Facilities Integration

How to complete the M&A integration process, minimize disruptions, and achieve desired synergies.*

In the world of M&A, facilities integration is often regarded as a boring, unimportant afterthought—kind of like cleaning up your house once the party's over. The truth is detailed facilities planning prior to close, and execution of initiatives post-close, have a very real impact on a company's chances for success.

Successful facilities integration requires looking beyond the immediate brick-and-mortar concerns of physical plant, geographic location, and the dollars-and-cents that can be saved by rationalizing workplace design and service levels. The timing, communication, and execution of these changes can have a real impact on critical intangibles like company culture, employee morale, and retention.

Tactical changes in workplace environment, as well as in physical and IT access and security, impact employee productivity and the preservation of intellectual property. Moreover, decisions to close plants, consolidate R&D, and relocate staff often signal the next steps of the combined company, both to its people and to the broader marketplace.

The Issues Our Clients Face, The Actions We Help Them Take

At PwC, we understand the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. We support our clients by rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future State Operations. This is the approach PwC delivers in managing the integration as an enterprise-wide business process. Please see Figure 1.

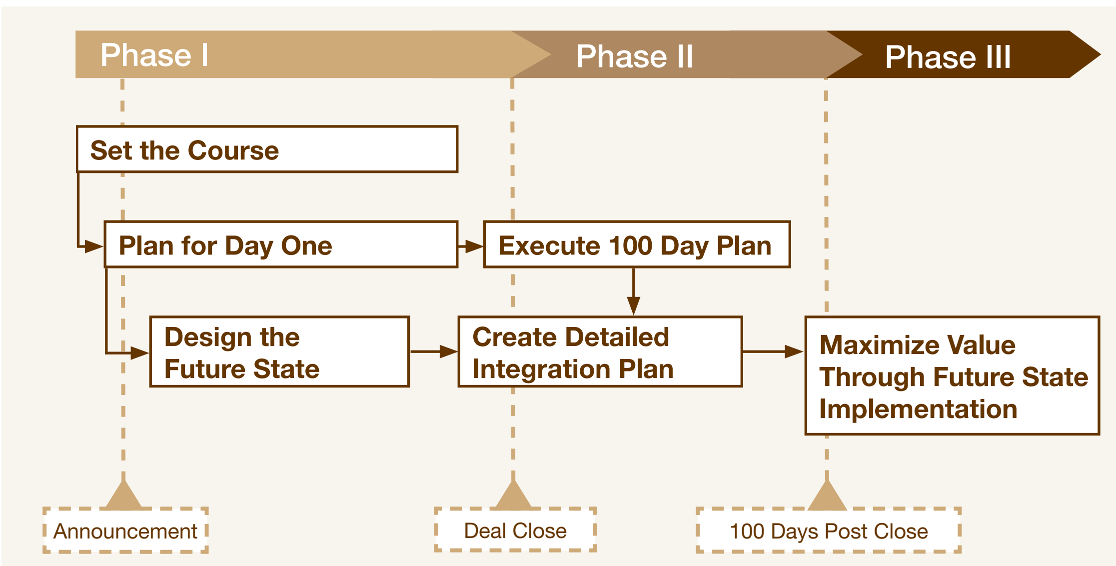


Figure 1—The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.

Set The Course

A merger or acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Across all functions, setting the course involves establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including facilities— to communicate effectively and take decisive action.

Setting the course for facilities involves making the right decisions regarding the convergence of facilities operating models (for example, whether to insource or outsource site services), rationalizing differences in workplace service levels, and determining how aggressively the new company will pursue office consolidations and closures.

Cross functional communication and executive guidance is critical since facility plans can be significantly impacted by decisions involving go-to-market, product roadmap, and talent management strategies. For instance, decisions made by other functional teams about branding, headcount reductions, and cost cutting targets often impact signage, space planning and usage, and workplace services. Each of these matters requires relatively long lead times to execution, and will have a visible and lasting impact on daily employee experiences.

Plan For and Execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong upon close absent proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of mission critical operations.

Basic items such as mail service, building access and security, employee directories, and intra-company network access are expected to be resolved at close. Telephone answering scripts, the ability to redirect calls, temporary signage, and the availability of new business cards and other facility related collateral send powerful messages to your employees and customers. Missteps in these basics will cause frustration among your customers and employees—and will be exploited by your competitors.

Minimizing the operating impact of facility changes is critical. Never underestimate the effect workplace changes can have on employees. Such changes hit employees where they live—quite literally, when you consider all the time spent at work over the course of a career. A change in employer, work group, physical location, or workplace environment can influence an employee in many ways, including their sense of Who they are, How they work, and What they enjoy. These can dramatically impact organizational effectiveness, employee engagement, and overall productivity.

Matters of physical security and employee health and safety are also critical at Day One. Often these items are overlooked simply because people are busy and distracted by the transaction, even though the risks in these areas are heightened. New faces can slip through security, and physical movement coupled with new environments can create circumstances ripe for an accident.

Some things to remember when integrating facilities functions

- **Understand what's in and what's out.**
  Define the scope of facilities-related activities by identifying who "owns" them within each company. Things like insurance, company credit cards, executive security, and employee travel are sometimes handled by other functions like finance and risk management.

- **Examine leases early.**
  Immediately inventory all leases and focus on those set to expire within a year or less. Thoughtful planning, renegotiation, termination, and execution of new leases could potentially save millions.

- **Work with resources in your local markets.**
  Globally dispersed operations require greater dependence on local real estate, legal, and regulatory resources to deliver on your plans.

- **Don't overlook cross-functional dependencies between IT and Facilities.**
  Often the line is blurred between IT and Facilities when it comes to the responsibilities associated with moves and new space build-outs. Be sure there is a clear understanding of who is responsible for establishing new contracts with telephony and network service providers, managing the "in the wall" network build, and setting up workspace technology peripherals like phones, printers and desktop computers.

Design and Maximize Future State Operations

Partial execution of the go forward operating model for the combined company is an actual prerequisite for beginning to realize significant long-term synergies. In the case of facilities, decisions to outsource services or centralize operations can have a significant impact on a company's headcount and geographic footprint, and should be determined prior to adopting a facilities consolidation plan. This will provide a framework for optimizing the future state facilities operations. Please see Figure 2.

When two companies become one, excess workspace capacity often cries out for reduction to increase return on investment, and balance the real estate portfolio. Corporate campuses are consolidated—sometimes with significant and under-anticipated employee dislocation and headcount impact. Sales and field offices are also consolidated—typically based on the outcome of a fairly straightforward capacity and cost analysis.

Non-specialized manufacturing sites and distribution centers are frequently consolidated based on similar capacity and costs factors, but require more detailed analysis due to the greater costs associated with their abandonment and relocation. R&D and special purpose sites are often kept open in the hopes of retaining critical talent, preserving a company's core competency, or supporting the product roadmap alignment despite traditional cost-benefit outcomes that call for their closure. International consolidations require more care, since local regulations in international markets can significantly impact facility plans. For instance, in some countries, the planned consolidation of facilities exceeding pre-established distances apart must be handled as a workforce reduction, triggering severance regardless of an employer's intent to retain employees. Also, some countries disallow co-locations until after the legal entity merger in that country is complete. 'Gun-Jumping' the legal entity merger in certain countries can expose employers to significant penalties and fines.

Facilities Optimization Framework

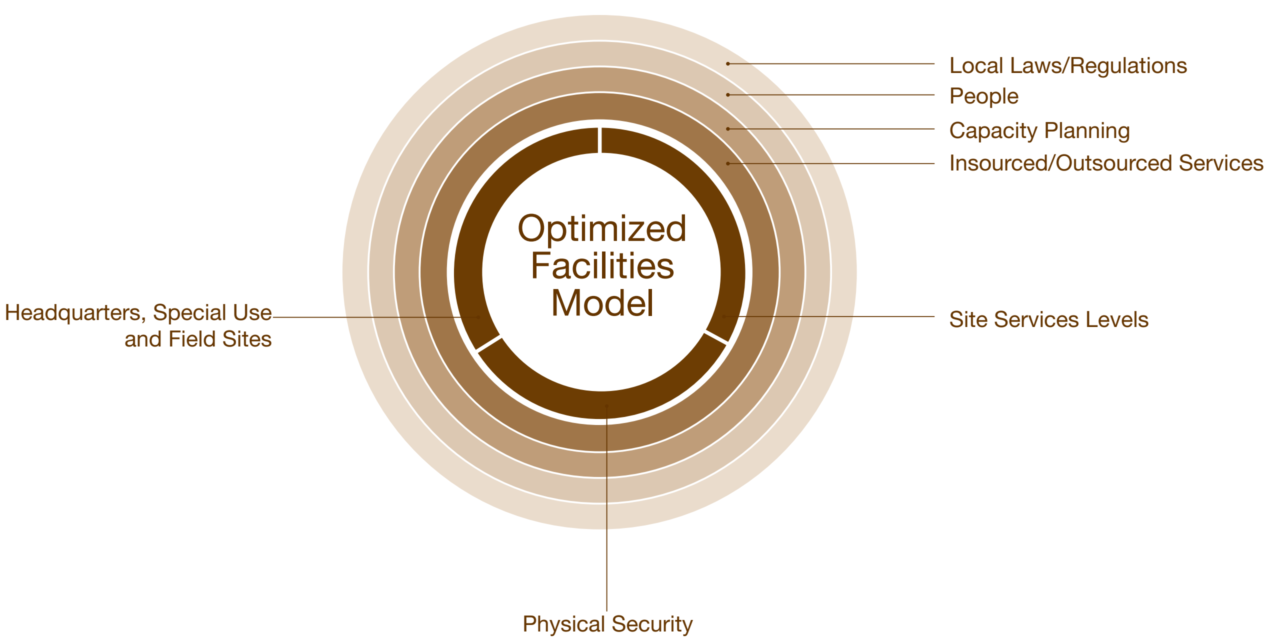


Figure 2—Factors considered early in the integration (during Set the Course and Plan for and Execute Day One) are key components of the Facilities Optimization Framework.

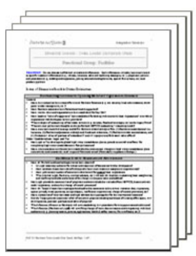
Our Approach for Delivering Facilities Integration Success

Our disciplined approach to facilities integration helps companies achieve early wins, build momentum, and instill confidence among their stakeholders. We take an active, hands-on approach to helping clients focus on the right things at the right times, creating early and sustainable capture of deal value. We deliver time-tested integration processes to support client integration teams and supplement those teams with experienced resources to fill resource and technical gaps as required. We customize our tools and services to complement each client's specific needs and internal capabilities.

Our Tools for Facilities Integration

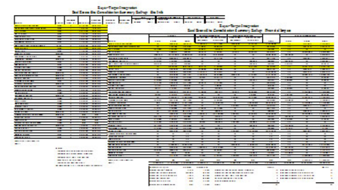
Team Lead Discussion Guide

Guide for functional team leader with questions that trigger thought to assist in rapidly defining integration scope.



Facilities Consolidation Model

Model that provides a snapshot of all facility activities by location, and an overview of all the consolidations, their timing, and the related financial and accounting impact.



Facilities Workplan

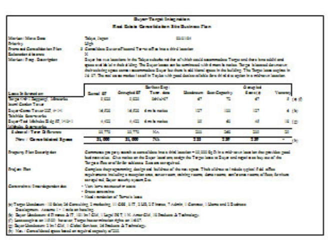
Model integration workplan used as a "starter" set of tasks to jump start the functional workplan development effort.

Facilities Value Drivers

Summary business cases for other critical activities required to achieve cost savings in the facilities function.

Site Consolidation Business Plan

Plan to enable rapid evaluation of property consolidation options by summarizing relevant property information in an executive summary format.



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