

Strategy & Operations · 5 Min Read

Mergers and Acquisitions: The CFO's Guide to Successful Integration

Due diligence, optimized technology, the ability to integrate organizational capabilities, and proper consideration of acquisition risks are the critical factors for fruitful M&A transactions.



[Chandrasekhar Chandragiri](#) · ETCFO

Updated On Aug 9, 2023 at 09:36 AM IST



Mergers and Acquisitions: The CFO's Guide to Successful Integration

Bringing companies together through mergers and acquisitions (M&A) or disengaging them through divestitures and separations are some of the most complex business activities. After a lull in M&A activity owing to covid-19, 2022 saw action in the space at par with pre-pandemic levels.

According to the Boston Consulting Group, by July 2022, the aggregate number of deals declared by companies worldwide stood slightly over 22,000 and was valued at \$1.73 trillion. While the outcome of a successful sale can become a game changer for active businesses, its failure or underperformance can unsettle financial performance for years.

On the global scale, the short-term economic outlook seems clouded by recession fears, rising interest rates, geopolitical tensions, and supply chain disruptions. On a positive note, experienced companies know that deals executed during the downturn are typically more successful. The challenging conditions allow buyers to drive better returns and outsize planned growth. With a reset in valuations, low competition for deals, and new assets entering markets – including some from distressed conditions – CFOs should embrace M&A as a part of their business strategy.

Transforming merger and acquisition deals for profitability

Successful deal closure is both a science and an art. It is based on advanced analytics and cognitive solutions that, together with insightful industry knowledge, can lead to long-term success. In this context, the factors that CFOs should focus on before they ink a potentially profitable deal include:

1. Building a mutually beneficial deal: While preparing for an M&A deal, the buyer should ensure that the strategic visions for both companies align. It is vital because deals are typically structured in a performance-incentive-based manner or a phased payout process - any vision mismatch may lead to conflicts between the involved entities, making the acquisition messy. M&A success also depends on the retention of the acquiree company's employees. They should be ready for the process's overhaul and willing to work with new managers. Wherever feasible, employees of the acquiree organization should be incentivized to continue their association with the company. On the other side, the buyer's team should not be heavy-handed through the transaction as it stands to lose more if the deal does not materialize.

2. Changes in valuations and deal structure: The seller should be aware that the merger and acquisition process can be lengthy, taking up to a year to finalize, during which the company valuation may fluctuate due to various factors. The management must anticipate these changes and not let them impact their decision to proceed with the deal or assume a lack of trust from the buyer. Several variables, such as the percentage of upfront payment, the position of IP assets, and buyer's urgency,

influence deal structures. The acquiring company must determine its risk appetite, upfront payment requirements, and post-deal terms. Deals typically involve payment after success benchmarks are met, with non-competition clauses being standard.

3. Minimizing transaction costs for the seller: One common issue that M&A deals throw up is taxation. An enterprise may be acquired via multiple deal structures, including full-stock sales or simply when its IPs are taken over. Both of them have their own tax complications – they may involve corporate tax, dividend tax, and GST. It is advisable for the involved parties to determine the ideal deal structure for optimized tax savings and to mitigate unnecessary overheads.

4. Clean book of accounts to be handed over by the seller: It is worth noting that the time consumed in ensuring financial supply chain diligence is longer than it takes to structure an M&A deal. To streamline the task, the acquired enterprise must maintain secure paperwork and a digital trail for all the financial transactions it has worked through. The communications with different parties should be simple to trace. The agreements should be in harmony with the associated invoices and cash flow, and received amounts should reflect appropriately in the seller's bank account. A robust management information system makes it easier to ensure essential financial hygiene and maintain a record of up-to-date financial statements.

5. Have a technology perspective on business integrations: As digital transformation becomes vital for growth and profitability, companies entering M&A deals must consider tech integration. Merging businesses entails aligning processes and infrastructure, which requires planning for enterprise applications, agile workflows, scalability, and seamless integration of digital capabilities. Focusing on IT modernization ensures that the application landscape supports digital objectives. Consolidating multiple ERPs into a single system while aligning business processes streamlines agility and scalability. However, modernization is complex, requiring well-defined project management initiatives as technology, people, and processes continuously evolve. Nonetheless, it is important for companies seeking to thrive in the digital age.

6. Employing professionals: Experienced M&A professionals – including lawyers and accountants – can support companies throughout the deal. They help to create options for potential sellers and buyers, assess the synergies with a focus on maximizing valuation. They can build a commercial structure to cover the valuation and intangible attributes of the deal. Working alongside such specialists makes it easier to streamline and accelerate the process for success.

The Takeaway: Focus, Deliver, Scale

Due diligence, optimized technology, the ability to integrate organizational capabilities, and proper consideration of acquisition risks are the critical factors for fruitful M&A transactions.

Armed with industry insights, business leaders can optimize deal handling and capitalize upon commercial opportunities while improving operations, financial supply chain, and IT performance for involved parties. Data-driven M&A deals also help to achieve sustainable cost reductions and enhance the scope for scaling after restructuring.



Chandrasekhar Chandragiri, CFO and Co-Founder, CriticalRiver

About the Author: [Chandrasekhar Chandragiri](#), CFO and Co-Founder, CriticalRiver