How to turn your integration into success

Key findings from Eight Advisory's 2023 Post-Merger Integration Survey

November 2023

Summary

01. Survey objectives

02. Survey panel overview

03. Key success criteria and performance levels

04. Key success factors and challenges

05. Observed integration best practices

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Foreword

In most organizations, M&A strategy and execution is well integrated into the broader corporate objectives and goals. Acquisitions, when conducted effectively and integrated well, are meant to add significant value to businesses and their investors.

However, acquisitions are far from always generating the returns expected at the onset of the deal. While some of these misfortunes may be due to an inadequate thesis or strategy, more often than not it is the integration process' execution which causes the most substantial headaches.

Eight Advisory regularly supports clients in their integration programs throughout Europe – so it would be fair to say we know a thing or two about getting the job done well. To corroborate and inform our own approach and methodologies, we conducted a wide scale survey on Post-Merger Integrations (PMI) to see how businesses perform, and to identify what really counts in a successful program.

Beyond our own experience, we wanted to present an operational, fact-based vision of the stakes and best practices, across company sectors and geographies.

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Main questions we wanted to answer

Acquisitions are decisive moments in business, driven by strategic and market visions. Yet they embed **a lot of integration challenges that companies are not equally experienced in**.

Some key success factors remain underestimated (quality of the due diligence, integration preparation, cultural integration and people engagement, synergy assessment and tracking) and may directly **lead to integration success or failure**.

Acquirers pursue a variety of acquisition objectives, and are **highly diverse** from geographical, sector and strategic standpoints.

As businesses embark on acquisition and integration programs, **which areas remain blind spots for even the most experienced** acquirers?

What are the **underestimated elements** of the integration program? How do these underestimations impact **value and the perceived success** (or not) of the program?

Which **process and habits do successful businesses, across sectors, have** which drive results in integration programs? How can we **identify best practices that can then be tailored to each company's situation and needs**?

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Overview of our panel

We interviewed 91 companies across the globe,
with a balanced mix of sectors, ownership structures and M&A strategies

92 Companies
Collating a wide range of corporate M&A strategies and methodologies

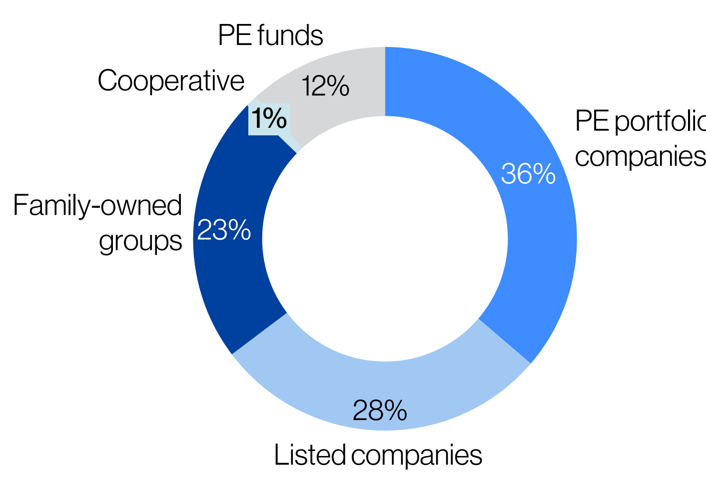
700+ Deals
Consolidating learnings across 700+ deals and integration programs

9 Countries
Reflecting cultural differences across Europe and globally

3,000 Data points
Rich and detailed datapoints provide clarity of insights and robust trends

€800bn+ cumulated Revenues
Significant impact on the economic landscape

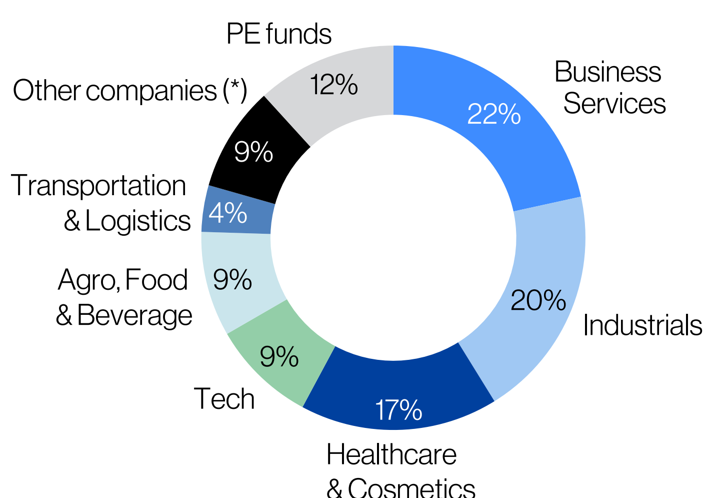
Panel overview by ownership structure



The survey targeted a mix of business ownership structure and aimed at providing a comprehensive view across the landscape of shareholder status.

As our intention was also to determine how investors would consider M&A and integration strategies, we also included a limited number of Private Equity funds in the survey to reflect the increasing focus that PE funds have on operational activity and the specific practices that they could develop across their portfolios.

Panel overview by sector



As the survey did not target a specific sector, we ensured that sector representation would be balanced. The higher degree of Business Services, Industrials and Healthcare & Cosmetics companies is the result of both high M&A activity in these industries and Eight Advisory's strong relationships and contacts in these areas.

Note: (*) including Financial Services, Energy, Consumer Services and Media & Entertainment
Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Panel details

Our respondents reflect a wide variety of sectors and sizes, ranging from large blue-chip groups to family-owned companies, scale-ups and private equity portfolio companies

BOSCH
SOLVAY
FORVIA
SIEMENS Healthineers
ARDIAN
suez
PUBLICIS GROUPE
TKE
SOCOTEC
L'ORÉAL
Stago
econocom
GEODIS
apave
Pernod Ricard
JDE
AIRBUS HELICOPTERS
invivo
PAI PARTNERS
EQUANS
PROSOL
egis
inetum. Positive digital flow
ACCOR
TRIGO
ADIT
soitec
COLISEE
Nidec NIDEC MOTOR CORPORATION
parquest
europe snacks
ADM
UGOLF
circet
IK Partners
LABORATOIRE X.O
MENTHA PARTNERS
TRUMPF
Almaviva santé
ID LOGISTICS
noveo care
EURONEXT
SAGARD
SCUTUM
FORTINO CAPITAL PARTNERS
TERREAL
GROUPE RÉSONANCE IMAGERIE
DB
Havea GROUP
MARKET PAY
aliaxis
coop
Talan
free lance com
LATOUR CAPITAL
sgl carbon
swissport
altitude
OMNES EDUCATION
idverde
charterhouse
Netceed
TSG
UNIT4
ZF
Peters SURGICAL

Note: Excluding participants who wanted to remain confidential

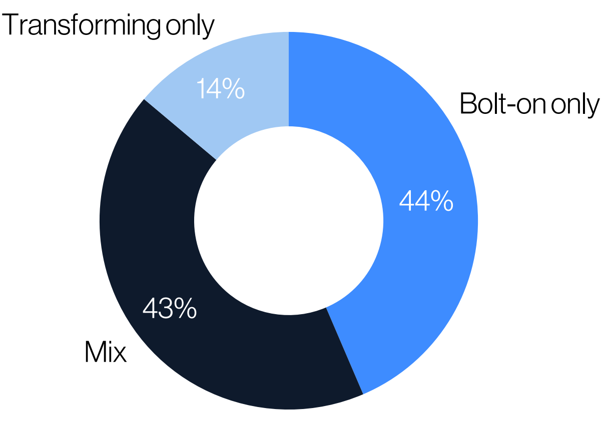
Acquisition strategies vary across our panel as our respondents' acquisitions address a wide range of business objectives

Acquisition types

The most notable element of acquisition strategy is that businesses **M&A strategy sits at the heart of their overall corporate strategy and objectives**. This was the case for most of our panel, although for 13% of them acquisitions were made purely for an opportunistic diversification purpose.

Private equity-owned companies and large listed businesses, which account for two-thirds of the population sample, **commonly deploy a buy-and-build integration strategy** to drive value – it is therefore understandable that a large part of our population sample would focus on bolt-on activities.

However, **a majority of companies still perform transformational deals**: while 44% of respondents seek to perform only bolt-on acquisitions, 57% perform deals that are transforming for them for their size or the change they induce into their companies. These transformational acquisitions, **although more time-consuming than smaller deals**, tend to be catalysts for both a significant transformation at the acquired company and are thus bound to come with specific integration issues.



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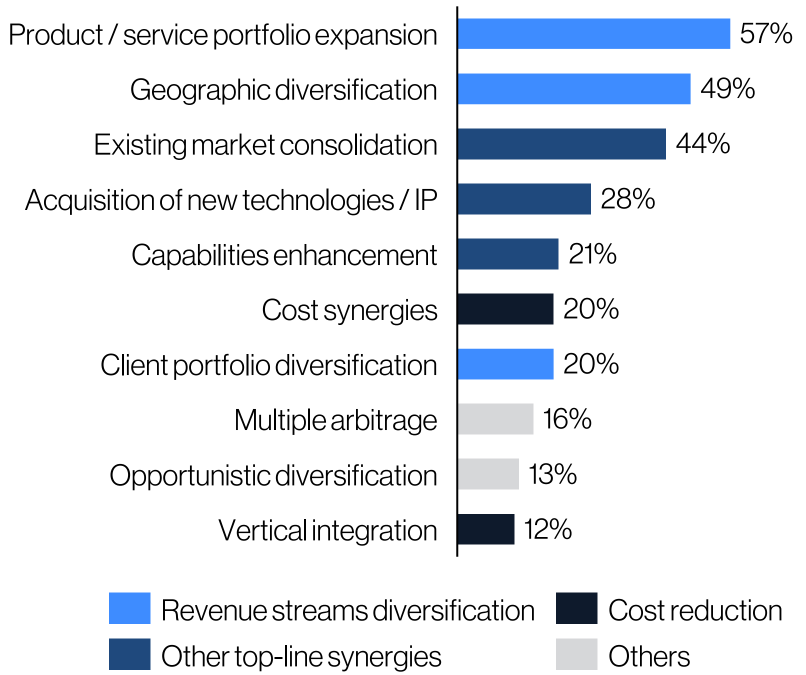
Acquisition objectives



Acquisition objectives are also highly diverse, and while most businesses were looking to grow their offering by product, service or location, others sought to acquire IP, capabilities and new technologies and a minority stated that they were looking for cost synergies or multiple arbitrage.

It is notable that in the adjacent graph only 13% of acquisitions are of a vertical nature, suggesting management teams are **focusing on building on what they do best** via bolt-on or transforming deals in relatively "known territories", versus building larger conglomerates which are "jacks of all trades".

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

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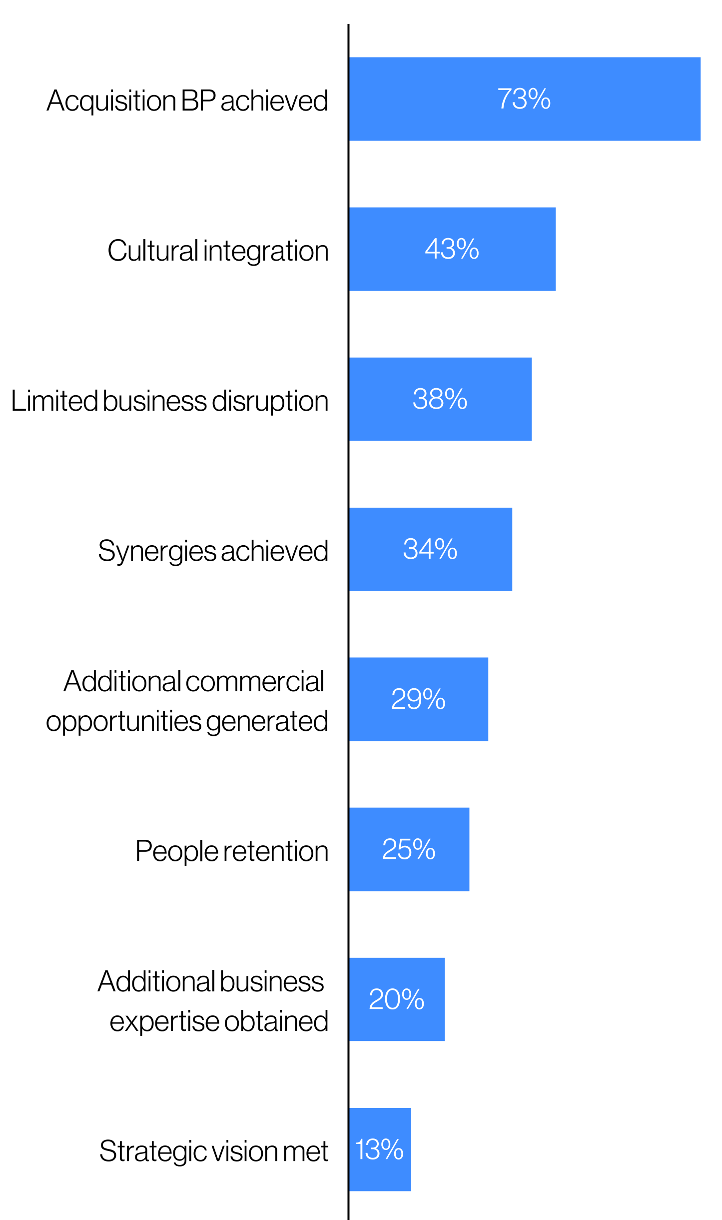
Integration success criteria

Success is judged primarily on the ability to meet overall financial targets, followed by cultural integration and the limitation of business disruption

Success criteria stated by the panel



Unsurprisingly, **the top success criterion of integrations is the achievement of the business plan** (BP) developed at the time of the acquisition. However, the period in which this BP needs to be achieved varies a lot, as for some clients "synergies not delivered within 2 years may be considered as not achieved", whereas for others financial targets start being measured in year 2, due to the business disruption brought by the integration.

Companies are more interested in the overall financial results obtained than in the achievement of synergies, which are a success criterion for only a third of respondents. This pragmatism may mean that **integration benefits and efforts are sometimes overshadowed** by underlying market trends or positive top-line situations. Some **companies can thus "under-address" some integration issues and not take actions to generate the most arduous synergies** (especially cross-selling, which is often said to be the most difficult synergy to achieve), which may come to bite back in following years.

The #2 and #3 success factors (cultural integration and limited business disruption) also illustrate the fact that on top of creating value, **successful integrations are also about "not breaking the machine"** and ensuring that a return to an improved business as usual is achieved in a smooth manner.

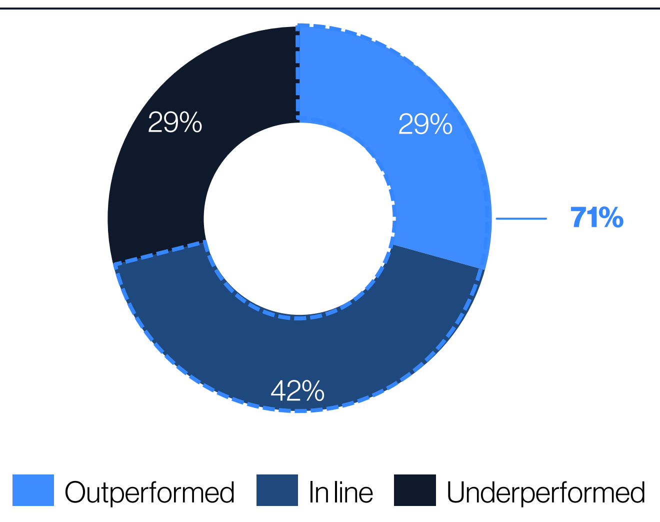
While only a small number of companies stated the fulfilment of a strategic vision as a key success criterion of integrations, it is mostly "by design", since most of the time the group's overall vision and strategy is an "invariant" without which an acquisition isn't pursued, before the integration stage.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Achievement of integration objectives

While from a high-level perspective 71% of integrations are considered to be successful by the top management, digging into the details reveals that actual success, at least from a financial viewpoint, can be more muted

Percentage of strategic and operational objectives achieved



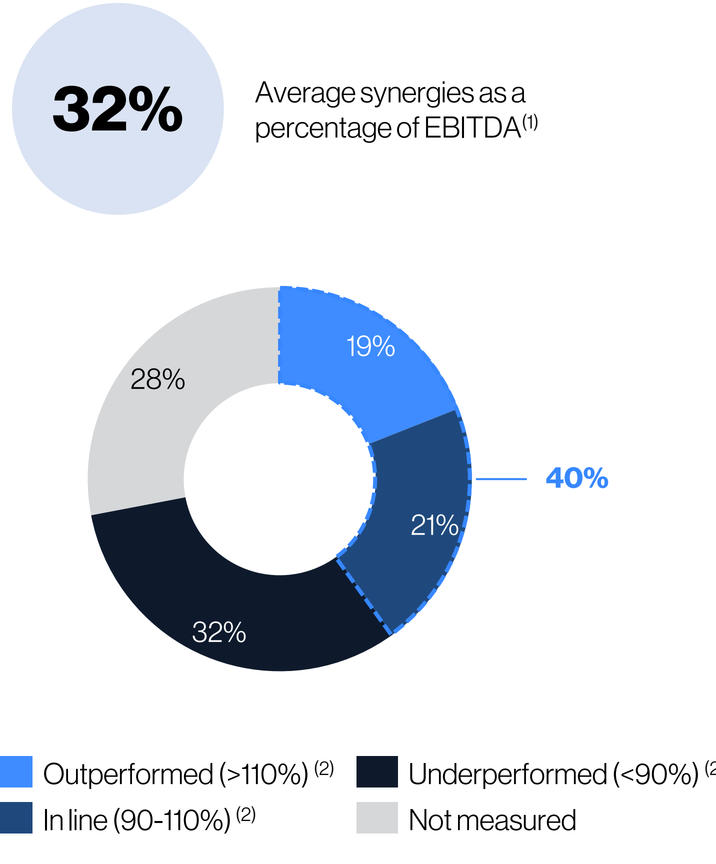
Over 70% of integrations are considered to have been successful, from a strategic standpoint, by the top management of the company, based on their own success criteria.

This **level of success drops significantly for smaller deals** as a lot of companies performing both larger, transformational deals and small bolt-ons have not yet industrialized their integration processes and devote limited resources to the latter, which often means that the **structures needed for these integrations to be successful are not in place** and accentuates the issues when integrating companies with widely different cultures.

Percentage of initial run-rate synergy estimates achieved

32% Average synergies as a percentage of EBITDA[(1)]

81% Percentage of initial synergy estimates actually achieved, on average



While the achievement of synergies is a success criterion for only a third of companies, it makes a suitable proxy for the detailed operational and financial achievement of the integration.

These synergies are significant, as their initial estimate, at the time of the acquisition, amounts on average to 32% of the Target's pre-deal EBITDA[(1)]. Most companies fail to achieve the full identified potential. On average, **achieved synergies amount to 81% of initial estimates** and these **initial estimates have been exceeded or achieved in only 40% of cases** (i.e. 60% of the corresponding number of cases for strategic objectives). This illustrates the fact that **most companies are not performing as well in their integrations as they would have expected**.

It should be noted that **28% of companies do not measure synergies after the due diligence**, which makes it even more difficult for them to be successful from a financial standpoint.

(1) Or equivalent financial aggregate
(2)Percentage of initial run-rate synergy reached on average
Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

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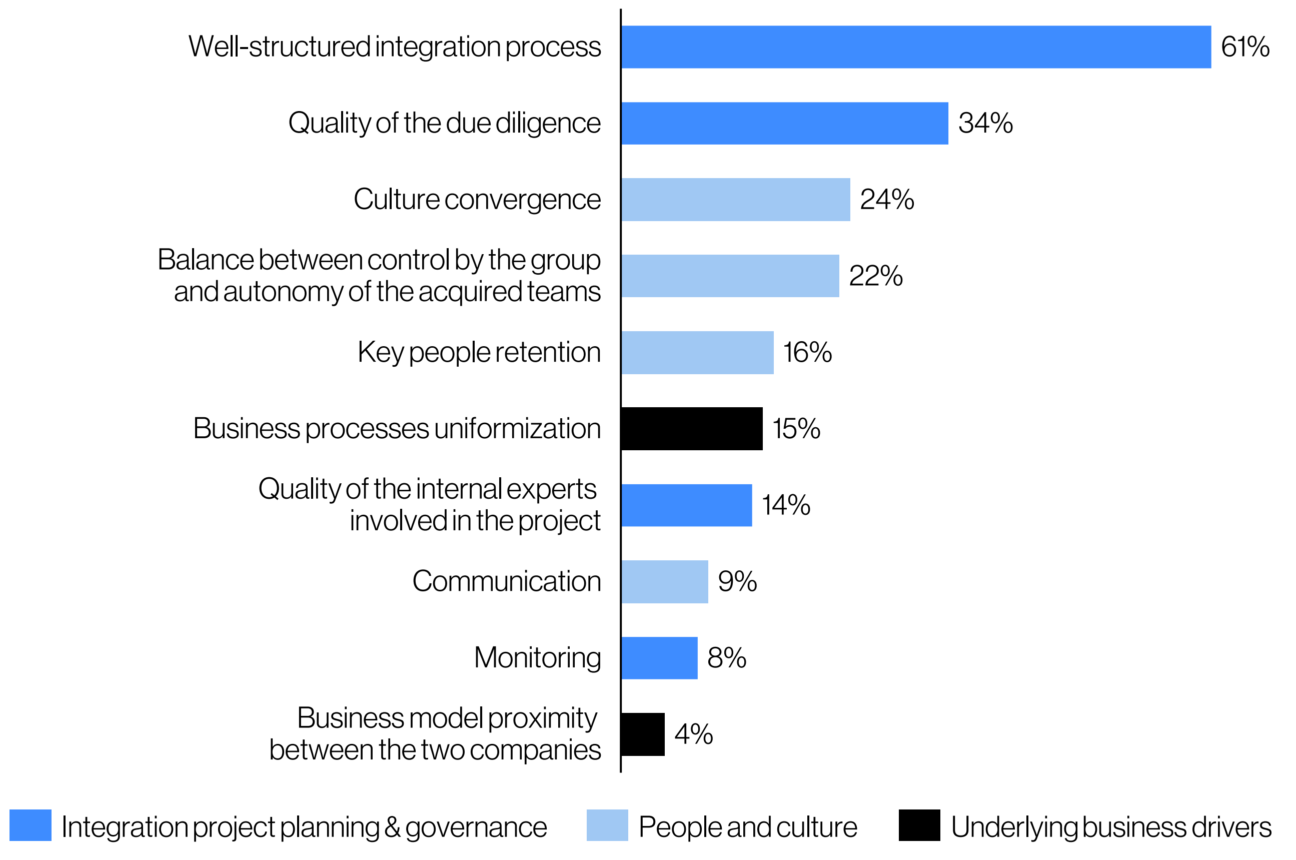
Key success factors

Among the success factors identified, a well-prepared integration process appears to be key. Quality of the due diligence, right level of autonomy for the acquired company and culture convergence need to be emphasized on.



As the chart shows, **the main success factor for integrations is a well-structured process and reliable governance**. According to the companies we interviewed, having a strong integration process forms indeed the building block on which to base the integration's value creation strategy, and provides a framework to effectively mobilize both their and the target company's teams.

High-quality due diligence is a key element to ensure that **a good view of potential synergies and integration complexities is formed at the beginning** of the project, as well as to **secure smooth transition between deal-making, post-deal planning and delivery**. Appropriation of the conclusions of the due diligence by both pre- and post-deal leads is indeed essential to enable them to build ownership and strong foundation for post-deal leads to build upon. Additionally, good due diligence also ensures that **value creation objectives are both achievable and not overly high**, which could endanger smooth business operation.

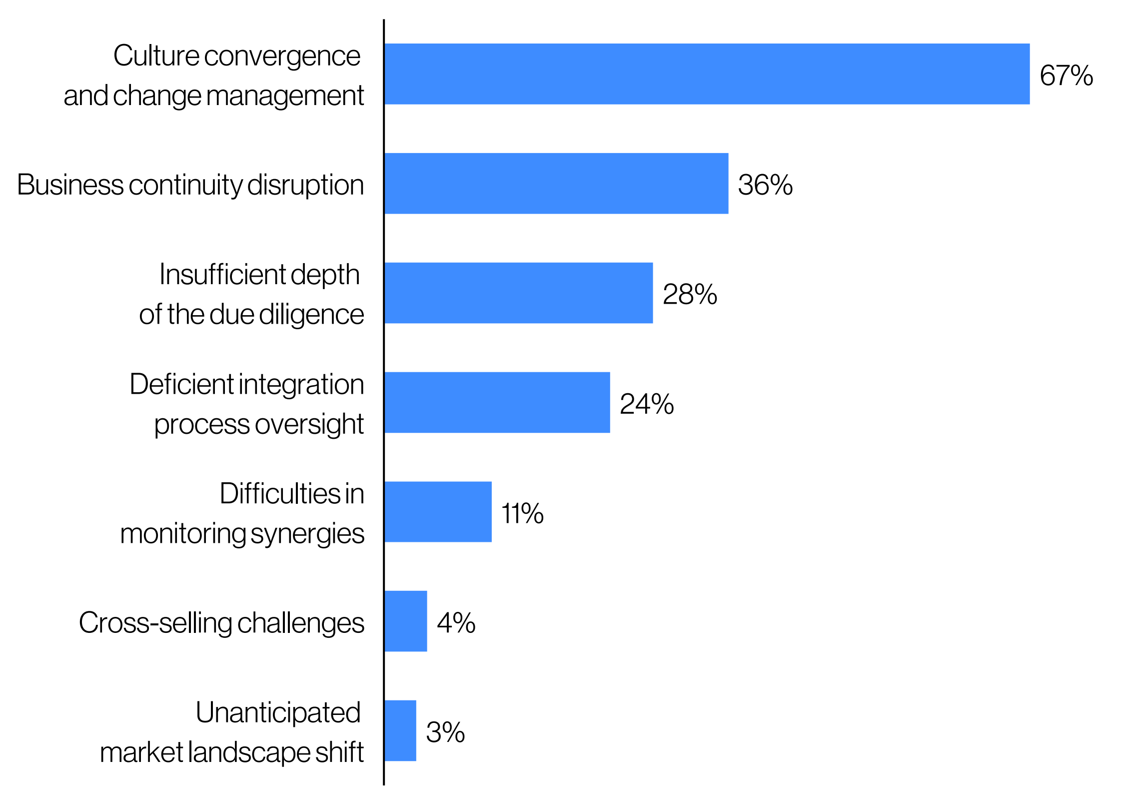
After those "technical topics" come cultural convergence and key people retention, which often leads to difficulties for managers. Key people retention can generally be tackled through incentives plans and career opportunities but require to stay aligned with deal objectives and consistent with historical practices. On the other hand, cultural convergence is specific to each deal and are highly related to the initial deal thesis.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Underestimated challenges

Difficulties in culture convergence, business continuity disruption and depth of the due diligence are often under-addressed in integration processes

Underestimated challenges in integrations



While not systematically a factor behind integration success, culture and change management is very often the main reason why integrations fail. Culture convergence and change management is indeed underestimated in two thirds of cases and this underestimation negatively impacts businesses. It can create higher-than-expected attrition, slower delivery and a combined business in which people don't work well together on the longer term. This comes both from the fact that culture is often not judged important by some managers, as highlighted by some of our interviewees, but also that cultural differences can be hard to assess and harder to manage.

For companies not used to them, **integrations can be challenging and complex programs** that demand a disproportionate amount of management team, from both the acquirer and the target to get right. Management teams do need to spend time supporting and steering the integration program, but they are warned to get into an appropriate level of detail – as this can distract them from running the wider organization(s) – and to transition to business as usual as quickly as possible.

Insufficient due diligence, especially on synergies and on potential integration challenges, is also often quoted, which highlights the importance of a well-structured acquisition and integration process, including on topics on which companies are not all equally "naturally equipped".

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

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Best integration practices in a nutshell

Create value

Perform detailed due diligence

"Pave a clear and actionable way to integrate businesses, with ambitious and achievable targets."

Involve operational experts early on

"Set the tone early for the entire process, benefit from your teams' expertise and ensure early buy-in."

Track synergies in detail

"Ensure that synergies are tracked both financially and operationally; focus on the areas with the highest payoff."

Define an adapted target organization and operating model

"Develop an operating model aligned with both the acquisition's objectives and the target's culture."

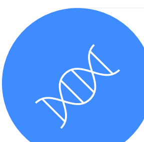
Preserve value

Establish dedicated project leadership

"Ensure the people in charge of the integration have enough time and resources to make the difference and enable change in a swift way."

Promptly transition to business as usual

"Take structuring decisions early and incorporate as much as possible into existing routines to minimize fatigue and overcomplexity over the long run."



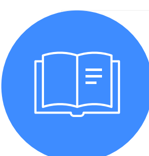
Assess cultural compatibility and manage change

"Ensure that the main cultural differences are identified and addressed to minimize clashes and onboard everyone into the common project."

Adopt the right incentive structures to retain key talent

"Rely on a set of identified managers, experts and informal leaders, and incentivize them appropriately to ensure you have no unwanted leaver."

Integrate your own way



Develop your own Playbook

"Formalize your own way of integrating businesses, to roll-out your integration programs in a faster and smarter way."

Success factor #1: Perform detailed due diligence

Thorough due diligence on achievable synergies is common practice, whereas implementation cost estimates are often based on high-level benchmarks only

Performing due diligence on an acquisition is a typical pre-deal activity. Indeed, it would now become quite rare not to see financial and tax due diligences conducted even on the smallest transactions. **Operational and technology due diligences are now also more and more commonplace**, be them performed by the acquirer's internal teams, external advisors or both.

Crucially though, the survey identified that **where integrations had not been considered successful, this was largely due to the lack of granularity and detail analyzed in the pre-deal due diligence, or inadequate planning pre-deal**. As an illustration, several CEOs and CFOs admitted that they **had not always spent enough time understanding the target's operations**, which resulted in business continuity issues post-deal. A detailed enough due diligence scope of work, incorporating a mix of operational, financial and organizational assessments, helps mitigate these issues.

Synergy assessments

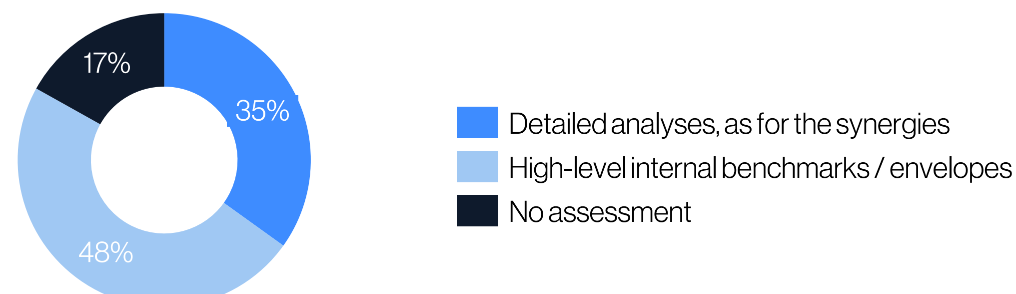
28% of companies stated that the quality of the synergy due diligence was not detailed enough

13% of companies do not conduct quantitative synergy analysis at all

While synergies are not always the key driver for an acquisition, they are often a high priority for businesses conducting integrations. This is particularly true for businesses which incorporate synergy calculations into the deal structure and pricing. **Over a third of deals do not receive the appropriate level of assessment**, resulting in businesses lacking the strategic and operational understanding to drive financial benefits following the deal.

A lot of the most successful acquirers systematically perform at least **two synergy analyses**: an initial assessment, with enough time and resources, during the due diligence, and a confirmation shortly post-closing, involving all the relevant experts when they have access to all the needed data.

Analyses performed to assess implementation costs



Assessing synergies is performed in a vast majority of deals. However, **while synergies may be optional, implementation costs are not**. Integrations always come with costs, and managing these costs well is performed most efficiently when these costs have been assessed in the first place and are regularly tracked afterwards. Several companies and funds have confirmed to us that when they used ball-park envelopes as their implementation cost estimates, these costs were systematically overrunning. It is therefore surprising to see how few companies carry out assessments in relation to implementation costs – with almost two-thirds of companies not carrying out sufficient background analyses related to costs estimation.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #2: Involve operational experts early on

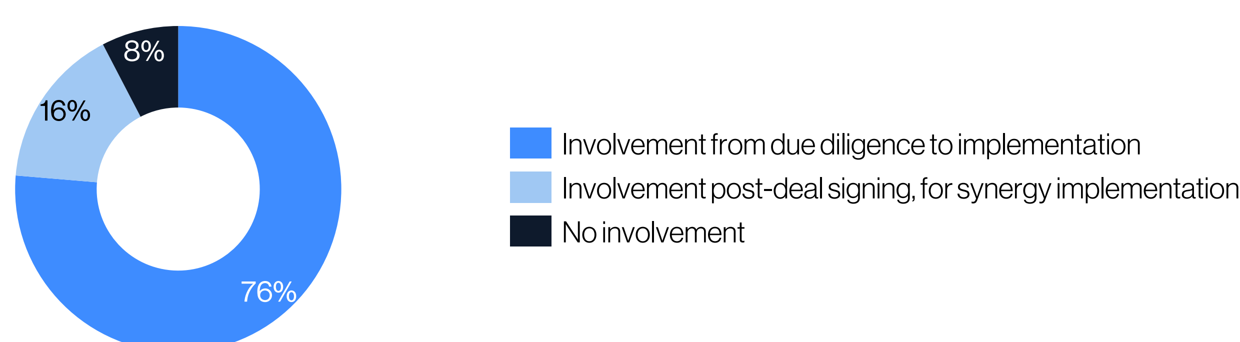
Involving the right experts in due diligence and post-deal integration is both common and beneficial; companies that involve experts from the outset of the process are better equipped to drive integration success

Integrations can weave into every element of the buyer and seller's organisations – be it customer experience, supplier management, technology and systems, people, financials... Managing, steering and driving a successful integration therefore requires the input from industry specialists and leaders. Those businesses who involve the relevant internal and/or external teams and expertise are better positioned to deliver results post-deal.

Transactions, rightfully, are projects which demand a "need to know" basis, and inner circles are often tightly controlled. In the early stages of a deal, it is common that only a handful of the management team will be briefed and engaged.

However, when it comes to understanding the target's operations, assessing synergies and preparing the eventual integration, the earlier operational teams are involved, the better it is. **Involving those who will perform the integration from the pre-deal stage ensures that they contribute to and own the assumptions and decisions made**, to better deliver in the future. This "ownership" is critical to success.

Timing of internal operational teams' involvement in deals



A large majority of businesses surveyed recognize the need to involve their operational teams and do so early in their deals to leverage their expertise, generate their buy-in and sometimes identify the owners of integration workstreams when these owners are not obvious. A lot of the surveyed companies recognize the need to do so, and adapt the teams involved to the situation, sometimes onboarding their managers "on the fly" when specific topics arise, especially new synergy levers.

24% of companies have historically not involved their internal experts as soon as the due diligence. However, **a lot of them have shifted their approach towards onboarding them**, to ask more detailed questions and identify synergy owners earlier on. Moreover, according to these companies, the **confidentiality issues they may have feared in the past did not materialize** when involving additional internal teams.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #3: Track synergies in detail

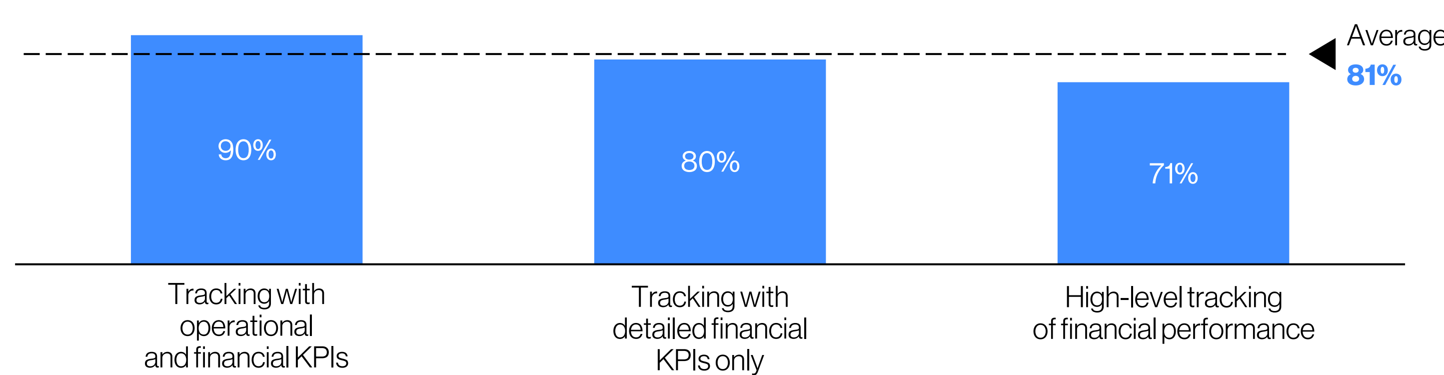
Achieving synergies requires detailed tracking and monitoring, from an operational standpoint as well as from a financial perspective; companies able to do this achieve on average > 10 pts more of synergies

While not all acquisitions are driven by synergies, synergies are a significant element of most acquisitions' business plans. As a reminder, they account, on average, for 32% of the Target's pre-deal EBITDA[1]. As a result, **achieving the identified synergies makes the difference between success and failure of an integration**, from a financial standpoint.

Not all synergy levers are equally easy to monitor while it is typical to think of synergies as focused on costs, which can be directly controlled. **62% of companies include revenue synergies in their BPs, vs. 83% only for cost synergies**. As revenue synergies are often less easy to achieve and even less easy to distinguish from a company's underlying business dynamics and commercial performance, **most companies do not have a "natural" setup, in their daily operations, to monitor the impacts of each synergy**.

However, synergies do not happen by accident. Delivery of their results come from meticulous and deliberate actions. **Businesses which take the time to perform detailed pre-deal synergy assessments and then pull these through robust action plans by relevant teams then a co-ordinated and robust tracking process, drive better results**.

Level of achievement of initial run-rate synergy targets by tracking mechanism



Indeed, **61% of interviewed companies have implemented tracking mechanisms including both operational and financial KPIs**. They were rewarded with **better results**: they generated indeed, on average, 90% of their initial synergy estimates, vs. 80% for all companies and 71% for those who only track synergies at a high level.

Some companies have even been able to implement tracking protocols which are both highly detailed and flexible. As an illustration, on top of implementing detailed operational and financial KPIs on each of the identified synergy areas, one consumer services group **systematically embeds the tracking of the operational KPIs in each of its functions' existing management routines**. This enables them to quickly drill down on underperforming areas and quickly take corrective actions, while minimizing the impact on top and middle management's availability. Partly because of this, their latest deals have largely exceeded initial performance expectations.

As another illustration, one financial services group systematically tracks all synergies through detailed action plans of individual projects that can be monitored then synthetized to provide regular update up to the group's Executive Committee. While not a single formula for success exists, a lot of businesses can thus develop their individual best practices to ensure synergies are achieved or exceeded.

(1) Or equivalent financial aggregate
Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

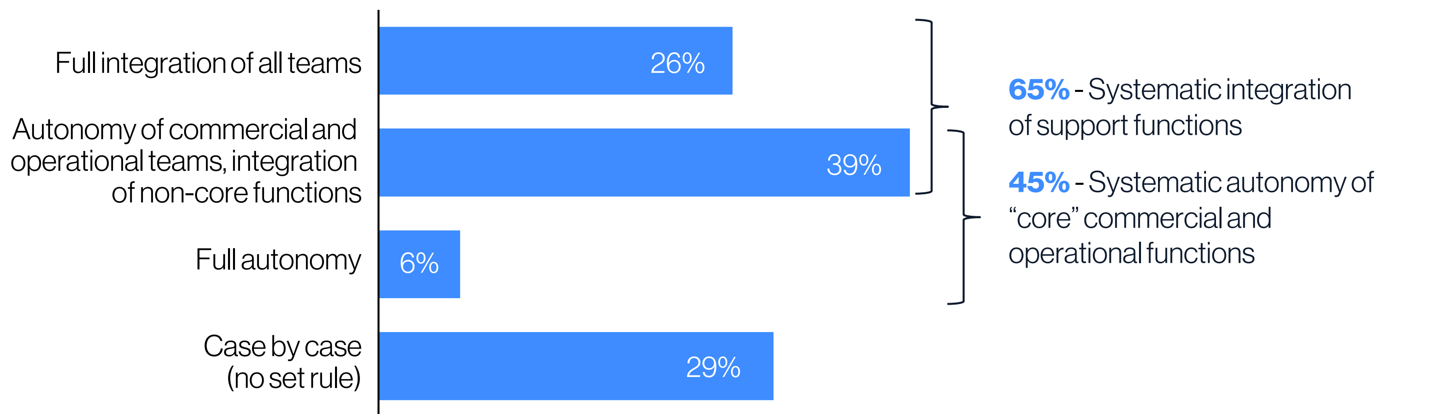
Success factor #4: Define an adapted target organization and operating model

The right balance between autonomy by the target and control by the group is a key topic, which is addressed through detailed definition, early on in the integration process, of a specific target operating model for each function

The degree of integration is often a debated topic during planning. Leaders aim to balance integration efficiency and synergy delivery with maintaining business continuity and providing autonomy to revenue generating teams. This is especially true when integrating start-up or other highly entrepreneurial companies. Indeed, **a lot of integrations have historically failed as full alignment to the acquiror's organization and processes destroyed what had made the integrated teams successful**.

There is no single best-practice organization and operating model across sectors, as an organization structure, governance and processes need to be adapted to the group's strategy, to the acquisition's objectives and to both companies' cultures. Therefore, **a majority of companies start designing their operating model blueprint** earlier on than before, **in the due diligence phase or before the deal's closing**.

Level of integration of the acquired company



Back-office functions are more and more systematically integrated across a group, geography and/or Business Units (in 65% of cases), as synergies from workload mutualization and efficient processes typically outweigh the flexibility from autonomy. Integrated back office also ensures a consistent message to Group and C-Suite leaders, who have visibility of all financial, people or legal matters through the fully integrated Finance, HR and Legal teams.

For commercial and "core" operating teams, integration approach is less systematic and will very much be linked to the deal's rationale, group strategy and context. Target operating models may change, with various level of integration.
As directly linked to revenue and customer experience, integration approach may tend to limit the disruption of those functions, postpone their transformation once more stability is reached – or maintain autonomy and client intimacy.

It is also noteworthy that only **6% of companies ensure systematic autonomy of all functions**. While this autonomy can be reassuring to the acquired company's management, it can indeed both prevent back-office teams from achieving the required efficiency levels when working in the group's processes or create cultural integration issues as the links between the group and the acquired company's teams are distended.

Whatever the model, **all businesses benefit from rapid movement to the target operating model**. Defining and moving quickly to the desired state has the benefit of reducing the disruption provoked by the integration program to a minimum, providing greater clarity to the workforce, and enabling to focus on the customer as quickly as possible.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

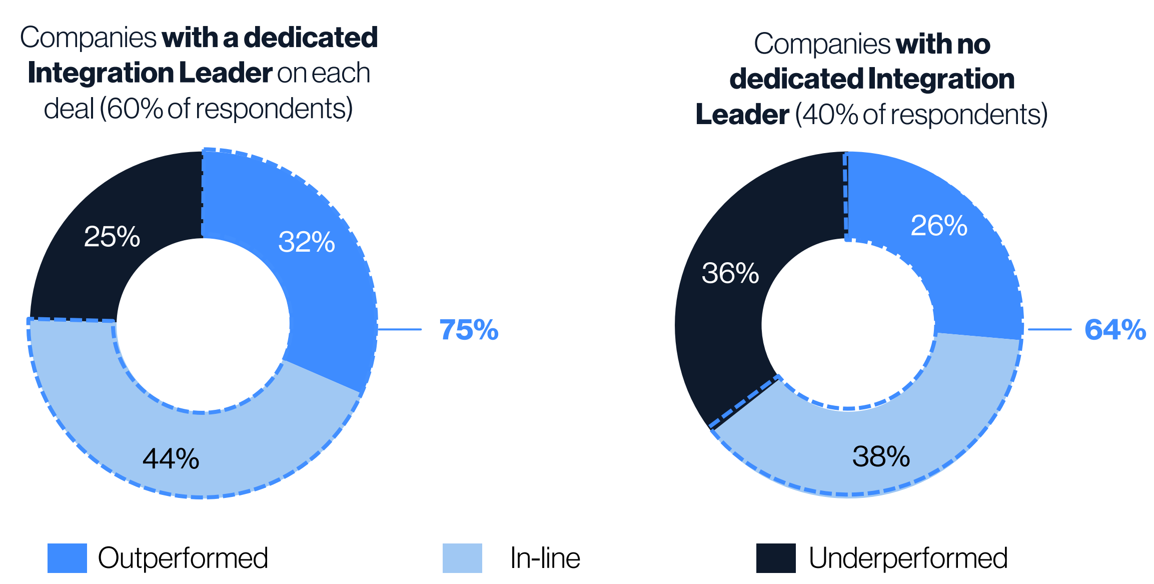
Success factor #5: Establish dedicated project leadership (1 of 2)

A dedicated integration leader who embodies the culture of the organization and has enough time for the project will better drive results and remove obstacles along the way

Successful integrations require a wide spectrum of roles and responsibilities across the whole company. Given the complexity of these programs, the leadership and responsibility of its success (or failure) ultimately lies with the management team. However, each integration projects needs to be driven operationally by an Integration Leader, who ensures collaboration and delivery across workstreams. **Having the right profile to drive an integration has strong benefits in accelerating decision-making process and tackling roadblocks, especially for the most complex deals**.

60% of companies opt to appoint an Integration Leader who is dedicated to one or several deals at a given time, while the remaining 40% decide to have each deal led by someone who needs to manage the project on top of having significant commercial and operational responsibilities in a "business as usual" role – or sometimes by the CEO, a Business Unit Head or with no single person at all.

Achievement of strategic objectives with or without a dedicated Integration Leader



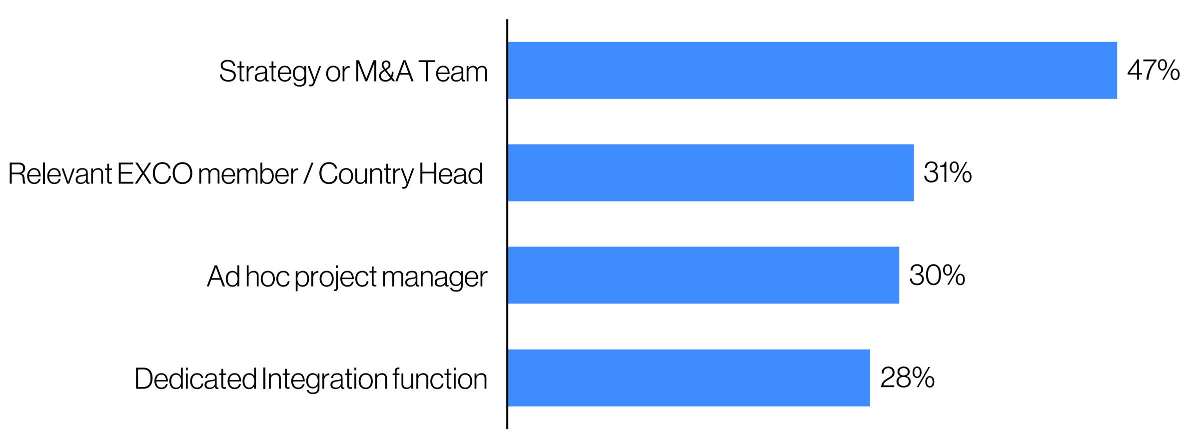
Having someone on point makes a material difference to integration success.. While an Integration Leader does not guarantee success, nor can they rescue an integration, deals without this role only reach or outperform objectives in 64% of cases, while this rises to 75% where the appointment is made. Even though the key strategic options and most critical decisions in the integration are usually taken by the acquirer's top management, the Integration Leader is indeed the person who has the best view on the advancement of their integration process(es) and given sufficient time, who can best allocate integration resources to workstreams and manage potential risks and interdependencies between workstreams.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #5: Establish dedicated project leadership (2 of 2) – zoom on the Integration Leader's profile

There is no single best profile for an Integration Leader. However, they should have sufficient time and resources as well as a high level of internal legitimacy

Integration Leader profile



Appointing this role is not an easy task. **There is no single best team or profile for an Integration Leaders**. This position can indeed be part of a dedicated integration team or be attached to the group's Strategy or M&A team or be filled by detaching a high-potential manager from a commercial or operational position. **All these profiles enable companies to achieve similar integration results**, from a strategic or from a financial standpoint. The main differentiating factors are the ability for the Integration Leader to dedicate **sufficient time** to one or several integrations (which is not easy when having to manage other M&A processes and/or strategic projects at the same time), the Integration Leader's **high legitimacy vis-à-vis internal stakeholders** and their knowledge of the group, the acquired company and the common project..

This role is so important for repeat acquirers that **a lot of companies and private equity funds pursuing buy-and-build strategies systematically create a Head of Integrations role** in their management teams or in the management teams of their portfolio companies. As one large fund said in the course of our survey, "There should be, in each buy-and-build platform, someone in charge of integrations to build an "M&A war machine"."

Smaller or less acquisitive businesses are unlikely to have such a position already in place – meaning they have to appoint from another role or hire externally. **The best Integration Leaders are often a firm's "rising stars"**, hungry to prove themselves. They have the respect of both the management team and their peers. And, crucially, they're up for the challenge.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

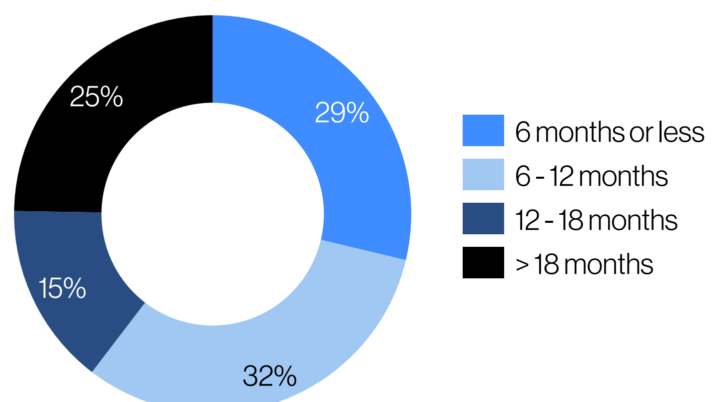
Success factor #6: Promptly transition to business as usual

Successful integrations are those that enable the transition to Business As Usual as quickly as possible; <30% of companies achieve this within 6 months and 60% within one year

Integration programs are large and complex – often touching all elements of both businesses as structures, processes and systems are redesigned and redeveloped. Even with the best-laid plans, **integrations easily take longer than expected** as issues are underestimated, and delays take hold in delivery.

We noted that 38% of businesses regard integrations as successful if they generate limited business disruption. While the integration itself may only be an element of the wider business, it demands a disproportionate amount of leadership and management time to get right. **One of the obvious failures of integration is then not the program itself, but the opportunity cost to the business** – as focus is diverted away from other value-generating opportunities.

Average integration project duration, post-deal closing, before reverting to business as usual



As our analysis shows, 25% of all deals analysed stayed in project mode for more than 18 months post-Day 1, whereas 60% transitioned to Business As Usual (BAU) within one year, and 29% only within 6 months. This comes as a surprise since **integration projects are often said to last for the first 100 days post-closing**, and **some companies are able to do so in a regular manner**.

Methods to reduce integration timelines

There are a handful of methods businesses can use to reduce the timeline of the integration program:

Start before Day 1
Conducting integration planning early means that you can hit the ground running at Day 1

Govern robustly
Keep feet to the fire by hosting regular and robust program governance which drives pace

Focus on risk resolution
The pace of the program will be driven by the pace at which risks are identified and resolved – so make that a priority

Create a culture of progress
Appoint people who get stuff done and incentivise them to move at pace

Transition long term projects into BAU
Longer term deliverables should be moved into BAU so to class the integration as complete

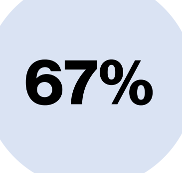
Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #7: Assess cultural compatibility and manage change

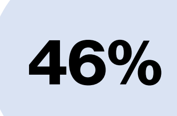
Cultural integration is seen as the main pain point in integrations, yet < 50% of organizations establish a dedicated Change Management workstream, and the content of these workstreams varies significantly across companies

Peter Drucker once stated that "culture eats strategy for breakfast". A phase which seems to have been accepted as gospel amongst the business world. The irony though is that while this is so readily accepted, it doesn't always appear to be readily tackled, and more evidently in integrations –when an organisation's culture can be tested to the extreme.

We highlighted that **43% of companies regard cultural integration as a key success factor** of an integration program, while **67% of companies regard cultural integration as an underestimated issue** that caused problems. It is perhaps surprising then that so many businesses' integration programs are so unprepared to address this:



67% of companies say that cultural integration is **not sufficiently prepared and rolled-out**



46% of companies have a **dedicated culture and / or change management integration workstream**

With only **46% of companies dedicating resource to culture and change**, it is perhaps no surprise that the outcomes of culture alignment are not living up to expectations. Culture assessment, intervention and alignment is difficult and is often not something management teams have familiarity with. Integration teams may indeed be more skilled at driving financial performance and running detailed project plans than they are at measuring and dealing with culture related challenges – even in organizations that do recognize the importance of cultural integration and change management. Finally, companies say **their main issue is that they miss the right approaches and tools to efficiently address cultural and change challenges** in integration.

Best practices for the Cultural Integration and Change Management workstreams

A Change Management workstream can include multiple elements, ranging from cultural integration plans to more concrete topics such as communication, convergence in HR policies or regular meetings between teams. All of these elements can be useful in the context of an integration and there is no "magic recipe" adapted to all organizations. However, the two most impactful elements are an **assessment of the cultural differences and of how to address them** early in the project, supported by **a robust mobilization and communication plan, adapted at the outset of the integration to all relevant stakeholders**. According to some of our panellists, this is "even more relevant in today's world, as home working becomes an easy refuge for many and links within an organization need to be renewed more often".

For cultural assessment and integration, several companies have developed detailed methodologies that enable them to address three components of the target's culture: its geographical culture, its corporate culture and its management team's culture. To do this, they systematically **perform surveys and leverage quantitative data to assess where power lies in the business, the organizational structure, what symbols and stories are important to the business, and what are the cultural "red lines"**. Such an assessment can be formed relatively quickly in the project and provides detailed pictures of the acquirer and the target's cultures. These pictures can then help assess potential pain points and **how to make cultures converge, to the extent such convergence is desired**.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

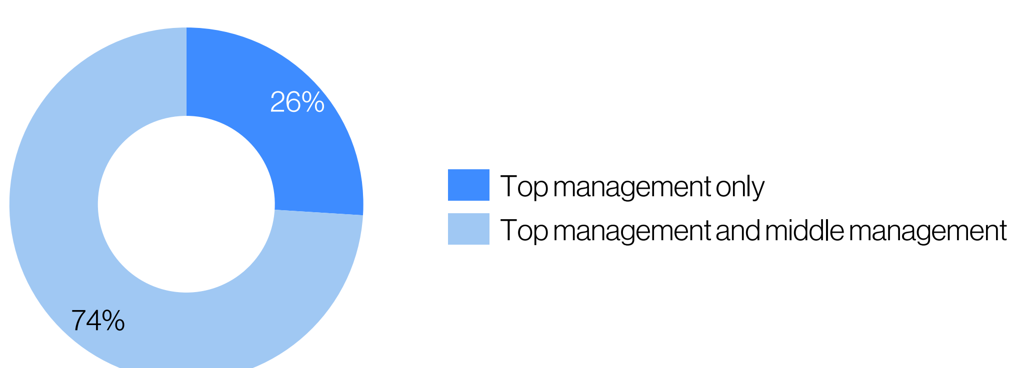
Success factor #8: Adopt the right incentive structures to retain key talent (1 of 2) – zoom on talent identification

Retention of key talent is a real challenge in integration programmes. The right method of identifying talent and the right incentive structures are both critical to retaining and building talent for the combined group

As we have seen so far, acquisitions, especially transformative ones, can make businesses change fast. If this pace of change is fast and cultural challenges emerge, **the best talent within both teams can quickly become more difficult to retain**.

Integrations run well when there is **the desired continuity of leadership, knowledge and ownership** – so retaining people during delivery is critical. Resignations and replacements inevitably cause delays, as new people get up to speed with the program. New hires tend to want to stamp their own fingerprint onto their workstreams too – which while often in good nature, can be disruptive and confusing.

Key talent identified in the acquisition process



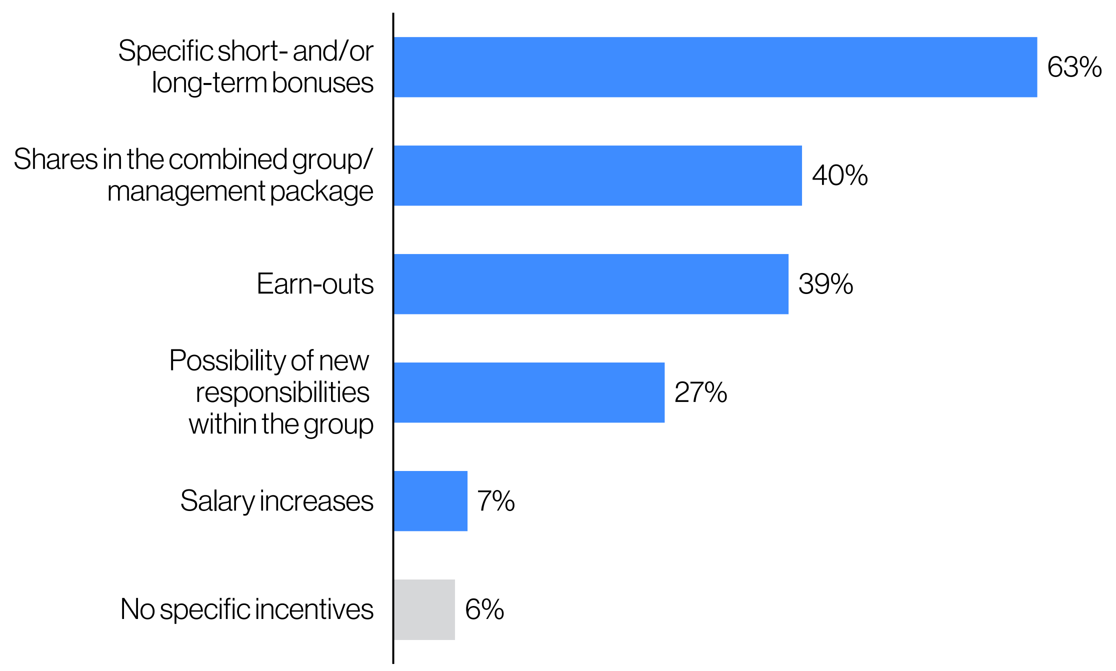
Most companies systematically look to identify the key talent that they judge to be critical for running the acquired company's business and/or part of the integration program, across seniority levels. For a minority of companies (26%), this key talent is limited to the founders or the top management of the acquired company. However, some companies have developed more structured approaches to identifying this talent, by combining views obtained during the due diligence process (sometimes through a dedicated management due diligence workstream), the vision from the selling shareholders and interviews they conduct around the deal's closing. This enables them to **look beyond top management and sufficiently incentivize middle management talent, who can be as critical as top management in integrations success**.

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #8: Adopt the right incentive structures to retain key talent (2 of 2) – zoom on incentives

Non-financial incentives seem to be under-utilized today, in comparison to a variety of sophisticated financial incentives

Incentive mechanisms used to retain key talent



A variety of financial incentives is often used to retain the identified key people. Such **financial incentives can be tailored to facilitate these people's retentions as well as the achievement of key integration milestones and targets**, sometimes with a detailed set of objectives for everyone.

As an illustration, earn-outs are used in about 40% of deals and have been said by multiple study participants to hamper the generation of synergies by focusing the acquired company's management on the performance of the perimeter and teams that are under their control. However, effectively structured and communicated on earn-outs have been successfully used multiple times by some of the survey's highly acquisitive participants in high-synergy situations, proving that **adapted financial incentive structures can be an efficient tool in an integration**.

Non-financial incentives are used much less often than financial ones, as they account for only 26% of incentives used. This comes as a surprise to us: an **engaging people integration program**, including the possibility of future new responsibilities within the group, helps indeed form a more emotional bond between the individually targeted people and the new group, maximizing key talent's engagement, while minimizing the requirement for financial incentives. As noted by the CFO of a very large group: "One of the primary motivations for key talent to remain with us involves our ability to adapt our organization to the unique profiles and evolution aspirations of individual managers." In such cases, especially in the business services sector, this has indeed helped the acquirer fill in potential succession plans or skill gaps at some key roles within its organization.

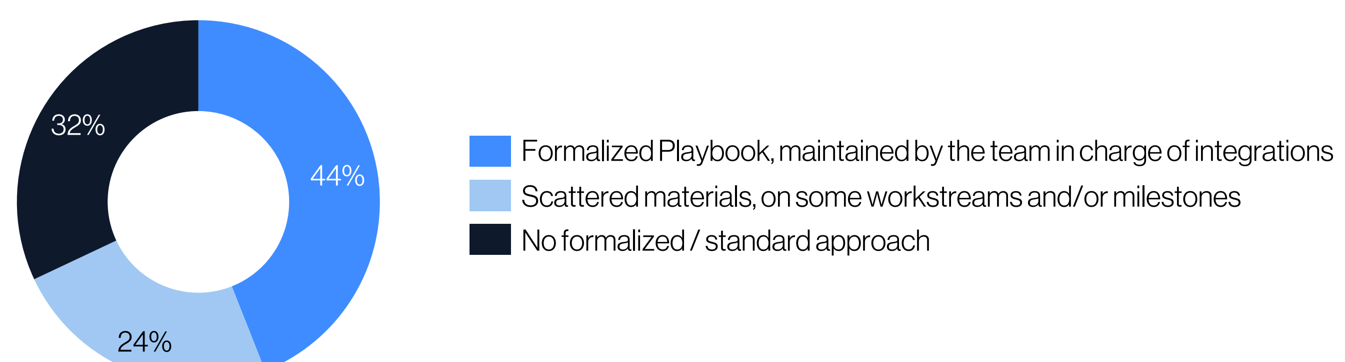
Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #9: Develop your own Playbook (1 of 3)

Developing your own Integration Playbook is in our view the #1 success factor for integrations, yet only < 50% of companies have done so

The concept of an **Integration Playbook as a guide to efficiently perform all of a company's integrations** is not new. It has been building and developing in the M&A space for several years now. Those businesses who have completed numerous integration programs in succession had started to take the learnings from one and bring forward into future deals. Indeed, a lot of them **include in their Playbook all the key contents needed to process and industrialize their integration programs, from due diligence to execution and transition to run**.

Proportion of companies with an Integration Playbook



Only 44% of the surveyed companies have an Integration Playbook, whereas a third do not and a quarter have basic principles or incomplete ones; over half of all businesses surveyed are therefore not maximizing the potential of this tool. Given the impact that the Integration Playbook has on the outcomes of an integration, it is perhaps surprising how many companies do not have one within their tools.

What makes a great Integration Playbook

An effective Playbook includes best practices in its tailored and comprehensive content, usage and diffusion level

Tailored
The Integration Playbook is tailored to the platform business, its sector and its culture

Comprehensive
The Playbook needs to cover all the key elements of deal success, from due diligence to transition to business as usual – leaving no stone unturned

Developed
With the conclusion of each deal, the Integration Leader or team should revisit the Playbook and adapt and build on it for the recent learnings

Used
The Playbook is used throughout each deal, adapted to the Target's culture and operating model – it is not shelved

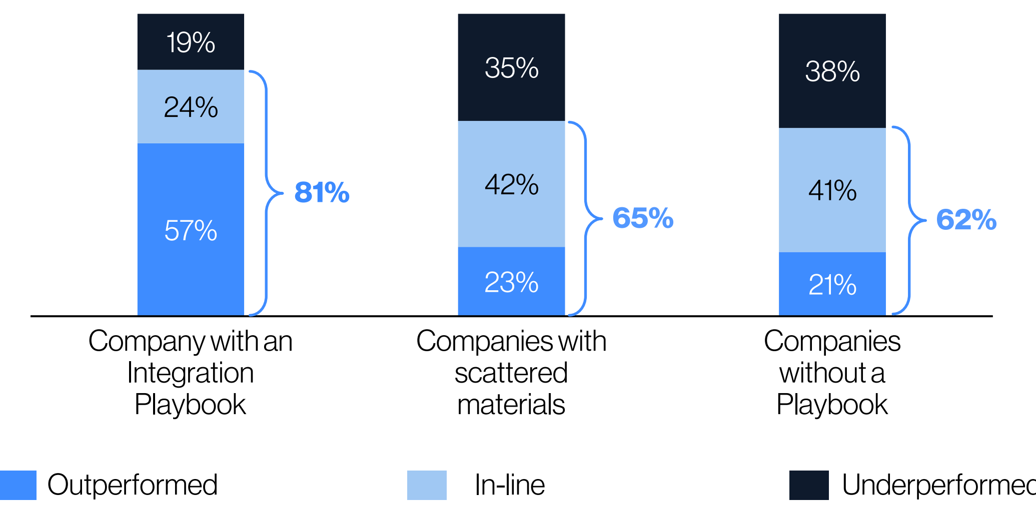
Understood
The Playbook should be a user-friendly guide which helps people from all areas of the business, especially when they have to take-over an integration workstream on the fly

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #9: Develop your own Playbook (2 of 3) – zoom on impacts from Playbooks

Framing an Integration Playbook unlocks the potential to reach and exceed the objectives set for the integration

Proportion of companies who succeeded in meeting their strategic and operational integration objectives



The picture from the above is clear: **the companies who have an Integration Playbook have a far better chance to reach or exceed their integrations' objectives**. The existence of a Playbook is indeed key in ensuring that the integration at least meets expectations: 65% of integrations meet expectations without one, rising to 81% for those which do have one. However, it provides an even more substantial opportunity to exceed initial integration objectives: the proportion of companies that outperform these objectives rises from a modest 21% to a majority 57%. What is also interesting is that scattered, re-usable materials bring limited benefit compared to having no Playbook at all. One large, highly acquisitive company stated indeed that it "achieves 100% of objectives in the countries where they have deployed a proper Integration Playbook, compared to less than 50% where they haven't."

As noted by several interviewed companies, having a Playbook brings three main benefits: it enables an Integration Leader to **leverage on the organization's collective experience at all stages of the acquisition and integration process**, it empowers Integration Leaders and workstream teams to **form a comprehensive plan fast** ("less than one month" according to one surveyed company) and it **eases the onboarding of operational teams** on integration projects that may be new to them.

It is also worth noting that while the Integration Playbook enables better performance against the plan – the guidance it provides in the early stages of the deal should drive a better informed and more realistic plan. This combination provides leaders with **greater clarity of the acquisition during the due diligence and of the integration afterwards**, which translates into greater confidence in the deal as well as potentially higher synergies.

Last but not least, it is becoming increasingly common for **buy-side teams to conduct integration due diligence** on businesses which have been exposed to a highly acquisitive strategy, for example buy-and-build programs. The evidencing of a well-used Integration Playbook will provide assurance to bidders than the vendor has been deliberate about doing the integration work and not leaving the job unfinished.

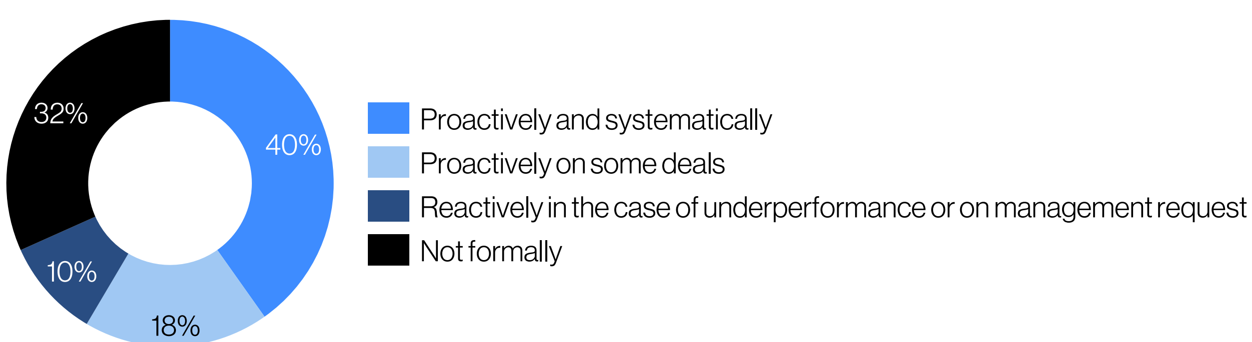
Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

Success factor #9: Develop your own Playbook (3 of 3) – zoom on return on experience

Systematic return on experience of each integration can be both a humbling exercise and the best source of fruitful learning when incorporated into the Integration Playbook

The best way to nourish an Integration Playbook and ensure it is tailored is through a thorough post-mortem exercise, allowing to derive practical lessons learnt and areas for improvement for the future deals. In particular, such an exercise enables to distinguish in a structured manner between what has worked well and what has left some room for improvement. Despite these benefits, **returns on experience are uncommon, and rarely performed proactively**: only 40% of companies perform it proactively and systematically, whereas 32% do not perform a formal exercise at all, even in the case of failed deals.

Frequency of the return on experience exercise in integrations



Yet, for clients performing this retex in a systematic manner, this exercise often encompasses several best practices.

Best practices for returns on experience

3 key RETEX moments in integrations…

1. **Day 100,** when visibility on the actions taken is high. Refine integration pathways while transitioning to BAU, using inputs from the teams daily involved on the deal
2. **A year after,** during business planning, to be able to react, (e.g. through capex or other resources) while having enough of a big picture
3. **After several years**, to derive lessons from the achievement or not on each strategic objective and synergy lever

…with some best practices

1. **Use lunch and learn individual feedback meetings**, involving the Integration, Finance and HR teams, to have a wide set of KPIs
2. Perform this exercise **with teams from both the former acquirer and the former Target**, ideally through workshops or leveraging a seminar day
3. Leverage **ExCom-level discussions on how to react and adjust** during the whole integration phase
4. **Anchor lessons learnt in the Integration Playbook**

Source: extract from Eight Advisory's 2023 Post-Merger Integration survey

01. Survey objectives

02. Survey panel overview

03. Key success criteria and performance levels

04. Key success factors and challenges

05. Observed integration best practices

06. How we can support you in integrations

How Eight Advisory can support you throughout your integration

Our team provides support throughout the whole M&A process, from origination to integration execution

M&A strategy

Growth Strategy

- Define the growth roadmap (markets, customers, geographies, products)
- Review the brand & product portfolio evolution
- Assess the suitability of potential targets

Build-up Strategy

- Communicate the strategy and platformization level
- Set up a scale-up model
- Build the G&A support model
- Create core business adherence

Due diligence

Operational & Synergy Due Diligence

- Identify synergy buckets and assess run-rate impacts on EBITDA
- Estimate one-off costs and implementation risks
- Draft the implementation timeline and financial ramp-up

Financial Due Diligence

- Determine normalized EBITDA and Business plan
- Define financial results tracking

Integration strategy

Integration project preparation

- Define the target organization and operating model
- Structure the integration approach in terms of governance, workstreams
- Deploy the "8A integration suite" (monitoring and reporting)
- Support Q&A sessions

Onboarding roadmap

- Design and update the Integration Playbook
- Define the Day-1 communication plan
- Prepare acquiree's team onboarding, change roadmap
- Set up key people retention mechanisms

Integration Execution

Onboarding management

- Deploy the change roadmap
- Secure the social integration journey

Detailed synergy plan

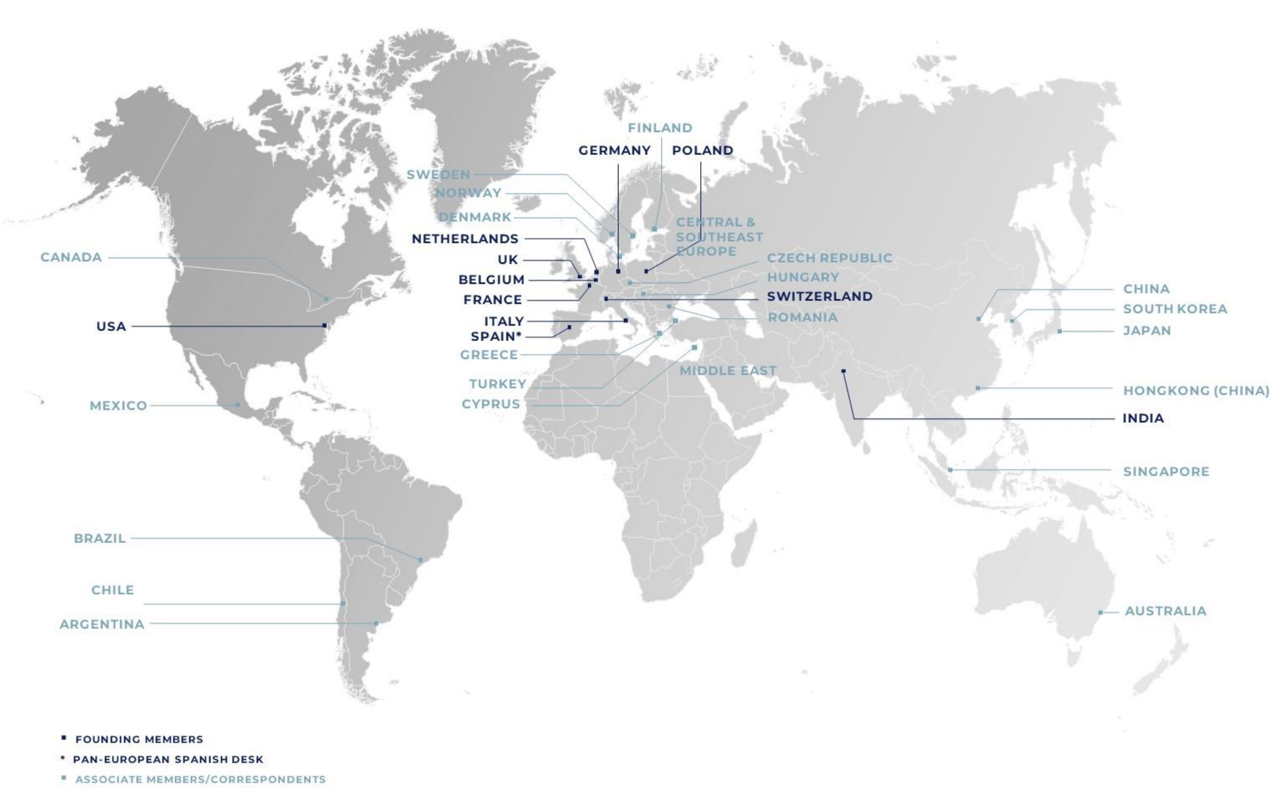
- Review synergies with both teams and empower people on targets
- Setup the synergy monitoring framework and embed it into business governance

Transition to Run

- Enable the governance to transition to Business-as-usual
- Ensure the right convergence of culture and leadership models
- Track synergies through processes, systems, and governance

Global reach

We are present globally, leveraging on our strong network of local expertise



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