Buyers vs. Sellers: Avoiding M&A Headaches
Due diligence is different for a buyer and seller

Proper due diligence is the difference between M&A success and failure. The costs of getting it wrong can impact a business for years, if not decades. Effective due diligence differs for a buyer (i.e. the larger organisation that is acquiring another, or a private equity firm looking to add to its portfolio) and the seller (the smaller firm that is being acquired, or a private equity firm looking to divest itself of an asset).

Getting the right HR data is critical

If you are a buyer, then you must consider all the time-consuming legal complexities of bringing together co-mingled service functions – such as HR, Payroll, Finance and Accounting and IT – and the impact it could have on employees. They need to define the services and support staff needed during transition, identify expertise gaps and weaknesses, and plan for employee turnover in key areas. So getting the right HR data is critical!

Stéphane Milhet, Executive Vice President Human Resources of GEFCO, the global logistics firm, recently oversaw the acquisition of the 500-employee Dutch freight forwarding company IJS Global. “When you look at a merger and acquisition in the due diligence process,” he explains, “it often starts with the opportunity being assessed by the CEO to see if it fits strategically. Now we need to understand, with more data, to see if there’s a risk. You could say that there are many suitable target companies out there. But an integration touches on so many things, and the last thing you want is the people in the company you’ve just acquired to leave, because they’re not happy or because they don’t think it was a good decision.”

Christopher Imm, Private Equity and M&A subject matter expert at ADP has witnessed thousands of M&A deals in his time. He explains that a buyer’s due diligence must look at whether it can absorb the new organisation into their existing structure. The more complex the seller’s processes and systems, the more risky it is: “The buyer may say, I can’t absorb that many people; I’ve already stretched my team and they’re already overworked.” If the technology systems and compliance processes are managed as outsourced services with a respected global provider, then the buyer knows it has a ready-to-go solution.
How easy will it be to merge?

Whether it’s a company or a private equity firm looking to divest, the process begins with considering the profile of their ideal buyer, says Christopher Imm: “Is IPO [Initial Public Offering] an option, should we look at a strategic buyer, or are there private equity buyers that would buy standalone business?” Once that decision is made, the next question that must be asked is how easy the business will be to merge with another i.e. How complex are the legacy systems and processes, and how up-to-date and comprehensive are its legal compliance processes, that the buyer needs to understand and untangle?

You may have all these co-mingled back office services typically being provided by a shared service centre,” continues Imm. “That’s exactly what the bankers do not want. They want an independent back office and payroll function, and if it isn’t they want it ‘spun out’ as quickly as possible. There’s typically a lot of pressure to have a plan in place of how you’re going to do that. That makes a seller more attractive to a larger spectrum of buyers, because it’s less risk.”

Put simply, sellers that reduce the complexity also reduce the risk. Having globally recognised, integrated HR and payroll software is a clear way of reducing that risk and heightening the attractiveness of a seller.

41% of businesses cite improving processes will enable them to outperform competitors.¹

“The seller’s perspective

¹ Aberdeen Group HCM Trends, 2013
If only an HR partner was called upon sooner

There’s an M&A anecdote from McKinsey that nicely illustrates how HR Business Process Outsourcing (HR BPO) could help in so many deals, if only it was called upon sooner: “[The] buyer criteria…focused on being one of the most effective operators in the industry, supported by strong IT systems and processes. Executives proceeded with the deal without ever learning that the IT team had a different picture of the eventual end state, and they learned only after close that the two companies’ IT systems could not be integrated.”

Professional Services firms, such as EY, advise that bringing in external third parties, such as HR Service providers, can help clients strike the right balance between speed and thoroughness. A recent EY report found that “expertise in the integration process itself was the area in which external advisors were most useful… in the initial phases of an integration process on back-office functions, such as HR, finance and IT.”

The benefit of having an expert HR BPO provider throughout an M&A deal, for both buyer and seller, cannot be understated says Christopher Imm: “When you look at the challenges of any type of M&A deal, whether it’s a merger absorption or a divestiture stand-up, it’s having the expertise in those different countries to develop a plan to integrate those employees quickly and create standardisation and best practices. It is also about having insight prior to the actual M&A and before the actual transaction closes so that there is a plan of how to quickly absorb or stand-up those employees, not only from a payroll standpoint but from a compliance standpoint. That’s something unique that I would say only an expert partner can provide.”

The value of an HR provider for the buyer and seller cannot be understated.

“Expertise in the integration process itself was the area in which external advisors were most useful.”

3. Ernst & Young (2014), The right combination: Managing integration for deal success
How can you secure your M&A deal with a single integrated HR platform?

A single integrated HR technology offering should include:

**Practices adoption:** Rapid deployment of Human Capital Management (HCM) services

**Expenditure avoidance:** Lowering Transitional Services Agreement (TSA) exposure and stand-up costs

**Duplication avoidance:** Multiple internal HR systems that can be replaced by a single, globally recognised system

**Organisational streamlining:** Global experienced HR team on call to integrate systems whenever needed

**Performance realignment:** Delineated roles and responsibilities between third party and client

**Operational efficiency:** Integrated functional areas in a single review with HR, benefits, and payroll

**Economies of scale:** Increased purchasing power with a single payroll vendor

**Data analytics:** Thoroughly analysed client data to manage change

**Risk mitigation:** Expertise to ensure legislative compliance and limit financial exposure

**Technology support:** The tools and regular software updates needed to successfully support each and every client

“No two M&A transactions are the same,” warns Christopher Imm. “That’s where ADP’s expertise comes in. We have worked beside our clients typically on more than 100 M&A transactions a year, which means we understand the challenges they face. We can help work through, and build a plan specifically around the unique requirements of the deal. If you had a partner in every core functional area that could assist you, you’re going to dramatically increase the success of a merger, acquisition, or divestiture.”

The challenges of any type of M&A deal, whether it’s a merger absorption or a divestiture stand-up, is having the expertise in those different countries to develop a plan to either integrate employees quickly, create standardisation and best practices while eliminating poor, redundant policies or duplicate processes.

The Merger Integration Services offered by an expert third party helps to reduce HR costs by integrating and streamlining HR processes.
About ADP’s M&A Services
ADP’s M&A services provides guidance and insight prior to the merger and before the actual transaction closes by developing a plan of how to quickly absorb or stand up employees. ADP’s background helps you to comply with all the local laws and requirements and create a plan to deal with the unknown items that will come up during the transaction.

ADP brings expertise of how to leverage the technology and the systems to make you successful in any location around the world. For more information about how ADP can support you please visit ADP.com.

About ADP (NASDAQ-ADP)
Powerful technology plus a human touch. Companies of all types and sizes around the world rely on ADP’s cloud software and expert insights to help unlock the potential of their people. HR. Talent. Benefits. Payroll. Compliance. Working together to build a better workforce. For more information, visit ADP.com.