Sand Cherry Associates

Strategic Solutions. Smart Execution.

After the Spreadsheets:

When Acquisition Integration Becomes Real

The suits have flown home and the champagne is corked. The shareholders are quantifying their new paper value. And the financial wizards have put their spreadsheet models to rest. A new message arrives in your inbox – "Congratulations! You are the proud operational owner of a new acquisition. Make it work!"

You are right to feel quite a bit late to the party.

As the one in charge of turning the promises of deal making into the operational reality of an integrated company, you may be wondering where even to start. That you are even asking this question is a good sign. Plowing ahead without direction and a plan would not be a wise move.

So where do you start? One of the best ways to go forward is to look back at past failures. Given that 70% of acquisitions fail to produce desired integration success (Forbes, 2010), there is a long list of lessons from which to learn.

From our own research and experience, integrations fall into four major traps during the process (and one doozy of a mistake before it even starts – read on!). The four most common traps are:

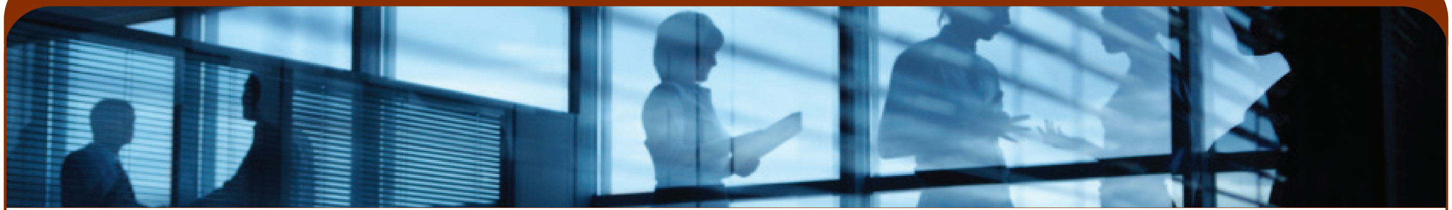
- Underestimating the scope of the challenge
- Overestimating the organization's ability, skills in, and capacity for integration
- Approaching integration in a siloed mentality
- Ignoring the path to cultural integration

Underestimating the scope of the challenge:

The strategy documents not only provide concise and compelling justification for the acquisition but do so in terms that can make the integration work ahead seem simple and straightforward. Horizontal integrations present the illusion that the acquired company does what the existing one does so all that need be done is to simply plug the new company into the existing one. Vertical integrations may even seem simpler in that the acquired company is performing complementary services that can easily be appended to our "business-as-usual" model.

But words on paper hide nuances and intricacies that are multipliers in terms of complexity. Streamlining and cost savings sound good in the abstract but almost never adequately take into account the challenges of integrating cultures, organizations, systems, and processes.

The best due diligence, therefore, is driven by the operations owner who is to inherit the day-to-day aspects of making the unified business work. It is only through this lens that the true scope of the integration can be framed, measured, and addressed.



Overestimating the organization's ability, skills in, and capacity for integration:

Knowing your own business and melding another business into your own operations are two fundamentally distinct sets of skills. Yes, you make changes to aspects of your own business all the time. But to move another entire organization to replicate your model of doing things requires focus along all dimensions of the change. This is not something the "business-as-usual" team can typically achieve without extra and specialized help.

Pathways must be established to move off of one set of human, technical, and procedural platforms over to another. An objective perspective must be maintained to ensure that superior practices from either side of the merger are recognized and adopted. And the end result must be achieved while maintaining at least the same level of customer experience (or better) and high employee morale throughout.

Approaching integration in a siloed mentality:

Integration work is frequently too broad and deep to be done by one group alone. Division of labor is essential. The common mistake, though, is to subdivide the work in the same way the acquiring entity is organized: by function. Functions are necessary areas of focus within a business but they create walls of separation in the context of integration work. Tactical teams focused on marketing, sales, systems, operations, engineering, finance or HR operations establish separate working groups, set agendas, and can make what seem to be smart decisions all in the absence of other functional input. Without close coordination, the collisions start almost immediately.

Cross-functional teams tackling holistic process stages produce more coordinated results and more comprehensive solutions. Of course, there must be coordination across even this division of labor so that the resulting holistic design reflects a cohesive and integrated final state.

Ignoring the path to cultural integration:

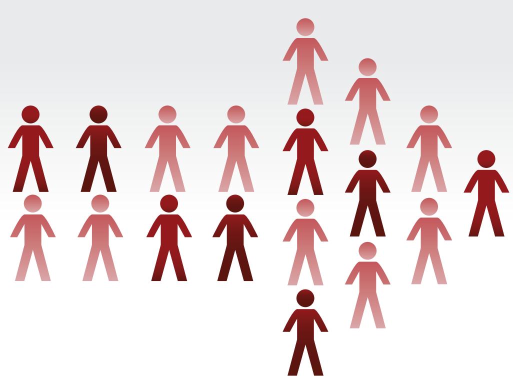
Employee morale is not just a "nice to have" during this time. It is an absolutely essential critical success factor without which the integration will crash and burn. The definition of success for an integration is when the newly unified entity is performing at or above prior performance levels while realizing the economic synergies motivating the acquisition in the first place. Performance does not come from a spreadsheet model but from motivated and energized employees committed to the new operating reality.

A successful integration will have an orchestrated communication and change management plan that will address the human need to transition from awareness to acceptance to engaged adoption.

As challenging as these four problem areas are, lessons for success can be learned from them all:

- Appreciate the scope of what you are about to embark on
- Be realistic about limits to your integration competencies and capacity
- Think and act cross-functionally and multi-dimensionally throughout the integration
- Create a high level of organizational awareness, involvement, and engagement

Internal Alignment



The "Vision"

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Yet, even equipped with these words of wisdom, you may already be the victim of perhaps the single biggest reasons for integration failure: not planning the operational integration in advance. True operational integration should be considered in the due diligence stages and planning for execution should start once the deal looks 80% likely to close.

So, if the spreadsheet models are already in cold storage, you now have to find a way to catch up in a hurry. At this point, external expectations are high while internally, both companies are experiencing anxiety driven by uncertainty. All is not lost. A survey of the few successful integrations show that a number of common characteristics can drive success, even if you are trying catch up to the integration "ship" that has already sailed from port.

Imperatives for Integration Success:

First, make clear your commitment to maintain the highest standards of customer relationship management, service and product quality. Understand that it takes both the mental commitment to do this as well as the communication and role modeling to the entire organization that you mean it.

Second, leverage your leadership and role modeling to build a well-defined communications plan that:

- Explicitly lays out the vision of the future culture for the united organization
- Describes the stages through which you will take both organizations to get there
- Lays out the timeline of, not only the stages of integration, but also the plan for communicating back successes and failures along the way

Third, execute smartly and quickly. This means:

- Assign the right level of leadership to show commitment and make swift decisions
- Map out the operational scope of what will be integrated, starting with customer-facing processes, but always keeping in mind that all aspects within this scope of people, process, technology and metrics must be integrated into a cohesive future state
- Assign cross-functional front-line workers from both organizations to participate in defining the current state and future state models
- Assign sufficient and qualified resources to perform the integration including program management, process assessment and design, human and technology capital alignment, business intelligence, and organizational change management.

Now, real congratulations are in order. You are in charge of a smoothly running integration machine. Employee acceptance and engagement are high as you have laid out the vision for where the integration path will take them. You have shown an unwavering commitment to customer experience excellence through, not just your words, but you actions as well. You have broken down silos and energized the integration team to create a holistic, multi-faceted future state design. And you are moving the integration forward quickly with swift decision making that results in rapid, demonstrable progress.

And, as good as you are, you did not achieve this success without leverage. You needed a team of experts that quickly came to your aid, established an integration execution plan, and provided you with immediate success through their familiarity with the challenges of integration.

We, at Sand Cherry, have deep roots in the acquisition and merger integration hot bed of the telecommunications and broadband industries with a long and storied history of roll ups, property swaps, and land grabs. To any industry, we bring a set of skilled integration practitioners that will help you create change and energize the organization to move to a future model of unified success. It would be our pleasure to see how we might serve you as well.

– Edric Starbird, Business Operations Practice Lead

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