The Portfolio Partnership

Post Acquisition Integration – A Checklist

On May 23 Chris Nuttall of the FT highlighted HP's 27,000 job cuts. One of the casualties, Mike Lynch, founder of Autonomy, who had joined HP 8 months ago after selling his company for the tidy sum of $10.3bn. I did say at the time that it was an awfully large sum for a one man band and a huge multiple of sales. By comparison it should be noted IBM and Google have an excellent track record of retaining their acquired entrepreneurs. Google in particular claimed last year that over their 13 year history of acquisitions approximately two thirds have stayed.

Many journalists and academics love to opine about post acquisition integration and 99% have never bought a company in their lives! So here is a fundamental back to basics checklist for small or large deals to help avoid those post acquisition blues.

Landscape big picture points

1. Almost all research done by PWC points to around 85% of acquisitions being a failure in the eyes of the acquirer.
2. Research conducted by Cass Business School, covering 12,339 deals including 2917 acquisitions of distressed companies from 1984 to 2008 concluded that price was not the determining factor for success but that **post acquisition integration was the key.**
3. In fact specific research done on experienced acquirers revealed that only those that invested in postmortems after the deal got better at doing deals. Which of course we all know, it's not so much how much we do of something, it's how we much learn from each time we do it.
4. Diversification can be a bad idea accelerated by the technique of acquisitions. Laidlaw, the largest school-bus operator in North America bought heavily into the ambulance business in the 1990s. Ambulances are not transport businesses they are medical businesses. Big mistake.

5. Remember acquisitions are not a strategy they are a tactical technique to achieve a well thought through strategy. First define your unique market and then use various techniques to dominate.
6. Buy what you want to buy not what is up for sale.
7. The most expensive acquisition you may ever make is the $1 price tag purchased out of Chapter 11 because the post acquisition costs to fix it run into the millions of dollars.
8. Be prepared to train yourself to become an acquirer. Buy in or recruit key people to execute alongside your team.
9. Specifically to the HP point regarding Mike Lynch - The acquisition of special people can sometimes only be achieved by an acquisition. The acquisition of Groove by Microsoft could be argued was actually the acquisition of Ray Ozzie.
10. Now to keep great people post acquisition, needs careful planning and the creation of an entrepreneurial culture. Google's acquisition of Applied Semantics helped them develop the text advertising network called AdSense which is now a multibillion dollar revenue generator.

Post Acquisition Integration Checklist

Leadership Meeting - Chair a meeting of the integration team and create a master to-do list broken down into themes including key items that arose in due diligence. Allocate a manager, for each theme. Be realistic with timetables. Break items down into actions within 30, 60 and 90 days. Below are some ideas to get you started:

Finance/Costs

1. Get control of the bank accounts, including check signatories and authorization limits. Ensure all accounts are receiving the best group interest rate now that the target is part of a larger entity.
2. Establish operating budgets including capex with authorization guidelines.
3. Establish a new management information pack timetable. In the early stages of integration – metrics will be key.
4. Review balance sheets for adequacy of provisions.
5. Drive through planned cost savings quickly and effectively with clear communication. Demonstrate leadership.

People

1. Establish a reporting structure to ensure continuing trading is seamless.
2. Review reward structures to ensure continuity of management especially if an earn-out excludes some key people.
3. Anomalies between acquirer and target sales commissions will require urgent action as sales teams talk.

4. Do a quick and dirty review of problem employment contracts and put resolutions in place to minimize exposure.
5. Organize immediate training related to closing sales and keeping customers happy.
6. Establish a key meetings schedule to allow free and timely flow of information.
7. Establish a clear understanding of the authority levels of the target's leadership team.

Systems

1. Deal with exposures revealed by due diligence, prioritizing those related to keeping the trains running!
2. Articulate an operational plan for merging disparate systems or at least to allow them to "talk" to each other.
3. Lock down the security around customer databases to ensure recent departed staff can't access vital information.

Sales & Customers

1. Ensure live deals under negotiation are not disrupted by the acquisition.
2. Cleanse all sales forecasts ASAP and integrate the revised version into the group cash forecasting system.
3. Review cross selling opportunities between key customers of buyer and seller.

PR

1. Communicate often and clearly with staff and key stakeholders externally, especially key customers.
2. Visit key customers to articulate the strategy of the merged group and why it's good news for that customer. (hopefully a "Lite" version of this would have been done during due diligence.)
3. The sellers will have signed off on the joint press release on the deal. This is a great opportunity to motivate staff and impress existing customers with the correct tone of message.

Marketing

1. Set a timetable for all web site changes and allocate a webmaster to drive the project.
2. Collateral may need to change to reflect the new products of the merged entity.
3. Don't miss the opportunity to articulate the enhanced business result that will be achieved for your customers due to the increased resources of the merged group.

Legal

1. Draw up a detailed checklist of leases, obligations, trade contracts, employment contracts, IPR, change of control provisions and articulate any commercial issues that require decisions by the leadership team.
2. Note if an earn-out formed part of the deal, there may be quite onerous conditions regarding managing the newly acquired company. These will need to be factored into the integration plan.
3. Insurance and risk exposure reviews should be conducted as a high priority.
4. Tax and accounting matters related to regulatory compliance may require urgent action.

Overall, the key message is to be prepared and to execute the integration with confidence. The worst thing you can do is to procrastinate. Make your acquisitions a success and remember nothing succeeds as planned but failing to plan is planning to fail.