The right combination

Study: managing integration for deal success

Key findings

- 84% of senior executives who made an M&A transaction in the past 12-24 months cited building market share as a key driver.
- 80% said they would speed up the pace of integration for their next deal.
- 29% stated that sales and marketing was the most important priority area during

While the integration phase of a deal may never grab the headlines, the successful integration of one company into another is, in many ways, the only way to properly evaluate the outcome of a deal.

Targeting the right functions for integration, spending resources accordingly and strong leadership are the keys to successful post-merger integration.

With the global economy showing signs of recovery, corporate confidence is rising, and executives are focusing on deals that can grow revenues and market share.

Our survey found that 84% of respondents cited building market share and scale as a key strategic driver for undertaking deals in the last 12 to 24 months. More than a third cited growth as the most important reason for pursuing an acquisition.

Respondents also noted that the best integration processes involved defining a clear deal rationale from the outset and ensuring this led the integration strategy. These results indicate that companies are recognizing the importance of integration as a key part of their overall deal strategy.

Our survey reveals five key practices companies need to follow in order to deliver on their strategic goals when it comes to integration.

1. Concentrate on the core

Growing scale and geographical expansion are the main drivers for undertaking M&A. In the integration phase, the majority of respondents focus on front office and key operational functions.

Sales and marketing (29%) and operations (27%) were the functions chosen by the largest number of respondents as the most important priority.

Back office functions such as finance (9%) and IT (65), where reduced costs were the main benefit, ranked lower.

2. Balance the fundamentals

The survey found that companies, on average, spent 14% of total deal value on integration. Figures from Mergermarket show that the average deal size for disclosed value transactions over the past 12 months was €256m (US$342m). This suggests that the integration costs per deal are averaging out at €36m (US$50m).

The findings indicate that, on the whole, companies are doing a good job of allocating resources to integrate functions. However, there is evidence that they are not spending enough on integration.

Over a fifth of those surveyed stated that, in retrospect, they would have increased the size of their integration budget.

Meanwhile, companies may be underestimating staffing requirements. Only 4% used 16 or more staff on their integration team.

In addition, corporates seem to be undervaluing the importance of IT in the integration process.

3. Speed up, speak up and start a second wave

Speed of execution and communication were two areas identified as most in need of improvement. Four-fifths of respondents said speeding up the integration process was one of the things they would have done differently.

In addition, 58% said they could have communicated more clearly the progress of the integration process to all stakeholders.

Although a large proportion of executives said speed was the area most in need of improvement, 60% also said that in retrospect they would have introduced a second wave of integration.

4. Never stop learning

The respondents overwhelmingly agreed that evaluating the success of a deal after integration was crucial, with only 3% saying that they didn't take any steps to learn lessons from the process.

High-level financial synergy targets were cited as a key evaluation metric by the majority of respondents (77%), with changes in capital productivity (75%) and meeting integration targets (65%) also featuring prominently in responses.

In terms of learning lessons from integration, the provision of knowledge transfer training was the tool of choice, cited by 80% of executives.

5. Get the right manager for the job

The survey also revealed the high value that integration managers brought to their companies. The findings showed that executives expect their integration managers to display a wide range of skills. Operational experience was the key factor, according to 86% of those surveyed.

Respondents were eager to recognize that integration managers who performed well received career progression opportunities and financial incentives.