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Exploring an Integration Framework in a Programmatic Acquisition Strategy

Post-acquisition activities are best approached in a multi-staged process

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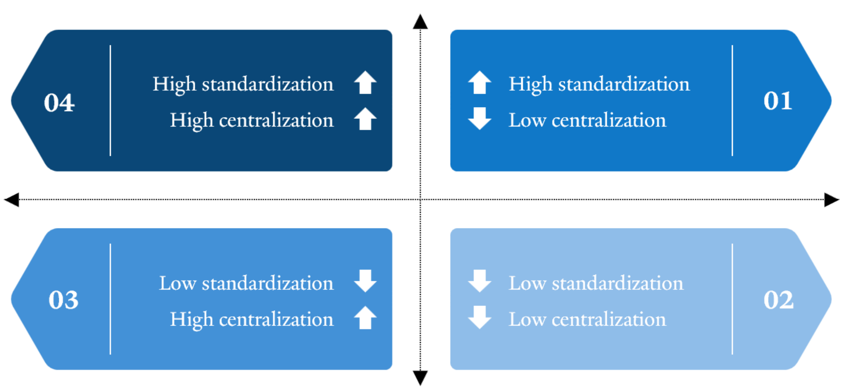
In the search fund community, multiple acquisitions within a single entity are all the rage. This is typically executed in the context of a holding company structure, but it can also take place in a plain vanilla search fund. The basic premise is to gobble up targets in a Pac-Man approach. In some cases, the policy is to purchase disparate assets to build a diversified portfolio of cash-generative companies in unrelated and uncorrelated sectors (think Warren Buffett's Berkshire Hathaway). In other situations, the game plan is to focus exclusively on a single industry, embracing a more classic buy-and-build scheme (think Michigan-based Lineage). Within the single vertical approach, two potential post-acquisition game plans are popular. The first favors decentralization and might have a much lighter approach to integration and standardization (think Toronto-based Constellation Software). The second encompasses a high degree of integration and standardization (think Cincinnati-based Cintas).

Accurately assessing the standardization and centralization set of choices is vital for programmatic acquirers as they will dramatically impact the integration implications of a string of acquisitions. These choices can be visualized in our matrix in **Figure 1**.

Figure 1: The standardization and centralization matrix



Starting in the lower right quadrant of **Figure 1**, low standardization and low centralization imply that field locations have a high degree of power and do things however they see fit. While this strategy has proven both successful and tenable for some, it sounds messy to us. Moving clockwise, low standardization and high centralization suggest that control resides in the central corporate office, where things are done haphazardly and differently for various field units and services. Once again, this sounds cluttered and discombobulated to us. Continuing in a dextrorotary fashion, high standardization and high centralization indicate that things are done identically and that many functions reside in the corporate office. This might tilt toward a bureaucracy in the making. Finally, high standardization and low centralization convey that authority resides in the field operating units and that things are done consistently across geographies. We are unabashed fans of this integration approach since it facilitates scaling and has what we have found to be the right balance of operational execution and governance. We recognize that this policy requires a high level of process orientation, trust in the playbook, and the entrepreneur's ability to recruit, retain, and train the right people to execute it. In short, it is a high standard (but possible) for a first-time searcher to reach.

While all of the above strategies are achievable and are proven tracks for value creation, they each demand different post-acquisition playbooks. Furthermore, we neither endorse nor malign any of these approaches (other than stating our personal favorite) since each individual choice is likely to be context-dependent. Different industries and business models, coupled with specific strategies and entrepreneur viewpoints, will drive diverse approaches to programmatic acquisitions and the attendant post-closing integration process.

While we are neutral in our assessment of the various options, this note will focus on a single set of circumstances: a programmatic acquisition strategy in a single industry with a complete integration orientation that drives standardization (the upper quadrants in **Figure 1**). This results in a McDonald's-like enterprise where field units universally operate with nearly identical systems and processes. The doctrine is that there is a single set of operating best practices that all field units adopt. This course requires a deliberate plan of attack because it is so operationally complex and intensive (compared to an integration-light, decentralized posture). We acknowledge that this pose is not very popular in the search fund jungle, where most entrepreneurs aim to mimic Berkshire Hathaway and Constellation software with their highly decentralized and soft integration approaches. This is because the search fund crowd is enamored with capital allocation and its anticipated wizardry. This methodology can also be amplified by deal-hungry investors and the entrepreneur's absence of operational chops. While tenable, this low-standardization plan can result in building a substantial amount of integration debt that must be addressed at some future point.

We hear lots of chatter about programmatic acquisitions on the entrepreneurship through acquisition (ETA) circuit. Aspiring entrepreneurs and investors love to gab about the glamorous part of the game, which includes soliciting deals, assessing and negotiating the valuation, constructing the financing, and ultimately closing. Cue the champagne. We think this orientation and enthusiasm for the activities before and up to the closing is misplaced. While these are undoubtedly essential stages and activities, the eventual evaluation of a successful transaction will be based on what happens *after* the closing celebrations. In other words, the end of the deal process (the closing) is just the beginning of the value-creation journey. After all, a deal that does not live up to the underwritten cash flow is a dud and potentially an albatross. We almost wish this process were not referred to as acquisition (as in serial or programmatic acquisitions) and instead were known as integration since, in many ways, that is the emphasis and value-creation channel. Integration does not smack of daredevil entrepreneurs wheeling and dealing, but integration is where the time is spent in this plot and where the value is cemented or frittered away.

Accordingly, entrepreneurs must focus on post-acquisition activities that drive value creation and harvesting. We think that is where the real action is and where the money is actually made. Yes, value can be created by buying a target at an attractive price, but that might be a challenging serial strategy. At some point, sellers get smart, and market dynamics equilibrate. Furthermore, it might be disrespectful to lowball a prospective seller, resulting in starting the relationship-building dynamic on a sour note. Additionally, even if a target can be captured at a discount, there might be even *more* value to be won in the integration and post-closing performance. Focusing exclusively on pre-closing activities is akin to celebrating the architectural plans in a construction project. There is a lot of mileage between blueprints and occupancy and plenty of opportunity to soar or sink.

Similarly, in programmatic acquisitions, the closing is just the beginning, and to discount the often-unheralded post-closing integration as not being that important, in addition to being not so sexy, is a mistake. Getting integration right is a key part of the serial acquisition game; it is the unsung hero. Furthermore, if the search fund entrepreneur dreams of rapid-fire acquisitions (and they all do), the post-closing integration arc must be as modularized and mechanized as possible to scale and be replicable. To roll out a vibrant integration campaign, there is an implicit assumption that the base business has a rock-solid foundation and is a supreme operator. Attempting to effectively integrate an acquisition when the core business is a slipshod affair is counterproductive. To be an all-star in the integrations racket, entrepreneurs must first have a bulletproof base business that is worthy of scaling and replication. Pace is also a crucial decision in the programmatic acquisition game – and faster is not always better. Sometimes, entrepreneurs and investors believe there is limited time to execute the acquisition thesis, prompting a breakneck tempo of purchases. This might result in a huge mess if no integration protocols are present and there is no foundation of excellence in the base business.

When pitching budding acquisition prospects, it is important to signal softly that there is a post-closing integration plan in the offing. Buyers should not be disingenuous and claim everything will be the same when that is not remotely truthful. While this full disclosure stance is our recommendation, the news should be delivered gently so as not to spook the seller. This message should be woven into the multi-month or multi-year courtship and not frontloaded on the first date.

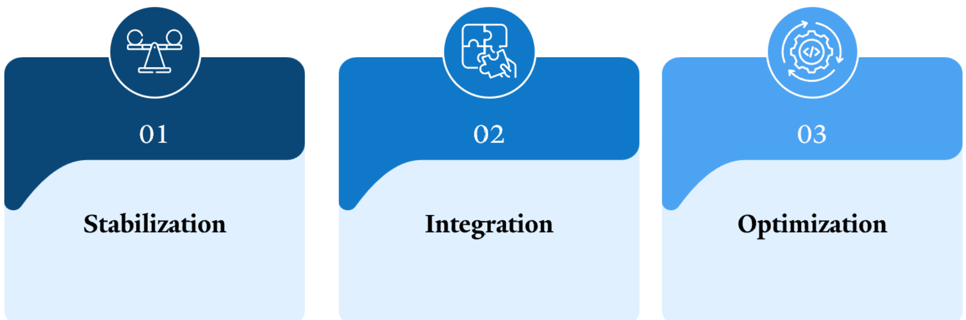
Integration covenants, at times, can seem counterintuitive. That is because the goal is to maximize the outcome for the whole portfolio and not necessarily for each individual component. This requires a focus on scalability and embracing a limited set of menu choices that can be applied to an ever-expanding network. For example, purchasing one-off used trucks might work for a single-location mom-and-pop shop, but in a system with a 250-vehicle fleet where trucks are coming in and rolling off weekly, there needs to be a more institutionalized vehicle sourcing solution in place – even if that means not getting the very best price on each vehicle in each location. This can confound newly acquired employees who do not see processes that drive the ability to do more acquisitions and integrations as a guiding principle. The game is about scaling and optimizing the entire portfolio – and applying the integration techniques needed to support that objective.

We have previously explored programmatic acquisitions in a four-pack of previous notes. For reference, those notes are On the Nature of Programmatic Acquisition Strategies: Why Entrepreneurs Should Consider This Approach, On the Nature of Programmatic Acquisition Strategies: Their Implementation, On the Nature of Programmatic Acquisition Strategies: How to Source Deals, and On the Nature of Programmatic Acquisition Strategies: Why Things Go Awry. While it is not necessary to read those notes to fully understand this document, they will provide an introduction and useful foundation.

In this note, we will provide a conceptual framework to help entrepreneurs approach post-closing integrations in a single industry context when full integration is the strategy. We do not assert that our suggested model is the only plausible method or even the best, and we understand that post-closing activities are context-sensitive to unique industry dynamics. Instead, we offer this general framework as one possible style that might be easy to understand and execute. As we explore the scaffolding, we acknowledge that it is dynamic and that some entrepreneurs will mix and match components in different modules. That is certainly fine as long as the most important dimensions are staged upfront. Furthermore, as entrepreneurs gain proficiency, execution times will likely compress.

Although most players in the ETA world lump all post-closing activities into a single integration bucket, we think that is too generalized and that a more nuanced approach is warranted. Our framework (**Figure 2**) breaks down post-acquisition events into three chapters: *stabilization*, *integration*, and *optimization*. In aggregate, these help propel post-closing activities in a programmatic acquisition strategy toward value creation and realization. In our note, we will examine each vector and offer some general thoughts on increasing the probability of post-closing success.

Figure 2: The three post-closing activities in a programmatic acquisition strategy



Throughout the stabilization, integration, and optimization arc, human capital is required to make the plan a reality. This brings up the question of organizational design. In other words, who does all of this work? There are two basic approaches to consider. The first is to establish a team without everyday line-operating responsibilities. This is a group of integration ninjas who exclusively tackle post-closing activities. The second plan is to parcel out duties to folks who already have line-operating responsibilities. The integration work becomes an episodic project that is an adjunct to their recurring responsibilities. Either approach can work, but the common theme in both is bandwidth. There absolutely must be pre-established bandwidth embedded in the company to take on the post-closing integration activities. Attempting to launch into a series of acquisitions without the human capacity to do the work is foolhardy at best.

When plowing through our stabilization-integration-optimization framework, sophisticated players will build in chronological and operational checkpoints to pause and assess progress and tracking towards the underwritten plan. The key objective is to gauge whether the *actual* purchased asset is equal to or better than the *expected* target asset. With frequent check-ins, there is more opportunity to recalibrate and recover. Additionally, best practice includes a postmortem to evaluate learning opportunities in each deal. Questions like 'how did each chapter of the integration go,' 'where could we have done better,' and 'what worked really well' will help improve the next deal.

Stabilization

When racing to an acquisition's finish line, there is a flurry of activity between deal documents, financing, and the inevitable hot emotions emanating from both the seller and the buyer. It can be quite chaotic and, even for the most polished buyers, a disjointed few weeks running up to the close. Despite that, once the closing takes place and the new owner is in control of the company, they must be ready and have a game plan for operating the newly purchased asset. In our framework, the first order of business is *stabilization*. There is no need to get fancy at this point; the primary goal post-closing is to gain control of the company and focus on a few mission-critical elements. There is ample time for grander integration later, but the short-term order is stabilization and control of the items that matter the most and can cause significant harm if not immediately regulated. The stabilization phase is usually in process *before* even closing the deal. While the thrust of diligence is assessing the go versus no go decision, it also includes planting the seeds to burst into stabilization immediately post-closing.

One point sits as a fundamental underpinning in the stabilization process – assuaging the fears of employees of the acquired company. This team will have emotions ranging from nonplussed to terrified. No employee wakes up on the day of the takeover pining for an acquisition that is filled with mystery. This is sheer anxiety. The buying company, and the CEO in particular, must address, nurture, and cultivate their new employees. The goal is to de-escalate and allay fears. We recommend closing acquisitions on a Monday so there is a full work week to begin winning over the new team members. Closing on a Friday means sending them home over the weekend to stew. With a Monday announcement, the new CEO can say not to make any rash and impulsive decisions; judge me in a month after we get to know each other – and there is a week's runway to start the wooing process. People matter in the stabilization phase. Blow this, and everything else is uphill.

In **Figure 3**, we detail six of the next most vital issues that demand post-closing attention. If these items are not immediately in check, there is significant financial and operational risk, meaning the acquisition could get off to a bad start. We think these stabilization tasks are best completed as soon as possible, but certainly within 30 days of the closing.

Figure 3: A sextet of areas that require early stabilization

01 **Cash management**

02 **Payroll processing**

03 **Employee healthcare and other benefits**

04 **Insurance**

05 **Customer service delivery**

06 **Data security**

01 *Cash management*

We are cash hawks and cannot think of anything more critical than immediately getting a complete handle on this area in the post-acquisition dance. Cash is the lifeblood of any enterprise, and a new acquirer should promptly establish protocols and controls for existing cash receipts and disbursements. Since the fresh owner might not know who has access to what cash accounts, we advocate for terminating legacy bank accounts and rolling cash receipts into existing bank accounts the programmatic acquirer has already established. This is a task that should not be taken lightly because it is cumbersome and loaded with friction. It involves notifying current customers to redirect check payments to a novel lockbox or mailing address. In addition, credit card data may need to be ported over, and pre-established ACH payments might need to be set up at the new bank. This is difficult work and an excellent example of why we do not understand why anybody thinks programmatic acquisitions are glamorous; they are not and involve lots of minutia in the post-acquisition process.

Similarly, cash disbursements should instantly be shifted to the new company's management system to prevent any leakage and inappropriate vendor payments. This, too, can be a laborious process of transferring over vendor data and asking suppliers to remit to a new mailing address, email address, or vendor management portal solution. Regardless of the complexity involved, grabbing control of cash post-closing is an important step in establishing authority in the newly acquired asset. Delegating cash management to field operations might result in impaired cash flow dynamics and sloppy internal controls, which auditors will flag in the management letter.

02 *Payroll processing*

The announcement of the acquisition will be a shock to legacy employees, and they will react with confusion, angst, and stress. This is totally understandable, and we would feel the exact same way if we were in their shoes. When a company is purchased, employees are thinking about whether their job is safe and their compensation is the same. Although payroll processing is not precisely specific to job security and wages, it is a cousin. There is perhaps no better way to antagonize a recently acquired employee than to mess up payroll processing. In other words, the first payroll cycle needs to be perfect, which means it is on time and accurate.

If the programmatic acquirer is staying with the legacy payroll processing solution, the odds of a smooth transition increase significantly. If the purchaser is switching to their incumbent payroll solution before the first cycle, it can be more challenging. There are bona fide reasons to switch immediately, such as simplified tax reporting for both employees and employers. Switching is hard, though, since it involves completing new forms like W-4, I-9, state withholding forms, direct deposit forms, and employee eligibility verification. Whether these are completed digitally or on paper, they will be a hassle for employees to finalize and for employers to gather – the joys of integration. If the programmatic buyer works with a professional employment organization, they will likely help facilitate this process.

Getting the first payroll cycle perfect matters – including the timing of the payroll cycle (weekly versus bi-weekly or Fridays versus Thursdays). It is a huge signal to employees and their families. Tripping will justifiably breed skepticism and resentment.

03 *Employee healthcare and other benefits*

Another key employee-centric issue is healthcare and any other additional benefits. Employees will want to know what the new healthcare coverage program is, what it entails, what the scope of benefits is, and what it will cost them. The best answer is to deliver the same or better than the past. Anything short of that will cause disillusionment. This is tricky because if the legacy employer was particularly generous with benefits, it might be hard for the buyer to match them. Even if they were priced into the deal, it could be problematic if one group of employees has a dramatically different benefit package from the rest of the team. Nobody ever said this would be easy. These benefit true-ups should be baked into the target's valuation and offer to the seller.

Healthcare poses many challenges in that a new program might require a restart on the employees' deductible. Doctors might not participate in the new plan and be considered out of network. Whatever changes there are in the new plan, one thing is completely unacceptable – a gap in coverage. The new plan must begin smoothly on the date of acquisition. It would be awful for the employee or a spouse to show up at a doctor's office and not have a valid new insurance card or an old card accepted. This would build enormous ill will.

Similarly, 401K benefits, paid time off, disability coverage, life insurance, remote work policies, and educational supplements all need to be addressed immediately. The news might not always be perfect, but ignoring the topic is bad form.

04 *Insurance*

When a company is sold, the seller will cancel all of the active insurance policies with their insurance agent and insurance carriers since they no longer have a liability or risk to protect. This means that the new owner had better have a comprehensive approach to having complete insurance coverage in place on the day of closing. This is not that difficult in practice because the acquirer will typically notify their current insurance broker of the pending acquisition during diligence. The broker will probably help in the risk diligence and establish the plan and coverages proactively. Once the deal is closed, the broker will simply flip the switch and bind all of the pending policies with the appropriate carriers. This one is fairly easy, but it still must be done accurately and in a timely manner. The new business cannot operate for even a single day without the appropriate and full insurance coverage necessary. There is no room for failure here. Imagine having to tell the board there was a time gap in coverage and a loss occurred – no thank you. We recently published a note exploring all things risk management and insurance. This note, Exploring Risk Mitigation Concepts in a Search Fund Company, details many of the coverages that should be in place when a new target is bought.

05 *Customer service delivery*

We believe that a business exists to serve its customers and fulfill the promises that were made to them. In other words, customer service delivery is the primary purpose of the firm. We think of customer service delivery as the integrated set of choices a CEO and firm make when contemplating how to provide products and services to customers. This is distinct from customer satisfaction; that is what customers feel as a result of the service delivery experience. Additionally, customer service delivery does not imply high touch, low touch, luxury, or discount. Walmart is low touch and discount – and executes brilliantly on its service delivery and value proposition. Conversely, Tiffany is high touch and luxury and is equally successful in implementing its customer service delivery strategy. Finally, customer service delivery is a concept that is independent of pricing, in that a firm can be great at customer service delivery and price its products and services appropriately, too high or too low. Pricing is a separate and distinct notion from service delivery, although we do hope that companies price properly to make a suitable equity return while treating customers justly.

When customers are informed about an acquisition, their visceral reaction will range from 'who cares' to 'how will this make my life harder' mixed in with 'what is going to change.' No customer of an HVAC company is going to react with glee to the news that their vendor was bought by a company consolidating the geographic region. They picked the company they were doing business with for a reason, and if they remained a customer, they were happy or at least content to some degree. Change is complex and disruptive, and a vendor switching ownership will likely trickle down to the customer with some degree of pain.

While service protocols might indeed change at some point, it is crucial not to exhibit changes in customer service delivery conventions when the acquisition is first completed and announced. It is imperative to prove to customers that service and pricing are stable (at least in the short term). We acknowledge that might change in the future, but the first impression should be one of consistency, reliability, and familiarity. Accordingly, acquirers should think about the timing of switching website interfaces and 800 call center numbers. The goal is not to rock the boat too aggressively too soon. After all, in these programmatic acquisition strategies, buyers purchase cash flows, and the cash flows stem from happy, in-place customers. Service delivery changes can prompt a spike in attrition – an acquirer's nightmare.

06 *Data security*

All companies operate with a slew of systems that form the underpinning of the company's operations. These systems can include digital time clocks, human resources software for onboarding and separation, the core ERP solution, accounting software, vendor management portals, internet and email management programs, and internally managed file trees. In combination, these established solutions allow employees to do their jobs smoothly and provide the infrastructure for the business to run and flow. The underbelly of this is that there are scores of people who have access to these programs. Tampering with any of these solutions can be debilitating or at least disruptive. New acquirers should assess the complete array of credential-centric programs in the business and then make an active decision on who should have access and why. It is common for terminated employees to unintentionally still have rights to corporate programs in a small firm.

Perhaps the best protocol for the new owner is to wipe out all of the legacy access and re-issue credentials to a combination of newly acquired and legacy employees. Ultimately, this is the only way to ensure that no inappropriate credential rights linger. These programs are the keys to the kingdom, and there must be immediate tight control around access rights. This might result in some bruised egos if anybody's access is downgraded, but at minimum, these are choices that should be addressed intentionally and not by default. Furthermore, the base company needs best-in-class technology infrastructure and support to make this strategy and integration work. Technology systems are complex and can trip up the best finance jocks in implementation. Excellent infrastructure is a gating requirement to make this a win.

Integration

Once the target company has been stabilized, the post-acquisition process continues and shifts into the *integration* phase. This is the heart of the post-acquisition activity. While stabilization focuses on getting control of a few mission-critical building blocks promptly, the integration chapter is about stitching together the newly purchased organization with the mothership. This means synthesizing the new asset with the base business at the most granular levels and homogenizing the latest into the old. The goal is not to erase what was but rather to implement the best practices, systems, and processes that have made the legacy company thrive and grow. This form of integration is based on the tenet that there is a prime way to approach every ingredient in the business. The programmatic acquisition strategy is not a mash-up of random modi operandi; instead, it is a unified, elegant way to run the business.

Serial acquirers should not be hubristic and think their way is singularly the only or perfect way. The foremost programmatic purchasers learn in every acquisition and blend the new ideas and practices into the entire base system of operations. To be clear, this approach to integration hangs on the notion that all field operating units are predominantly run in a conforming manner. While this does not necessarily imply a centralization posture, it does point toward a very high degree of standardization. The integration process typically takes up to a year post-acquisition.

We will now explore a sixsome of first principles to address in the integration interval (**Figure 4**). These parts might seem high-level and even generic, and there is some truth in that. Since every industry and company will have unique priorities and approaches to integration, we will offer some perspectives that are likely universal in nature.

Figure 4: A six-pack of components to focus on in the integration phase

- 01 **Human capital elements**
- 02 **Operational parameters**
- 03 **Technology issues**
- 04 **Financial dimensions**
- 05 **Customer-facing principles**
- 06 **Cultural factors**

01 *Human capital elements*

We cannot emphasize enough how important the human capital elements are in the integration of an acquisition. It is the CEO's goal to win the new employees' minds and hearts. That takes time and can only be accomplished through thoughtful integration interactions. Mechanically, this includes getting all employees onto the standardized payroll system and establishing them in the right compensation programs. This means base salaries are normalized and consistent with typical pay rates.

Additionally, acquired employees are eligible and participate in bonus programs, which might include sales commissions, quality bonuses, and annual performance bonuses based on pre-existing qualitative and quantitative goals. If employees are uniformed, they receive the conventional uniform wardrobe. If they are not uniformed, they get a healthy dose of swag. Little things like business cards, website photos, and bios are updated.

Employees are enrolled in the company training and development program and are indoctrinated in the business strategy and culture. They learn about technical topics like the ERP and soft topics like the firm's history and values. People are credentialed in the myriad of technological solutions like talent management, travel and expense, and other software solutions.

Most importantly, employees are given a crystal clear picture of where they sit in the organizational chart, whom they report to, who reports to them, and what the expectations are for their specific role. There should be no ambiguity about job responsibilities and management roles. In sum, human capital integration is all about making the new employees feel like they are part of the team in every way, comfortable and welcome, and beginning to be indistinguishable from legacy employees.

A final thought on human capital integration: we favor a meritocracy or best athlete approach to people integration. This means that the most qualified person wins the position on the organizational chart and not necessarily the incumbent. This might cause some pain and frustration, but it signals that skills and performance matter most, and it brings in new people at the right level with the same chance at leadership positions. Establishing a fair way of selecting the best athlete can be hard, but favoring legacy employees exclusively will alienate the best new team members.

02 *Operational parameters*

Operations is the core of what a business does and is how the firm serves its customers. It is an important part of the integration moment, when the new company is fully meshed into the core operating systems of the purchasing company. This usually involves the ERP conversion and getting employees up to speed with the new solution. Creating this alignment can be cumbersome and time-consuming, but we believe that in order to run a scaled company that is growing, there needs to be a common language and platform for all operations. Permanently embracing legacy systems can create multiple, often incompatible, ways of approaching the business or the inability to serve a single customer over broader geographies. In addition to the software elements of the operations silo, employees are trained in how the base company drives operations and service fulfillment, including core philosophies and concepts, what vocabulary is used, and how KPIs are established and measured. This will take months of formal education and training as well as in-field observation and instruction. In aggregate, the integration of the operations might introduce completely fresh ways of approaching the firm's activities to the newly acquired company.

In the operations integration phase, the purchased company may be rebranded if that is the strategy. If the company runs a fleet of vehicles, trucks are re-logoed and put into the fleet management maintenance system, which encompasses acquisition, maintenance, and disposition. Employees are introduced and held to safety benchmarks and training.

03 *Technology issues*

Typically, companies rely on a host of technological solutions to operate their business. When a company is purchased, all of those systems need to be ported over to the incumbent programs. When a larger, sophisticated company buys smaller mom-and-pop operations, this might mean that some of the integrations are not moving from platform A to platform B but rather shifting from a manual process (Word or an Excel solution) to platform B. When we think about technological integration, we are including every single computer-based solution the company uses. This might include internet service providers, cloud hosting solutions, automatic data backup services, travel and expense software portals, ERP systems, accounting software, financial planning and analysis bolt-ons to the accounting system, CRMs, proposal training software, talent management products, workflow management software, telematics software, driver cam technology, and more.

Each of these functions will need to be transitioned and standardized in the technology integration phase. Additionally, employees will need to be trained and coached on how and when to use each solution and what their credentialing level is. Once again, we see that programmatic acquisitions are neither glamorous nor easy. All of this work does not need to be done simultaneously, but within the first year of the acquisition, most of it should be completed.

04 *Financial dimensions*

The acquired company likely used a different and perhaps simpler accounting system than the purchasing firm. At some point, the historical accounting package will need to be closed out and transitioned into the new accounting program; otherwise, the company will need to consolidate multiple sets of financial statements to get a clear picture of the company's integrated performance. Executing an accounting software conversion is hard and will take a few trial runs to get right. Ideally, historical data is imported into the base program along with current receivables, payables, asset ledger data, general ledger entries, and customer information like pricing and profile information. At this point, vendors can be rationalized and standardized. There is no need for multiple office supply vendors. Procurement is simplified with preferred vendor partners and best pricing and terms.

Within the financial integration, any still existing legacy bank accounts are terminated, and lock boxes are intentionally consolidated and rationalized. Invoice presentation solutions are transitioned to the base solution, and vendor management, including invoice receipt and processing, is changed and updated. We like to remove all petty cash from field locations and eliminate legacy corporate credit cards. We favor employees using personal credit cards and submitting receipts for reimbursement (we acknowledge that this can be a challenge for some employees due to credit bumps). The goal is to have a single set of financial conventions for the newly acquired asset that fits seamlessly with the purchasing company.

Hopefully, the base company will have and use a robust set of KPIs that summarize the balanced scorecard. Whatever is included in that reporting tool (which might include summarized financial metrics and non-financial operating data) consists of the new firm both on an aggregated basis and on a stand-alone basis. The balanced scorecard and KPIs give the executive team a common lens to analyze the new asset's progress and performance.

05 *Customer-facing principles*

At some point in the integration window, customers must be informed about the acquisition. This might be done by email, phone calls, in-person meetings, or a combination of all three. Customers will likely be segmented into a handful of categories, and depending on the customer's size and value, the communication will either be more generic and mass market or bespoke and high touch. Bringing customers into the loop can often require lots of hand-holding and assurances about pricing and service levels. Fears must be quieted and confidence instilled. The communication process might be a multifold endeavor and involve people from various layers of the purchasing company. Remember, the acquired and anticipated cash flows are linked to customers sticking post-deal.

Furthermore, in this arc of integration, customers will be introduced to their new reps, the new call center protocols, and the web interface. Hopefully, the previous phone numbers and websites were acquired in the trade, and those are now automatically forwarding to the new landing spots. Call center reps need to be trained on how to communicate with acquired customers and what the talk track is when the likely questions pop up. The same is true for operational customer-facing personnel (think in-the-field delivery folks). They need clear training and instruction on what to say when peppered with questions about the changes.

Within this bucket, customers might be rolled out with new service parameters. This might mean how short response times will be and exactly what service levels are. Tread gingerly here; these changes, while inevitable, might antagonize customers and need to be soft-pedaled. Finally, invoice presentation procedures are often switched at this point. This might mean the invoice is in a new visual format and can be delivered in a new manner, perhaps by email or through a portal.

The customer-facing principles in any post-acquisition integration are crucial. These dynamics will impact how customers perceive the new company and influence their decision to stay or bolt. Customer-facing issues demand lots of care and thought when being addressed.

06 *Cultural factors*

Every organization has some type of culture, and when a programmatic buyer adds another company, it will need to morph its culture into the new unit. This does not happen magically, quickly, or easily. It will take time, and there will be lots of false starts. The new employees will naturally be a bit scared and skeptical about the acquisition. They will discount all of the happy talk and will worry about their jobs and pay. An acquisition is a shock, and even if it is a new opportunity for the employees, it will take time for them to embrace the new reality and culture. Accordingly, the team members who are involved in the integration should be cultural rockstars since they are the ones selling the new culture and influencing the new employees' impressions and perceptions.

A deep dive into culture is beyond the scope of this note, but in the integration context, pushing the acquiring firm's culture into the purchased company will take lots of team member interactions with senior leaders and peers. The new employees will need to hear the stories from other employees in the same position in the organizational chart. Senior leaders will need to invest time and talk about mission, values, strategy, and culture. Unfortunately, this cannot be done enough and is absolutely not a one-session event. As the culture slowly seeps in, newly acquired team members who perform in cultural alignment will need to be publicly celebrated, and violators will need to be called out. Ultimately, culture will be communicated and reinforced through actions. The CEO cannot expect underlings in the added acquisition to care about customer service when they themselves curse and berate customers for being a pain in the neck.

In some ways, cultural integration is *the* constraint in a programmatic acquisition strategy. If new companies are onboarded at a fast and furious pace, there is not enough of a cultural substructure to prevent dilution and confusion. In other words, the desired legacy culture is overwhelmed by disparate new cultures, resulting in chaos. Cultural assimilation takes time, and more new deals can upend and hamper acclimatization. The only way we know of to blunt this risk is to have intentional pacing on deals to prevent cultural diminishment. While there is no magical number, perhaps adding no more than 20% of the base number of employees each year through acquisitions can prevent culture degradation. Warning: investors will likely gloss over this painful reality and cheer on accretive acquisitions without worrying about consequences.

Optimization

Once the stabilization and integration periods are completed, the next stage to target is the *optimization* interval. This is the moment when the programmatic acquirer perfects the target acquisition and wrings all of the potential margins out of the business, driving down the effective EBITDA[*] purchase multiple in the process.[†] While stabilization and integration are all about control and blending, optimization makes the acquisition the very best it can possibly be. This likely does not include novel integration steps; instead, it is about improving what has already been established.

While there is no one surefire way to drive optimization, we offer six prongs to consider (**Figure 5**). Most companies have two to four go-to techniques that can drive value through margin amplification and nominal EBITDA growth. These moves will vary based on industry and a given company's specific strategy. Regardless, the thrust of optimization is to transform what might have been a scrappy, ugly duckling into a beautiful swan.

Stabilization is typically measured in weeks or, at most, months; integration is usually quantified in months and up to a year; optimization should be thought of as a multi-year process. It takes time and deliberate progress to tweak the target into its ne plus ultra. Patience is rewarded with smoother operations, greater margins, and more dollars. It is hard work, with potentially declining incremental rewards, but we think it is worth the effort. We will now explore a handful of optimization essentials.

[*] Earnings before interest, taxes, depreciation, and amortization.

[†] The effective EBITDA purchase multiple recasts the explicit EBITDA multiple at acquisition to account for the impacts of the overall post-closing integration and optimization processes. For example, if an acquirer buys a target with $2 million of EBITDA for $10 million in enterprise values, the EBITDA multiple is 5x ($10 million / $2 million). If as a result of the integration and optimization work, EBITDA goes up to $3 million, the effective EBITDA purchase multiple drops to 3.33x ($10 million / $3 million). This is not the implied return on the discrete acquisition because it ignores multiple expansion that might be enjoyed in the future when the acquirer exists.

Figure 5: A hexad of action steps to drive full optimization

01 **Rationalize costs**
02 **Perfect pricing**
03 **Maximize density opportunities**
04 **Manage working capital to enhance free cash flow**
05 **Improve contracting**
06 **Explore upselling options**

01 *Rationalize costs*

Costs are not always the focus in stabilization and integration. In those stages, the emphasis is to get systems aligned and to begin harmonizing disparate assets into the core. There are lots of wasted crumbs that are temporarily ignored in pursuit of a grander mission. At some point, the serial acquirer loops back to grab the crumbs by rigorously focusing on cost rationalization and compression. While there is no exact science to taking on costs, we like to start with the unit's profit and loss statement and examine every single expense line item by general ledger category, with the most attention going to the largest nominal dollar buckets. Additionally, it is worth exploring a vendor list with annual spending. With these two tools, the integration champion and CEO should begin to whittle away at costs.

Expenses can be managed down by eliminating or reducing consumption of goods and services, asking vendors for pricing reductions, or switching to pre-established vendors with already existing superior pricing. There are no sacred cows here. This exercise also includes targeting people and verifying that the current headcount is warranted.

Some economists might argue that pricing reductions are not realistic because the previous owner would have already snatched them. We are not so sure about that. Some operators are satisficing for a certain income and lifestyle and avoid the friction and confrontation of painful conversations with business colleagues. Additionally, it can never hurt to politely ask a vendor for a lower price; the worst outcome is no. We encourage entrepreneurs to go after expenses aggressively; they flow right to the bottom line and are an instant boost to margins.

02 *Perfect pricing*

The flip of costs is customer pricing. In the optimization window, integrators must assess customer pricing and consider ways to boost prices. There are two prongs to explore. The first is customers who have below-market pricing and warrant a mark-to-market increase, which might be a large percentage step up. The second category is potentially implementing modest annual price increases of a few percentage points. These forays can have magical results if customers accept the initiatives. Price increases, like expense reductions, will flow right to the bottom line.

Additionally, new charges can be introduced to customers. This is a form of an increase. For example, fuel surcharges, administrative fees, minimum volume charges, and expedited service can all result in fresh revenue streams.

Playing with price can be a tricky endeavor. Some customers will balk and even bolt. Economists who are smarter than us claim it might be impossible to raise prices in a thick, highly functioning marketplace. While we will not debate these economists, we can relay what we have witnessed and practiced as entrepreneurs and board members, and that is that many, many ETA CEOs successfully raise prices through adroit testing and implementation. While we are not explicitly stating that all CEOs should raise the price in a programmatic acquisition strategy, we encourage them to *consider* their specific circumstances and the technique judiciously.

03 *Maximize density opportunities*

This element might only apply to companies with route-based operations, such as HVAC operators or elevator maintenance concerns. However, for those types of businesses, magnifying density opportunities on routes can be highly valuable. The first way to approach this opening is to ensure that a company is not sending two vehicles to the same address on the same day, which can easily happen if the address is in the overlap zone of two different branches. This problem can be solved by scrutinizing all customer addresses and mapping routes with the goal of minimizing technician (driver) windshield time. Pulling customers from one service center and reassigning them to another can amplify route density and compress drive time.

Additionally, with novel routes from the acquisition, the base company can eagerly pursue new customers on the same route spine. This will boost density with more customers in tight geographic zones and less wasted time between stops.

Why do we care so much about route density? It is simple math. The more time technicians are engaged in revenue-producing activities and the less time they spend in non-revenue-producing functions (like driving between stops), the more money the company will make. This assumes the firm does not get to charge for transportation time. The incremental costs of servicing a customer next door to an existing customer can be lower than those for a customer who is 100 miles away. Tight customer clustering is usually more desirable than customer dispersion. With increased customer counts, savvy operators have the chance to optimize routes, augment route density, and drive margins and profits. This is an example of the scale benefits that result from a programmatic acquisition strategy.

04 *Manage working capital to enhance free cash flow*

Working capital is a cousin to expenses in that it consumes cash and does so potentially unnecessarily. For a deep dive into all things working capital, see our two notes On the Nature of Working Capital: Understanding its Mysteries and Complexities and Cash Management Principles in a Small Business. In the programmatic acquisition optimization context, once the company is through the integration period, operators should turn their eyes to the newly acquired unit's balance sheet. This is the moment to work on right-sizing the working capital and balance sheet. This means going after accounts receivable (AR) with gusto, where newly acquired customers were previously treated with kid gloves. Squeezing AR is a free source of cash, and part of optimization is goosing free cash flow through balance sheet management.

Additionally, accounts payable (AP) should go onto an intentionally mandated payment schedule, which is either within ten days with a 2% discount or at the exact due date. AP is another cash source that should be tapped. Vendors should be treated with respect and appreciation but paid when due, not earlier (or later). Finally, inventory must be scrutinized. Most businesses, except pure fee-for-service models, carry some inventory, and while sometimes comforting, excess inventory is money idling on the warehouse floor. The right amount of inventory is crucial, but surplus amounts are wasteful and a poor use of cash.

Playing with working capital will not impact the profit and loss statement picture for the acquired asset, but it will influence the cash dynamics. Optimization must include appropriate working capital management and improvements.

05 Improve contracting

Sometimes, when purchasing a business, an owner will find that the new customers did not have contracts in place or, if they did, had inferior contracts. In the optimization endeavor, it is worth returning to the diligence data on contracting with the goal of getting all customers on the latest and best contract form. While this might not impact the profit and loss statement or the cash flow, it is a de-risking measure that can make the business better, more stable, and have smaller future contingent liabilities. Additionally, it also makes the company a more desirable acquisition target for the next buyer.

Implementing a contract improvement campaign is not easy and will take effort. We suggest starting with an innocuous communication indicating that the company is updating its records and contracts. Enclosed is a link to the new agreement, which can be signed electronically. Many customers will blithely sign and not think much of it. Some customers will push back on terms and conditions and require negotiation and placating, and some will balk and not sign. That is all okay; the goal is to get better contracting coverage, and anything going in the right direction is a win. Part of contracting can be to streamline service level agreement standards. Small firms sometimes offer hyper-customization to customers in an effort to differentiate or win accounts. This can be problematic in a much larger company, and any quirky residual issues might need to be addressed.

We look for five features in contracts: unconditional assignability, liability limitation with specified caps, auto-renewing features, the ability to raise the price, and prescribed resolution mechanisms for breaches and disagreements. These are the pillars that make for desirable contracts. Creditors, investors, and potential buyers all like and value top-flight contracts. They are worth pursuing when optimizing an acquisition.

06 *Explore upselling options*

When customers port over in an acquisition, they consume at a specific volume. While optimizing the business, there is an opportunity to get more wallet share by exploring upselling options. The buying company can solicit customers to consume more products and services in the current region, inquire if there is a chance to sell products and services in a new area, or investigate whether customers want to purchase new products and services that the buying company offers (cross-selling). This initiative can result in more revenue capture, a tighter and more meaningful relationship with the customer, and more profit dollars.

Furthermore, selling costs might be lower with an existing customer than with a brand new customer, so margins might be more attractive by upselling than the same revenue dollars from a virgin account.

To be clear, upselling is about consumption volumes and is distinct from revenue volume enhancements, which is a function of the pricing rate. We are never sure whether upselling is an achievable path, but we throw this in the category of 'it can never hurt to ask gently.' The worst answer is just a no, and the company is exactly where it was before the query.

Some thoughts on making a post-closing integration program successful

We have offered a framework on how to mechanically think about post-acquisition activities in a programmatic acquisition strategy in a specific context. We will now shift gears and discuss some philosophical features to consider when formulating an integration approach (**Figure 6**). These are not implementation best practices; instead, they are core principles that will drive the operational integration methodology. Some operators think about integration in a haphazard manner, believing top-line revenue and reported EBITDA metrics are the only things that matter. We believe revenue and EBITDA matter, too, but when a company is fully synthesized and all operating units function in concert, that is a business that is durable and chugs forward like a well-orchestrated army.

In contrast, when a CEO minimizes integration, despite appealing revenue and EBITDA numbers, the company can feel like it is being held together with tape, bubblegum, paper clips, and rubber bands. It does not feel enduring; instead, it seems like the promoters are holding their breath in a game of musical chairs, praying the company does not disintegrate before the next buyer shows up. The guiding precepts we provide are geared toward operators who want to build long-term and excellent enterprises and are not exclusively absorbed with mashing together dissimilar assets for reporting purposes. To do this, entrepreneurs should select investors who are aligned and engaged in this doctrine; otherwise, there will be painful conflicts.

Figure 6: A half dozen action steps to make a post-closing integration program successful

01 **Anoint an integration champion**

02 **Focus on people**

03 **Establish a detailed playbook and stick to it**

04 **Decide what gets centralized and what stays in the field**

05 **Remember it's all about the spokes, not the hub**

06 **Celebrate the complete integration and optimization – not the close**

01 *Anoint an integration champion*

Integrations need a designated leader who owns the entire arc of activities from stabilization to optimization. This person can be a corporate staffer who normally does not have operating duties and is solely dedicated to post-acquisition integration events, or it can be a line operator who, in addition to their daily activities, takes on the project role. We have a slight bias toward integration champions who have to live with the work product in their profit and loss statement. In other words, a line operator will ultimately manage the acquired and integrated asset.

The integration champion does not need to actually do all the integration work, although they will undoubtedly do a lot of it. Instead, they serve as the leader of the entire project and mastermind all of the endless bullet points that make up the whole process. They will draw in internal and external resources like the CFO, fleet manager, tech staff, and safety consultants. Regardless of the help and contributions of others, the integration champion owns the entire process and is fully responsible for its successful completion.

When integration is approached with multiple owners and no one anointed champion, there is more room for tasks to slip through the cracks and for the process to go awry. With one champion, an unambiguous leader is driving the entire project. The champion does not need to be the same person for each acquisition, although it certainly can be. Furthermore, offering the role of integration champion is a terrific way to honor a superstar or to recognize an up-and-comer in the organization and to help them gain more leadership experience in a cross-functional context. The acquisition champion role, while a tough job, is for stellar team members and should not be considered a punishment or for weaker players.

02 *Focus on people*

Acquisitions and integrations are ultimately about people. Employees, customers, and vendors are the three legs of a stable stool that must be addressed in the integration process. Unfortunately, these constituents can all be emotional, irrational, and quirky – especially when sudden news, like an acquisition, is thrust into their world. To make any integration process as smooth as possible, the CEO must devote time and energy to people issues in order to assuage fears and anxiety. While this investment is not mechanical in nature, like switching over the ERP system, it is still crucial to increase the probability of an integration's victory.

There is no magic to making the people dimension work other than sheer time and overcommunication. For some CEO communication tips, see our note On the Nature of CEO Communication Patterns in a Small Business. The CEO and other company leaders will need to put in face time with newly acquired employees. This means being in the field with them and just asking innocent questions and listening. Hint: do not show up empty-handed. Nervous employees appreciate donuts or pizza. To best pacify fears, take a low-key approach, avoid chest thumping and bragging about how great the company is, and eschew a 'we know everything better than you' attitude. That would be an excellent way to amplify suspicion and alienation. One idea on the people front is to embed legacy employees into the newly acquired location for weeks at a clip. These culture carriers can demonstrate what the company is really like and how things get done. Additionally, these agents will humanize the acquiring company and soften the issues. Going in the other direction, newly acquired employees should be brought into legacy operations for weeks to learn and observe and just to get to know people. Humanizing helps everything, moderates the tension, and creates connectivity.

While an orientation toward employees is essential, we also advocate for dropping people who cannot get on the bus or embrace the new values and program. The acquiring company should crisply articulate their mission, values, and culture and emphasize that this is the blueprint, and it is intractable. People can join and thrive, or leave, but the game plan and values are inflexible.

Creating personal connections with customers is also vital; visits, phone calls, and emails – especially to key accounts – will help build rapport and establish credibility. Regardless of how great customer service is, many customers will vote on whether they stay or leave based on a 'do I like you' lens. Be likable and attentive. It is all about the customer, not about the CEO or the acquiring company. Finally, vendors matter, too. They should be treated with respect and appreciation and included in integration plans and activities. Additionally, vendors might be a helpful resource for the integration process, including potential cost savings opportunities for the systemwide enterprise.

03 *Establish a detailed playbook and stick to it*

Processing integrations does not require brilliance. There is a dose of creativity, but this is primarily a procedure based on practices underpinned by detailed playbooks, endless checklists, and elaborate Gantt charts. This is a well-organized person's dream and a seat-of-the-pants operator's nightmare. To do this well, repeatedly, at scale, in multiple geographies, and at an increasing pace, operators need to invest gobs of time to establish the best practices and playbooks. These should be documented in writing and continuously updated when assessing what is working and what is not. The best integration gurus learn something in each expedition and use that knowledge in the playbook.

Integration documentation often starts with simple lists in Word or Excel. Over time, the sophistication grows to dense playbooks and project management software. For the programmatic acquirer who is playing this game at an accelerating pace, moving from one deal a year to one deal a month, these playbooks and protocols are a must. We think of the best buyers and integrators as reaching a point where closing a deal and integrating are non-events. This means that they do not cause stress, confusion, or dislocation. Instead, it is just one more business process in the enterprise, perhaps akin to onboarding a new customer. It happens all the time, and there is a calculated way to get it done elegantly. The foundation of this is a playbook and a process that the team adheres to and is constantly honing.

04 *Decide what gets centralized and what stays in the field*

An essential philosophical posture in a programmatic acquisition integration odyssey rests on what gets centralized in shared services (corporate) and what stays in field operations. While there is no right or wrong way to approach this, it must be done thoughtfully, deliberately, and intentionally. We can point to many programmatic acquirers who have achieved high degrees of success with a strong centralization culture and others who have maximized a vibrant decentralization stance. They both work. What does not work is oscillating between the two poles while integrating. That can result in chaos and confusion.

In general, we like a mantra of keeping what touches customers closest to customers – in the field units. Customer-facing interactions can work best when local service providers who know the customers well and know the ins and outs of local dynamics are in charge. Additionally, field locations are often best at managing in-unit labor and centering on service delivery and operations fulfillment. Conversely, shared services is probably superior at some of the financial and accounting functions. Other functions that might reside in shared services are team member training and development, capital expenditures, and technology services. As we will discuss in the next section, shared services' functionality tends to spin around what they can do for the field locations, and that is often establishing the foundations and crux of various functions.

Regardless of whether a CEO chooses to run a centralized or decentralized shop, they must know which approach they are adopting and why. Furthermore, the position must be baked into the integration playbooks and procedures. Finally, team members should be crystal clear on what functions are located where and why – especially for the asset going through the integration since some functionality might switch locations during the process.

05 *Remember it's all about the spokes, not the hub*

In a programmatic acquisition scheme, the organizational design frequently involves a bunch of spokes in various geographies with a center hub that is corporate or shared services. Think of a bicycle wheel for a visual image. The spokes service customers on a daily basis and are the customer-facing team members in the game. The hub provides services like accounting, procurement, legal, and other general services.

We like to remind folks that revenue is booked in the field at the hubs, and that is where profits are earned, too. Shared services are a tax on field operations. Of course, shared services provide many valuable and necessary functions, but they do not book revenue. For us, the hub exists to serve the spokes. The hub's job is to support the spokes and make their jobs better and easier. The spokes do not serve corporate, and corporate should not think of them as a distraction and an intrusion. We acknowledge that the relationship is really bilateral and symbiotic, but directionally and philosophically, it is wise to remember that the spokes in the field are where all the action is – serving customers and making money. The hub is the foundation that exists to help and cater to the spokes.

When the tone becomes all about the hub, imperial behavior slips in, and things can get inverted regarding what matters most. We encourage entrepreneurs to remember that field operations reign supreme and that the hub exists to serve those doing the company's real work in the field.

06 Celebrate the complete integration and optimization – not the close

When engaging in a programmatic acquisition strategy, it is common for entrepreneurs to celebrate each deal closing. There might be press releases, internal fanfare, champagne, swaggering behavior, and more. We think it is important to acknowledge each closing, especially with polite and prompt handwritten notes and gifts to sellers, lawyers, creditors, and the like. Internally, team members usually appreciate the good news and enjoy feeling part of a dynamic, prospering company. However, we do not view a deal closing as any particular triumph. It is just a milestone in a long marathon race of getting to optimization. Accordingly, we like to recognize the closing but avoid any celebration. Instead, reserve festivities for when the acquired asset is fully integrated or optimized. This is where the asset is performing and hitting the high-case EBITDA plan, and people are in a groove in the company. That is worth celebrating. Wiring a pile of money to a seller is just purchasing the opportunity to do something good with the business after the acquisition. In other words, the real work has not even begun.

In the programmatic acquisition dance, deal folks celebrate the close with vigor, and hardcore operators fete the integration. We hope our students and readers lean toward the operator types and save the parties and self-congratulation for when the real work has been completed. One more thought: the real heroes are not the deal folks who put the project in place (although they are treasured); the true hero is the integration champion who delivers the best EBITDA imaginable, the happiest customers who stick, and the delighted team members who have found a new home.

Conclusion

Running a programmatic acquisition strategy is a tricky proposition on many fronts, and plenty of acquisition cowboys trip when it comes to integration. If you are executing this program in a single industry with a focus on standardized integrations, we encourage you to think about a stabilization, integration, and optimization framework. By staging the overall integration trek, you can make the entire program more manageable and move through a model with prioritization in mind. The eventual goal is fully optimizing an acquired business to be the best possible contributor to the whole. This will likely take a few years, but with intentionality, the acquisition and integration can be a winner.

Having an integration champion who is keenly focused on people and embraces a pre-established integration playbook will pay dividends and increase the probability of success. A programmatic acquisition contest is all about the spokes – the field operations – not the central shared services team. The cash register rings in the field, not at corporate. Finally, it's all about the integration. Celebrate EBITDA performance, not closing a deal.

If you are one of the many holding company newbies in the search fund ecosystem on an acquisition tear, we wish you good fortune in your expedition. We hope you are as eagerly riveted on integrations as you are on acquisitions and that you architect an enterprise that is enduringly profitable and operationally elegant.

We wish you all the best!

Exhibit 1: Additional resources

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Endnotes

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