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Post-deal dilemmas

Whilst a cause for celebration, signing the deal is more often than not the easy part. The hard part is integrating, taking control at speed, realising value from the deal and navigating one of the most challenging change initiatives most companies will experience.

> "Acquisitions drive significant change and create complex situations. In order to achieve business results in such an environment you need strong leadership and a plan. You should have an integration blueprint agreed and in place by the time you are ready to sign the deal."
>
> **Trevor Collard, Director, Strategy, KPMG**

Value protection and the creation of value post-deal are critical in mergers and acquisition. Yet a majority of transactions fail to realise the synergy benefits that were promised in the original investment thesis – see breakout box: Finding Value.

Is it a matter of organisations being too ambitious in their synergy targets? Or does it come down to a failure of execution? According to Collard, both play their part. "You really have to understand the DNA of both companies to understand how you can unlock the value from a deal. You need to understand what value is, what drives it, how to avoid destroying it and how to put a focus on value at the centre of everything you do throughout integration."

Synergy targets are often too ambitious, in both their quantum and their timing. However, this isn't so much about a flaw in the initial calculations, says James Hindle, Partner, Transaction Services at KPMG. More it's a matter of organisations underestimating the complexity of integration. "As a result they don't put in place sufficient structures to enable them to really focus on realisation."

Collard agrees: "It comes down to the fact that there's actually a lot to do. The pace, the pressure, the stress and uncertainty, the widespread fears and scepticism combined with the sheer volume of difficult decisions make integrations one of the most challenging change initiatives in companies. There are not only hard issues and soft issues to contend with, there's also the need to ensure you're not distracted from business as usual."

Putting it in writing

There are a number of steps organisations can take to increase the likelihood of integration success. Collard's list of dos and don'ts include: "Don't be afraid to make hard decisions or underestimate your people's ability to deal with change, do resource appropriately for the entire program, don't be afraid to invest, do focus on value, do mobilise early."

Part of mobilising early is about drafting a thorough integration plan while you are in the due diligence phase of a potential transaction. "In an ideal world you should have an integration blueprint by the time you are ready to sign the deal or have the board approve it," says Collard. "You need a plan that documents exactly how you are going to realise the value from this deal, how you are going to take control and manage the risk."

That plan, he says, helps to achieve alignment regarding the integration approach (who's doing what by when and why), helps inform communication planning and helps to avoid a process break between the knowledge base acquired by the deal team during due diligence and implementation which inevitably falls on the shoulders of management.

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Talk early, talk often and listen!

Communication is key, whether it relates to the overall strategy, the decisions being made regarding changes to the organisation, or feel good stories about early wins along the way. "The more information you can share with your people, the more it will help them through integration. People will want to know about why we need to change, how are we going to do it, what will the future look like and what's in it for me?" says Collard.

Of course, all employees will want to know what their future will look like and this needs to be explained with clarity and compassion. "If you're not really clear, if you don't communicate with integrity and a little bit of empathy, you're failing in your role as a change agent," says Hindle.

Adds Collard: "If you don't get everyone on the same agenda, you've got no chance. Remember at the end of the day you may have the world's greatest deal on paper but it's actually the people that make or break the integration. Organisations don't change because of new systems, process or new organisation structures. They change because the people within the organisation adapt and change. One final tip regarding communication… listen, listen and make the time to do so!"

Taking responsibility

Integrations are often a proving ground for senior leadership of an organisation who find themselves in key program roles. Leadership has an important role to play. "Your program sponsor and integration director have to have enough seniority and cut through at both organisations to achieve business results," says Collard.

Accountability for the success or otherwise of an integration is key. "We always talk to clients about the fact that this is their integration program, it has to be a management-led and management-owned," says Hindle.

Governance is also necessary to ensure you are clear on who is doing what, that you are doing what you said you would do and that you are tracking the resulting benefits. "The mantra is, what gets measured actually gets implemented," says Collard.

A robust project management office (PMO) can be invaluable here and increases the likelihood of integration success. "A strong PMO brings a lot of rigour around the process and governance and will highlight exactly how the program should be resourced to prevent against slippage, things falling between the cracks or distraction from business as usual," says Collard.

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It can also play a key role in prioritising the activities around integration to extract the most value possible. "In an integration there are a lot of 'nice to haves'," says Collard. "And then there's absolutely some must dos." Careful planning can ensure these are not confused.

Cultural sensitivities

Failure to address corporate culture is a common key barrier in failed M&A transactions.

When two organisations come together for the first time, different – and often discordant – perspectives, approaches and ways of working abound. "For this reason you have to approach the integration in an informed, sensitive and well planned way," cautions Collard. "It's important not to assume anything."

It gets even more difficult when the integration involves a cross-border transaction or spans multiple geographies. "When you have a target in one particular country, you may need to motivate the managers there to take ownership of some of the immediate synergies of the integration plan – whether or not they will be playing a longer term role with the combined organisation in the future. It's a real point of tension and you need to be culturally sensitive in everything you do."

Upping the ante

There is no doubt that M&A deals are getting increasingly challenging to pull off in the face of continued consolidation across most industries. At the same time, the rapid pace of change in an increasingly globalised world, is making it ever more difficult to confidently put a value on them, let alone realise their expected synergies.

"The problem is an assertion you make today about a three year plan might not be valid a year later," observes Hindle. "And while there are more and more opportunities, the risks are also getting higher."

That makes it critical to approach an integration program with absolute rigour. "Plan the detail, articulate what you're going to do, when you're going to do it, what's it going to mean," says Hindle. "If you do that, you significantly increase your chances of integration success and realising deal value."

Finding value

KPMG's proprietary 9 Levers of Value framework suggests financial and operational value can be created in a deal at two separate levels: the more external business model (focusing on the features that impact a firm's revenue: markets, propositions and brands, clients and channels) and the more internal operating model (focusing on the features that impact a firm's costs: core business processes, operational infrastructure and technology, organisational structure, governance and risk controls and people and culture). Yet despite the opportunities for change generated by M&A it's commonly acknowledged that up to two thirds of deals fail to realise the synergy benefits that were promised in their original investment thesis.[1]

1. http://www.kpmg.com/PE/es/IssuesAndInsights/ArticlesPublications/Documents/KPMG-The-Morning-After-Driving-for-post-deal-success.pdf

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Contact us

David Heathcote
Head of Deal Advisory
Deal Advisory
T: +61 2 9335 7193
E: dheathcote@kpmg.com.au

James Hindle
Partner
Deal Advisory
T: +61 3 9288 5059
E: jhindle@kpmg.com.au

Trevor Collard
Director
Deal Advisory
T: +61 3 9288 5583
E: tcollard@kpmg.com.au

kpmg.com.au

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