Expansion through M&A

Strategies to ensure a successful acquisition and integration **Interviewed by Heather Tunstall**

When a company decides to expand or enhance its core activities, sometimes a strategic decision is made to acquire another organization that offers the team, the technology or the assets needed to achieve its goals. From a buying company's perspective, there are three main focal points of an acquisition process in order for the purchase to be successful: strategy, integration and acceleration.

"The strategy needs to be determined early and shared widely and quickly," explains Francois Laugier, partner and director at Ropers Majeski Kohn & Bentley PC. "Integration is almost equally as important as strategy; because integration is really about capturing the long-term benefits of an acquisition."

Speed in execution is also of the utmost importance. "You get the chance to effect change in an organization that you've acquired during the first 100 days of the acquisition. There is a tempo to an acquisition, and it is incumbent on the buyer to make sure that it keeps beating the drum and moving people along quickly."

Smart Business spoke with Laugier to determine a road map for successfully acquiring a business to enhance core activities and products.

What can a company do to prepare for the acquisition process?

The buying company needs to know precisely why it desires to purchase another organization, and that strategy needs to be communicated throughout the core management team that will be involved in the process. Early on, lawyers, investment bankers and consultants need to be involved, because most of the aspects of the acquisition are negotiated in the initial stages.

Nearly 60 percent of the failed acquisitions are failed *integrations*, not failed *negotiations*. A team specifically dedicated to integration should be assembled the minute discussions start with a prospective party. This team must ensure that the new assets and employees of the target corporation are quickly and efficiently integrated into operations.

What steps are involved in an acquisition?

At the outset, a buyer must decide whether it will be purchasing assets or stock. If the company being acquired has significant liabilities or unknown liabilities, buying the assets of the company provides flexibility.

Francois Laugier
Partner and director
Ropers Majeski Kohn & Bentley PC

However, when buying assets, there are a number of transfers that need to take place for the target company to be functional inside of the acquiring company, such as intellectual property rights or foreign employee visas. The alternative choice is to purchase the stock of the company. A big advantage of a stock purchase is the predictability of the process, because domestically or abroad, the acquisition of the stock of a company is often similar. The drawback is that a business may be unintentionally taking on liabilities.

Next, a letter of intent is drafted, where an outline of the terms of an acquisition is determined. Although legally not binding, once there is a handshake on a letter of intent, it is very difficult to later change its terms. For this reason, it is imperative to involve advisers early to draft terms. The due diligence period comes after the letter of intent. The target company completes a legal due diligence checklist and provides the buyer the documents and information requested, thereby reducing the odds that major issues will go unnoticed. The disclosures cover four major areas:: corporate structure, intellectual property, human resources and tax.

Negotiations of the definitive agreements take place next. The secret to success for negotiations is to move quickly and to keep exchanging redlines of the documents without a lag. The acquisition team needs to work closely together so that all of the fact-finding that took place in the due diligence process gets integrated into the agreements, minimizing risks and maximizing the long-term benefits of the acquisition.

Once a deal is closed, how can a company successfully integrate the target company's assets?

Integration is really about assimilating the intellectual property and the assets, but, most importantly, the employees of the target corporation. Integration is the true key to success. The first place to start is to roll out the red carpet for the employees of the target, give them an employment agreement, give them equity in the new corporation if you can and honor the benefits that they had in the target company, basically providing them with incentive to do well. An individual should be designated in the buyer's team to lead the integration and successfully capture the benefits of the acquisition. As soon as the deal closes, the buyer should explain all the synergy and benefits to everyone, including customers, suppliers, the new employees (most essentially) and existing employees. It's important to understand the culture of the company being acquired and combine it successfully with the culture of the buying company.

The most complex factor is often integrating the information technology systems. Obviously, the legal compliance and the accounting processes need to be integrated as well. The lines of products and services must be considered so that there is no overlap or redundancy. The message that is communicated to the world — all of the marketing, sales, human resources, etc. — need to be integrated after the closing of the deal.

Achieving long-term success is a result of learning about and blending the two companies as successfully as possible. Next is managing an organization that has grown in head count, in lines of products, assets and people, and that may come as a big change. After that, it is time to embrace new resources and reach a new level of success. <<

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