

# M&A Integration: Fast or Slow?



### Should you integrate fast or slow?

Integrating formerly separate entities is the heart of any M&A undertaking. Since an integration plan usually identifies the desired end state early on – why delay the process of getting there? In practice, determining the best pace for an integration isn't that simple, particularly when it comes to managing customers through the integration maze. When is faster better? When does patience pay off?

Here's the debate:

	Point	Counterpoint
<b>Get it done already.</b>	Shortening the integration duration reduces uncertainty for employees and customers.	Talk about uncertainty. A sudden change in customer-facing employees and key relationships can be just as confusing.
<i>"The sooner you complete integration, the sooner the benefits of M&amp;A accrue."</i>	You need to consider the drivers of value for each deal when thinking about what to accelerate. In many cases, when the deal is about growth, combining the sales forces quickly helps achieve this goal.	Moving too quickly can lead to bad decisions about which go-to-market model to maintain, which individuals to retain, and which processes to use.
	Integration is a period of duplication and other heightened costs. Don't leave the spigot open longer than you have to.	Integration has a cost – like any other worthwhile process. Take your time to help maximize the benefits.

	Point	Counterpoint
<p><b>There's no rush.</b></p> <p><i>"If it's worth doing, it's worth taking the time to do it right."</i></p>	Cultural differences between the combined organizations won't disappear quickly just because you want them to.	If you maintain two shadow organizations under one roof, you invite ambiguity and discontent.
	If you have a significant overlap in products, customers, or both, it takes time to untangle this all and put it back in the optimal way.	From a customer's perspective, that overlap generates confusion and mixed messages that can discourage sales.
	If the target company is performing well in a new market, the buyer should avoid disrupting that momentum.	If the buyer leaves the target alone, it will delay realization of value from cross-selling, combining technology, or whatever else made the deal worthwhile. And the further you get from the date of close, the harder it is to enact changes.



## My take

**Jessica Kosmowski, Principal, Strategy & Operations, Deloitte Consulting LLP**

Every integration process has unique requirements. But in most cases, parties inside and outside the new organization benefit more from a speedy marriage.

The advantages are both tangible and intangible. Most important are the measurable benefits that the parties sought when they initiated the new relationship – whether expressed in terms of economies of scale and the resulting cost reductions, market growth, a simple intellectual property play or whatever else made the combination a good idea in the first place. The combined company is headed somewhere. The sooner it arrives, the sooner integration becomes accretive.

A quick integration can also provide a useful window for change. A management shake-up or other adjustment can meet with less resistance if it is perceived as part of a critical, fast-moving integration process. Standing on its own in a less tumultuous environment, such a move might be harder to complete. In plain terms, robust integration provides cover for tough choices. That applies externally as well: Customers expect change at the time of a deal, and are more likely to roll with it. But as time goes on they are less receptive to change, which makes it harder to get things done.

Moving ahead without delay can also pacify hearts and minds. Internally, people are likely wondering how their roles and responsibilities will change – or if they will continue. As long as the fate of each process area remains unresolved, morale among its people is likely to suffer. Externally, customers and other stakeholders need to see a quick return to “business as usual” if they are to maintain or increase their level of interest and commitment.

Fast, effective M&A integration takes more than simply choosing a pace. Speed invites error, increases execution risk, and often makes mistakes more costly. The key is *smart* integration – and that requires careful planning before the process begins; careful, aggressive execution while under way; and organization-wide discipline.

There's also more to an integration timetable than simply pointing at a calendar. For acquirers whose targets offer net new customers, moving quickly can be a comparative no-brainer, but it's seldom that simple. If a fundamentally B2B business buys a direct-to-consumer business, the difference in go-to-market models can make integration planning much more complex. Product or customer overlap will add complexity as well. There are no standard right answers.

In my experience, most companies that move slowly on integration find their businesses disrupted. There is no single answer to the question, but there is a principle that almost always applies: If you know where you're headed, why not get there as quickly as possible?

## A view from the financial services perspective

**Iain Bamford, Senior Manager, Strategy & Operations, Deloitte Consulting LLP**

The forced mergers that characterized the height of the global financial crisis – a phenomenon that I believe has by no means ended – highlight the value of rapid integration in this field. The past year or so has seen many accelerated bank acquisitions where the FDIC informs parties of a transaction, only to require that the deal be completed in a matter of days. The fact that this process worked indicates that extremely fast integration is achievable. This process has also taught many financial institutions the benefits of a rapid, yet well executed, transaction – less customer and employee confusion, and less overall risk.

Speed is a virtue even in more sedate times. When a bank is acquired, its customers possibly need immediate reassurance. Any amount of time that depositors have to worry about the safety of their money, or borrowers to worry about the terms of their loans, can sow mistrust. A “CLOSED” sign on a bank door doesn't have the same meaning in 2010 that it did in 1929, but the emotional impact is similar.

When a customer's bank has been acquired, especially on short notice, quick integration can help make him or her feel part of the new bank's family. That makes it less likely that the customer will experience a “shopping moment” and fall into a competitor's arms.

The principles that make a fast process advisable for financial mergers also apply in other arenas when a distressed property is acquired. Whenever customers, employees, and stakeholders need reassurance, a protracted mating dance is not the answer.

## A view from the technology perspective

**Frances Yu, Senior Manager, Strategy & Operations, Deloitte Consulting LLP**

Deal rationale in the high-tech sector often hinges on access to customers, intellectual property, and R&D talent. At times, different objectives — such as retaining customers, preserving revenue, and keeping the right talent — either complement or conflict with each other. That can call for different integration timelines for different functions.

From a top-line perspective, there is tremendous pressure for fast integration to “stop the ice cube from melting” – to minimize M&A related revenue leakage and customer churn. Following through with quick decisions and clear communication can help empower the sales force and improve the Day One experience of both customers and employees.

A fast integration of the sales organization does not require an equally fast integration of sales operations such as quota setting and compensation, however. If the quota setting is tied to the product portfolio, and the two entities have divergent compensation plans, sales operations integration may require more time.

In a carve-out environment where the seller relies on transitional services from a third party, there is additional pressure to integrate fast, so that the newly merged entity can minimize the risks of SLA deterioration and cash outflow.

On the other hand, integration of R&D and engineering talent and knowledge takes a delicate touch. Many R&D assets are tied to set technology roadmaps and portfolio decisions. While the two companies can make portfolio integration decisions in a clean room environment prior to the deal closing, they may take up to 18 months post the deal to execute their decisions. Constraints such as commitments to existing accounts, long sales cycles, large deals or the need to preserve the talent pool also argue in favor of a slow R&D integration.

# A view from the health care and life sciences perspective

**Larry Montan, Director, Human Capital, Deloitte Consulting LLP**

My general advice in this market: Don't let regulatory issues, or even the uncertainty of future government action, slow you down. Your competitors are waiting in the bushes to cherry-pick your prime customers and distributors, and the one thing you don't want them to hear from you is "We'll need to get back to you on that."

Many health and biotech mergers find the acquirer entering a young, emerging market by absorbing a smaller, more agile player that has made rapid strides in carving out new territory. And these smaller players have worked hard to develop solid customer and distributor relationships – often relying less on their brand and company muscle and more on high-touch sales and service. Their customers and distributors will not wait long for the newly acquired and integrated company to get its act together.

Newly joined entities in this market should pay attention to three key areas:

1. **Address customer concerns and needs rapidly.** By the time Day One rolls around, you should know where the customer overlaps and the big opportunities lie. You should be getting a feel about how to market and sell the expanded portfolio of products and services to this larger customer base. Quickly get your selling organization in the game by providing the tools and information it needs to capitalize on these opportunities. As a side benefit, getting your best sellers involved early and fast can help deter them from jumping to the competition.
2. **Pay attention to your distributors.** Unless you have a captive arrangement complete with a leash, you run the risk that distributors will pay more attention to other manufacturers' products and take their eyes off yours. To avoid churn, accelerate the planning, communication and integration of the distributor network – particularly with global ones in other regions.
3. If you are a big outfit acquiring a smaller company, **don't smother the target by imposing** "big company" structure. The newly acquired company will have a better chance of retaining its momentum if the buyer gives it more autonomy. Its culture and relationships with customers and dealers are based on personal relationships and quick, responsive action. If you've got a goose laying golden eggs, don't clip its wings.

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