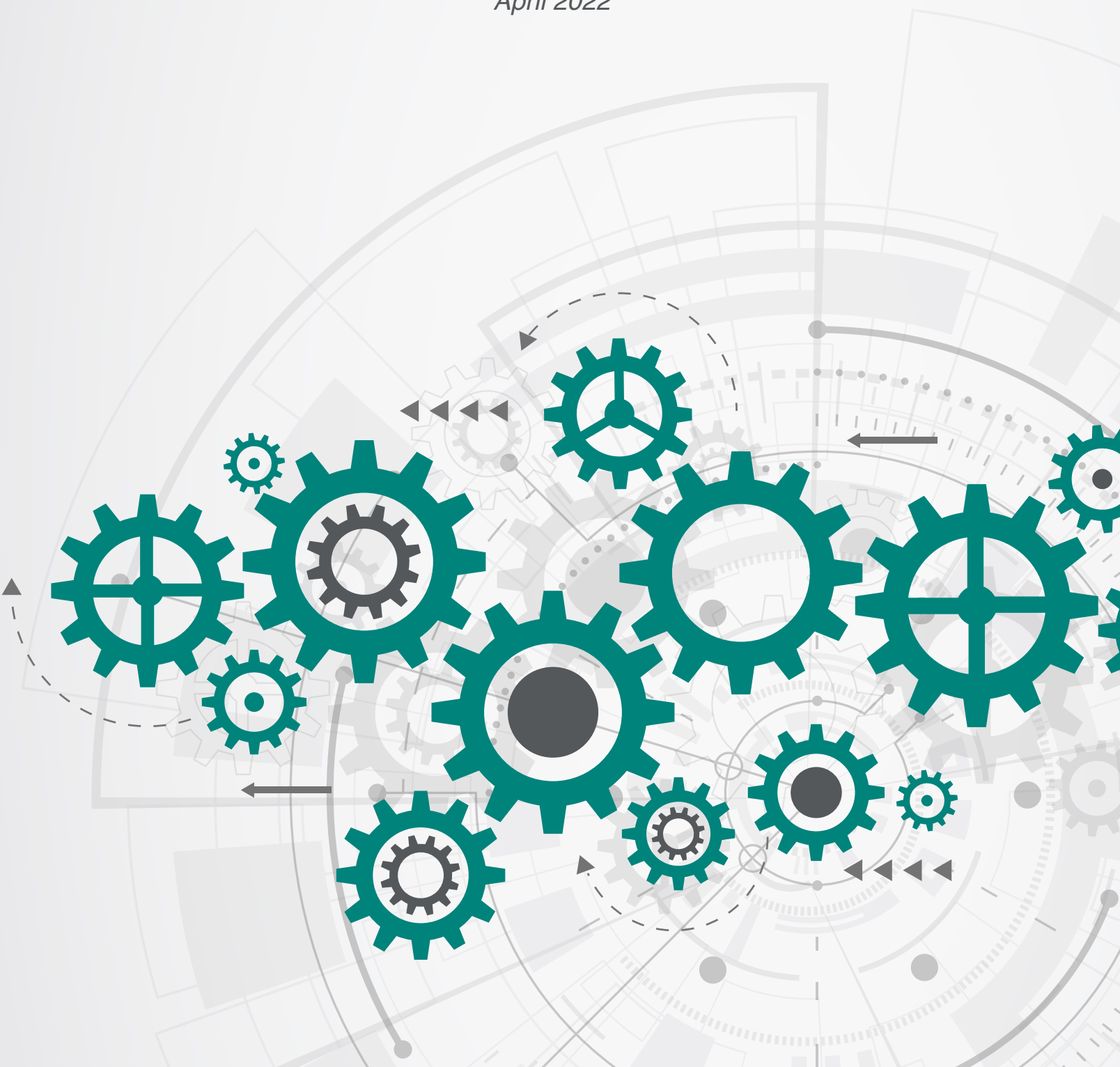


# Post-Merger Integration

Applying a Value Creation Lens to Integration Duration and Depth

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## Background

The objective of this paper is to describe the typical stages of post-merger integration, highlight the dichotomy between value-enabling and value-creating activities, and suggest a different way of thinking about integration that can improve deal success.<sup>1</sup>

## Defining Integration Duration, Depth and Value

How long does integration last? It's a straightforward question, but there is no easy answer. In fact, this question can't be answered without defining what we mean by integration.

If "integration" means the set of activities that the integration team is responsible for, then **integration duration** is typically a few months after deal close. Integration plans are usually framed as 60-90-180 day "sprints", with a clear hand-off to "the business" at the end of that period.

On the other hand, if "integration" means the actions necessary and sufficient for the deal thesis to be realized – then integration duration could run into multiple years.

A related concept is **integration depth** i.e., how many functions, systems, programs and processes get integrated (or changed substantively) because of the deal. Integration duration and depth are related variables. The further out you go from deal close, the more functions, systems, programs and processes are likely to get integrated. In other words, duration drives depth.<sup>2</sup>

**Value** is typically defined in commercial terms i.e., how does the deal increase market share, expand the product portfolio, grow the customer base etc., and ultimately drive revenue or profitability uplift.

## Three Stages

Combining the 3 variables (integration duration, depth, and value), we can describe integration as a 3-stage process in which duration drives depth, and depth drives value.

- 1. Stage 1 - Understand & Protect Value:** In the first few weeks or months after deal close, integration teams drive most of the activities. Their focus is on aligning G&A programs and systems (HR, Finance, IT) that allow the two organizations to work and communicate with each other. The corresponding organizations and teams are "stapled together" but at this stage, integration duration is too short to have any depth, and hence there isn't much value creation. The focus is more on protecting value by retaining customers and key talent. In parallel, there is significant effort to understand the current value creation engines and define how to create value as a combined entity.

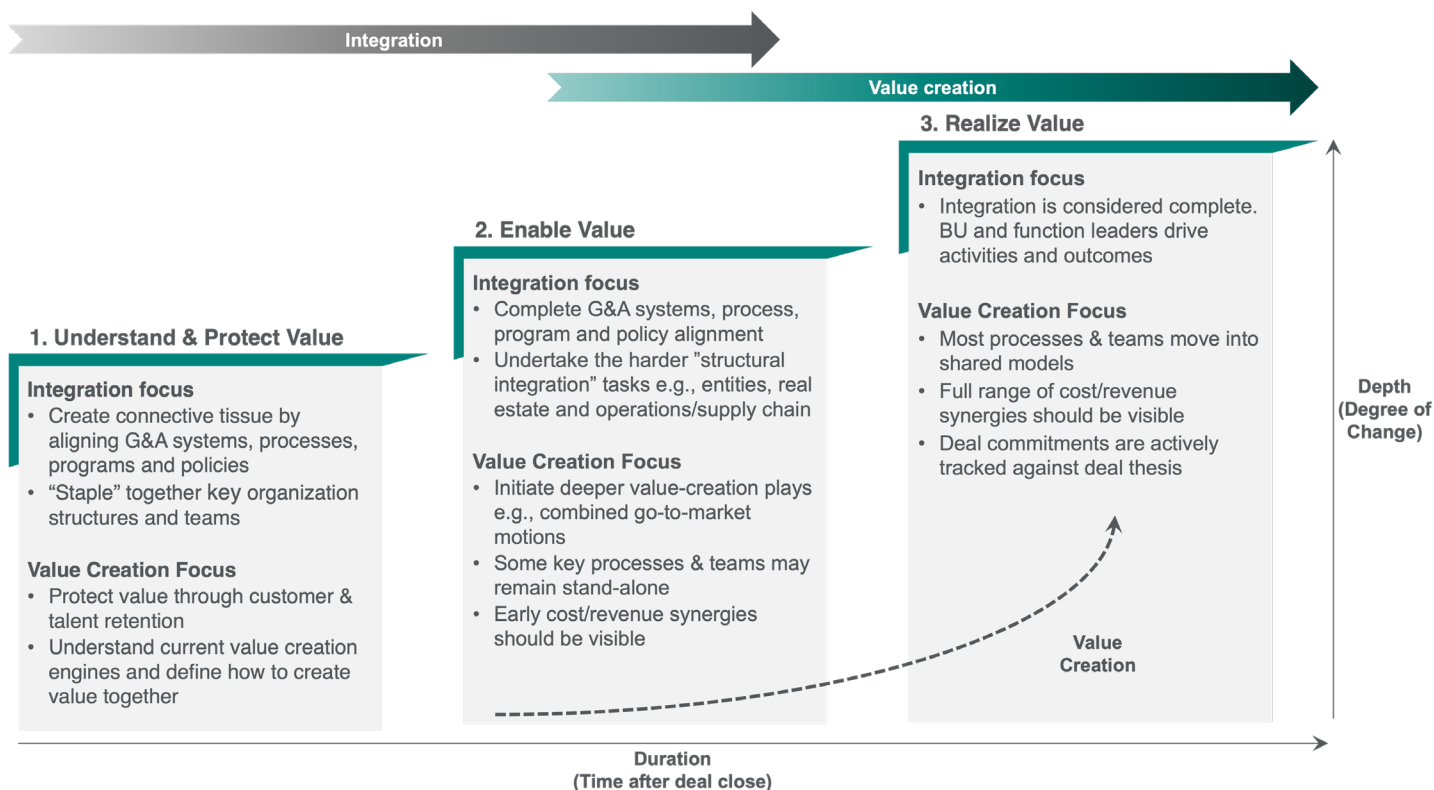
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<sup>1</sup> Throughout this paper, we have used "typical" or "most" to describe the "middle third" of deals. There are many outliers that don't fit this model, due to deal size, type, industry, and other factors.

<sup>2</sup> This paper is focused on deals where the desired end-state is a relatively complete integration. This comprises the majority of all deals. There are certainly some examples where the acquired company is kept at arm's length as an interim state (incubation model) or even as end-state (portfolio model).

- 2. Stage 2 – Enable Value:** The G&A programs and systems alignment is completed. The harder “structural integration” tasks are kicked off e.g., entity consolidation, real estate consolidation and operations/supply chain alignment. Deeper value-creation plays are initiated e.g., combined go-to-market motions or aligning product roadmaps. The integration team starts to transition off while Business Unit (BU) and functional leaders take greater ownership. Some key processes and teams (e.g., operations or customer billing) may remain stand-alone to minimize disruption and risk. Early cost or revenue synergies should be visible, though the majority of the synergies are on paper only. This is where the dichotomy becomes most evident. Integration is declared complete even though the enterprise has yet to realize any significant value from the deal.
- 3. Stage 3 – Realize Value:** Integration is considered complete, but the value creation is just starting. BU and functional leaders have full ownership of activities and outcomes. Most processes and teams move into shared or centralized models. Technology stacks are aligned, and redundant instances are removed. The full range of cost or revenue synergies should be visible. This is where value actually gets created and the deal thesis is justified. There is active tracking against deal commitments. Integration metrics/scorecards are replaced by direct value creation metrics e.g., incremental pipeline, bookings, revenue, product roadmaps, etc.

The chart below summarizes the interplay of integration duration, depth, and value creation through these 3 stages.



The 3 stages are shown as a linear sequence, but there may be significant overlap between them. Deal size and complexity makes a significant difference. E.g., in large global deals, even Stage 1 tasks like Payroll, HRIS and Financial systems integration could span multiple years. On the other hand, in smaller deals even Stage 3 could be completed within a few weeks or even days.

## A Better Model?

In most deals, integration and value creation are two different (although not independent) goals, to be achieved by different teams. A better model would require us to “shift left” on value creation and “shift right” on the scope of traditional integration. Below are some specific actions for executives and M&A leaders.

- 1. Identify which activities enable value and which ones drive value.** Many are obvious. E.g., an aggressive cross-sell motion or a deep synergy plan will certainly drive significant value. HRIS integration will enable but not drive value. It is less clear in other areas e.g., Vendor Consolidation or Integrated Security Posture. The answers require a deeper understanding of the acquired business.
- 2. Engage executive teams in the value-creation conversations very early**, even when there is little clarity on their own roles and responsibilities. We have seen a lot of success with cross-functional executive-level **Value Architecting Workshops** conducted within 1-4 weeks of deal close (which requires significant preparation pre-close). Leaders can also force their teams to think of a **Flipped Integration Model** in which Sales, Product and Operations drive the integration blueprint more than Finance, HR, and IT. This is hard to achieve in practice, due to the sheer volume of integration actions, and due to expertise (we don’t really expect the Chief Revenue Officer to drive Salesforce consolidation). However, it is a good mental model that helps reinforce the main reason for doing the deal in the first place.
- 3. Accelerate through Stage 1 as rapidly as possible.** Prolific acquirers use templates and playbooks to reduce time and variability of G&A integrations (especially HR and Finance). They acknowledge that there may be different ways to administer the 401(k) plan, and multiple options for managing the Data Warehouse, but the difference isn’t significant enough to spend weeks or months discussing it with senior leadership. This frees up leadership capacity earlier in the integration process and helps them “shift left” on value creation activities.
- 4. Align resources with value creation stages.** Integrations are typically front-loaded with dozens of dedicated in-house as well as “burst capacity” third-party resources working on critical tasks e.g., mapping cost centers, aligning job codes, re-architecting systems etc. But these resources transition off as soon as their tasks are completed, leaving BU and functional leaders to drive value creation with their own resources. This front-loading of resources could be driven by tactical considerations (e.g., the need to capitalize integration costs), or by the lack of a clear value creation plan beyond the first ~90 days.

One solution is to “shift right” on the Integration team’s role and responsibilities. The integration team will need additional resources such as enterprise and business architects, transformation consultants, policy designers and project managers from inside or outside the organization. Their charter and engagement model will need to be redefined so that they transition off in stages versus a 90-day cliff. This is especially critical in small and mid-sized organizations that may not have Enterprise PMOs or Transformation teams to support BU and functional leaders in driving value creation. Frequent acquirers could explore creating “incubation units” where new smaller acquisitions are housed before they have enough maturity to be easily absorbed by the respective functional or BU teams.

## Interview Quotes

This article is based on Insightory consultants' experience with over 50 deals, and interviews with senior HR and M&A leaders whose combined experience spans over 100 merger, acquisition, and joint venture deals. A few relevant quotes from the interviews are below.



*The word integration gets too much creed. Everyone focuses on integration, but you miss deal value when you are thinking about integration.*



*HR was considered complete when all acquired employees were on our systems, on our payrolls, benefits. Org design was not a milestone that was used to mark when integration was complete.*



*Finance and HR are getting integrated right away – there is no discussion.*



*Our HR M&A playbook is designed to integrate HR functions within 90-100 days. This ensures speed and consistency as we do 3-4 acquisitions every year and allows us to focus on more value-added tasks.*



*The Sales and Product teams were always the most difficult to integrate. It would take years and we didn't track them as part of integration. If you completed that part in two years, you were doing well.*



*Corporate Development and Integration teams go quickly from one deal to the next. It is up to business leaders to deal with the longer-tail items that really move the needle on deal value.*

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For any questions about Insightory's M&A practice, please contact us at [www.insightory.com](http://www.insightory.com)