The exit strategy for many small businesses is to be acquired by a larger entity. The exit strategy for many businesses owned by private equity or venture capital is to be acquired by another (typically larger) entity. At bigger companies, sometimes two rivals merge (think Lockheed + Martin Marietta or Boeing + McDonnell Douglas).

It’s a big deal when two companies join together, and it’s an even bigger deal when two government contractors come together. The acquisition (or merger) day is the result of many months of detailed planning by cross-functional teams. The process involves reviews by many levels of management, and sometimes reviews by government entities are required. The number of moving pieces required to come together in order to execute a corporate acquisition is huge and it’s a big deal for everybody involved, whether target or buyer.

Yet, most acquisitions don’t achieve the promised results. One website asserts that “a KPMG study indicates that 83% of merger deals did not boost shareholder returns” but the so-called “link” to that KPMG study goes to a news site, not to KPMG, so we think the assertion needs better support. In our experience, most acquisitions don’t achieve the results promised when the deal was brought to management for review. We’re not saying it is 83% but it’s north of 50%--based solely on what we’ve experienced. Most acquisitions “fail” to deliver the promised ROI and some actually deliver negative ROI.

But we keep doing them, don’t we?

This article discusses some of what we’ve seen. This isn’t the first article on M&A activities: you can check out **this one** , if you’d like to. This article is going to be written from the viewpoint of the target company, the one being acquired. For the buyer, we don’t expect much is going to change; but for the target the future will be all about change and change management.

The first and most important question is how the acquired entity is going to be run. Will it be fully integrated into the ongoing structure and systems of the buyer, or will it be allowed to run as a “stand-alone” subsidiary? Until you’ve answered that question, you can’t move forward very much.

The first problem is that you probably answered the first question incorrectly.

No matter how you answered it, you probably got it wrong.

Because there is no such thing as a stand-alone operation—at least, not in our experience.

A pure stand-alone operation would not participate in any benefit plans. A pure stand-alone operation would not participate in any shared back-office services, such as payroll processing or accounts payable check-writing. A pure stand-alone operation would have its own policies and procedures, and its own legal staff, and its own HR staff. Accounting consolidation would consist of the target sending the buyer a file each month that contained the financial results, as recorded on the target’s books and records. It would be up to the buyer’s accounting department to map the file to its own books and records.

Could it all happen that way? Sure. But in our experience, never. We have never seen an acquisition or merger where the target didn’t merge—at least to some extent—with the buying entity. If nothing else, benefit plans were shared. But usually there is a lot more integration going on.

And that integration is the tricky part.

Somebody is looking at employee benefit plans, not only the medical coverage but also the retirement plans.

Somebody is looking at facility and individual security clearances.

For that matter, somebody is looking at facilities costs to see if consolidation is feasible.

Other people are looking at the indirect rate structure—at both the target and the buyer—trying to see if merging them makes sense.

Lots of other people are looking at the business systems—not just at the ERP system(s), but also at the six DFARS business systems—trying to see if merging them is more trouble than its worth.

And those activities are just the tip of the iceberg.

If you are being acquired, we recommend addressing the above issues (and all the myriad other issues) head-on, as early as possible. We recommend being forthcoming about such topics as—

- Last year of settled indirect rates, and status of submitted but not yet settled rates.

- Status of business systems and associated command media.

- Status of open purchase orders (commitments) and identification of strategically sensitive suppliers.

- Status of government furnished property.

- Status of unbilled receivables and recent financial metrics (e.g., DSO, aged payables, etc.).

- Recent CPARS ratings (and their implications to future contract awards).

Et cetera.

We think it's important to approach the above subjects with the right attitude. We would recommend not being defensive and not being stuck on "this is the way we've always done it." **Be open to change**. In fact, the buyer might implement important changes that benefit the target in ways that are not clear at the moment. Instead, approach the above subjects with a realistic "cost versus benefit" perspective. What are the risks? What will it cost to address them? What are the expected benefits? Develop an ROI for the changes, and use that ROI as a lever to pry people from their comfort zones.

Being acquired is a time of uncertainty. People are (naturally) worried about their jobs and how the buyer is going to create efficiencies. Embrace that feeling. Tackle it head-on. Develop cross-functional plans that achieve optimum outcomes for both buyer and target. If both sides don't approach the acquisition from the perspective of achieving the optimum outcomes, then they are almost guaranteed to achieve sub-optimum outcomes.