COVID-19's impact on integration approach: learning from the crisis

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From the dot-com bubble to the Great Recession to the ongoing disruption by the COVID-19 pandemic, the Mergers and Acquisitions (M&A) market, much like any other industry, has weathered its fair share of turbulence in the past. However, unlike earlier crises, the COVID-19 pandemic has had a sweeping impact on the global economy, thereby affecting the way M&A transactions are established, negotiated, consummated and integrated. Persistent lockdowns and work from home (WFH) presented a sudden shock across the M&A deal lifecycle. This was probably felt the most during the post-deal phase of transactions. 'People aspects', for instance, is at the heart of any integration programme, which during the WFH mode remains only sub-optimally addressed due to lack of personal connect, two-way communication, deliberation and the important consensus building process. In addition, the enhanced market uncertainty and volatility has led management teams to re-think of any aggressive synergy estimates, especially revenue related in the short-term period. This sentiment has clearly reflected in the global M&A activity, which witnessed an ~35 per cent decline in deal count during the acme of the first wave of the pandemic in May 2020.

That said, the pandemic has also given us a glimpse of an alternate working world and learnings from these new ways of working. Despite an escalating crisis, the global M&A market staged an extraordinary recovery in the second half of 2020; so much so that the concluding quarter of last year witnessed over 4,900 deals, a Y-o-Y growth of over eight per cent.[1] This remarkable bounce back has primarily been possible due to the willingness of all stakeholders (buyers, sellers, advisors) to adjust to the changed environment. In the last 13 months, we have noted certain emerging patterns in the integration approach and style, which can potentially reshape the overall integration approach to meet the requirement of the 'new normal'.

- **Integration is now an important deal agenda item, from a very early stage in the deal lifecycle**
  'Taking control of the target operations' and 'working together towards a common vision', are some of the common immediate post deal priorities and accomplishing them in a virtual world at a deal speed proved to be even more effortful. COVID-19 has certainly added more uncertainty in the deal process and savvy investors prefer an early alignment on the integration approach (both within their organisation and also with target's top management team).

- **Information Technology integration is now more critical and urgent than before**
  The pandemic accelerated many companies' path to becoming digitally enabled enterprises, first in order to survive and later as a source of competitive advantage. Mature acquirers are now realising the importance of leading with the alignment of their and the target organisation's technology stacks as a key component of arriving at the Target Operating Model (TOM). While business models of certain sectors, such as e-commerce and fin-tech, were already centered around technology, there has been a growing pre-merger requirement from companies across other sectors (such as manufacturing) to demonstrate digital readiness and technology resilience.

- **Focus on maintaining business resilience, alongside driving synergies**
  Historically, 'value creation' has been an explicit priority, whilst 'value preservation' is a more implicit one, in the post deal agenda. As the acquirer develops a combined operating model, resilience has become an equally important consideration, alongside efficiency. For instance, one of the typical quick-wins in an integration of two similar manufacturing organisations is consolidation of key raw material suppliers, where both 'value maximisation' and 'maintaining a diversified and stable supplier base' are considered as important deciding factors for sustainable growth.

- **Virtual meetings have improved access to leadership teams**
  Effective communication is key to successful integration – traditionally achieved through face-to-face workshops, meetings and townhalls. However, the clichéd saying of 'get everyone in the room' to get the deal done is not possible right now. With the shift to virtual communication platforms, the leadership team has been able to address the organisation in large or different sub-groups simultaneously across locations, relatively at more frequent intervals. While it is difficult to replicate effectiveness of communication from a 'face-to-face mode' to a 'virtual set-up'; however, the new ways of working have certainly benefited where virtual channels can be suitably leveraged to maintain high frequency in employee interactions. Perhaps, as we shift to a new normal with even partial WFH being a likely reality, technologies such as virtual reality (VR) and augmented reality (AR) may take off, offering a better alternative to the 'ball and chain' of the headphones plugged into the laptop.

- **Making business meetings more outcome oriented**
  Judged solely on the outcomes, business meetings seem to have become more productive in the virtual set-up, due to better planning (such as relevant participants, a clear agenda, key expected outcomes) and better availability of the desired participants. That said, brainstorming sessions, personal touch and informal channels of communication are no longer as effective. The new ways of working can benefit from a hybrid approach, where the initial planning and ideation workshop could be conducted face-to-face, and subsequent meetings held virtually, to accomplish both agility and stakeholder engagement.

Much like the preceding year, the coming months might alter the M&A landscape across sectors and countries basis the severity of the pandemic and the pace of recovery. And while the challenges would be unique to each company, the complete remote approach to integrations is likely to be a universal, stop-gap arrangement. It has several benefits culminating in improved speed of integration and efficiencies in collaboration. We hope to carry these positives forward to our 'back-to-normal' world.

Read KPMG in India's publication – 'Making it Count – How PEs/ VCs in India manage their portfolio investments.' The report talks about the common themes followed by investors to protect and enhance value of their portfolio companies.

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[1] KPMG in India analysis:2021, based on secondary research