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The importance of post-merger integration

By Anton Tchajkov on April 24, 2014

Posted in Corporate finance

With M&A transactions, the typical focus is preparing for and executing the deal. However, as briefly highlighted in a recent posting on this blog, integrating two businesses once a transaction is complete is often quite challenging and requires extensive planning. This process, known as post-merger integration (**PMI**), is typically lengthy and resource intensive. Its importance cannot be understated, as successful PMI allows an acquiror to capture the long-term value sought from a transaction, whereas failed PMI leads to missed opportunities and under-performance.

A report recently published by Mergermarket and EY considers PMI-related issues further. Titled The Right Combination: Managing integration for deal success, the report is based on the worldwide feedback of senior corporate executives and data from large M&A transactions that have occurred in the past two years.

The report highlights five key takeaways for PMI success:

1. The first takeaway is the need to initially concentrate on integrating core departments. This should be informed by the strategic rationale for the M&A transaction. For example, the report's research indicates that growing scale and geographical expansion are the main drivers of M&A; accordingly, the majority of survey respondents' PMI-focus was on integrating "front office" groups (such as sales and marketing) and operations. In contrast, "back office" groups such as finance, human resources and information technology (**IT**) were ranked as the lowest priorities, despite their important role in supporting all other groups.
2. The second takeaway is the need to adequately budget resources for PMI. The report notes that on average, companies spent 14% of the total M&A transaction's value on PMI. For 21% of survey respondents, looking back they would have budgeted more for PMI, whereas 14% would have budgeted less. Although the focus of PMI should be different for each transaction (as discussed above), the research also indicates that IT tends to be under-prioritized, leading to unexpected delays and expenditures.
3. The third takeaway centers on the execution of PMI. More specifically, 80% of survey respondents indicated that looking back, they would have quickened the pace of PMI and then focused on running their core business. 62% of respondents also noted that they would have introduced a second-wave of PMI, to recalibrate around ignored issues and push for completion. Finally, 58% of respondents admitted that they could have done a better job communicating progress to stakeholders.

4. The fourth takeaway is the need to regularly evaluate and learn from successes and failures during the PMI process, and again once PMI is finished and the transaction has been fully completed. This is an especially important learning opportunity for companies who may engage in future M&A transactions.
5. The final takeaway highlights the importance of finding skilled managers to run the PMI process. Ideal candidates will typically have a diverse skill set and real operational experience. Moreover, although their job is challenging, the report's research indicates that high-performers are often rewarded with positive career advancements.

When it comes to PMI, experience is the best teacher. However, relying on skilled advisors, established best-practices and research findings can make the job easier.