

Integration Management Office

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

Doing deals is risky. Study after study shows that most mergers and acquisitions fail to achieve their desired results. In a recent survey conducted by PricewaterhouseCoopers, only 44% of deals were considered to be a “financial success”, and even less, just 38%, were considered an “operational success”.¹

Yet failure to capture deal value is rarely attributed to a flawed strategy. Rather, failure is most often a result of not executing the strategy in a timely fashion. Converting integration strategy into detailed actions and managing these actions across the combining enterprise is critical for success. To succeed, a governance structure must be in place to align people, process and systems with integration objectives. This is the role of an Integration Management Office (IMO).

An IMO is the glue that holds an integration together. It is the nerve center of the effort. It serves as the central touch point for every function and individual involved, and it must be specifically designed to meet the needs of the deal it serves. An IMO staffed by experienced resources and a common timeline and methodology is necessary to ensure an integration stays on course and the people involved in the effort focus on the right things at the right times.

1 PricewaterhouseCoopers 2008 US Capturing Deal Value Survey

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. Figure 1 illustrates the approach PwC delivers in managing the integration as an enterprise-wide business process.

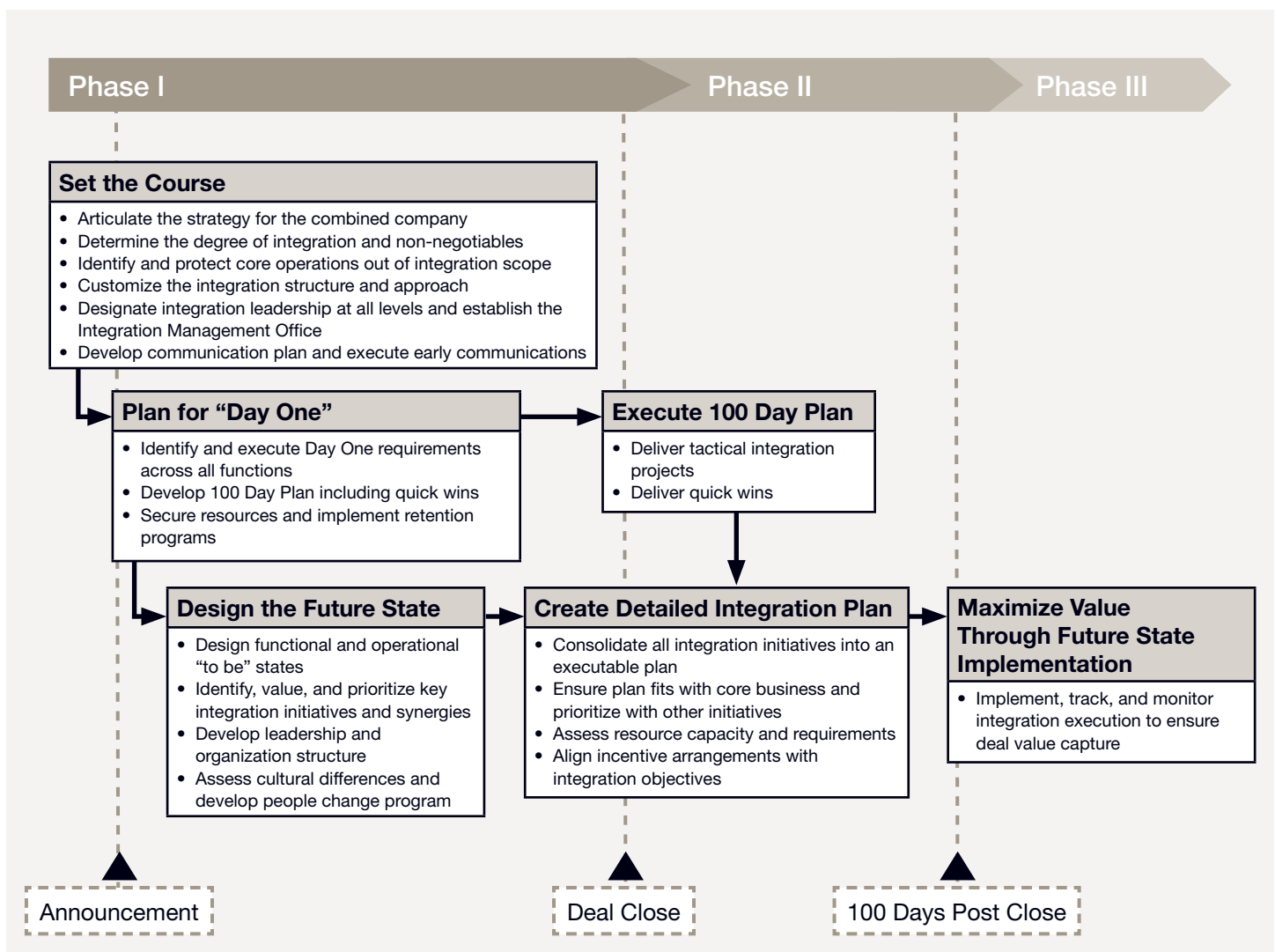


Figure 1—The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.

While a disciplined process is important for all large and mid-scale integrations, the process must be flexible enough to adapt to each transaction's unique facts and circumstances and evolving needs. The primary purpose of an IMO is to put in place the management structure, people, and processes that match the integration requirements in pursuit of capturing deal value. An IMO accomplishes this by:

- Defining the integration fundamentals, including the degree of integration and non-negotiables across functions and geographies
- Establishing a disciplined approach to coordinate the integration activities across the combining organizations
- Rolling out the integration methodology and tools, including status reporting and dependency and issue management
- Implementing a centralized value driver process, including methodology, tools, templates, and a tracking mechanism
- Identifying issues, decisions, and resource constraints, and escalating to management for resolution
- Launching key communications and the communication planning process

Integration Management is not just project management. While some elements of traditional project management are found within an IMO, an IMO is much more. All too often even the best senior management can underestimate the complexity and duration of an integration, particularly in large-scale cross-border transactions.

A common mistake is made by assuming that typical project managers have the experience to manage the exponential complexity of integration. Traditional project management often involves only one or a few workstreams and one or a few functions. Scope is also typically limited, as well as timeframe.

Integration Management, on the other hand, is much more pervasive. It normally involves all aspects of two organizations over a longer period of time, with a greater need for the integration organization to be flexible, adjusting to the needs and requirements over different phases of an integration. And the level of executive support and oversight required is often much higher given the strategic nature of a transaction. Failure to recognize and address these factors early is the first warning sign of integration failure.

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. Setting the course involves defining clear objectives and establishing clear leadership and role clarity throughout the transition.

Key areas for the IMO to Set the Course include:

Planning the Degree of Integration

Every organization is different, and every deal is different. So it is critically important for the IMO to assist in defining the degree of integration across functions and geographies and effectively communicate this information to the integration organization. This will serve as the initial set of guiding principles each business unit or function will use to develop and execute their detailed plans. Absent this guidance, people are more likely to focus on the actions easiest to accomplish and personally rewarding, as opposed to the actions most likely to drive shareholder value and capture sustainable returns.

The degree of integration often depends upon the type of transaction, similarity (or dissimilarity) of the businesses involved, synergy targets, potential for disruption to core operations, and control decisions, among others. For example, in an absorption type transaction commonly driven by industry consolidation, the degree of integration across functions and geographies tends to be high, with significant cost synergies expected. On the flip side, in a standalone type acquisition commonly found when the acquirer is expanding into a new product or market, the degree of integration tends to be lower, with more of a “nurture” or “investment” approach to the new addition. Please see Figure 2 for the types of transactions and the degrees of integration typically associated with them.

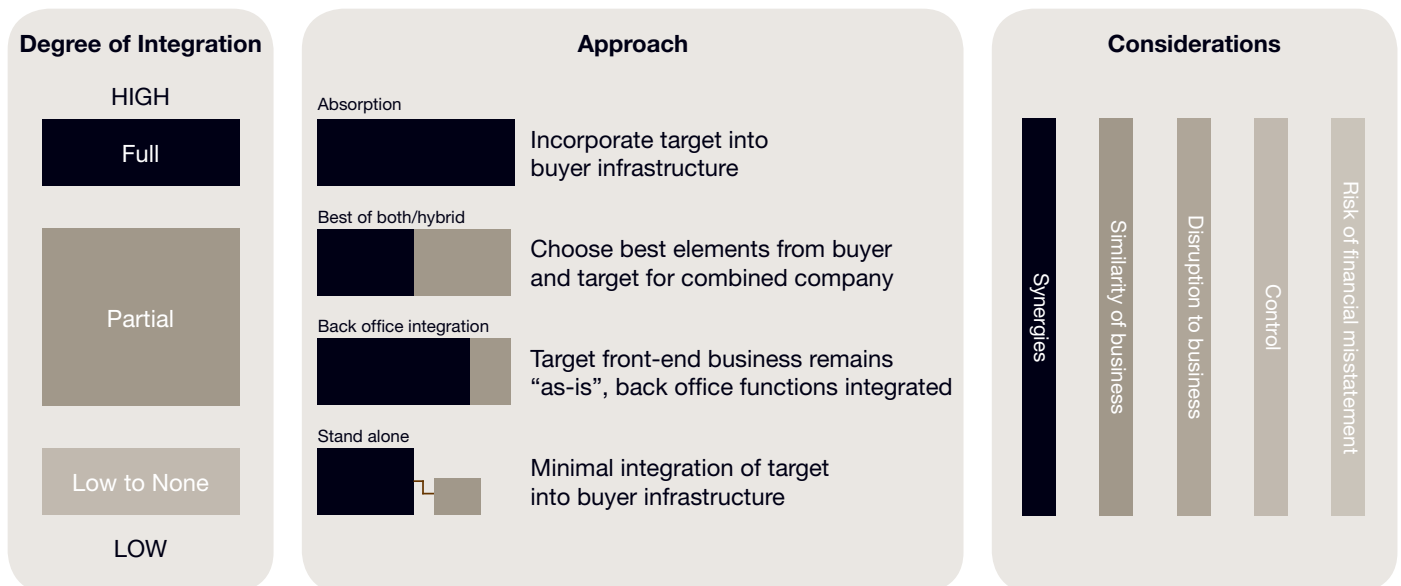


Figure 2—The IMO plans the degree of integration after evaluation of several key factors.

Establishing the Integration Organization

The integration organization is comprised of the larger cross-functional team responsible for executing the tactical integration action plans within each business unit or function. It is a team-based control structure that links integration strategy and leadership with task-level actions. The integration organization is best assembled once the overall integration strategy has been translated into guiding principles that define the desired degree of integration across functions and geographies.

A successful integration management structure must define clear responsibilities and reporting relationships. Teams of functional specialists are tasked with integrating core functional areas. They, in turn, report to an IMO—the team of individuals with responsibility for managing the overall integration. Finally, a steering committee of senior leaders provides oversight for the overall effort. Please see Figure 3.

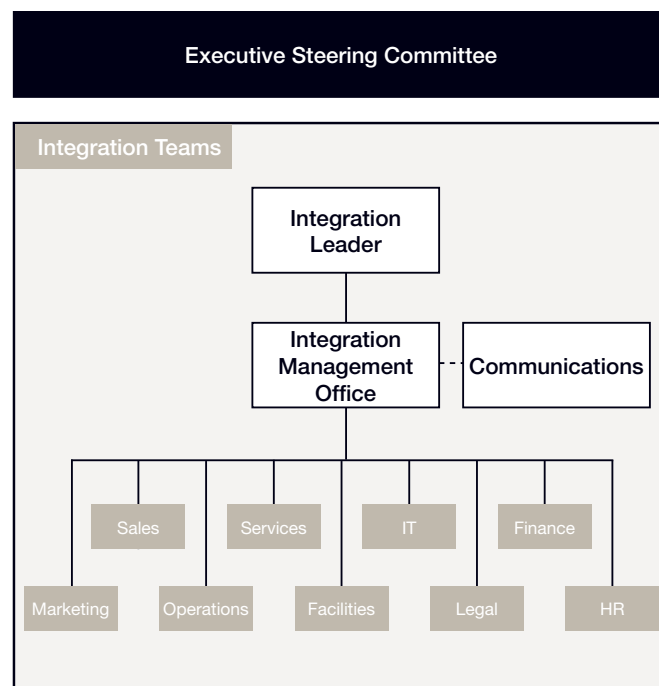


Figure 3—The IMO plays a central role in the overall integration organization.

The IMO is responsible for coordinating actions across workstreams, ensuring cross-functional dependencies are resolved, reporting to executive leadership, and monitoring resource needs. The IMO is also responsible for launching the communication process to set the tone with stakeholders. Key messages about the deal and the integration need to be defined and communicated early and often, both internally within the organization and externally.

Planning to Resource the Integration

Resource needs for integration are generally underestimated. The number of resources required and the associated time commitment to accomplish the multitude of tasks from deal announcement to 100 Days Post Close, and beyond, often catch management by surprise. Also, because deal integration is typically so complex—with many moving parts—it often demands prolonged commitments from an organization's best and-brightest and a greater involvement from senior managers than expected.

An IMO plays a central role in evaluating the level of resources required over the course of the integration effort. Of critical importance is the need to balance integration objectives and requirements with ensuring no disruption to ongoing business. The first matter to address is where resources will come from and what their role will be. Other considerations include staff availability and bandwidth, the degree and duration of their involvement, how to backfill the roles vacated by those serving on the integration team, and the transition of team members back into their former (or new) roles once their involvement is complete.

Plan For and Execute Day One

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

Key areas for the IMO to Plan for and Execute Day One include:

Launching the Integration

Ensuring an effective launch to the integration effort is the first step in planning for Day One. The IMO would typically invest a significant amount of time in planning a kickoff event—typically comprised of a series of meetings—to ensure it is executed flawlessly. After all, this event often sets the tone for the entire integration. Getting the integration launch right is critical since it is usually the first time a sizeable cross-section of people from both organizations will meet face to face. Often, the buyer company will hold a pre-launch meeting with its functional team leaders and key team members to prepare to engage with the target company.

Typically, an integration kickoff event would include:

- an executive level presentation on the deal rationale
- a general introduction to both companies, including products, geographic footprint, etc.
- a discussion of the guiding principles based upon the desired degree of integration
- a primer on the integration organization structure and resources
- an overview of the role and processes of the IMO
- functional break-out sessions that get teams working on defining integration activities, including key Day One action items

The integration launch should be an “output driven” meeting where the functional teams get focused on defining Day One, 100 Day, and longer-term activities, executive issues to be resolved and decisions to be made, cross-functional dependencies, and communication needs. Identifying potential “quick wins” for capturing immediate synergies is another important outcome. The point here is to leave the launch event with a defined set of objectives and activities by functional area, including tactical requirements for closing.

The use and exchange of information between the parties to a deal prior to close is often restricted by securities, antitrust or other regulation. These restrictions sometimes delay the work of functional teams, but most often only information related to things like pricing and customer agreements. Even with these limitations, a significant amount of integration planning can still take place. If necessary, the most sensitive information can often be sequestered through use of a “clean room” or “clean team”.

Developing the Workplans

The plans made and priorities set during the integration launch are key inputs to the workplan development process. Good, detailed workplans typically result in better integrations. But building comprehensive workplans takes time, and companies often overlook the importance of this activity. Failure to invest the time and resources necessary to build these plans is another warning sign of failure to capture deal value.

Each functional team should develop workplans that spell out the tasks, resources, due dates and cross-functional dependencies required to get the job done. These workplans are never static and should constantly evolve over the course of the integration as new details become known and milestones achieved. In the early stages prior to close, the

workplans should focus on the tasks most critical to Day One. This allows for timely identification of long-lead items well before they can turn into closing-day surprises.

The breadth of Day One needs will vary by transaction, though—generally speaking—there is often not enough information, time, or legal approval granted between deal announcement and close to make significant changes to “front-office”, customer facing, revenue generating activities. Progress in these areas are typically limited to ensuring good customer and sales force communications and review of the customer information made available.

Day One efforts tend to focus more on gaining control and mitigating risk within “back-office” functions (i.e. Finance, IT, HR, Legal, etc.).

An IMO should work with each functional team to ensure sufficient workplan detail, and then review each workplan to promote consistency and completeness. In reviewing the workplans, an IMO should also highlight dependencies and critical path prerequisites and assess resource gaps and requirements.

Rolling out Processes and Tools

During the early phases of integration, an effective IMO will introduce the broader integration organization to common processes, tools, and templates to ensure the integration is executed in a coordinated manner. The job of the IMO is not to perform the detailed work of the integration, but to coordinate its completion by the functional teams.

An effective IMO manages by exception. If the integration launch is a success and workplans are finely detailed, then the IMO can move to an “exception-based management” approach. An IMO can accomplish this through the use of several key processes, including regular status reporting and dependency management and tracking.

- **Status reporting.** A periodic reporting cadence is established with the functional teams using standard reporting templates designed to capture progress on key milestones, decisions to be made, issues to be resolved, and cross-functional dependencies to be managed. A typical reporting cadence is weekly through 100 Days Post Close and either monthly or bi-monthly thereafter.
- **Dependency management.** A dependency is a need by one functional area for action, information, or decision-making from another functional area. Generally, a dependency must be satisfied by one function before another function can move forward with an aspect of their integration effort. Managing dependencies across functions can be complex, confusing and time consuming. But the activity is similar to tightening the lug nuts after rotating the tires on your car—if you don’t do it, the wheels will come off. In a smaller transaction, the use of a simple dependency log may be all that is required. However, in larger scale and cross-border transactions, a more rigorous process and set of tracking mechanisms may be needed. In either case, the primary goal is to ensure dependencies are identified and then properly assigned to those tasked with resolving them in time to prevent integration delay.

Dependency tracking can provide critical insights into integration complexity over time, and “hot spots” requiring management involvement. For example, tracking the volume of dependencies identified and open at a particular time is a good indicator of integration complexity. Please see Figure 4.

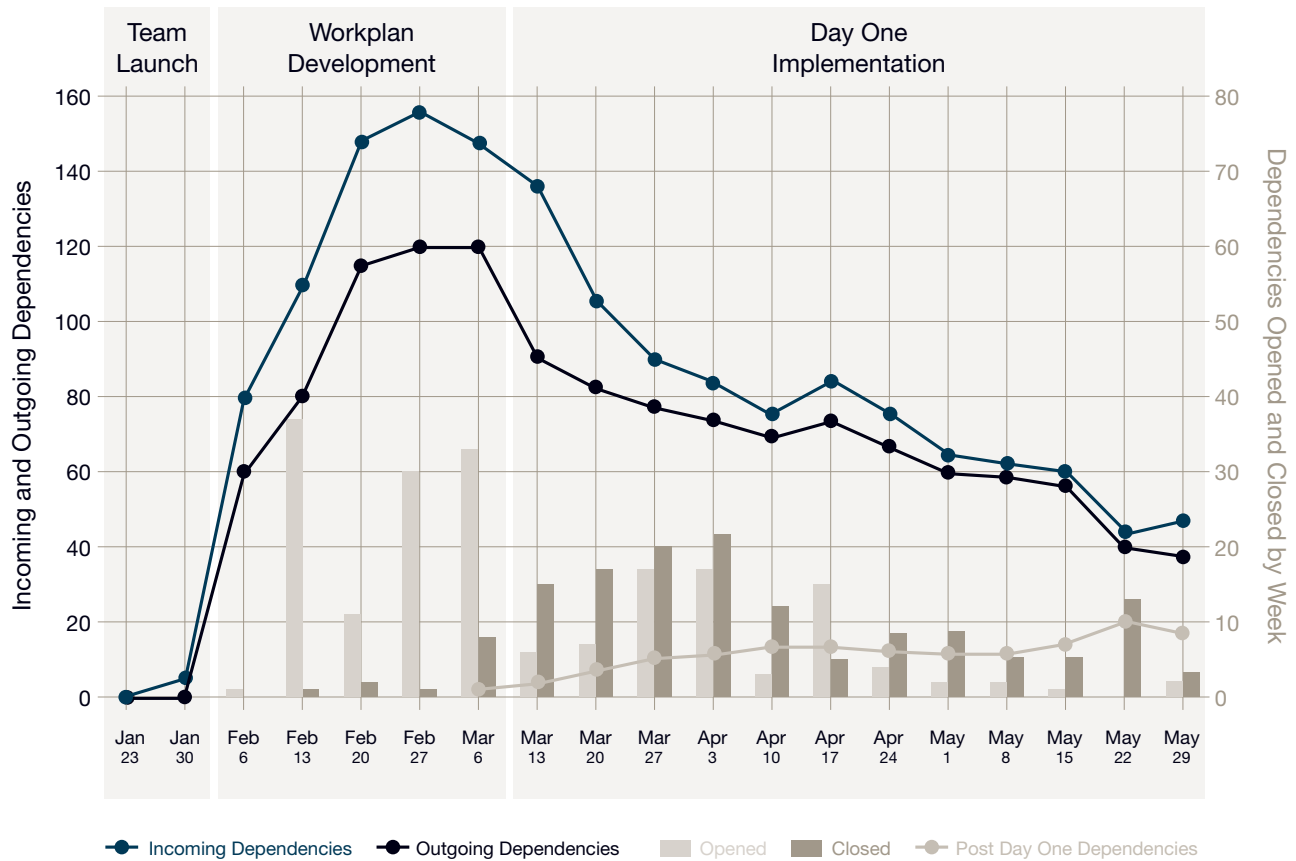


Figure 4—Proactively managing dependencies is critical to understanding and reducing integration complexity.

Another indicator of integration complexity can be found by tracking dependency “clusters”. These result when a high number of multi-functional dependencies are concentrated on management decisions required, or key activities to occur in a common area such as people selection, legal entity structure, systems migration, and branding changes. These often require the initiation of a centralized multi-functional task force to choreograph the timing and steps that each function will need to take to accomplish the overall objective.

Design and Maximize Future State Operations

When it comes to delivering an effective integration and realizing sustainable long-term synergies, the period before deal announcement through Day One is just the beginning. After that period, which can be as short as a few weeks, operational and cultural integration begin in earnest as the significant components of the combined organizations are integrated.

Key areas of focus for the IMO during this phase include:

Value Driver Realization and Synergy Tracking

At the end of the day, the street will reward or punish you depending on how well you were able to accomplish stated deal objectives. Given this, it is of paramount importance to sustain focus on initiatives that drive value.

An IMO can be instrumental in launching a Value Driver program, particularly once the Day One workplan building process is complete and tactical implementation is underway. An IMO can initiate a process that includes identifying, prioritizing, and executing on key value driver and synergy initiatives. This includes both revenue generating synergies, such as bundling buyer and target company products and cross-selling into new channels and geographies, and cost reduction synergies, such as eliminating redundant facilities, systems, processes and people.

It is not possible, however, to seize every synergy in a merger or acquisition. Though for most companies in transition nearly everything becomes a priority—the head of each functional area, business unit, or special project focuses primarily on the needs of its own organization. Resource work-load limitations, however, demand that integration efforts be prioritized, and an IMO is the management body best positioned to ensure that shareholder value will drive the allocation of resources for meeting these priorities. Please see Figure 5.

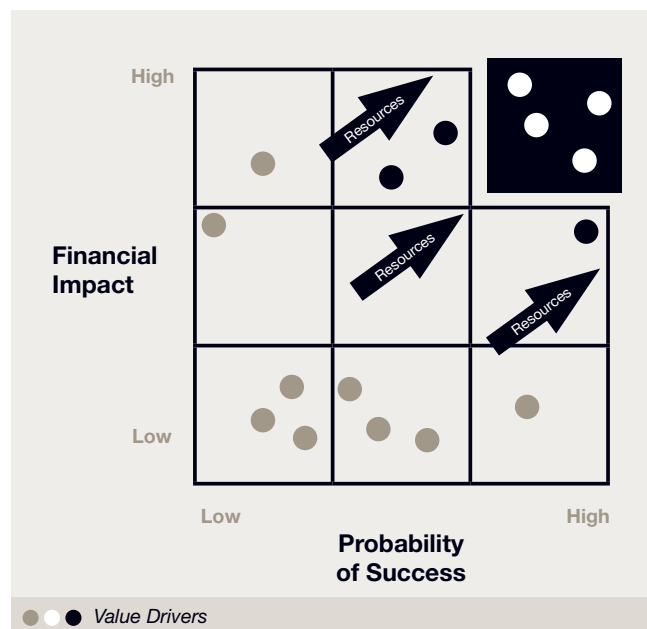


Figure 5—Identifying, prioritizing, and developing plans to implement value driving initiatives is an important function of an IMO. Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and probability of success receive resource priority.

As the integration progresses and synergies are realized, it is imperative that company executives have the ability to communicate effectively and with confidence on what has been achieved. The IMO, often working with either the Corporate Development department or the FP&A group within the Finance department, should design and rollout a centralized process and set of tools for monitoring, tracking, and reporting synergies. This will help ensure the combined company stays on task in delivering measurable results.

Business Process and Systems Integration (BPSI)

Integrating systems and business processes that surround them can be quite complex and fraught with risk. Often, this activity is at the heart and soul of integration success or failure (particularly in large-scale and cross-border transactions). Whether to support revenue-generating synergies or to drive cost-reduction synergies, integrating multiple disparate applications and their surrounding financial and business processes is a critical path prerequisite. And it is here where companies so often falter. Once again, developing comprehensive workplans takes time, and companies often overlook the importance of this step. Failure to invest the resources and time necessary to build these plans nearly always limits an organizations ability to capture the desired synergies.

An IMO can play a critical role in launching BPSI activities by working with primary functional teams (generally Finance and IT) to drive the business requirements gathering process from the relevant functional teams. Often times the requirements begin as outputs from the IMO dependency management process. In large-scale integrations, the IMO can sometimes be converted into a BPSI team at some point following 100 Days Post Close to centrally manage the requirements definition and prioritization essential to longer-term cross-functional BPSI initiatives.

People and Change Management

When combining two of anything—let alone two things as dynamic and complex as living, breathing companies—you first need to agree on a shared purpose, set common goals, and learn how to work as one to achieve results. But none of this is possible without ensuring that the people in both organizations are effectively engaged, can understand one another, and operate efficiently in an environment with clarity and purpose.

An IMO can play a critical role in helping to formulate and launch an overall change management effort. An IMO can work with Human Resource specialists in assessing and addressing core differences in cultural and behavioral dimensions of the two organizations. Executive input is also sought to determine the desired behaviors of the new organizations. An IMO can help coordinate communication specialists as they attempt to design effective communication programs to foster needed changes.

Our Approach for Delivering Integration Success

At PwC, our disciplined approach to 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.

Over the years, PwC has developed a winning approach to launching and managing enterprise-wide integrations, and the integration management offices that lead them. Our solution includes a proven integration methodology and an expansive set of processes, tools, templates, and guides to support the overall integration.

Through a centralized IMO staffed with experienced PwC integration management professionals, we are able to uniformly roll out our methodology, or adapt to yours, and facilitate the overall integration process across the combined organization.

Our Processes, Tools, and Templates for the Integration Management Office

Integration Fundamentals	Summary document containing the key elements for integration planning, including overall integration blueprint, degree of integration and non-negotiables, integration organization structure and approach, and communications planning
Integration Launch	Sample presentation containing the key elements to be covered during the general session of the integration launch meeting
Team Lead Discussion Guides	Guides to assist in defining integration scope for each functional team during the functional breakout sessions of the integration launch meeting
Team Lead Report Back Templates	Templates and model content for initial integration initiatives, dependencies, decisions, issues, and communication requirements for each functional team leader
Integration Workplans	Model integration workplans for each function for use in jump starting functional workplan development
Dependency Management Process	Proprietary process for identifying, managing, and tracking dependencies across functions
Critical Dependencies	Sample common dependencies for each functional area
Decisions, Issues, and Risk Registers	Logs used to document and communicate key integration risks, issues, and decisions required
Team Status Reporting	Templates and sample content for use in periodic team status reporting
Executive Reporting	Templates and sample content for use in periodic executive reporting
Value Driver Analysis Process	Proprietary process for identifying, prioritizing, and executing key value driving initiatives
Value Driver Business Cases	Model business cases, by functional area, outlining common efforts required to achieve revenue generating and cost reducing synergies
Synergy Tracker Module	Proprietary tool for use in tracking synergy performance

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