Crowe

Case study

Investing in human capital drives a successful acquisition

One of the most important aspects of any acquisition is human capital. The recent experiences of a global medical technology company illustrate just how critical effective human capital management can be – and how recognizing and resolving human capital issues are essential to a successful transaction.

The makings of a promising acquisition

At the outset, the rationale for the proposed acquisition seemed compelling:

- Both companies had successful, international track records in a challenging but lucrative field, manufacturing medical devices with combined revenues in the hundreds of millions of dollars.
- The two companies' product lines were complementary, but for the most part not directly competitive with each other.
- The two companies sold to many of the same surgeon customers, so the ability to deliver a more comprehensive array of products offered both strategic and logistical advantages.
- The target company had something else the acquirer lacked – a highly successful R&D operation with a number of promising new products in the pipeline.

The acquiring company recognized that the success of the deal depended on its ability to integrate the two sales forces, while also retaining the R&D personnel who held the keys to intellectual property development in the future. So the company asked the Crowe team of merger and acquisition integration advisers to advise on the acquisition by performing human capital due diligence.

Recognizing unexpected threats to the deal

The results of the Crowe analysis revealed some serious integration challenges, some of which had the potential to actually derail the success of the acquisition. Many of these challenges were rooted in the stark differences in the two companies' sales structures.

For example, the target company's sales representatives earned six-figure base salaries, which were augmented by a complex system of bonuses and incentives. The target's sales process itself was long and complex – it typically took 12 to 18 months to close a sale.

In the acquiring company, the process – and the underlying culture – were dramatically different. Sales representatives were paid on a straight commission basis, and the entire sales cycle was typically completed in 90 days or less. As is so often the case, compensation drove the entire sales process.

In addition to identifying serious differences in corporate culture that would have to be addressed, these revelations also upended the acquiring company's assumptions about the future cost of sales – a critical factor in evaluating the financial viability of the deal. As one key executive noted, if the sales issues could not be resolved, the acquisition should not be completed.

Gathering human capital insights

In addition to identifying contrasts in the two sales organizations, the Crowe human capital due diligence initiative also involved an extensive review of other critical people, process, and policy details. The Crowe team identified potential challenges in the areas of:

- Employment policy, process, and compliance
- Third-party human resource services provider relationships
- Compensation and benefit plans
- Organizational revenue and cost synergies
- Cultural integration

The results of the human capital due diligence project provided the client with the information it needed to develop a formalized plan for combining resources, integrating operations, and aligning cultures – including the development of an integrated sales organization that successfully merged the two conflicting approaches in a way that retained the best elements of both.

Blending cultures for success

Building on its human capital due diligence efforts, Crowe also was asked to help develop a communication plan to promote strategies for growth, employee engagement, and performance. The goal was to create an environment that encouraged employees from both organizations to stay and participate in a strong combined organization.

In pursuit of this objective, Crowe helped develop a proactive communication framework designed to build understanding and increase commitment. Key elements of the framework included:

- A comprehensive day one events plan
- Extensive leadership talking points, along with communication "do's and don'ts"
- A wide-ranging list of frequently asked questions for dissemination to all employees
- A portfolio of additional communication materials and publications
- Feedback methods to measure and improve the employee integration experience

With plans in place to address the underlying problems as well as to engage and retain human capital, the acquiring company determined that it could go forward with the acquisition.

Building momentum for future growth

In the months following the acquisition, the combined company executed on elements of the communication plan designed to unite the organization, enhance career opportunities for employees, and improve service for its surgeon customers.

These efforts, in part, helped realize the expected deal outcomes of revenue growth through product innovation and sales synergies. In its first annual report after the acquisition, the client reported its revenue growth in both the domestic and international medical products markets dramatically outpaced the comparable overall market growth rates.

Not only did human capital due diligence help maintain the viability of the acquisition, it also provided insights that added value to other areas of the integration process and paved the way for long-term financial success.

Learn more

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AS-19001-023A