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CFO Agenda

Achieving deal value

A cross-functional approach can help achieve the value sought from deals

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Companies have long looked to acquisitions or divestitures as a means to deliver shareholder value, whether through growth, operational efficiencies or some combination of the two. Increasingly, CEOs and boards are looking to their CFOs to ensure that these deals deliver the value the market expects — and quickly. And that's putting some CFOs in new and unfamiliar territory.

Today's CFO commonly takes on a far more strategic role than in the past — acting as an important advisor to both the CEO and the board and offering a clear-eyed assessment of the financial and value implications behind business decisions. While the objectives behind acquisitions can differ widely, there are always underlying critical financial elements. So who better to sponsor the wide range of activities needed to execute an integration or divestiture and ensure it achieves its expected value?

Acquisitions and divestitures involve fast-moving, cross-functional change programs that touch upon operations, finance, IT, HR, legal and other business units. CFOs need to have a hand in leading these projects to be able to hit the ground running on day one, then keep up the momentum to deliver tangible results and value, often within the first year.

Not that the CFO needs to do it all. But the CFO charged with profitability, needs to understand the implications, interrelationships and interdependencies among the various parts of the business throughout the project. The CFO must also make sure the right people are involved and stay focused not only on the tasks at hand but on the ultimate goal — delivering value.

28%

of Canadian CEOs saw M&A, joint ventures and strategic alliances as the main opportunity to grow their businesses in the next 12 months — compared to 17% of CEOs globally.

PwC's 16th Annual Global CEO Survey

The following areas are where deal value can be attained or lost.

Due diligence

All too often, companies focus their due diligence efforts almost exclusively on the financial aspects of the target and transaction. However, realizing the value of a deal can come down to functional and commercial elements overlooked by a traditional financial due diligence process.

Commercial due diligence is important when entering a new market segment. Operational due diligence touches on all the functional areas of the target, with particular attention paid to areas which are likely to be integrated. CFOs should ensure that the level of due diligence performed is sufficient to enable them to identify or anticipate potential issues, and plan for them before day one occurs. This, in turn, can help the CFO better determine when the company will begin to see results.

Looking into these areas before the deal closes can bring important issues to the surface — such as identification of inherent liabilities in underfunded operational areas; the need to provide ongoing, if temporary, support to a carved-out entity from the seller; and organizational differences that will lead to significant culture clashes post closing.

Operational and process integration

Operational and process integration is a common element in nearly every merger or acquisition. This is where an organization will usually realize the combined efforts that are often touted as a benefit of the deal. That's why the CFO and the execution team should keep the value target of operational or process integration (e.g. 15% higher efficiency, 10% cost reduction) in mind throughout the project.

At the outset, it's important to decide and understand how operations and processes will be combined. Will the target adopt the parent's practices? Does the target bring a better approach? Will a "best-of" hybrid be created? Who will be responsible for the processes and operations? Who will make approval decisions? Knowing the answers to these questions can help move the integration effort along faster.

Other questions arise when dealing with divestitures. Will the divested business be able to stand alone, or will it require process and operational support from the parent? This can create a need for new legal and financial agreements between the two entities, and the CFO will need to understand the financial and operational implications of any such agreement.

Integrating IT systems and applications

When it comes to IT matters, the CFO will want to ensure that on day one, they're in a position to report on the combined business as a single entity or report on the business without the part that has been carved out. This will usually require the CFO to implement an interim reporting solution until full consolidation of systems and applications is complete.

In many ways, systems integrations are like an iceberg: much larger than they appear on the surface and capable of making a tremendous impact. Unfortunately, they're usually not top of mind when a deal is announced, which is why the substantial time and work involved can come as quite a shock later on. It's important for the CFO to anticipate this and ensure that leadership and others involved in the integration understand the potential issues.

The best time to start thinking about systems integration is as early as possible — another reason to perform IT and operational due diligence. Not only can this kick-start planning efforts, it can also help mitigate the potential for delays and enable the CFO to both identify and communicate when the company will realize value from the integration.

The integration management office

Companies that have failed to capture the expected value of a deal, have rarely failed due to a flawed strategy. Most often it's because the company failed to execute the integration strategy quickly and effectively. It takes rigor, focus and determination to convert an integration strategy into detailed actions and manage those actions across the enterprise. That's why the CFO should ensure an integration management office (IMO) is established before the deal closes to bring together leadership and decision makers from every area affected by and involved in the change. The IMO should include operations, IT, finance, legal, HR, sales and marketing communications — in short, every part of the business involved in making the deal succeed.

The IMO provides both a governance structure and a project management hub that aligns people, processes and systems throughout the integration project. What's more, it provides the CFO with the ideal means to keep the integration effort focused on achieving deal value. It's especially important for the CFO to communicate the expectations of leadership and the market in this regard — if deal value needs to be seen as of the second quarter after the deal close, everyone involved needs to understand that.

The importance of communication

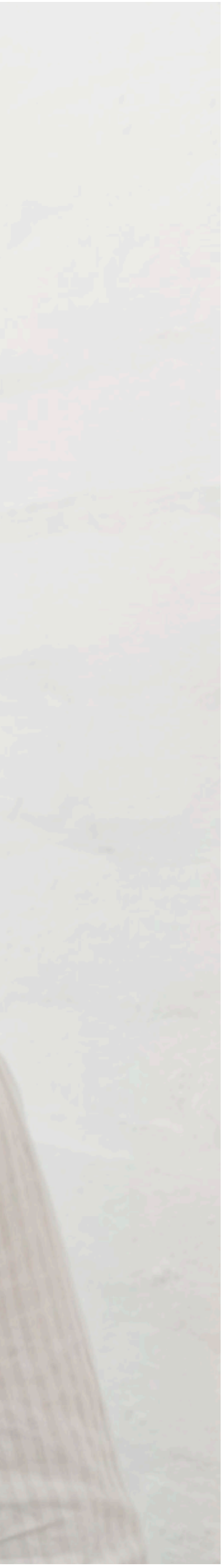
Communication is essential to the success of any deal execution, whether integrating an acquisition or managing a carve-out. Yet all too often the importance of communication is underestimated or neglected amid the flurry of other activity. The CFO should ensure the communications staff is part of the IMO to help identify and execute stakeholder messaging inside and outside the company from day one through the first 100 days and beyond.

It's important to remember that HR and communications are not one and the same. Employee issues will drive much communications activity, but operational and systems changes will also require support. The communications team can also help ensure regulators, investors, media and other external parties are kept in the loop as the integration moves along and deal value starts to be realized.

Know when you need help

Integrations and divestitures are incredibly complex undertakings, and not every organization has the capacity or specialized skills needed to execute them quickly and effectively. The CFO should be alert to the capabilities and capacity of the integration team, and identify potential problem areas. It may be simply that the project plan needs some adjustment, or it may prove that additional support from outside the company is needed. Again, the earlier the CFO can intervene, the more likely the company can maintain momentum and achieve deal value.

Seven tips for achieving deal value



Start early. Speed is critical to executing a transaction, integrating (or divesting) and getting back to business as usual. Effective dealmakers involve functional leaders earlier in the due diligence process to jumpstart the planning process.

Address the "soft" issues. Don't focus on tactical development and executing the workplan alone — that's important, of course, but cultural issues, communication and governance are critical in any successful large-scale integration.

Avoid silos. Develop a single integration strategy — and one project management office — that incorporates every functional area. This ensures consistent delivery and a shared understanding of expectations and targets, and provides complete visibility to you and other project members of the execution across the enterprise.

Don't get lost in the details. Too often, organizations view integration as a tactical project, and focus purely on work plan development and execution. Take a widescreen view of the project and ensure you take the opportunity to review and perhaps revamp the business model before you execute a generic integration plan.

Be open to different approaches. It's all too easy for acquirers to believe their way is the best way. But effective acquirers take the time to understand the target and collaboratively select the best people, processes and technology to support the new business.

Educate the team on market imperatives. The market often expects to see the value of a deal being realized within a year. Make sure you educate the integration team on the specific goals and timelines and hold them to it, to help drive the deal value the company seeks.

Make decisions without delay. Make sure leadership and executive teams understand the need to make timely decisions from the start. This is critical to helping you and the team execute the integration as per plan.

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