Articles / Whitepapers

Practice: Technology

Topic: Acquisitions

We Bought Their Company

…Now what?

By Mark G. Haley

OK, a merger has been committed. What do the two companies, acquirer and acquiree, need to do in order to successfully integrate the acquired company into the new parent? Ron Tarro, VP of Broadsoft Hospitality, served up the consultant's favorite response to the question: "It depends. One thing that makes a big difference is if one of companies is a public company or private. There is much more scrutiny if a public company is involved, and it drives a different process. But the big question is, "Why is the acquisition being done?"" Tarro has been on both sides of the acquisition integration fence, once as the acquirer in 2004 (SDD acquired Telemanager) and more recently when Broadsoft (publicly traded) brought SDD into their corporate fold in 2014.

Amar Duggasani, Chief Strategy Officer of The Rainmaker Group, also knows his way around the integration rodeo. Amar is currently managing the integration of the recent Revcaster acquisition for Rainmaker. Amar echoed Ron's observation about why the deal is being done affecting the integration, noting several potential drivers for the deal:

"Synergies in terms of products are one big reason for an acquisition. Another, does the new company bring a complementary customer base with them? Maybe the acquirer wants or needs the talent in the acquired firm. Can the acquisition accelerate our time to market for a new technology? Does the acquisition open up new geographical markets or capabilities? These are all valid reasons to do an acquisition. But Rainmaker has never done an acquisition based on cost synergies. That just isn't who we are."

One key constituency in any acquisition scenario: the customer. When Rainmaker is evaluating a potential acquisition, the practice is to involve trusted customers in the process early, as part of the due diligence phase. These customer inputs have a great deal of impact on a go/no go decision, and certainly valuation. And in fact, one of Rainmaker's criteria in due diligence is "customer centricity" on the part of the potential acquisition's leadership team.

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Ron Tarro further elaborates on the customer impact of any transition, "Start with the customer in your head first. Think 'How do I transition my customers?' first, not 'How do I transition my processes?'" Ron has found this can be hard to do, where the acquired company has a great deal of specialized knowledge and customer-service practices, which then need to be brought forward into the new standardized systems and processes.

Note that much of what needs to happen in a successful integration must occur before the deal closes. Much of this is usually described as "due diligence". Some of things that must be evaluated in due diligence include:

Financials & Accounting

- ✓ Do the subject company's books makes sense?
- ✓ Have they been audited?
- ✓ Do the statements and Chart of Accounts appear professional and complete in design and content?
- ✓ Technology, Intellectual Property, Patents and Brands
- ✓ Does their technology do what it is supposed to?
- ✓ Is it at risk of technological obsolescence?
- ✓ Does the new firm's technology integrate into or otherwise complement the parent company's product offerings?
- ✓ Does the subject company own their technology, protected by patents and copyright?

Legal

- ✓ Are there any lawsuits or other liability issues pending that complicate things?
- ✓ Any employment contracts, covenants or other stakeholders the acquiring company needs to be aware of?
- ✓ Is the new firm organized and regulated in an appropriate manner?

Assessment of the leadership team and key employees

- ✓ Does the new team fit culturally?

Cultural fit is a big piece of due diligence for Rainmaker. They spend a lot of time on it, and it needs to fit on both sides. Rainmaker evaluated one hospitality technology company for an acquisition that looked very good economically: they really liked the technology and it was complementary to their products and customers. But the due diligence team sensed that the culture in the subject company seemed to be all about one individual, and no sense of customer-centricity or team within the company. So the deal didn't happen.

Culture is a top priority for Tarro as well. He notes that "If the new company remains more or less intact as a unit of the parent company, then the culture they brought with them will remain intact for some period of time. If the new company is broken up and the various functions distributed across the acquirer, then the culture will be broken up and the dominant culture of the parent is adopted."

Ron had another interesting insight, the role of technology in enabling a smooth integration: Broadsoft's own unified communications platform became a big driver for cultural integration when SDD was acquired. Ron feels that investment in collaborative technologies like Chatter, Yammer and of course, unified communications such as Broadsoft's UC-One, enable successful integrations, and that larger companies with a strong collaborative infrastructure are much easier to integrate with.

Both companies find that the baseline process of integrating financial and HR systems is important and must be done well, but they are not usually what makes an integration successful. Although if the transition to a new CRM or order entry system is not done well, there is a profound impact on customers and operations that is not to be taken lightly.

To sum up, with thanks to Amar and Ron, some of the key points in driving a successful integration include:

- Keep the customer in mind first and foremost
- Do most of your integration work up front, in due diligence
- Understand the variables that affect the process, like "why is the deal being done?"
- Do not underestimate the importance of culture and cultural fit

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