caFa Mergers & Aquisitions, Financing, Business Advisory Services

On acquisitions

... closing the deal is not the end, it's the beginning!

Over the years we have found that many people who acquire businesses rarely plan adequately for the day after the closing; all too often they end up losing momentum and opportunities. Our observation parallels continued research which consistently reveals that more than two thirds of business combinations fail to deliver anticipated results.

Acquirers are typically well informed, and usually surround themselves with expert advice during the acquisition process to negotiate the best possible terms, conduct a thorough due diligence, arrange financing, and optimize the tax structure. Unfortunately, the time and energy spent on closing the deal often overshadows the planning and effort required to actually run the acquired business and realize synergies and future benefits.

We regularly find that acquirers do not adequately prepare for "Day 1" of new ownership, or, worse, they leave it to the last minute or ignore it altogether. Understandably, the process of running a business is not as thrilling as the purchase process. Some acquirers don't seem to want to commit time and money until new ownership is absolutely certain; yet others are simply exhausted and mistake the closing as the end rather than a "beginning".

The issues and challenges facing an acquirer on Day 1 are numerous. The newly acquired business must continue to run day-to-day with little or no disruption while the acquirer must simultaneously assume control and make changes, as the case may be, to integrate the business into his existing operations.

Takeover and integration issues can be categorized as i) short term practical issues: what needs to be done immediately within the first few days, and ii) mid-term value building integration issues: what needs to be done to build on the acquisition and capitalize on the synergies which justified the transaction in the first place.

"Day 1" Practical Issues

These are typically day-to-day "nuts and bolts" items, which although small, can cause interruptions if not addressed. As an example, here are some points that must be planned for in the days leading to the closing and have to be acted upon immediately after closing:

- Employee communications; inform, reassure and ally concerns;
- Customer communications; reassure and maintain relationships;
- Supplier, and third party communications; inform and reassure;
- Banking arrangements; accounts, authorizations, etc.;
- Properly defined chain of command, including redefined authorities for decisions and spending, and implementation of adequate interim controls;
- Ensure accounting and IT systems are up and running;
- Ensure human resources and payroll functions are up and running.

A more detailed, "Day 1" checklist to help you plan for these challenges is available at: http://cafa.ca/en/tools/day_1/

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Value Building Integration Issues

Acquirers usually justify a transaction based on the premise that the transaction will yield certain returns. This may be based on simply maintaining the status quo of the acquired business or it might entail a complex strategy composed of numerous steps and changes designed to achieve a certain outcome. Communications is key; It is critical that the persons who will manage the newly acquired business “buy into” the plan. They must be aware of any and all assumptions developed during the acquisition process. Most importantly, if the plan is based on implementing key steps or decisions, this must be documented and key persons must be assigned the responsibility to ensure that each event occurs as intended. Examples of such issues can include:

•Implementing employment changes such as changes in assignments, responsibilities, remuneration, redundancies etc.;

•Implementing physical changes to equipment; improvements, acquisitions, disposals, moving assets;

•Implementing changes to work processes, systems; introducing or abandoning product lines;

•Managing the social and psychological impact of change in an effort to retain or improve knowledge and talent;

•Implementing or changing process controls, checks and balances, reporting, IT systems, etc. A sample “Value Building Integration” checklist is also available on our website http://cafa.ca/en/tools/integration/ .

“In order to increase the chances of a successful acquisition, a systematic, thorough and expedient integration plan with assigned responsibilities, checklists, and framework must be adopted.”

Conclusion

As the title of our newsletter suggests, closing an acquisition transaction is not the last step. All of the efforts employed prior to closing to verify and justify the transaction must be put to use. The persons involved in the negotiations and decision making must transfer their knowledge to those who will eventually manage and operate the acquired business. All assumptions and findings from the acquisition process, as well as any problems and/or opportunities revealed during the due diligence process must be addressed or capitalized on. Depending on the complexity of the integration, the acquirer should temporarily assign additional staff to assist management in the implementation. Ideally, a transition /acquisition team or task force should be set-up, preferably before the close, in order to develop both the Day 1 Issue checklist and the integration plan, assign responsibilities and oversee progress. Cafa can help you each step of the way in facilitating the drafting both your “Day One” Checklist as well as help you organize your “Value Building Integration” plan and oversee their implementation.

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