ACQUISITIONS ARE TOUGH: INTEGRATIONS DON'T HAVE TO BE

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THE DISTRIBUTION TEAM

The distribution world is on fire with mergers and acquisitions. It seems like everyone is either looking to buy or looking to sell a privately held wholesale distributorship. Why are we doing it? Interest rates are up and there is still some uncertainty in the economy. Wouldn't this be a time where we are battening down the hatches and marshalling our resources? Apparently not. The economic prosperity, for some verticals, and an easing of supply chain issues has emboldened many companies to go out on the hunt.

In some recent meetings with distribution groups, the topic of acquisition and integration has been top of mind. While the members of these groups are typically not charged with the hunting aspect, they are intimately involved with the integration side once the deal gets done. I invited members to share their experience with what went right and what they hope to do next time. Unfortunately, when it comes to learning the lessons of the past, sometimes our companies have a short memory.

Creating a battleplan, that includes all the stakeholders, is the key to a successful or painful integration. Organizations tend to be very good at creating deals. They tend to be fairly good at the due diligence and discovery part of the process. They nail down the highlights, hope they uncover as many snake pits as possible, and ultimately push the integration details down to the department heads. From my conversations, and a little bit of personal experience, I learned that the most successful integrations are facilitated by a project manager adept at using software tools designed to keep all departments on task and stick to pre-established timelines. Goals, or in this case plans, without timelines are just dreams.

When creating this plan, make sure not to overlook key departments in the organization. Some of the ones group members identified were: Inventory and replenishment, sales and marketing, information technology, accounting, human resources and logistics. It could be argued that logistics could fall under inventory and replenishment, but one of my group members was adamant that fleet management needs to be a separate section of the plan. My intent with this article is not to give you a comprehensive list of all the things you need in each of the areas; but rather, I am sharing the feedback and a few considerations for each area of focus. Let's take a look at each one.

HUMAN RESOURCES

It will be important to identify the champions and detractors early on. Our goal is to give the champions enough ammunition early on so as to help influence the majority of the acquired associates early on. If we ignore this sales job, those on the fence could easily fall victim to the detractors. Remember, when you acquire a company, you are disrupting the status quo. Many of these folks have tied their entire career to their organization and there will be fear of the unknown. Do not make the mistake of glossing over this. If possible, invite the new associates to the headquarters. Associate faces with names. Invite the new associates to share what worked well in their organization. Training must be a part of the human resource plan. This is especially true if there are technology changes. If we are going to be making procedural changes, be very clear about the reasons why the process is used. The phrase, "because that's the way we do it", will be a precursor to pain and suffering down the line.

INVENTORY AND REPLENISHMENT

There are several areas to consider here. One of the more challenging is the identification of supplier lines in common and those that will need to be added to the database. Even in some of the most promising integrations, where both companies use the same ERP and a majority of the lines overlap, we still have to struggle through the item code reconciliation. To the lay person, it can be shocking how many naming conventions distributors come up with for the exact same product. Beyond the common items, a whole new set of suppliers and SKUs will have to be added to the database. As a cautionary step here, we need to be very clear when communicating with the supplier relationships of the acquired company. These can be delicate conversations and some suppliers will decide not to go forward with the new combined entity. In some cases, regional territory agreements are in place. Don't assume that you get to inject all your products into the newly acquired entity. Cost variances need to be considered and regional pricing should not be discarded. A scorned supplier can make the goal of profitability drag out longer than it needs to.

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SALES AND MARKETING

For the most part, these acquisitions are entered into for sales purposes. Whether it is new geography or taking out a competitor, sales is often the motivator. Some of the considerations my team members shared came around overlap of sales territories, go to market strategies, compensation methods, and even sales vehicle policies. Seasoned territory salespeople may not be excited about playing nice with a company they have competed against for years. These relationships will have to be managed with kid gloves. Highlight the areas of commonality between the two entities. Appeal to enhanced compensation opportunities and greater access to products. As one of my members suggested, don't try to cram the fancy CRM down the veteran salesperson's throat. Find the easy commonalities and save the points of difference for later. If the acquired company is used to making price manipulations in the field, and you have developed a very robust matrix, don't come down with an iron fist. Help them understand the logic behind your pricing work and demonstrate how this can lead to a fatter wallet.

Sometimes the marketing folks get left behind in the planning process. This would be a tremendous mistake. The integration of two entities is all about communication. This is what our marketing folks specialize in. Make decisions about how the newly combined entity will be referred to in print, web and social media. Allow them to create campaigns piquing the interest of the new customer base. We have to remember that the acquired customer base can be just and nervous about the change to their beloved supply house.

ACCOUNTING

Functions like accounts payable and accounts receivable are often left out of the planning process, but they are vital components to successful integration. Credit customers will have to be vetted through the application process. Terms of sale will need to be updated and communicated with these customers. There will always be special credit deals, or cash discounts, and those will have to be discussed and agreed upon. The new entity may be more technologically driven in their approach to invoice management. The team will have to determine how they will handle customers who are reluctant to embrace technology. From an AP perspective, suppliers will have to be onboarded and terms of sale will have to be established. Don't overlook the nuances and special programs. Many of these will not be in writing and can be trapped between someone's ears. From an HR standpoint, accounting associates are often casualties in a merger. Be sensitive to this and don't overlook the opportunity to augment the headquarters staff, even if they become remote employees.

TECHNOLOGY

If you are lucky enough to operate on the same ERP, consider this a monumental win. As long as both entities have been diligent with their updates and versions, the compatibility should be fairly painless and the users should be able to operate in the new environment. Unfortunately, this is not always the case. Conversion to one ERP is something that should be considered early on in the due diligence process. Being realistic here. The acquiring entity may not have the superior solution. Take the time to review both solutions and determine the best fit going forward. Listen to the users. They are the ones who need to tickle the keys on a daily basis.

Beyond the ERP, make a comprehensive list of all the technology areas the company has invested in. Don't overlook phone systems, fleet management programs, sales automation, and integrated office productivity suites. Inventory their hardware components and determine what investments need to be made. If you overlook these areas, they will surely come back to haunt you.

As I mentioned earlier, this is not intended to be a comprehensive battle plan for integration. Each one of these areas will have a myriad of questions and opportunities for improvement. I am simply challenging you to document a plan. If you are going to meter out responsibility to department heads, make sure that they are involved with the plan creation. Those who work in a role are better suited to see the potential areas of conflict. Before I let you go, I want to share one more piece of advice. Do a postmortem once the integration has matured. This after the fact analysis will help you avoid the challenges you ran into during the integration and allow you to replicate the things that really worked well. Without this follow up discussion, the highs and the lows will simply be trapped between someone's ears. Good luck and know that I am here to help.

About the Author:
*Jason Bader is the principal of The Distribution Team. He is a holistic distribution advisor who is passionate about helping business owners solve challenges, generate wealth and achieve personal goals. He can be found speaking at several industry events throughout the year, providing executive coaching services to private clients and letting his thoughts be known in an industry publication or two. Last year, he launched his first podcast, Distribution Talk. Episodes can be found at **www.distributiontalk.com** and most podcast applications. He can be reached at* **(503) 282-2333** *or via email at **jason@distributionteam.com**. You can find additional resources on his website: **www.thedistributionteam.com***