Best Practices For Your Post-Merger Integration Plan

Presented By: Deepak Agrawal

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Gotham Helps Companies Capture And Sustain Value Through Operations

### About Gotham Consulting Partners

- **Who we are – Operations Specialists**
  - Primary focus on bottom line (cost, service, and quality) issues
  - Industries where operations is a key driver of value, e.g., industrial, consumer packaged goods, retailing and distribution, automotive
  - Unique client partnership model – from opportunity assessment to implementation – with focus on quickly achieving superior and lasting results
  - Top-notch people, including MIT engineers, Harvard MBAs, ex-Fortune 100 company executives, and ex-McKinsey consultants
  - Tailored solutions that combine a CEO perspective with practical realities of front-line operations

- **What we do:**
  - **Operational Improvements** – both tactical and strategic:
    - Rapidly diagnosing operations/identifying improvement opportunities
    - Achieving cost savings goals, reducing inventory, and optimizing asset base
    - Fixing/enhancing delivery performance
    - Consolidating/relocating plant/distribution activities
    - Establishing sourcing strategies
    - Developing measurement and tracking systems/key performance indicators
  - **Transaction-Related work**
    - Operational due diligence during buying process
    - Post-merger integration to capture M&A value
    - Operations value roadmap to facilitate sell

### Recent Post-Merger Integration Work

- **$500-Million Industrial Goods Company** – Integration of several US and international acquisitions. Assisted CEO in capturing acquisition value by consolidating DCs, developing a global sourcing and manufacturing strategy to optimize and leverage asset base, developing company-wide key performance indicators, and identifying top-line growth opportunities through cross-leveraging of engineering expertise, customer relationships, and low-cost manufacturing

- **$250-Million Specialty Printing Company** – Combination of three printing companies. Worked hand-in-hand with management to first identify and hone key operational strengths and then to develop and implement a plan to extend and fully leverage strengths across all facilities

- **$800 Million Private-Label Beverage Company** – Acquisition of 11 bottling plants by a marketing and sales organization. Assisted CEO in determining key performance indicators, developing production planning mechanisms, and addressing deteriorating customer service performance across their newly formed manufacturing network
### Why M&A Activities Often Fail To Enhance Shareholder Value

#### – Illustrative –

<table>
<thead>
<tr>
<th>Failure Modes</th>
<th>Causes</th>
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<tbody>
<tr>
<td><strong>Failure to capture anticipated synergies</strong>, e.g.:</td>
<td><strong>In Planning:</strong></td>
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<tr>
<td>– Inability to capture combined revenue growth and/or cost savings opportunities</td>
<td>• Inability to translate top-level financial goals into actionable, measurable/trackable operational plans</td>
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<tr>
<td>– Failure to reduce operational complexity/redundancy through:</td>
<td>• Poor assumptions, lack of fact base, misrepresentation, and over-optimism leading to unrealistic/out-of-line expectations</td>
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<tr>
<td>◦ Reduction in asset base (close factories, consolidate distribution)</td>
<td><strong>In Execution:</strong></td>
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<tr>
<td>◦ Consolidation of product lines</td>
<td>• Lack of management talent, skills, and experience at lower levels of the organization—&quot;top-loaded&quot; talent</td>
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<td>◦ Elimination of redundant/similar personnel</td>
<td>• Lack of meaningful tracking/reporting tools to monitor core business and merger performance</td>
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<td><strong>Inability to protect core business</strong> (&quot;the wheels fall off&quot;) e.g.:</td>
<td>• Organizational barriers</td>
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<td>– Major customer service fall-down (delivery, communication)</td>
<td>◦ Cultural prejudices/ingrained view points</td>
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<td>– Cost bloat/creep</td>
<td>◦ Reactive culture</td>
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<tr>
<td>– Quality issues</td>
<td>• Hesitation/delay</td>
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Critical Requirements For A Successful Post-Merger Integration Plan

Timeline:

- Start Due Diligence
- Decision to Buy
- Close Deal

Establish Clear Strategic Objectives For Merger And Hypothesize Associated Post-Merger Priorities

- Map rationale for deal to specific post-merger objectives
- Prioritize post-merger objectives in terms of ease of capture ("pain level") and reward/risk ("gain level"), based on rough-cut analyses

Create Integration Strategy Recognizing The Core Of The Business Must Be Protected During The Integration

- Perform thorough due diligence/diagnostic to pin down:
  - Current capabilities and operating conditions (people and physical assets, processes, customers) and core business to be protected
  - Value opportunities post-merger
  - Appropriate integration architecture
- Create business case for each post-merger objective, including impact on core business
- Validate hypothesized priorities

Create Top-Level Plan To Achieve Priorities And Translate Into Actionable Front-Line Plans

- Develop top-level, staged plan that maps post-merger integration priorities against organizational capabilities and requirements -- plan must explicitly address protection of core business
- Assemble appropriate team (representing all affected functions and both companies) for each priority post-merger objective
- Convert top-level plan into actionable front-line plans with clear milestones, timing, and responsibility/accountability
- Develop and execute communications strategy for:
  - Internal audiences (all levels of employees)
  - External audiences (customers, suppliers, and other stakeholders)
- Design and put in place mechanisms for ongoing tracking and reporting of both:
  - Core business performance
  - Integration progress and impact
- Meet with teams on a regular basis (at least bi-weekly) to:
  - Monitor progress against explicit milestones and timing using tracking/reporting information
  - Ensure ongoing protection of core business
  - Quickly address any issues/stumbling blocks that may arise
- Reward/make visible team accomplishments
- Ensure incentive schemes throughout the organization are properly aligned with priority objectives
# Clear Objectives: Map Deal Rationale To Specific Post-Merger Integration Priorities

## Why Are We Doing The Deal?

- **Brand**
- **Assets**
  - People
  - Physical/Process (Manufacturing/Distribution)
- **Customers**
  - Alternate Channels
  - Diversification/Hedging
  - Market Share/Geographic Presence
- **Product/Idea/IP**
- **Financial**
  - Value Play

## Likely High-Priority, Short-Term Post-Merger Integration Objectives

- Leverage brand across entire product portfolio and prevent brand dilution
- Establish asset resolution of acquired business, e.g., write-off/disposal, selective integration
- Develop plans to consolidate assets:
  - Facility closures and integration
  - Organization realignment
  - Best practices/new processes
- Introduce new customer base to entire product portfolio and introduce new products to existing customer base
- Harvest full value from targeted products/ideas/IP and other worthwhile portions of acquired/merged business
- Decide how best to harvest value—by integrating or linking or by improving performance as stand-alone entities
Clear Objectives: Prioritize Post-Merger Objectives Based On "Pain/Gain" Matrix

Example: Purchasing Opportunity

- **High Pain**
  - **Low Gain**
    - Proprietary capital, e.g.:
      - Printing presses
      - Packaging lines
  - **High Gain**
    - Primary Materials, e.g.:
      - Paper
      - Metals
      - Chemicals
    - Secondary materials, e.g.:
      - Corrugated
      - Pallets
      - Packaging film
    - Commodity capital, e.g.:
      - Personal computers
      - Fork lifts
      - Test equipment
    - Business Support Services, e.g.:
      - Office supplies
      - Air freight
      - Telecom
      - Temporary help
      - Travel
      - Insurance
      - Utilities

- **Low Pain**
  - **Low Gain**
  - **High Gain**
Integration Strategy: Collect And Synthesize Thorough Fact Base

Current Capabilities And Operating Conditions And Core Business To Be Protected

- How do each of the businesses operate today? What core differences/strengths create value and how should they be protected/leveraged?
  - What customer relationships/market strengths exist?
  - What are the operational capabilities/processes of each business?
  - Which differences create value and which do not?
  - Which cultural practices need to be protected and which need to be eliminated?
  - …

Value Opportunities Post-Merger

- What opportunities, requirements, and risks are associated with combining/linking the businesses (e.g., competitive response) and what is the estimated benefit/impact?
  - What are customers’ needs in target markets and how can the combined entity fulfill them?
  - How can the combined entity better focus and leverage its operational capabilities?
  - What implications do the combined business have on competitive activities?
  - What changes in practices/operations should be addressed immediately?
  - …

Integration Architecture

- What is the right integration architecture to capture opportunities/manage risks and deliver key requirements associated with the value proposition while protecting the core business?
  - What is the appropriate segmentation scheme for market/customers, manufacturing/product supply, sales/sales support, etc.?
  - Against the segmentation scheme, how should the organization be developed?
    - What should be combined, linked, or left separate?
    - What are the associated decision flows?
  - What is the appropriate measurement scheme for customers, suppliers, employees, supply chain performance, financial performance, etc.?
  - What information/systems and other supporting tools are required?
  - …
In many M&A situations, top-level plans/objectives often are translated partially/poorly down through the affected organizations—an inability to “peel-the-onion”

Example: Plant Closure Opportunity

Objective:
- Rationalize asset base

Hypothesized and Validated Opportunity:
- Close plant

Key Questions In Planning:
- What is the business case for closure?
- What is the likely timeline?
- How do we manage this process with regard to internal personnel and vendors/suppliers?
- How do we ensure consistent performance throughout the transition?

Measures:
- Long-term assets
  - Plant, property, and equipment
- Current assets
  - Inventory
- On-time delivery
- COGS

Organizational Depth

Executives → Plant/Line

- Which employees will be asked to move and which will be terminated?
- How/when do we communicate to employees?
- What assets, if any, will move?
- How will inventory be transitioned?
- What is the closure budget (e.g., stay-on bonuses, one-time costs)?
- How do we ensure good performance until shutdown?
- What are the contingency plans?

- Closure costs
- Severance/stay-on bonuses
- One-time costs (move, environmental)
- Scrap value
- Asset utilization (downtime)
- Raw material utilization (waste)
- Productivity
### Expeditious Execution: Ensure Plans Are Carried Out And Results Are Achieved In A Timely Manner

Reporting, work plans, and incentive schemes are often overlooked during post-merger integration processes.

<table>
<thead>
<tr>
<th>Tracking/Reporting</th>
<th>Comments</th>
<th>Typical Issues</th>
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</thead>
<tbody>
<tr>
<td>• Paramount to identifying and harvesting opportunities</td>
<td>• Does not exist</td>
<td></td>
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<tr>
<td>• Must:</td>
<td>• Unsynthesized, legacy reports</td>
<td>• Stochastic/bias error</td>
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<tr>
<td>— Be tied to/predictive of financials and address key indicators of performance</td>
<td>• Irrelevant goal posts</td>
<td></td>
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<tr>
<td>— Occur on a regular basis and within a relevant timeframe</td>
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<tr>
<td>— Be consistent and accurate across facilities—based on standard calculations</td>
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<tr>
<td>— Have “goal posts”—baseline starting and target performance</td>
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<tr>
<th>Actionable, “Living” Work Plans</th>
<th>Comments</th>
<th>Typical Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Necessary to provide a roadmap/structure for all involved parties and a context for evaluating progress, addressing stumbling blocks, and holding people accountable</td>
<td>• Created at too high a level—lack the depth/detail necessary to drive action</td>
<td></td>
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<tr>
<td>• Must:</td>
<td>• Never updated/lose relevance</td>
<td>• Not leveraged as a key tool for monitoring progress and holding people accountable</td>
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<tr>
<td>— Be created for executives and line personnel—successful integration demands action at all organizational levels</td>
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<tr>
<td>— Be constantly updated to ensure plans are relevant “living” roadmaps</td>
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<tr>
<th>Aligned Incentives</th>
<th>Comments</th>
<th>Typical Issues</th>
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</thead>
<tbody>
<tr>
<td>• Paramount to driving the new types of behavior required as part of the integration strategy</td>
<td>• Incentives never modified to reflect new world</td>
<td></td>
</tr>
<tr>
<td>• Must:</td>
<td>• Incentives do not address both integration priorities and core business</td>
<td></td>
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<tr>
<td>— Be tied to new processes, roles, and accountabilities</td>
<td></td>
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<tr>
<td>— Be formally modified and clearly communicated to employees</td>
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Effective Planning For Post-Merger Integration

• Begin well in advance of the deal closure

• Base planning on clear strategic objectives for the merger

• Incorporate a thorough fact-based analysis of current capabilities and core business strengths, potential post-merger value opportunities, and integration architecture options

• Establish and stick to priorities

• Translate top-level plan/vision into actionable, detailed plans for all levels of the organization

• Create aligned incentive structure with key performance indicators

• Plans are “living”, revised as necessary and executed expeditiously
Contact Information

Address: Deepak Agrawal
Managing Director
Gotham Consulting Partners, LLC
330 Madison Avenue, 9th Floor
New York, NY 10017

Telephone: 646.495.5157
Fax: 646.495.5155

Email: dagrawal@gcpny.com
Website: www.gcpny.com