M&A Integration

A compendium of point of view papers

January 2019
Dear Reader,

Research shows that most mergers and acquisitions fail to meet the expectations set for them. Despite the best intentions, deals often fall short when the time comes to begin translating carefully developed strategy into the right mix of people, process, and technology.

However, smart buyers can take steps to improve their odds. Perhaps the most important is to ensure a fast-paced integration that makes early use of disciplined and prioritized planning, a relentless focus on the key value drivers behind the deal, and commitment to integration completion over the long term.

At PwC, this is precisely the approach we take to M&A Integration.

This Compendium is a collection of execution-oriented thought leadership pieces authored by PwC M&A Integration practitioners across a broad range of M&A Integration topics. At PwC, excellence in execution is the focus of our M&A Integration services. So it should be no surprise that each of these papers focuses on the practical considerations that make deal execution successful, and the tactical steps organizations should take to get there.

The first paper, Seven fundamental tenets of successful integration, provides an executive view of critical areas to address during M&A Integration. The next three, Capturing synergies to deliver deal value, Integration planning during due diligence, and Integration Management Office, discuss important topics relevant to the overall success of an integration effort. The fifth paper, Change Management in M&A Integration, describes the seven critical drivers for an effective change management program. The remaining documents relate to integration issues specific to particular people or functions, such as Communications, Sales, Supply Chain, R&D, Finance, IT, and HR, among others.

We hope you find this collection helpful to your integration effort and look forward to speaking with you about how PwC can help.

Best regards,

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Seven fundamental tenets of successful integration

By Gregg Nahass

January 2017

At a glance

Despite the best intentions, acquisitions too often fall short of meeting stated expectations.

A disciplined approach to integration will improve success and keep value drivers behind the deal in focus.

Companies that follow a disciplined integration approach will build momentum, gain support, and instill confidence in stakeholders.
Introduction

Delivering deal value is far from a mystery, even in today’s dynamic deal environment. The most experienced dealmakers say they know what to do—and are reporting success. But that success is getting harder to come by.

Research has shown that too many acquisitions fall short of expectations.¹ Despite the best intentions, carefully developed strategy often does not translate into the right mix of people, process, and technology for integration.

There’s no mystery to delivering deal value and achieving integration success. Companies have conceded the road to value is clear and navigable. The bottom line when it comes to deal success: you do the right activities—in the right ways—and you get the right results.

Acquirers can take specific steps to improve their odds for successful navigation of the integration process. While the path can be clear, the way you get there is the difference in achieving success. Critical factors include working toward a fast-paced integration that makes early use of disciplined and prioritized planning, keeping a relentless focus on the key value drivers behind the deal, and sustaining commitment to integration completion over the long term.

The seven tenets laid out in this paper provide a successful framework for integration that has been tried and proven time and again, and allows managers to focus their effort on sound execution.

¹PwC’s 2017 M&A Integration Survey Report
The seven fundamental tenets of successful integration

Capturing sustained economic value in an acquisition is one of the most significant challenges for today’s growth-minded companies. The adherence to seven fundamental tenets will help lead to successful integration.

1. **Accelerate the transition®**
   There is no value in delay. It is critical to focus on obtaining bottom-line results as quickly as possible to maximize shareholder value. While prolonged transitions slow growth, reduce profits, destroy morale and productivity, and lead to missed opportunities and loss of market share, accelerated transitions result in more rapid return on deal investment, better capitalization on post-deal opportunities, and lower levels of organizational uncertainty. Take early action to launch fast paced integration activities.

2. **Define the integration strategy**
   Integration is a highly tactical effort. But the tactics must be implemented in ways that capture and protect the value of the deal. Rapidly converting acquisition strategy into integration strategy is of paramount importance. Developing and documenting an integration roadmap and set of guiding principles to be used in pinpointing and executing a clear integration strategy is a critical first step. This includes a target operating model that identifies what is in and what is out of scope, and planning for the degree of integration across functions and geographies.

3. **Focus on priority initiatives**
   Resource workload limitations demand that integration efforts be prioritized. And shareholder value must drive the allocation of resources for meeting those priorities. First, potential sources of value capture and value creation must be chosen. Then resources get allocated based on potential financial impact, probability of success, and timeline requirements. Figure 1 illustrates how initiatives can be ranked and prioritized.

![Diagram](image-url)

**Figure 1.** Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.
4. Prepare for Day One
Critical Day One tasks need to be determined early, before longer-term, more detailed planning commences. This allows for prompt identification of long lead-time items, well before they can turn into closing day surprises. A detailed plan should then be created, including all actions that will be put in place on Day One. Planning for Day One should begin in conjunction with the due diligence process.

5. Communicate with all stakeholders
Communicate early and often with all stakeholders, including customers, employees, investors, suppliers/vendors, and the general public — providing information directed to their special concerns yet consistent in overall theme and tone. Communications should give the reasons behind the deal, specify the timing for key actions, and be candid about both what is known and what is unknown. Feedback mechanisms should be included so the dialogue can be two-way.

6. Establish leadership at all levels
Early and swift selection of key management posts for the transition is critical to minimize uncertainty, assign accountability, define functional authority, and clarify roles. Companies need to quickly define their go-forward organization structure and clarify management roles and interrelationships.

In addition, during the initial phases of integration, a team-based control structure should be established to link integration strategy and leadership with task-level action and to coordinate issue, action, and dependency management across the organization. A successful integration management structure must clearly define responsibilities and reporting relationships. Teams of functional specialists should be tasked with integrating core functional areas. They in turn report to a team with overall responsibility for managing the integration. The structure also includes cross-functional workstream to effectively manage dependencies across functional teams. Finally, a steering committee of senior leaders provides oversight for the overall effort. Figure 2 illustrates what an integration structure may look like.

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**Figure 2.** A team of specialists responsible for integrating core functional areas reports to individuals responsible for the overall integration. Cross-functional workstreams area established to manage dependencies across functional teams. This structure ensures that tactics are closely aligned and dependencies are coordinated to directly support strategy.
7. Manage the integration as a business process
Mergers and acquisitions rarely fail due to a flawed strategy. Rather, missing targets and deal objectives are often a result of untimely execution of the strategy. Successful integration must happen quickly and systematically. The period of time between deal announcement and deal close and the first 100 days post-close are absolutely critical to realizing quick wins and preparing the combined company to maximize value over the long term. Figure 3 illustrates the integration process.

**Figure 3.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
Companies that do not follow a disciplined approach to integration usually are not as successful with their deals as those that do. A disciplined approach to integration helps achieve early wins, build momentum, and instill confidence among stakeholders.

An integration roadmap can be helpful in pinpointing and executing a clear integration strategy before a deal is final. Adherence to the seven fundamental tenets can guide companies along the path to a successful integration and allow managers to focus their efforts on sound execution.
Capturing synergies to deliver deal value

By Gregg Nahass and Derek Townsend

February 2017

At a glance

Value realized from an acquisition depends on how well the newly combined company identifies, manages, and executes on synergy opportunities.

Successful integrations follow a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum.

This Value Driver Lifecycle helps executives capture synergies and confidently communicate performance to their stakeholders.
Introduction

The ultimate goal of any merger or acquisition is to create shareholder value. But in the rush of activity before, during, and after a transaction, it’s common for companies to become distracted and lose sight of this goal.

Unfortunately, too many acquisitions fall short of the expectations set for them. Even the most carefully developed synergy models built during the transaction’s due diligence phase will often not translate into delivery of value during the integration.

The value realized in an acquisition depends in large part on how well the newly combined company identifies, manages, and executes on value creation and value capture opportunities.

Buyers can take specific steps to more successfully navigate the value capture process by following a well defined, disciplined, and transparent approach to creating value and tracking synergies. Critical to success is an approach that both shortens the time required to capture value and increases the overall size of the value actually realized.

This paper introduces the Value Driver Lifecycle which lays out key steps to delivering deal value. This framework has proved successful for many deal executives, helping them capture synergies and confidently communicate performance to their stakeholders.

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1PwC’s 2017 M&A Integration Survey Report
The value driver lifecycle

Rapidly launching integration efforts to capture deal value across the integration continuum, from initial synergy analysis during pre-announcement due diligence to tracking synergy achievements long after the deal closes, is a critical success factor. Figure 1 illustrates the Value Driver Lifecycle which follows a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum. It emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies.

**Figure 1.** The PwC Value Driver Lifecycle follows a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum.
Step 1: Synergy analysis

An initial synergy analysis is generally performed as part of the financial modeling that accompanies most acquisitions during the early stages of target company assessment, long before the deal is announced. Initial synergy analysis is often based on limited publicly available information and a set of very early performance assumptions. The analysis is typically prepared with assistance from either the deal’s investment bankers or strategy consultants.

As the deal gets closer to becoming a reality and as additional information is gathered as part of the due diligence process—either from public sources or provided by the target company—assumptions get refined and the synergy analysis continues to evolve. The acquirer’s executives typically begin to take ownership of the model at this stage, very often with continued support from financial consultants. The model remains a best-efforts document at this point because it is still based in large part on assumptions due to incomplete or insufficient information and limited access to target company personnel. The model is still just that—a model. It is not yet a planning document strong enough for action.

The synergies identified in the model are typically categorized into three common areas: revenue and market growth, cost reduction and efficiency leverage, and capital optimization.

Revenue and market growth. The deal strategy may anticipate synergies from entering into new markets, expanding to new geographies, or accessing new distribution channels. Other synergies may be realized by leveraging an expanded sales force to reach new customers. Still more could result from product innovation by combining each company’s research and development efforts and using existing production platforms to deliver new products or services.

Cost reduction and efficiency leverage. Typically, opportunities for cost reduction can be found in the income statement, particularly in back-office functional areas like procurement, payroll, finance, human resources, and information technology. These synergies can result from permanent reductions in departmental operating costs (e.g. headcount reductions), better management of combined spend (e.g. policy alignment), or increased productivity from consolidated operations (e.g. economies of scale, better use of technology), among others.

Capital optimization. A company’s balance sheet may also be a source of synergy opportunities. For example, “hard” assets like property, plant, and equipment can be rationalized through combination or closure. “Soft” asset synergies may be realized through better management of working capital, cost of capital, accounts receivable (e.g. collection periods, accounts receivable turnover), and optimizing debt-to-equity levels.
Step 2: Value driver analysis

For the acquiring company, deal announcement often coincides with greater access to target company personnel and the disclosure of information that was previously unavailable. Announcement also marks the point at which the acquirer should begin to take its synergy analysis to a new level of detail and action.

This next phase can be described as the Value Driver Analysis process. Value drivers are distinct initiatives for which individual business cases can be built and implemented to deliver quantifiable results.

A typical revenue generating value driver might involve cross-selling one company’s product or service into the other company’s established customer base within a particular business unit or geography. A typical cost saving value driver may involve consolidating two facilities within the same city, or leveraging the new organization’s combined purchasing power to renegotiate a vendor contract. Whatever the initiative, it must be focused and concrete enough to support a business case sufficient to produce real, quantifiable results.

Once all the sources of value are identified, it is critically important to prioritize the value drivers and set the stage for execution. Experience shows that it is just not possible to realize every synergy in a merger or acquisition. There are simply too many competing priorities, with too little time and too few resources available to execute everything possible. The key is to focus on those value drivers that promise to deliver the most shareholder value—in short, the 20% of actions that deliver 80% of the economic value. These are the initiatives best aligned with the strategic rationale, present the highest probability of success over the desired time line, and that can be accurately quantified and tracked. Figure 2 illustrates how initiatives can be ranked and prioritized.

A company should plan its value driver priorities around those actions that fall into—or closest to—the upper right hand quadrant—those activities with the highest financial impact that have the greatest probability of success.

Figure 2. Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.
The success of each value driver often requires implementation of many tasks across functions and geographies. Once a company has identified and prioritized its value drivers, the next step is to develop business cases for each initiative based on the initiative’s purpose, benefits, and qualitative and quantitative attributes. From there, detailed project plans are developed to execute the value drivers.

**Developing business cases.** The starting point for value driver business case development is the high-level synergy targets that were based on financial analysis performed at the corporate level. This is essentially a “top-down” set of synergy targets often allocated by corporate to each functional area.

Building value driver business cases, however, is a “bottom-up” approach to value driver planning and execution. It breaks down the synergies into their component parts, significantly expands on the financial analysis, and includes a detailed set of supporting, operations-related information that communicates specifically how each discrete value driver will be accomplished. The supporting qualitative information included in the business case becomes the basis for developing detailed project plans for execution. The quantitative information in the business case becomes the basis for metrics performance tracking.

**Developing project plans.** The qualitative information included in the value driver business cases serve as the starting point for value driver project plans. Each project plan must sufficiently detail task-level activity for each value driver. Task-level detail should include the resource assigned, date required for completion, critical-path prerequisites, and dependencies on other tasks or functions.

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**What makes up a value driver business case?**

The components of a value driver business case are:

A *qualitative* description of the core elements of a value, including:

- Detailed description
- Key action steps
- Operating assumptions and interdependencies
- Impediments and risks
- Functional departments impacted

A *quantitative* assessment of the value driver’s financial benefits, including:

- Financial analysis and impact
- Measurement metrics
- Timeframe
Step 3: Value driver execution and synergy tracking

If project plans are developed with sufficient detail, then value driver execution can be all about allocating people with the necessary skills to deliver against tasks in accordance with the timelines established. Since most value drivers are cross-functional, a program management framework should be set up to coordinate dependencies, resolve issues, and monitor and track progress. In addition, senior management should take a visible role in championing these goals to help promote consensus, commitment, and accountability. The table below summarizes the key success factors in value driver execution.

Key success factors in value driver execution

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<th>Value focus</th>
<th>Clear vision and strong leadership</th>
<th>Attention to stakeholders</th>
<th>Detailed planning</th>
<th>Disciplined program management</th>
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<td>Resources focused on priority initiatives that drive shareholder value</td>
<td>Strategy that is actionable, measurable, and communicated effectively</td>
<td>Top priority given to customer facing processes</td>
<td>Creation of detailed plans to drive task ownership and execution</td>
<td>Coordinating dependencies across the organization</td>
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<td>Measurable synergy targets, including growth, efficiency, and capital</td>
<td>Commitment and active involvement of leadership</td>
<td>Early organizational realignment and training with a focus on retaining critical talent</td>
<td>Involvement of people with the expertise to implement</td>
<td>Early identification and resolution of issues and risks</td>
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<td>Clear ownership and accountability for targets fostering a performance culture</td>
<td>Dedicated resources with the bandwidth to execute</td>
<td>Frequent two-way communication</td>
<td>Balancing synergy capture with ongoing operations</td>
<td>Ongoing tracking and reporting of value captured</td>
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The market will reward or punish shareholders of the combined company depending on how well company management succeeds at achieving stated deal objectives. So it is imperative that synergies get realized, deal value captured, and the resulting performance communicated to all those with a stake in the outcome.

To communicate effectively, the company must adequately track progress against synergy goals. If there is no tracking, there can be no reporting. It’s as simple (and as complex) as that. Like the old adage says: If it doesn’t get measured, it won’t get managed.

Keeping track of synergy progress over the course of an integration helps keep employees focused on the right activities at the right times. While responsibility for delivering certain synergies may rest with specific business units and functions, a centralized process and set of tools for monitoring, tracking, and reporting synergies is essential to keep the combined company on task and delivering measurable results.

The basis for metrics performance tracking is developed in the value driver business cases. The information found there is used to set milestones and gauge progress over the course of the effort. Since company financial systems are often insufficient for this purpose, a separate tracking tool is usually needed. In a smaller transaction, a simple tracking tool (such as Excel) may be all that is required. In a larger transaction with large synergies and significant shareholder value at stake, a more rigorous process and set of tracking mechanisms may be needed.

Creating value as a result of an acquisition is just the start of an ongoing quest for value. Not only should every identified value driver and its related initiatives mesh with the company’s overall business strategy, companies must remain vigilant to ensure that future actions and activities do not erode or cannibalize hard-won value.
Companies who follow a disciplined approach to delivering synergies are usually more successful with their deals than those who don’t. A disciplined approach to capturing deal value helps achieve early wins, builds momentum, and instills confidence among stakeholders.

Adherence to the steps in the PwC Value Driver Lifecycle can be helpful in pinpointing and executing on clearly defined value driver initiatives, and guide executives along the path to a successful integration.
Integration planning during due diligence

By Gregg Nahass and Mike Pokorski

March 2018

At a glance
Research shows that early integration planning can increase M&A success.

Integration planning during due diligence should include assessing potential synergies, identifying integration costs, and leveraging operational knowledge to more accurately determine integration timelines.
Study after study has shown that executing an M&A deal is risky and success remains a challenge.¹ But doing deals is often necessary to drive corporate growth. Companies in search of new markets, channels, products, and operations that acquire outside of their core may face even greater challenges, and M&A has become riskier than ever with the increasing pace of technology changes and industry disruption.

The due diligence process was historically designed to focus on identifying risk, and either mitigating, negotiating, or abandoning a potential transaction. However, our surveys show a significant shift during the due diligence process, from a primary focus on assessing risk, to the addition of early and meaningful identification of post-deal value creation opportunities, including the early development of an integration plan.¹

Further, our surveys also show that early integration planning can increase M&A success, and that companies are getting integration teams involved earlier in the deal process. These factors have resulted in companies better realizing and accelerating value realization after a deal is closed.

This paper outlines the integration planning process with a focus on the underlying integration planning activities to perform during due diligence, and highlights the importance of committing resources and capital earlier in the deal process to jumpstart integration planning.

There is no value in delay. An effective integration planning process needs to take early action and launch fast-paced integration activities. By getting involved earlier, integration teams can help to accomplish much more than just confirmatory diligence.

In addition to assessing risk and looking for "deal killers", integration teams should be included during due diligence to assist in assessing potential synergies, identifying integration costs, and leveraging operational knowledge to more accurately determine integration timelines. This will better inform purchase price evaluation, help to jumpstart the integration planning process, and capture key insights for a better transition to integration execution.

Figure 1 illustrates the integration process, including integration planning activities during the due diligence phase (Pre-Deal).

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
Assess synergies, costs, and risks

Pre-deal integration planning requires much of the same information reviewed by the due diligence team. Confirming the findings from due diligence will help focus attention on the factors in the business that impact the valuation and will be critical to the combined company’s future success. Key focus areas of due diligence typically include validating the target’s baseline operations and financials, identifying and quantifying synergies and dis-synergies, estimating integration costs, and investigating risks and issues impacting deal value.

Effective acquirers typically sequence the work to focus the initial round of due diligence on financial and operational matters to confirm no “show stoppers” and provide insight to initial value considerations. Once complete, the working team is expanded to then focus on value creation opportunities, including synergy considerations that could have significant input into purchase price considerations and an opportunity to jumpstart integration planning. This working team should include leaders who will carry on as integration leaders, post-announcement. Recommended activities during this phase include the following.

**Assess target operations, systems, and supporting processes** – Understand the fundamentals of the target company’s operations, confirm the deal thesis, and validate the baseline financials and earnings. Specific focus areas of pre-deal planning may include Quality of Earnings, Commercial Operations, Information Technology, Human Resources, Tax, and other areas with material impacts. Integration teams can develop an initial point of view on the combined company operations.

**Assess acquired talent** – Evaluate the company’s leadership team by reviewing skillsets, credentials, tenure, and experience to support the organization as the company continues to grow. This is also an opportunity to identify potential leadership to drive key integration work and key retention requirements to minimize business disruption. Quickly defining the organization structure and key management posts for transition is critical to minimizing uncertainty, assigning accountability, defining functional authority, and clarifying roles.

**Identify and quantify costs and synergies** – As each functional team performs its assessment, key integration drivers, including one-time costs and synergies should be identified and quantified. If needed, a clean room structure can be established to accelerate the review of sensitive data to identify and confirm synergy hypotheses and to design revenue and cost synergy value capture plans.

**Identify risks and opportunities** – Pre-deal integration teams should also capture qualitative information about a target’s operations, including risk to existing business operations, risk to the company’s growth projections, and risk to a successful integration or capture of synergies. Not all opportunities will directly impact the top or bottom line, but should be documented for further review at a later time by the integration team.

**Identify valuation opportunities to improve the purchase price** – As the pre-deal integration team completes its review of the target, all findings should be assessed to determine any impact on the valuation. Potential risks and costs may reduce the valuation, while potential opportunities and synergies may increase the valuation.

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**Clean Teams**

The Hart-Scott-Rodino (HSR) Act prohibits an acquiring company from exercising “substantial operational control” of the target company prior to expiration of the statutory waiting period. But a third-party advisor can act as a “clean team” and support a “clean room” exercise to evaluate synergy opportunities and sensitive business data in detail and prepare outputs to be reviewed by Management at the appropriate time.

If synergies are a major part of the deal’s strategic rationale, then the integration team may opt to partner with a “clean team” to accelerate synergy review and business case development, ultimately leading to quicker wins.
Executives are commonly concerned with wasting resource time and money to plan integration for a deal that is not yet consummated. This may be a valid concern and one the Deal team should assess before launching integration review activity. If a high likelihood exists that a deal will be executed, early integration planning can deliver value far outweighing the risk of an abandoned deal.

Critical information for integration planning comes from due diligence findings and recommendations. A smooth transition of knowledge from the due diligence team to the integration team can maintain the company’s momentum, Accelerate the Transition®, and materially increase the odds, and speed, of capturing deal value. Not to mention leveraging valuable time to jumpstart integration planning activities pre-close. The transition from due diligence to integration includes the following activities.

Engage resources to lead integration activities – By focusing on the 20% of activities that will drive 80% of the value, teams can identify which integration leads to involve at this stage in the deal process based on the most strategic or impacted functional areas.

- Identify priority functions and identify integration team members
- Provide access to information repositories and key diligence outputs
- Dedicate time to onboard integration team members and share key insights
- Facilitate discovery sessions between the integration team and counterparts at the target

Leverage due diligence findings – Although the primary purpose of due diligence has historically been to identify risks and inform the valuation, due diligence findings can be leveraged to accelerate the onboarding of additional integration team members. As focus shifts from deal valuation to integration planning, integration teams can leverage the due diligence report and target contacts as key sources of information.

- Inventory all available working documents and final assessments
- Identify key target contacts across each functional area
- Share and validate findings and identify priority areas of focus - 20% of the work that drives 80% of the value

Formulate an initial integration vision – Leverage working documents and assessments to formulate initial vision statements across the enterprise. Assess culture, communications, organization structure, and other change management requirements.

- Define the integration strategy and target operating model
- Assess change management requirements and define critical communication needs
- Assess culture compatibility and potential challenges requiring resolution
- Define the organization structure and identify leaders to engage and/or retain

Deploy a structure to govern the integration process – Early implementation of an integration structure and governance process provides time to vet and refine the integration process and toolset before the most complex and chaotic phase of the deal (i.e., Deal Signing to Day 30). This integration structure will eventually transition into the Integration Management Office.²

- Establish a governance structure to facilitate progress tracking and issue escalation
- Establish a process to monitor progress, elevate issues for resolution, and prepare and deliver summaries for executives
- Define the integration scorecard and key performance indicators (KPIs) to monitor
- Install key leadership and expand the team as the planning work develops during the sign to close phase

² PwC’s Integration Management Office: Achieving effective integration across the enterprise
Deal Teams: Diligence Teams versus Integration Teams

The diligence team coordinates the due diligence process and serves as the single point of contact for every function and individual involved during the pre-deal phase. From screening potential acquisition targets, to facilitating the discovery process and preparing a final report-out and recommendation, the diligence team leads the diligence program, coordinates stakeholders, manages progress, and reports status to the Investment Committee and Board of Directors on each diligence effort. Typically, diligence teams are involved in a high number of opportunity reviews while only a fraction of deals are ultimately closed. This team typically is concentrated with members of executive leadership, Business Development, and Finance/Accounting.

The integration team is comprised of functional team leads and is assembled as preliminary diligence gets underway. Initially, a subset of functional teams support due diligence efforts, as needed, to evaluate a target’s operations, identify opportunities and risks, and estimate the integration impact. Integration teams must then shift to conducting a more strategic assessment to develop an integration strategy, determine the degree of integration across functions and geographies, determine what is in and out of integration scope, and lead integration planning and execution. Integration teams are responsible for achieving deal close, realizing synergies, and executing the longer-term integration. Although durations can vary widely, integration teams will often support a transaction for up to 12-24 months. This team is represented by all areas of the business, with heavier involvement in the areas that drive the most synergies and value.
Capture key insights

As the fundamental building blocks of the integration vision come together, the integration team can focus on developing key insights impacting deal value. Through targeted discussions and focused data requests, the integration team can deliver key insights that will better inform the bid process. Access to target management is not always ideal in this phase, especially in an auction process, so early positioning with the Investment Bankers on this matter is critical to get ahead of anticipated headwinds.

Having the integration team deployed earlier during the M&A process enables teams to conduct rapid analyses to obtain insights impacting deal value, including revenue and cost synergies and other potential investment areas. Prioritizing integration challenges by key dimensions such as risk, value, feasibility, and time can help the integration team focus on clearing roadblocks sooner, resulting in faster integration and/or increased deal value. As teams focus on the integration, the following activities should be considered.

**Obtain operational insights that impact and drive deal value** – Operational insights provide the critical context that drives the feasibility, timeline, and true opportunity of a synergy consideration. By gaining access to operational management, the integration team can start the initial vetting of synergy opportunities, pivoting from theory to reality.

- Document operational considerations and assumptions that drive synergy realization
- Leverage management access to complete initial, selective vetting of operational assumptions and considerations
- Refine synergy opportunities and priorities based on operational realities and insight gained

**Identify operational risks that need to be addressed before integration** – A significant challenge during integration is the discovery of operational misalignments or differences in company cultures and values that will take time and effort to integrate. Experience has shown that these hidden misalignments are one of the top reasons for value leakage in a transaction and are not commonly addressed in M&A deals.³

- Develop a list of identified risks, decisions needed, and integration challenge areas
- Prioritize the list based on impact to deal value and feasibility to resolve
- Develop action plans, strategies, and approaches to mitigate operational and cultural risk, including a comprehensive communications plan to get ahead of the “noise”

If time permits and deal close is of high probability, integration teams may explore additional considerations, including business process and systems integration, legal entity consolidation, and go-to-market analyses, among others.

As the company prepares to announce the deal, the integration team is already off and running – benefitting from additional time and a wealth of knowledge to effectively launch the integration and set up the company for success.

Deal success is dependent on developing sound operating and synergy targets during the due diligence process, planning robustly for the initial integration, and committing both resources and capital on the right activities at the right times. Today's deal teams need to evolve their M&A process to bring in the most relevant functional teams sooner and to focus on developing integration planning insights that can drive value and accelerate integration planning.

Balancing early involvement with certainty of Close is tricky, but can be extremely valuable in informing purchase price and realizing synergies that far outweigh the potential wasted effort if a deal is not reached.

Insights into the integration planning process laid out in this paper can help companies achieve early wins, build momentum, and instill confidence among stakeholders by choreographing the launch of the integration team sooner than ever.
Integration Management Office

Achieving effective integration across the enterprise

By Gregg Nahass and Chris Cook

February 2017

At a glance

Failure to capture deal value is rarely due to a flawed strategy, and most often a result of not executing the strategy in a timely way.

Converting integration strategy into detailed actions that align people, process, and systems with integration objectives requires an effective governance structure – an Integration Management Office (IMO).

A well designed IMO will make sure an integration stays on course and sustains focus on the right activities at the right times.
Introduction

Doing deals is risky and too many acquisitions don’t achieve the expectations set for them.¹ Carefully developed strategy too often does not translate into integration success.

Yet failure to capture deal value is rarely attributed to a flawed strategy, and is most often a result of not executing the strategy in a timely way. Converting integration strategy into detailed actions and managing those 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 contact point for every function and individual involved. And it must be designed specifically to meet the needs of the deal it serves. An IMO staffed by experienced people working with a common timeline and applying a common methodology is necessary to make sure an integration stays on course and the people involved stay focused on the right activities at the right times.

The integration process and underlying IMO activities laid out in this paper provide a successful framework for managing an enterprise-wide integration that has been tried and proven time and again, and allows managers to focus their effort on sound execution.

¹ PwC’s M&A Integration Survey Report 2017
An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**PwC integration process**

Figure 1. The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
A disciplined process is important for all large and midscale integrations, but 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 basics, including the degree of integration and non-negotiables across functions and geographies
- Coordinating integration activities across the combining organizations through a disciplined and structured approach, including functional and cross-functional workstreams
- 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 more than project management

Integration Management is more than 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 level of effort it will take to drive an integration. Sometimes management makes a common mistake by assuming that general project managers have the experience to manage the exponential complexity of an integration.

On one hand, traditional project management usually involves a very targeted audience and goal, often focused on only a few workstreams or functions. Scope is also typically limited, as is 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, and 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 levels of executive support and oversight required are often much higher given the strategic nature of a transaction. Failure to recognize and address these complexities early is the first warning sign of integration problems to come.
Set the course

An 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 during 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’s critical for the IMO to assist in defining the degree of integration across functions and geographies and to effectively communicate that information to the integration organization. This will serve as the initial target operating model and set of guiding principles each business unit or function will use to develop and execute its detailed plans. Without such guidance, people are more likely to focus on the actions easiest to accomplish and most personally rewarding, as opposed to the actions most likely to create shareholder value and result in sustainable returns.

The degree of integration often depends on the type of transaction, the similarity—or dissimilarity—of the businesses involved, synergy targets, the potential for disruption to core operations, and control decisions. For example, in an absorption-type transaction commonly based on 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—common when the acquirer is expanding into a new product or market—the degree of integration tends to be lower, with more of a so-called nurture, or investment, approach to the new addition. Figure 2 illustrates the types of transactions and the degrees of integration typically associated with them.

<table>
<thead>
<tr>
<th>Degree of Integration</th>
<th>Approach</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>High</td>
<td>Full</td>
<td>Synergies</td>
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<td></td>
<td>Absorption</td>
<td>Disruption to business</td>
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<td></td>
<td>Best of both/hybrid</td>
<td>Control</td>
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<td>Back-office integration</td>
<td>Risk of financial misstatement</td>
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<td>Partial</td>
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<td>Low to None</td>
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<tr>
<td>Low</td>
<td>Standalone</td>
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<td></td>
<td>Minimal integration of target into buyer</td>
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**Figure 2.** The IMO plans the degree of integration and assists in defining the target operating model after evaluation of several key factors.
Establishing the integration organization
The integration organization comprises the team responsible for executing 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.

To achieve success, an integration management structure must be established with clearly defined responsibilities and reporting relationships. Teams of functional specialists are tasked with integration of core functional areas.

They in turn report to an IMO, which consists of the team of individuals with responsibility for managing the overall integration. Cross-functional workstreams are established to manage dependencies across functional teams. Finally, a steering committee of senior leaders oversees the effort. Figure 3 illustrates what a typical integration structure may look like.

Figure 3. A team of specialists responsible for integrating core functional areas reports to individuals responsible for the overall integration. Cross-functional workstreams are established to manage dependencies across functional teams. This structure ensures that tactics are closely aligned and dependencies are coordinated to directly support strategy.

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 starting the communication process to set the tone with stakeholders, and centralize the value driver realization and synergy tracking process. Figure 3 shows the most common cross-functional workstreams the IMO is responsible for launching, particularly on large-scale transactions.
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 many tasks from deal announcement to 100 Days Post Close and beyond sometimes catch management by surprise. Integration is typically complex—with many moving parts—and often demands lengthy commitments from an organization’s best and brightest, with greater involvement on the parts of senior managers than expected.

An IMO plays a central role in determining the level of resources required during the course of the integration. Of critical importance is the need to balance integration objectives and requirements with making sure to avoid disruption to ongoing business. The first matter to decide is where resources will come from and what their roles 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 integration service 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 without proper planning and execution. While Day One is a milestone for celebration, it’s also the time for a smooth transition of essential operations.

Key areas for the IMO to plan for and execute Day One include:

**Launching the integration**

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

An integration kickoff event would include:

- An executive-level presentation on the deal rationale
- A general introduction to both companies, including their products, geographic footprint, etc.
- A discussion of the guiding principles based on the desired degree of integration
- A primer on the integration’s 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 important 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. The launch should also outline 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 deal parties prior to close are sometimes restricted by securities, antitrust, or other regulations. Those restrictions can impact the work of functional teams and information that can be shared—but more commonly information related to aspects such as pricing and customer agreements. Even with the limitations, a considerable 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 the priorities set during the integration launch are major inputs to the workplan development process. Good, detailed workplans result in better integrations. But building comprehensive workplans takes time, and some companies overlook the importance of this activity. Failure to invest the time and resources necessary to build workplans is another warning sign of failure to capture deal value.

Each functional team should develop workplans that detail 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, 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 there is 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 is typically limited to ensuring good customer and sales force communications and a thorough review of customer information made available.

Day One efforts tend to focus more on gaining control and mitigating risk within back-office functions (e.g. finance, information technology, and human resources, legal).

An IMO should work with each functional team to ensure sufficient workplan detail, and then review each workplan to confirm its consistency and completeness. In reviewing the workplans, an IMO should also point out 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 make sure 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 sufficiently detailed, then the IMO can move to an exception-based-management approach. An IMO can accomplish this by several key processes, including regular status reporting and dependency management and tracking.

- **Status reporting.** A periodic reporting cadence is established with the functional teams as a safety net to ensure issues and risks are readily identified and quickly resolved. This is done by using standard reporting templates that 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 bimonthly 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 its 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 a 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 a stricter set of tracking mechanisms may be needed. In either case, the main goal is to identify dependencies and then properly assign them 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. Figure 4 illustrates a dependency tracking report for Day One.

![Dependency Tracking Report](image)

**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 multifunctional 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 setting up a centralized multifunctional task force to choreograph the timing each function will have to meet and the steps each function will need to take to accomplish the overall objective. These centralized multi-functional task forces are most typically required for longer term activities.
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 only the beginning. After that period, which can be as short as a few weeks, operational and cultural integration begin in earnest as the major components of the combined organizations are integrated.

Cross-functional teams play an important role over the longer term, particularly in large-scale cross-border or transformational deals when scale of effort and uncertainty are high. And they often include active executive leadership representation to free barriers and secure the support required to succeed.

The IMO is designed to manage cross-functional teams (as shown in Figure 3) in a robust manner to identify and resolve cross-functional issues and dependencies, without overly burdening the functional teams. Each cross-functional workstream has a dedicated project lead to drive dependency activity across functions with the goal of achieving the target operating model.

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

**Value drivers and synergy tracking**
The IMO can be instrumental in launching a value driver program, particularly once the Day One workplan building process is complete and tactical implementation is under way. The IMO can start a process that includes identifying, prioritizing, developing, 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 to seize every synergy during an acquisition. For most companies in transition, though, nearly everything becomes a priority—the head of each functional area, business unit, or special project focuses primarily on the needs of its own group. Resource workload limitations, however, demand that integration efforts be prioritized, and the IMO is the management body best positioned to ensure that shareholder value will drive the allocation of resources for meeting these priorities.

As the integration progresses and synergies get realized, it is vital that company executives can communicate effectively and with confidence on what has been achieved. The IMO, often working with either the Corporate Development department or the Financial Planning and Analysis (FP&A) group within the Finance function, should design and roll out a centralized process and set of tools for monitoring, tracking, and reporting synergies. This will help keep the combined company on task to deliver measurable results.

**Communications and change management**
When combining two of anything—let alone two things as dynamic and complex as productive, active companies—you first need to agree on a shared purpose, set common goals, and learn how to work as one to achieve results. Though none of this is possible without effectively engaging the people in both organizations, helping them to understand one another, and operating efficiently in an environment with clarity and purpose.

The IMO can play a critical role in helping formulate and initiate an overall change management effort. The IMO will often have unique insights on people matters by working through the integration planning process, and is in a good position to work with the Human Resources function in assessing and addressing core differences in the cultural and behavioral dimensions of the two organizations.

The IMO can also help coordinate communication specialists as they attempt to design effective communication programs that foster needed changes. The IMO is in a position to collect communication requirements and feedback from functional teams, and can work with the communications team to drive a well thought out and proactive communications plan for all stakeholders.
**Organization and workforce transition**

It is widely acknowledged that — following deal close – integration will be slow and challenging without an organization structure in place. Fear, indecision, and just plain confusion often paralyze the new organization until people have some sense of where—and even whether— they fit within the new environment, and what will be expected of them. The sooner the go forward leaders are identified and assigned, the faster the combined organization can complete the remaining workforce planning and selection process.

The IMO, working with the Human Resources function, can leverage its cross-functional position to help design and roll out a centralized process and set of tools to each of the functions and geographies for people selection, retention, and restructuring. The IMO network can also be leveraged to roll-out many of the necessary workforce management activities, including employee onboarding and training and new policy and procedure communications.

**Business process and systems integration (BPSI)**

Integrating systems and the business processes that surround them can be 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 associated financial and business processes is a critical path prerequisite. And it’s here where companies so often falter. Once again, developing comprehensive workplans takes time, and some companies overlook the importance of this step. Failure to invest the resources and time necessary to build these plans often limits an organization’s ability to capture the desired synergies.

The IMO can play a critical role in launching business process and systems integration (BPSI) activities by working with primary functional teams (generally Finance and Information Technology) to govern the business requirements gathering process across the organization. The requirements often 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.

**Legal entity integration**

Integrating legal entities is much more than a tax department initiative to optimize the combined company effective global tax rate and streamline the number of tax reporting entities. Once the tax efficient structure is established, the operational requirements of integrating country by country and across all functions begins. In larger-scale cross-border integrations involving numerous legal entities across several countries, legal entity integration can be core to integration success or failure. Coordination across functions and geographies to avoid triggering regulatory infractions and to accelerate operational integration is imperative.

The IMO can be instrumental in launching a legal entity program by working with in country resources and across functional teams to help define required integration activities and timing, country by country. The requirements are often significantly interdependent, and include everything from the Sales function’s ability to contract with a customer to the Finance function’s ability to process transactions for the combined company and produce a single customer invoice, all while balancing individual country works council and other regulatory requirements and limitations that can restrict and slow down the integration of people.
**Go-to-market integration**

Revenue synergy goals, such as growth in market share, access to new markets, distribution channels, brands, products, and technologies are consistently the top reasons for pursuing a merger or acquisition. Yet, these Go-To-Market (GTM) goals are getting tougher to reach and typically have low success rates.¹ While a consistent, top-down enterprise-wide integration process is a key success factor for any M&A integration, it is critically important for the GTM functions, and achieving top line growth.

The IMO can be instrumental in connecting revenue related dependencies across sales, marketing, channel, sales operations, sales finance, product management, support/services, and other functions. GTM integration is defined as the activities taken to integrate an acquired company’s customers, channels, processes, and systems into the buyer’s GTM environment. By focusing on customer retention, sustaining the customer base and opportunity pipeline, and implementing robust customer communications, the GTM integration strategy increases the probability for success in achieving long term synergies and revenue growth from the deal.

While these cross-functional areas represent the most common for IMO involvement, whether to kick-start a program until a dedicated team is in place or to drive the activity long after transaction close, they are certainly not the only ones. For example, on transactions involving acquisitions of carve-out entities or assets from a parent company, a Transition Services Agreement (TSA) team may be needed to manage the cross-functional activities and performance monitoring over the TSA term. Every transaction is different, with its unique set of circumstances that should be assessed in determining the areas requiring cross-functional teams over the longer term.

¹PwC’s M&A Integration Survey Report 2017
Conclusion

A disciplined approach to integration is critical to deal success. A well defined integration process and set of fundamental activities rolled out by the IMO helps achieve early wins, build momentum, and instill confidence among stakeholders.

Adherence to a well planned integration process and recommended set of IMO activities laid out in this paper can guide companies along the path to a successful integration and allow managers to focus their efforts on sound execution.
Change Management in M&A Integration

The seven critical drivers of a successful program

By Gregg Nahass

March 2017

At a glance

The approach to change management in an integration setting is often fragmented and commonly considers only one or a few elements of focus.

Designing an effective change management program in integration should include seven critical drivers, all in sync with the integration strategy, and centrally managed at the executive level.

The larger the deal and resulting integration, the greater the importance on adhering to sound change management principles in aligning and motivating people to deliver deal value.
Introduction

In the flurry of activity required to prepare for an M&A integration, companies commonly miss the opportunity to design and implement an effective change management program to align and motivate people in delivering deal objectives.

Integration strategy and structure may be well planned and organized at the forefront, and tactical implementation at the functional level may be designed for discipline and rigor over the long-term. But these may not be enough, particularly in large-scale or transformational transactions.

Even if a company shines a light on the need for change management, the approach is often “soft” and without a set of concrete and actionable items, or fragmented and addressing only one or a few of the critical drivers to succeed.

Companies that implement an effective change management program concurrent with the establishment of integration structure and launch of tactical implementation can significantly improve employee commitment and productivity, speed and effectiveness of decision making, and confidence in the direction of the integrated business.

Designing an effective change management program in integration should include seven critical drivers of success, all in sync with the integration strategy, and centrally managed at the executive level.
The Seven Critical Drivers of Change Management in M&A Integration

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible to help minimize disruptions and achieve synergies. This includes the establishment of an Integration Management Office to coordinate integration activities across every function of the combined organization. This also commonly includes the establishment of centralized teams to manage significant cross-functional activities, such as synergy capture and tracking and business process and systems implementation.

These cross-functional teams play an important role, particularly in large-scale or transformational deals when scale of effort and uncertainty are high. And they often include executive leadership representation to free barriers and secure the support required to succeed.

While many companies have become better at recognizing the need to establish these centrally managed teams in an integration, commonly overlooked is the critical importance of establishing a centralized change management team. Too often companies relegate this to a human resource function that gets limited to no visibility or executive sponsorship. Or assume communications planning or cultural assessment alone make up a change management program.

Designing an effective change management program in integration should include seven critical drivers of success. Each element should be in synch with each other and in alignment with the integration strategy and set of objectives. These elements should also be centrally managed and include active executive level support. Figure 1 illustrates the seven critical drivers of change management success in an integration.

Figure 1. The PwC Change Management Program in M&A Integration requires a focus on seven critical drivers of success. The change management program should be centrally managed to drive consistency of results across each of the seven drivers, and include executive leadership involvement to free barriers and secure the support required to succeed.
Culture
Corporate culture is the set of entrenched behaviors that characterize how a company gets things done. Culture often becomes the scapegoat for failed mergers and acquisitions. But this is a fallacy. While cultural differences can present undeniable challenges, culture is rarely the culprit.

Changing cultures in an integration cannot be done by waving a banner and proclaiming common vision and values. Cultural integration is about behavior change – not rhetoric. Companies should proactively take steps to deliver on three critical areas that drive cultural change in an integration: 1) defining desired behaviors, 2) deploying key role models, and 3) providing meaningful incentives. Each of these areas should have clear and meaningful communications on what is expected and what has changed. These areas should also be managed for consistency across the remaining drivers of the change management program.

Leadership
Simply put, people follow leaders. The sooner the go forward leaders are identified and assigned, the faster the combined organization can complete the change and integration. The company should put in place a swift and efficient process to rapidly select the right leaders for the right positions. Horse trading and negotiating that can sometimes accompany the early stages of an integration should be minimized to prevent delays.

In absorption or consolidation type transactions, this is generally straightforward as the acquiring company leadership tends to remain largely intact. But a transformational transaction, or one announced as a “merger of equals”, can be more challenging. In these cases, communication is again the stabilizer. It is important to communicate that a selection process is in place and describe a decision timeline for selecting go forward leaders across all management levels. The communications can also describe new roles and planned organizational changes to support the transformation.

Communications
Communication is a stabilizer. It keeps people focused and energized rather than confused and perplexed. It builds support for a new business proposition, new leadership and organization, new ways of working, and other changes that are on the horizon. In effect, it is the voice of the change management program for the integration.

Communicating early and often with all stakeholders is an imperative for every deal. Companies should have a solid communications team in place that is driving a well thought out and proactive communications plan. The team should be working across all functions and management levels within the combined organization to identify communication requirements, and to anticipate and be prepared to prevent and address communication challenges. Feedback mechanisms should be included so the dialogue can be two-way. Communications should include key messages for each of the critical drivers.

Organization
Changing roles and complex interrelationships are not clarified with the publication of a traditional organization chart. Organization charts say more about authority, status, power, and turf than about information flows and decision rights. People first want to know whether they will have a job and an efficient and transparent process for employee mapping, selection, retention, and transition should be in place. People also want to know what is expected of them, what they are accountable for, what decisions they own, and what decisions they share. This “need to know” is heightened during an integration, and boxes and lines alone do not answer these questions.

The combined company should describe the results for which each position is accountable, what decisions each position owns, what decisions each position shares, and the interdependencies between positions. The accountability and decision authority for each position should also be published, with a clear definition of how they support the creation of long-term, sustainable economic value.
Policies and Procedures

In addition to following leaders, people also follow policies and procedures. And these policies and procedures need to enable, not hinder, new ways of working. One of the unstated advantages of an integration is the opportunity it provides to enhance core work processes and practices that can enhance company performance. The workforce is often expecting change in policies and procedures to occur, and management is eager to get underway.

Organizations enter transactions and integration as fully functioning, self-contained systems of processes and practices. But swapping out a procedure from one organization and substituting a practice from the other organization may disrupt these systems in ways that are difficult to anticipate and even more difficult to correct. The combined company should clearly define how and where work will get done, and what policies and procedures require elimination or revision to achieve desired results.

Incentives

Incentives play a key role in changing behavior. While incentives are commonly associated with compensation and financial reward, they can also be in the form of personal recognition and promotion or other non-monetary benefits. Some people would prefer to receive a plaque for a job well done and the recognition from peers and management in the workplace, over a financial reward. The incentive can also be a mix of both financial and non-financial that will change behavior.

During an integration, it is critically important to recognize the contributions of people that exhibit desired behaviors. The combined company should design incentive programs that support value driving activities and results, and identify role models to be showered with recognition. This will position them as people whose behavior should be emulated. The message will be further reinforced if other employees who engage in the desired behaviors are quickly and visibly recognized, rewarded, and/or promoted. This sends a signal to the rest of the company, and word spreads quickly.

Employee Onboarding

A change management program would not be complete without appropriate employee onboarding and training. The integration will likely have many changes in policies, procedures, systems, and processes that will alter the way people work, particularly if these changes require new skills, knowledge, or attributes that were not previously in the combined company.

To facilitate the changes required, people will need to be provided with the necessary tools and information to effectively carry out desired actions. Companies should identify areas that require formal training and design effective development programs. In some cases, this can simply be on-boarding a limited number of employees from one company onto another company’s surviving systems and processes. While other cases can be more complex, requiring an extensive design and implementation of a comprehensive training program for hundreds or thousands of people to operate something new.
### Common requirements and outputs to manage change during M&A Integration

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<th>Typical outputs</th>
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<td><strong>Culture</strong></td>
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<tr>
<td>• Assess leader and employee cultural perceptions to determine compatibilities and differences</td>
<td>• Culture Assessment</td>
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<tr>
<td>• Identify key cultural elements and behaviors critical to success of the combined organization</td>
<td>• Culture Integration Roadmap</td>
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<tr>
<td>• Define actions necessary to model and lead change</td>
<td>• Culture and Leadership Action Plans</td>
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<td>• Gain leadership commitment on the changes</td>
<td>• Culture Dashboard and Key Measures (to monitor culture initiatives)</td>
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<td>• Create and implement culture integration roadmap</td>
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<td>• Deploy employee engagement surveys to monitor progress throughout the integration</td>
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<tr>
<td><strong>Communications</strong></td>
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<tr>
<td>• Establish a communication strategy</td>
<td>• Communications Strategy for Change</td>
</tr>
<tr>
<td>• Develop and agree on key messages</td>
<td>• Stakeholder Analysis</td>
</tr>
<tr>
<td>• Develop Mission, Vision, Values</td>
<td>• Key Message Document</td>
</tr>
<tr>
<td>• Establish communication processes, channels, frequency, and timelines</td>
<td>• Frequently Asked Questions and Answers (FAQs)</td>
</tr>
<tr>
<td>• Define communication roles and responsibilities</td>
<td>• What’s Changing Guide</td>
</tr>
<tr>
<td>• Identify and analyze internal and external stakeholders</td>
<td>• Communications Plan</td>
</tr>
<tr>
<td>• Anticipate stakeholder questions and provide answers (employees, customers, vendors)</td>
<td></td>
</tr>
<tr>
<td>• Develop and execute communication plan</td>
<td></td>
</tr>
<tr>
<td><strong>Leadership</strong></td>
<td></td>
</tr>
<tr>
<td>• Identify leadership competencies that will drive the desired behaviors and support the Mission, Vision, Values</td>
<td>• Leadership Competencies</td>
</tr>
<tr>
<td>• Assess leader qualifications and competencies</td>
<td>• Interim Governance and Guide for Decision-making</td>
</tr>
<tr>
<td>• Select, assign, and align key leaders for change</td>
<td>• Leadership Selection</td>
</tr>
<tr>
<td>• Communicate leader selections along with change messages</td>
<td>• Leadership Change Messages</td>
</tr>
<tr>
<td>• Educate leaders in deal strategy and link to specific deal actions</td>
<td>• Leadership Decision Authority Matrix</td>
</tr>
<tr>
<td>• Adjust leadership governance model to enable effective decision making in line with deal strategy</td>
<td></td>
</tr>
</tbody>
</table>
Common requirements and outputs to manage change during M&A Integration (continued)

<table>
<thead>
<tr>
<th>Common requirements</th>
<th>Typical outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization</strong></td>
<td></td>
</tr>
<tr>
<td>• Ensure clarity in the operating model and distribute guiding principles for the organization</td>
<td>• Organization Design Guiding Principles</td>
</tr>
<tr>
<td>• Design the organization and document key changes</td>
<td>• Performance Metrics by Job Title</td>
</tr>
<tr>
<td>• Align talent to changes in the model</td>
<td>• Employee Decision Authority Matrix</td>
</tr>
<tr>
<td>• Implement employee selection, retention, and transition process</td>
<td>• Talent Selection and Retention</td>
</tr>
<tr>
<td>• Determine approach for employee exits</td>
<td>• Employee Off-boarding</td>
</tr>
<tr>
<td>• Define top-down metrics for each position/level</td>
<td>• Organization Chart, with Roles and Responsibilities</td>
</tr>
<tr>
<td>• Develop and publish employee decision authority and information flow matrix</td>
<td>• Change Impact Assessment</td>
</tr>
<tr>
<td>• Develop and publish organization structure with roles and responsibilities</td>
<td></td>
</tr>
<tr>
<td>• Perform assessment of stakeholder impacts across the organization as a result of each deal phase</td>
<td></td>
</tr>
<tr>
<td><strong>Policies and Procedures</strong></td>
<td>• Inventory policies, procedures, and processes to change</td>
</tr>
<tr>
<td>• Define how work will get done going forward</td>
<td>• Policy and Procedure Change List</td>
</tr>
<tr>
<td>• Update job descriptions, as needed</td>
<td>• Process Maps</td>
</tr>
<tr>
<td>• Policy and Procedure Change List</td>
<td>• Updated Job Descriptions</td>
</tr>
<tr>
<td><strong>Employee Onboarding</strong></td>
<td>• Day One Employee Experience Map</td>
</tr>
<tr>
<td>• Map what each employee group should “know, feel, do” on Day One</td>
<td>• Change Training and Assimilation Program</td>
</tr>
<tr>
<td>• Identify training requirements to support all organizational policies and procedure changes</td>
<td>• Measurement Plan</td>
</tr>
<tr>
<td>• Develop and deliver change training (policies, procedures, systems)</td>
<td></td>
</tr>
<tr>
<td>• Deliver culture and values training</td>
<td></td>
</tr>
<tr>
<td>• Develop and implement post Day One assimilation programs and monitor results (peer to peer, buddy programs)</td>
<td></td>
</tr>
<tr>
<td><strong>Incentives</strong></td>
<td>• Incentive Plans and Metrics</td>
</tr>
<tr>
<td>• Identify motivational triggers across the organization (financial and non-financial)</td>
<td>• Total Rewards Framework</td>
</tr>
<tr>
<td>• Implement short-term incentives aligned to deal strategy</td>
<td>• Compensation Strategy</td>
</tr>
<tr>
<td>• Develop total rewards framework and compensation strategy to drive desired behaviors</td>
<td>• Champion Network</td>
</tr>
<tr>
<td>• Define metrics to measure incentive effectiveness and impact on people strategy (retention and attrition targets)</td>
<td>• Recognition Calendar and Programs</td>
</tr>
<tr>
<td>• Identify role models, and recognize people for delivering on desired culture</td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

Change management can play a critical and powerful role in fostering deal success, particularly on large-scale or transformational deals. But it is important to recognize that change management does not happen by chance, or by relying solely on a plan for communications or culture.

It is imperative to have a well-organized and recognized change management approach, to be centrally managed, include all the critical drivers that motivate and align people to deliver results, and be sponsored by executive leadership to free barriers and secure required support.
M&A Communications

Communicating to engage and motivate people throughout the deal

By David Baral and Gregg Nahass

June 2017

At a glance

The need for effective communication is often overlooked or underestimated in the flurry of activity surrounding a deal.

Executing a strong and clear communication strategy is critical to successful integration.

Dealmakers have a choice; they can communicate honestly and transparently to manage speculation surrounding the transaction, or they can ignore the speculation and watch it turn into fear and confusion.
In the flurry of activity surrounding an M&A transaction, the critical importance of communications is often overlooked or underestimated. Too often, organizations fail to establish a cadence of communication with their people during the difficult deal transition period. Not communicating during this time is—*itself*—communication. It sends a message of uncertainty.

We live in a time when information and communication is available instantly—across social media, internet, and broadcast in addition to more conventional channels. As a result, people hold organizations to a high standard of communications. When the standard is not met, success is at risk.

Integration teams should lead the development and execution of an enterprise change management strategy with communication as the voice of the Change Management Program.¹ Communication is a stabilizer. It keeps people focused and energized rather than confused and perplexed. It builds critical support for change, including new leadership, new business positioning, new ways of working, and any other changes on the horizon.

Strategic use of communication is an imperative for any deal. It plays a significant role during the transaction announcement, the 100 days that follow, and over the longer term as the combined organization accomplishes its integration objectives.

Communication helps to mitigate risks by proactively addressing the fears and concerns experienced by the people of both organizations involved in the deal. It provides the careful and strategic alignment of key messages with a plan for consistently communicating those messages to all stakeholders, particularly those people most impacted by the deal.

Companies that implement an effective communication plan concurrent with the announcement of an M&A transaction can significantly improve customer focus, employee commitment and productivity, speed at which decisions are made, and confidence in the direction of the integrated business.²

¹PwC’s Change Management in M&A Integration
²PwC’s M&A Integration Survey Reports 2017
An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
Set the course

An 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 during the transition. This empowers members of the integration team to communicate effectively and take decisive action.

No two deals are the same, so there is no absolute “right” or “wrong” way to communicate in times of significant change and transition. But some approaches are better than others. These very specific actions—as a part of your strategic communications plan—will go a long way to alleviate fear, worry, and confusion among stakeholders.

- **Assemble a communications taskforce.** Gather representatives from external and internal communications functions at the Buyer and Target to work as one team under focused leadership. Together, the team can establish a protocol for planning, developing messages, reviewing and approving, distributing, and measuring.

- **Identify your stakeholders and stakeholder groups.** Assess the unique concerns and questions held by each stakeholder and stakeholder group, and from that assessment determine the unique information needs of each stakeholder.

- **Prepare the announcement.** Create a plan for the announcement of your intent to complete a transaction. Develop messages and determine timing, sequence, and method of distribution for each communication based on needs, sensitivities, working styles and culture. Consider the order in which you release each communication, addressing internal and external stakeholders.

- **Make your announcement.** Announce to the public your intent to complete a transaction. Each communication should touch on concerns and issues identified during the stakeholder assessment. Pay particular attention to those stakeholders determined to be highly impacted by the transaction. Set up formal and informal channels to monitor engagement and feedback across internal and external audiences.

The integration team should work quickly to establish early priorities. Among these priorities, replace employees’ negative feelings about the deal with the ability to focus on what employees do best—buying, selling, producing, investing, and supporting the organization’s goals. Strong, proactive, and honest communications will contribute toward a smooth transition and will go a long way toward creating deal value.

### Effective integration communication: Defining success, getting results

Setting the course requires a plan that defines action steps and success criteria that aligns with integration strategy, organization vision and mission, and employee values and behaviors.

<table>
<thead>
<tr>
<th>Success criteria</th>
<th>What should be done</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key stakeholders are identified and engaged in the transition</td>
<td>Identify and analyze internal stakeholders</td>
</tr>
<tr>
<td>Success measures are linked to behavioral change and tangible outcomes</td>
<td>Develop and agree on key messages to support the deal; link decisions to deal rationale to reinforce understanding of “why” in addition to “what”</td>
</tr>
<tr>
<td>Communication approach is consistent with the employment brand-behaviors, culture, and values are aligned</td>
<td>Anticipate employee questions and provide answers</td>
</tr>
<tr>
<td>Two-way communication channels are established</td>
<td>Establish a communication strategy and plan</td>
</tr>
<tr>
<td>Dialogue and communication is consistent and substantive across the organization, independent of role and level</td>
<td>Establish core communication processes, channels, frequency and timelines, and define communication roles and responsibilities</td>
</tr>
<tr>
<td>Employees understand and support the deal drivers, enablers, and critical success factors</td>
<td>Establish quality assurance and risk management procedures</td>
</tr>
<tr>
<td>Crisis and contingency process is in place</td>
<td>Prepare and deliver communication materials</td>
</tr>
<tr>
<td>Identify change agents and through them establish a feedback network</td>
<td>Review and agree upon “touch points” with external communicators and market analysts</td>
</tr>
</tbody>
</table>
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at deal close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations. Effective communications during this critical time of transition serves as a stabilizer.

While planning for Day One, dealmakers have a choice: they can communicate honestly and transparently to manage speculation surrounding the transaction, or they can ignore the speculation and watch it turn into fear and confusion. The stakeholder analysis is your first step toward taking control of such speculation.

Even the most experienced and savvy acquirers are challenged to anticipate the volume and variety of stakeholder questions. The stakeholder analysis is the instrument to gain an understanding of the unique concerns held by each stakeholder. It is the communicator’s role to uncover the question, find the answer, and respond to the concern. For every question asked there is a range of answers that address the concerns, cover the possibilities, and move the issue forward. Following are key steps you might take to understand your stakeholders and their concerns:

- **Listen to your stakeholders.** Anticipate their information needs. Conduct interviews and focus groups with key stakeholders and analyze your findings. The stakeholder analysis anticipates their information needs today and in the future post-close environment.

- **Report your findings and plan your response.** Prepare a summary of findings and share relevant portions of the report with select stakeholders. This way you can confirm your analysis and demonstrate your awareness and concern for the issues raised by stakeholders. The report back to stakeholders is your opportunity to quickly build trust, show that you listened, and introduce the plan that is in place to address these concerns.

- **Respond to the information needs of your stakeholders at frequent intervals.** Establish a cadence for communications that provides critical information to stakeholders in a timely manner. Also consider the most effective channels to reach your stakeholders. When you are asked a question for which you don’t yet have an answer, acknowledge that fact, and provide a time frame for when the answer will be available.

- **Prepare a communication plan for Day One and post-close.** Use your stakeholder analysis to produce a communication strategy and a detailed action plan. Confirm that people with Day One responsibilities understand their role, responsibilities, and expectations of them.

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### The value of timely, proactive, and honest communication

- **Communication fills the void.** A work environment that lacks meaningful and substantive information creates a void that needs to be filled. You have a choice—fill the void with the best knowledge you have at any given moment in time, or allow those that are concerned and worried to fill it with rumor and half truths. These are situations where trivial events can become monumental in scale and importance. Organizations that communicate promptly and transparently instill employee confidence in leadership. This is evidenced by their patience; distractions are minimized and business continues as usual.

- **Communication enables progress.** Effective communication transforms plans into action. It reduces distraction, stabilizes uncertainty, builds consensus, and generates support.

- **Communication reduces the cost of uncertainty.** When stakeholders are confused and worried, they aren’t buying, supplying, designing, manufacturing, selling, or investing. Effective communication is less about announcing big events and more about establishing a connection with people and providing information, building trust, and helping them to focus.

- **Communication is a stabilizer.** Deal value is lost more precipitously during a period of transition than any other stage in an organization’s lifecycle. An organization can overcome challenges based solely on the trust and confidence level your stakeholders have in the leadership team. Good communication in the mind of a stakeholder provides honest answers to tough questions asked by good people when they’re confused and in the dark. Responding to these questions promptly, directly, and honestly builds trust and confidence.
Design and maximize future state operations

When it comes to delivering effective communication, the period before announcement through Day One is just the beginning. After that, operational integration begins in earnest as the significant components of the combined organizations are integrated.

Continue to align your communication strategy around the key deal milestones by reviewing cross-functional changes post-Day One and creating a targeted, well-sequenced communication plan. Common post-Day One milestones include:

- **Business Process and Systems Integration:** Aligning business processes and systems can change the way people work on a day-to-day basis and cause significant anxiety because of the “unknown”. For example, moving to a new email platform or changing HR or Finance systems and the associated workflows. Provide employees with advanced notice of any changes and combine communications wherever possible to avoid bombarding employees with dozens of one-off emails. Help them see the “big picture” changes, how the changes impact them, and what actions they need to take.

- **Organization Design and Workforce Management:** Working closely with HR, create a communication timeline for organization planning activities and notification of changes. If the workforce is subject to Work Councils or a labor bargaining unit, build in additional time for communications planning. You may need to engage a specialist to ensure appropriate communications are in place and address labor requirements.

- **External Brand and Messaging:** Once you have decided on how the external brand will look and feel, ensure the new brand and messaging have been disseminated through external channels and stakeholders. This would commonly include go-to-market channels, partners, distributors, vendors, and recruiting channels.

- **Combined Go-to-Market Approach or Deal-Specific Product Launches:** Prior to announcing your company’s combined go-to-market strategy or deal-specific product launches, make sure you have prepared communication to enable your salesforce to cross-sell and speak to the merits of the combined company’s products and services. This often includes training as part of your enterprise-wide change management program, as well as talking points and FAQs.

### Planning for the transition to “business as usual”

As you move to future state operations, plan for a deliberate and appropriate pivot point when communication moves from being managed by the integration team’s communications taskforce to “business as usual.”

**Measure and modify**

- Measuring progress along the way is critical. Use key metrics such as click through rates on key documents, employee retention rates, employee engagement numbers, and social listening data to understand the success of the communications strategy, and adjust as necessary.
- As you progress in the deal, consider modifying communication channels. For example, while a deal-specific integration site may have worked well early in the deal, there may be an appropriate time to fully use “business as usual” channels such as the company intranet.

**The right pivot point**

- It is important to plan for a deliberate communication transition where communications move from being centrally managed by the integration team’s communications taskforce to “business as usual” operations (e.g., communications managed by business units).
- Wait until significant enterprise-wide changes are complete, such as those mentioned above; otherwise, the communication may appear disjointed or inconsistent across teams.
- Determining longer-term accountability and ownership of communication prepares you – and all of your stakeholders – for a smooth transition.
Conclusion

It is imperative to have a strategic approach to communicate throughout the entire transaction and integration cycle—from deal announcement to deal close, through the first 100 days post-close and beyond—until significant integration of both organizations has been achieved. It is not enough to simply announce the highlights of a transaction to employees. Communications should anticipate the concerns and issues of key stakeholders and directly address these concerns before, during, and long after the deal has closed.

How an organization builds and maintains trust among key stakeholders from both organizations during a constantly changing, sometimes chaotic integration process is the primary challenge for communication leaders when facing M&A activity. Communications plays a critical and powerful role in fostering deal success. Being aware of the questions, concerns, and fears that employees might have, and proactively communicating answers—with transparency—builds trust.
Sales Integration

Integrating for revenue growth

By Gregg Nahass and Marc Suidan

At a glance

Growth in market share and access to new markets are often top reasons for pursuing a merger or acquisition.

Sales integration goals include protecting existing revenue sources and opportunity pipelines, ensuring no disruption to customers, and planning for scale.

By implementing an effective Sales integration, newly combined companies can deliver revenue growth and help minimize risks.
Today’s dealmakers are using M&A to both improve the bottom line and to stretch their business by adding new capabilities and expanding into new markets. Acquiring companies are increasingly looking at new markets, channels, brands, and products as a way to fuel much sought after scale and growth.

Go-to-market (GTM) deal objectives, such as growth in market share and access to new markets, distribution channels, brands, products, and technologies are consistently among the top reasons cited by executives and senior management for pursuing a merger or acquisition. Yet these GTM goals are getting tougher to reach and typically have low success rates.¹

Immediately after deal announcement, companies often enter a time of high uncertainty. Customers delay purchasing decisions, opportunity pipelines become unreliable, channel partners look for reassurance, quota objectives suddenly look unreasonable, and critical sales force talent begins to explore other job opportunities.

Competitors will take advantage of the uncertainty to win customers and to recruit the best people from both companies. This presents challenges for the ensuing Sales integration, whose ultimate goal is to create shareholder value by executing on revenue driving deal objectives.

When integrating the Sales function of two companies, the First Commandment is: There shall be no disruption to customers. Fulfilling this goal is of paramount importance since achieving combined Sales revenue targets in the first quarter after deal close is critical. Sustaining the customer base and opportunity pipeline early on increases the probability for success in achieving long-term revenue growth anticipated by the deal.

While a consistent, top-down enterprise-wide integration process is a key success factor for any M&A integration, it is critically important for the Sales function.

¹PwC’s 2017 M&A Integration Survey Report
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

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

An 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 during the transition. This empowers members of the integration team—including Sales—to communicate effectively and take decisive action.

The Sales integration plan should align to the deal thesis and acquisition strategy to increase the likelihood of success for completing GTM milestones, achieving revenue synergy capture, and mitigating business continuity risks. Setting the course for Sales requires immediate attention to address critical objectives significant in the early stages of a merger or acquisition, and typically include the following areas.

**Understanding the business model** — Before the integration strategy is set, it’s important to understand the different integration focus areas between Business to Business (B2B) and Business to Consumer (B2C) sales models. For B2B, the value drivers must take into consideration the sales force operating model, channel partner enablement initiatives, and field compensation. For B2C, the focus shifts to eCommerce platform integration options, brick & mortar retail planning, and integrated demand generation processes and tactics (both digital and traditional). While there are common focus areas for each business model, it’s imperative to take these differences into consideration as you set the course and implement the integration.

**Protecting existing revenue sources and opportunity pipeline** — At deal announcement, many sales employees will be uneasy at a time when it is critical to stay focused on hitting sales targets. Quota-carrying sales personnel should continue working on their current books of business to hit next quarter objectives. Account managers and the sales force team should be educated on the rules of engagement for selling to common and new customers, and on how to position new products or services to avoid cannibalizing existing demand for legacy products or services.

**Communicating effectively to customer facing employees, customers, and channel partners** — Following deal announcement, the heightened uncertainty felt by both buyer and target company stakeholders drives the need for effective communication. A consistent and transparent internal and external communications campaign is a key requirement to keep opportunities flowing. To limit sales force and customer attrition, top performing sales representatives and channel partners should receive candid and open communications regarding their future roles. Executive management should have a detailed plan for communicating the deal rationale and value proposition of the future organization to all relevant stakeholders. The plan should include visits to strategic accounts of both companies to address customer concerns, mitigate customer confusion, and strengthen or build customer relationships. While anti-trust laws may limit the gathering and sharing of certain pricing and deal information, the value and benefits of the deal should be emphasized to both customers and employees.

**Establishing a foundation for the next wave of growth** — A sales strategy and operating model that align to the deal thesis and acquisition business case should be defined early in the deal process. A GTM assessment should also be completed early on to evaluate similarities and differences between the buyer and target companies, and include target customers, route to market, sales cycle complexity, revenue elements, rules of engagement, and sales support and enablement capabilities. Finally, a combined sales plan and roadmap to achieve revenue synergies should be developed.
To manage the myriad of Sales integration activities, it is important for company leadership to promptly identify a Sales integration leader, who should then establish a Sales integration team, governance structure, and program management office. The Sales integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in areas of focus for the integration strategy.

Often times a Sales integration team can and may be launched prior to deal announcement, focusing on areas such as commercial diligence, GTM capability assessment, and revenue synergy diligence. The Sales integration leader can then build upon the findings from the preannouncement team and expand activities to include detailed Sales operations and transaction processing areas, among others. Please see Figure 2 for key areas of Sales integration focus.

<table>
<thead>
<tr>
<th>Phase I – Planning &amp; Day One</th>
<th>Phase II – Interim</th>
<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals and compensation</td>
<td>Goals, compensation, and incentives design</td>
<td>Incentive compensation models for add-on and cross sales; distribute quotas aligned to sales objectives</td>
</tr>
<tr>
<td>Channel sales</td>
<td>Communications and interim operating model planning</td>
<td>Channel architecture, routes to market, and ownership</td>
</tr>
<tr>
<td>Direct sales</td>
<td>Customer communications, account mapping, and interim operating model development</td>
<td>Joint account management operating model</td>
</tr>
<tr>
<td>Sales operations</td>
<td>Sales capabilities assessment and Day One sales support planning</td>
<td>Interim sales operations processes for opportunity, configuration, pricing, quoting, and support</td>
</tr>
<tr>
<td>Training</td>
<td>Sales process training methodology identification and content development</td>
<td>Interim operating processes for new portfolio, sales process, and sales force training</td>
</tr>
<tr>
<td>Reporting and analytics</td>
<td>Interim reporting requirements identified for Day One</td>
<td>Interim reporting and dashboard production and design process</td>
</tr>
</tbody>
</table>

Figure 2. This chart outlines key areas of integration focus for Sales, along with their typical timing across the PwC integration process.
The Sales integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for key cross-functional areas that involve the Sales organization, and with their typical timing across the integration process for large-scale and middle market transactions.

<table>
<thead>
<tr>
<th>Sales led cross-functional integration areas</th>
<th>Phase I – Planning &amp; Day One</th>
<th>Phase II – Interim</th>
<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue value drivers and synergies</strong></td>
<td>Initial revenue synergy analysis and revenue synergy capture plan</td>
<td>Validated value driver initiatives and revenue synergy capture plan</td>
<td>Revenue synergy tracking</td>
</tr>
<tr>
<td><strong>Go-to-Market plan and roadmap</strong></td>
<td>Initial support plan based on GTM roadmap and Day One support readiness plan</td>
<td>Alignment of interim support plan for sales being integrated into buyer portfolio</td>
<td>Sales mainstreamed and end-state offerings operationalized</td>
</tr>
<tr>
<td><strong>Communications and customer experience</strong></td>
<td>Customer and Sales stakeholder engagement and communication plan</td>
<td>Customer and Sales Day One communications delivery and 100 Day communications plan</td>
<td>Longer-term customer and Sales stakeholder engagement activities</td>
</tr>
<tr>
<td><strong>Customer contracts and agreements</strong></td>
<td>Day One impacted customer contracts</td>
<td>Contract negotiation</td>
<td>Common T’s &amp; C’s aligned</td>
</tr>
</tbody>
</table>

**Cross-functional integration areas**

<table>
<thead>
<tr>
<th>Business process and systems integration</th>
<th>Interim CRM, reporting, and pipeline management systems solution</th>
<th>Integrated sales infrastructure systems, tools, technology, processes, and data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational and workforce transition</td>
<td>Sales organization structure, role mapping, and responsibilities defined</td>
<td>Sales team optimized</td>
</tr>
<tr>
<td>B2C Routes to Market Integration</td>
<td>eCommerce and brick and mortar retail current state assessment and Day One route to market readiness</td>
<td>Digital migration and eCommerce integration planning; retail consolidation plan</td>
</tr>
</tbody>
</table>

**Figure 3.** This chart outlines key cross-functional areas of integration focus for Sales, along with their typical timing across the PwC integration process.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at deal close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential operations.

The Sales integration team should define what is in and what is out for Day One, along with an interim and go-forward vision for the combined Sales organization. The primary goals for Day One are to have no disruptions in customer-facing processes and to establish revenue continuity.

The level of Day One planning and integration activity for the Sales organization is highly dependent on the short-term outlook. Even if the two companies are not direct competitors, Day One planning raises questions regarding roles, responsibilities, and processes that should be addressed as soon as possible to mitigate adverse behavior. This is particularly important when consolidation is expected across account managers, partners, distributors, and customers. Decisions must be made on how to handle product and account responsibilities, commission structure, lead generation, cross-sale opportunities, revenue credit, and sales awards. Also critical, and commonly overlooked, is the need to set up the CRM of the acquiring company to enable an accurate data model in support of an effective cross-selling campaign. Designing an easy to use and systematic method to identify cross-selling is an important operational activity to enable future revenue synergy tracking and success.

Focus areas for Day One integration

<table>
<thead>
<tr>
<th>Focus areas for Day One integration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals and compensation</strong></td>
<td>Develop incentive compensation models for the combined sales team, by role. Consider retention and performance milestone packages to keep key selling talent; including ‘double comp’ and quota relief for sales representatives to encourage the right behaviors. Quota disbursement should align with the acquisition business case, and should be informed by historical trends, forecast, and qualitative data gathered through interviews. Sales Performance Incentive Fund’s (SPIFs) should be considered to draw attention and align incentives for the acquired products and services.</td>
</tr>
<tr>
<td><strong>Channel sales</strong></td>
<td>Create a channel partner communication strategy and plan for Day One. Ensure messaging is aligned with the strategy of the combined company and that partners understand the value proposition, and how to order acquired products.</td>
</tr>
<tr>
<td><strong>Direct sales</strong></td>
<td>Create a customer communication strategy while planning for Day One. Ensure messaging is aligned with the strategy of the combined company and that customers understand the value proposition. Leverage qualitative and quantitative data while planning to ensure experiences are aligned to each customer and value capture scenarios. Enable targeted outreach to key accounts that are customer retention risks. Create a rules of engagement plan to ensure account teams from the buyer and target are aligned on how to approach common accounts.</td>
</tr>
<tr>
<td><strong>Sales operations</strong></td>
<td>Develop interim operating processes for sales operations and sales finance support, including lead routing, opportunity management, quoting, configuration, pricing, training, deal desk, reporting, and forecast visibility. Minimize sales force distractions and ensure field efforts are focused on selling and maintaining the pipeline.</td>
</tr>
<tr>
<td><strong>Training</strong></td>
<td>Focus on training early on in the integration process to mitigate Day One risks and improve revenue synergy capture. Training plans should be targeted and aligned to revenue synergy and sales play scenarios, such as cross-selling and teaming.</td>
</tr>
<tr>
<td><strong>Reporting and analytics</strong></td>
<td>Develop executive dashboards with common sales KPIs to manage during the interim state. Align on common sales reporting methodology and tools to enable selling efforts and ensure effective coordination, development, and support of essential sales and account management enablers. Critical reports for Day One sales include (but are not limited to) total bookings, sales bookings, deal desk, order backlog, and forecast visibility.</td>
</tr>
</tbody>
</table>
Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

To realize efficient and effective future-state Sales operations, the Sales function will work closely with the Human Resources, Legal, Customer Service, Marketing, Product Management, Research and Development, Information Technology, and Finance functions to plan and prioritize overlapping areas related to Sales capabilities and the Sales organization.

### Sales led cross-functional focus areas for future state operations

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue value drivers and synergies</strong></td>
<td>Leverage the synergy analysis and financial models developed during the diligence process and work with across functional teams to include the most current information from Day One planning in developing Sales value driver business cases. Sales plays the lead role in determining deal revenue synergies and facilitating revenue synergy capture initiatives, while Finance will often be responsible for tracking the overall deal synergies.</td>
</tr>
<tr>
<td><strong>Go-to-Market plan and roadmap</strong></td>
<td>The Sales organization defines the GTM plan and needs to align with Marketing and Customer Support integration teams to quickly adapt to changes that may develop in the plan. If the acquired product or service continues to be sold, Sales will work with Legal teams to establish support offerings and execute contract renewals, ultimately transitioning legacy support terms off of target paper to a set of standard terms. A clear end-of-life plan for support should be defined for applicable product retirement and Sales should promote consistent communication of alternative customer offerings.</td>
</tr>
<tr>
<td><strong>Communications and customer experience</strong></td>
<td>Manage the transition through communications tailored to each category of Sales employee groups and to customers, partners, distributors, and the market. Communications should be delivered in a consistent manner throughout the integration. Customer Support, Marketing and Sales should be closely aligned to deliver one message to all relevant stakeholders. Finally, this cross-functional area should deliver a robust Sales training program to ensure Sales employees adopt the integrated policies, processes, and systems as changes occur.</td>
</tr>
<tr>
<td><strong>Customer contracts and agreements</strong></td>
<td>Identify and inventory customer and channel partner contracts associated with both entities and conduct an analysis of contract disposition and reconciliation. Identify and highlight the urgent contracts that are large, important, or have an early trigger date prior to deal close. Coordinate with Legal to create a plan, roadmap, and reporting cadence around actions related to contacts. Determine potential delays in unifying contracts, negotiating customer and channel partner transitions, and obtaining closure on all new contracts.</td>
</tr>
</tbody>
</table>
## Cross-functional focus areas for future state operations

| Business process and systems integration (BPSI) | Manage and coordinate BPSI related dependencies across functions and geographies. Sales systems are critical to enable CRM, pipeline management, configuration, pricing, quoting, proposal management, sales reporting, dashboard production, support execution, and customer contract management. The overall BPSI effort is driven by IT as a part of the enterprise wide systems roadmap and migration efforts. Sales plays a critical role in defining requirements, identifying systems, migrating data, and updating business processes to meet the capabilities required to run the combined business. |
| Organizational and workforce transition | Define new combined Sales and Sales operations management with reporting lines. The Sales function works closely with HR to transition the Sales organization to an interim state while designing the end state Sales organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Sales operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. Manage rewards and performance throughout the transition and integration. |
| B2C Routes to Market Integration | Identify the eCommerce platform(s) and brick and mortar retail consolidation strategy necessary to support a combined B2C organization. The overall eCommerce implementation effort is usually led by either IT or digital marketing, with input from sales, product management, supply chain, and engineering. The overall retail outlet consolidation is usually driven by Real Estate and Facilities, but relies on inputs from sales, product management, engineering, and brand marketing. The integrated solution should ensure a positive customer experience and generate increased demand for the integrated set of products and services. |
Design and maximize future state operations

After the deal closes, Sales works to take ownership of relationships, launch growth plans, and achieve process improvements that realize the strategic goals of the combined company. This requires structured and continuous coordination with other integration teams and meticulous capability comparisons of the many options available. A crucial first step in designing the future state is to leverage the synergy analysis developed during due-diligence. This will help reinforce the integration strategy, areas of focus, and resource allocation. A robust synergy analysis outlines synergy sources, highlights upfront synergy-capture risks, sets the speed, degree, and timing of synergy realization, and demarcates between short-term and long-term value drivers to achieve the acquisition business case. Unlike cost synergies, revenue synergies vary greatly in timing and are unique to each industry.

**Key success factors in value driver execution**

<table>
<thead>
<tr>
<th>Source</th>
<th>Lever</th>
<th>Example opportunities</th>
<th>Critical success factors</th>
</tr>
</thead>
</table>
| Product offering| Cross-selling                       | • Identifying accounts that are high performing and high potential on a historic basis as well as projections based in the new portfolio  
• Promoting new products in accounts saturated by current offering | • Invest in sales force training and sales plays across new product portfolio  
• Identify appropriate target customer segments  
Implement incentive compensation structure that aligns behaviors to desired results |
| Product bundling | Bundling or cross-promoting products using complementary and supplementary sales plays |                                                                                         | • Establish the role of each product within the bundle  
• Consider best alignment of brand with the new product bundle in order to avoid confusion |
| Pricing         | Conducting margin to value assessments and understand elasticity in pricing  
• Driving down price for overlapping products to capture volume, where appropriate |                                                                                         | • Understand customer segment buying behaviors  
• Use analytics to model out impact of price point adjustments and timing to each customer segment |
| Sales           | Customer segmentation               | • Kindling relationships acquired in underserved segments, territories, economic buyers, demographics, customer types, sizes | • Develop segment-specific value propositions |
| Sales           | Account coverage                    | • Redefining territory coverage strategies and penetrating regions and segments not previously targeted | • Train reps on new products available  
• Identify underserved accounts due to capacity constraints or lack of coverage |
| Channel         | Channel choreography                | • Rationalizing existing distributors and resellers, or selecting and recruiting other strategic partners | • Train and incent new partners on products  
• Perform quantitative analysis to select key partners |
| Channel         | Channel programs                    | • Grandfathering common partners to higher level sales programs | • Focus market development funds on the most effective segments/territories |
| Marketing       | Demand generation                   | • Increasing traditional campaign effectiveness and delivering digital campaign expertise to feed opportunity pipeline  
• Evaluating overlapping marketing costs | • Use best practice tools and processes to approach demand and lead management execution  
• Realize cost synergies for overlapping vendors and marketing activities |
| Branding        | Driving sales by developing a brand strategy and dedicating resources to improve the Target's brand awareness, recognition, and loyalty |                                                                                         | • Raise the profile of the combined company across all media |
Sales plays a critical role in driving shareholder value through GTM business activities, such as growth in market share and access to new markets, distribution channels, brands, products, and technologies. Addressing Sales integration by focusing on customer retention, sustaining the customer base and opportunity pipeline, and implementing a robust customer communication strategy increases the probability for success in achieving long term synergies and revenue growth from the deal.

Following the approach to Sales integration articulated in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to accomplish revenue growth objectives while instilling confidence among their stakeholders.
Marketing Integration

Enabling growth through coordinated Marketing efforts

By Marc Suidan, Jeff Hersh, and Gregg Nahass

March 2018

At a glance

Access to new markets, channels, brands, and products are often top reasons for pursuing a merger or acquisition.

Marketing integration plays a significant role in stabilizing funnels, supporting revenue growth, and aligning brand value propositions.

Sustaining lead generation and conversion through effective customer communications and strong lead management increases the probability of success for capturing long-term revenue growth anticipated by the deal.
Introduction

In the race for growth, competitiveness, and relevance, companies are using M&A to add new capabilities and expand into new markets, channels, brands, and products. These go-to-market (GTM) deal objectives are consistently among the top reasons cited by executives and senior management for pursuing a merger or acquisition. Yet GTM goals are getting tougher to reach and typically have low success rates.¹

Immediately after deal announcement, companies enter a time of high uncertainty. Customers often question the life of products and impact to them of the future roadmap for the combined company. Marketing can mitigate the revenue risks from customer uncertainty through consistent communications to drive lead generation and conversion, and to fend off competitors that will take advantage of any uncertainty to win customers.

When integrating the Marketing functions of two companies, the First Commandment is: There shall be no disruption to the lead or sales funnels. Sustaining lead generation and conversion through well-executed customer communications, stable lead management, and a rigorous focus on converting to sales increases the probability of success for capturing long-term revenue growth anticipated by the deal.

¹PwC’s 2017 M&A Integration Survey Report
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

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

An 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 during the transition. This empowers members of the integration team — including Marketing — to communicate effectively and take decisive action.

The Marketing integration plan should align to the deal thesis and acquisition strategy to increase the likelihood of success for completing GTM milestones, achieving synergy capture, and mitigating business continuity risks. Setting the course for Marketing requires immediate attention to address critical objectives significant in the early stages of a merger or acquisition, and typically include the following areas.

**Influencing the narrative through communications** – In a digital world, word travels fast and it is imperative to get ahead of speculation to mitigate customer confusion and concerns. Management should create an external communications playbook focused on timely, proactive, and transparent communications via digital and print mediums to external stakeholders regarding their value to, and future with, the combined organization. Internally, management should develop communications and trainings to enable front line employees to field questions from customers and partners.

**Defining and communicating the combined brand value to customers** – A “one-size fits all” approach to branding is dangerous and can potentially confuse employees, vendors, and most importantly customers. Before defining the corporate or product portfolio brand strategy, management should conduct a comprehensive review of internal and external brand equity (e.g., focus group and/or market studies on brand effectiveness with customer bases), brand positioning (e.g., premium versus value offering), and how the former aligns with business strategies and initiatives. Once the brand strategy is defined (e.g., consolidate brands or keep separate), a clear brand value proposition paired with the deal value and rationale should be communicated to internal and external stakeholders through promotions and campaigns.

**Developing an interim marketing strategy** – As early as due-diligence, preparations should begin for an interim marketing strategy. Marketing can use test-to-learn or pilot approach to quickly identify the most effective strategies and evaluate against defined metrics (e.g. ROMI). Even if information is limited by anti-trust laws, it is still possible and prudent to perform significant up-front planning for the interim period between deal announcement and close, and continuing through future state operations.

**Establishing a foundation for the future-state Marketing organization** – Marketing will need to define a holistic marketing strategy and model that aligns to the deal thesis and acquisition business case. A GTM Fit Analysis should be completed to evaluate similarities and differences between the target and buyer organizations, and include organizational structure (e.g., centralized vs. decentralized), use of third parties (e.g., agencies), target customers, customer segmentation, the customer journey map, campaign management, channel alignment, digital / social engagement, marketing technology and partner alignment, key performance indicators, and operational tactics and tools. Finally, a combined marketing plan and roadmap to achieve targeted synergies should be developed.
To manage the myriad of Marketing integration activities, it is important for company leadership to promptly identify a Marketing integration leader, who should then establish a Marketing integration team, governance structure, and program management office. The Marketing integration leader should select a team with institutional knowledge of the buyer organization (and target company, if possible) in areas of focus for the integration strategy.

Often times a Marketing integration team can and may be launched prior to deal announcement, focusing on areas such as Marketing capability assessment, customer communications strategy, and deal announcement positioning. The Marketing integration leader can then build upon the preannouncement team and expand activities to include detailed Marketing operations and Marketing strategy areas, among others. Please see Figure 2 for key areas of Marketing integration focus.

<table>
<thead>
<tr>
<th>Phase I – Planning &amp; Day One</th>
<th>Phase II – Interim</th>
<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market and customer research</strong></td>
<td>Preliminary (and separate) market research on branding, demand generation, and product integration</td>
<td>Define new KPIs, metrics, and customer research focus areas; customer re-segmentation performed</td>
</tr>
<tr>
<td><strong>Advertising and promotions</strong></td>
<td>Interim advertising and media function established</td>
<td>Integrated approach to campaign execution and communications</td>
</tr>
<tr>
<td><strong>Digital marketing</strong></td>
<td>Plan for Day One digital media messaging or re-directs announcing the deal close (website and social media); digital marketing platforms inventoried</td>
<td>Interim website and social media messaging reflecting the value proposition for the deal; social accounts and websites aligned with the interim branding strategy</td>
</tr>
<tr>
<td><strong>Event marketing</strong></td>
<td>Inventory of marketing and sales company events</td>
<td>Dual representation during Buyer and Target events, where relevant based on industry and product / service focus</td>
</tr>
<tr>
<td><strong>Lead nurturing and routing</strong></td>
<td>Perform risk assessment on qualified leads to determine requirements for Day One</td>
<td>Coordinated interim lead nurturing and routing (e.g., by territory and account)</td>
</tr>
</tbody>
</table>

**Figure 2.** This chart outlines key areas of integration focus for Marketing, along with their typical timing across the PwC integration process.
Marketing integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for key cross-functional areas that involve the Marketing organization and their typical timing across the integration process for large-scale and middle market transactions.

<table>
<thead>
<tr>
<th>Phase I – Planning &amp; Day One</th>
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<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing led cross-functional integration areas</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Brand integration</strong></td>
<td>Acquired company’s brand equity assessed; combined interim branding strategy defined; inventory of branded assets developed</td>
<td>Interim brand strategy executed; soft branded assets rebranded (e.g., whitepapers), hard branded assets in process (e.g., signage)</td>
</tr>
<tr>
<td><strong>Cross-functional integration areas</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Communications, and customer experience (includes public relations)</strong></td>
<td>Develop external stakeholder engagement and communications plan, and customer facing talking points; targeted outreach based on risk assessment of accounts, qualified leads</td>
<td>Recurring communications cadence established with key stakeholders; public relations team to monitor any needs for reactive deal related messaging</td>
</tr>
<tr>
<td><strong>Business process and systems integration (BPSI)</strong></td>
<td>Sales systems, tools, and technology assessment, alignment, and roadmap</td>
<td>Interim CRM, reporting, and pipeline management systems solution</td>
</tr>
<tr>
<td><strong>Product integration</strong></td>
<td>Inventory legacy and acquired product value propositions and marketing collateral</td>
<td>Rationalize product branding and roadmap against target market and customer segments</td>
</tr>
<tr>
<td><strong>Revenue value drivers and synergies</strong></td>
<td>Initial revenue synergy analysis and revenue synergy capture plan</td>
<td>Validated value driver initiatives and revenue synergy capture plan</td>
</tr>
<tr>
<td><strong>Go-to-Market plan and roadmap</strong></td>
<td>Initial marketing plan based on GTM roadmap and Day One marketing readiness plan</td>
<td>Alignment of interim marketing plan based on GTM plan and product portfolio</td>
</tr>
<tr>
<td><strong>Organizational and workforce transition</strong></td>
<td>Overlapping marketing coverage, consolidation opportunities, and defined reporting relationships</td>
<td>Marketing organization structure, role mapping, and responsibilities defined</td>
</tr>
</tbody>
</table>

**Figure 3.** This chart outlines key cross-functional areas of integration focus for Marketing, along with their typical timing across the PwC integration process.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at deal close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential operations.

The Marketing integration team should define what is in and what is out for Day One, along with an interim and go-forward vision for the combined Marketing organization. The primary goals for Day One are to have no disruptions in customer-facing processes and to establish revenue continuity.

The level of Day One preparation traditionally includes planning for brand changes and identifying opportunities to achieve synergies by eliminating redundant activities and vendors. The Marketing integration team should also begin to develop the overall product, channel, pricing, promotional, and advertising strategies to support the plan for coordinated external communications – describing the combined company’s value proposition and deal rationale to key accounts, customers, and partners.

It is important to recognize that brand identity will mean a lot to members of the Sales organization. These are the people who carry the banner in the marketplace, and a sudden disappearance of a brand can be seen as an attack on their identity, resulting in a traumatic effect on morale. When this is a concern, more gradual modifications may be appropriate.

Focus areas for Day One integration

| Market and customer research | Survey the acquired company’s competitor and market landscape to develop an understanding of how this may shape the go-forward landscape. Identify gaps in the Target or Buyer brands that could be filled to gain more market share. Leverage this understanding to define the combined company’s Marketing strategy with input from Sales and Executive leadership. Gather insights to better understand the expanded customer base. Identify customer-related synergies (e.g., acquisition costs, retention, loyalty) by understanding the Target and Buyer customers and by reviewing existing customer targeting strategies. Define customer re-segmentation strategy and new KPIs, metrics, and customer research focus areas for the combined company. Map customer overlaps and seek opportunities to up-sell or cross-sell. |
| Advertising and promotions | Understand the current and planned ad campaigns and promotions, and determine if a change in course or reallocation of spend is required to align with the interim Marketing strategy. Launch targeted Day One advertising and promotion programs to communicate the value of the deal and take advantage of the positive momentum created by the deal. Enable promotional campaigns required to mitigate against potential customer and/or partner churn (e.g. incentive SKUs, discounts, MDF). |
| Digital marketing | Develop a detailed inventory of digital marketing platforms, including websites, blogs, and social media accounts. A Day One digital marketing strategy should be developed to leverage the most impactful digital platforms of the combined entity and be informed by the Day One and interim marketing and branding strategies. Day One social media messaging, posts, and website updates should be orchestrated in advance of Deal Close and designed to drive awareness of the deal, key communications (e.g., press releases), and combined offerings of the integrated entity. |
| Event marketing | Perform inventory of post-close Buyer and Target Marketing and Sales events (hosted and attended). Develop a coordinated plan for event coverage, attendance, branding, and messaging, all of which should align with the interim GTM strategy. Understand opportunities to reduce event spend / presence (e.g., non-strategic events, dual registrations). |
| Lead nurturing and routing | Review all qualified leads to determine at risk opportunities and develop and execute targeted communications (e.g., calls, meetings, emails) to mitigate the risk. Review existing lead nurturing, qualification, and routing processes. Identify synergies and develop interim approach for lead nurturing. Define common scoring criteria for new leads, and coordinate management of customer-initiated communications. Develop interim process for delivering qualified Leads to Sales. |
| Reporting and analytics | Develop executive dashboards with common sales KPIs to manage during the interim state. Align on common sales reporting methodology and tools to enable selling efforts and ensure effective coordination, development, and support of essential sales and account management enablers. Critical reports for Day One sales include (but are not limited to) total bookings, sales bookings, deal desk, order backlog, and forecast visibility. |
Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

To realize an efficient and effective future state Marketing operations, the Marketing function will frequently work hand in hand with the Sales, Product, Research and Development (R&D), and Information Technology (IT) functions to plan and prioritize overlapping areas related to Marketing capabilities and the Marketing organization.

Cross-functional focus areas for future state operations

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand integration</td>
<td>Assess the brand equity of the acquired company’s brands and leverage this analysis to define the future state brand portfolio and strategy. In parallel, develop a detailed inventory of branded assets (e.g., building signage, invoices, uniforms, internal software applications). Once the brand strategy has been defined and brand inventory developed, Marketing should drive the approach to role out the new strategy. Depending on the size and scope of the branding effort, a Marketing lead supported by functional leads from Sales, Legal, Finance, IT, and Facilities may be required.</td>
</tr>
<tr>
<td>Communications and customer experience (including public relations)</td>
<td>Manage the transition through communications tailored to each category of company-wide employee groups and to customers, partners, distributors, and the market. Day One communications (e.g., calls, emails, press releases, and posted FAQs) should be planned for each stakeholder, but also be delivered consistently through the subsequent phases of integration. This will require close coordination with Customer Support, Marketing, and Sales. Finally, a robust sales training program should be delivered for Marketing employees to adopt the integrated policies, processes, and systems as changes occur.</td>
</tr>
<tr>
<td>Business process and systems integration (BPSI)</td>
<td>Manage and coordinate BPSI related dependencies across functions and geographies. Marketing systems are critical to enable lead nurturing, qualification, and routing to deliver leads to Sales. The overall BPSI effort is driven by IT as part of the enterprise wide systems roadmap and migration efforts. Marketing plays a critical role in defining their business requirements, identifying systems, migrating data, and updating business processes to meet the capabilities required to run the combined business.</td>
</tr>
<tr>
<td>Product integration</td>
<td>Product integration is driven by the Product and R&amp;D teams, but Marketing plays a critical role in revamping campaigns and programs to facilitate a smooth transition for customers. While Product and R&amp;D develop a roadmap for the acquired company’s products, Marketing provides key insights on target markets and segments to inform the roadmap’s development. Marketing can also support in the identification of opportunities to rationalize, re-brand, and reposition products where appropriate.</td>
</tr>
<tr>
<td>Revenue value drivers and synergies</td>
<td>Marketing activities will directly impact the Sale team’s ability to realize revenue synergies. These Marketing activities may include development of cross sell and up sell materials, demonstrations of products to legacy customers, and coordinated marketing campaigns. In addition to revenue synergies, Marketing may drive cost synergy realization through consolidation of public relation firms, marketing agencies, and marketing software licenses.</td>
</tr>
<tr>
<td>Go-to-Market plan and roadmap</td>
<td>The Sales organization defines the GTM plan and needs to align with Marketing and Customer Support integration teams to quickly adapt to changes that may develop in the plan. If the acquired product or service continues to be sold, Marketing will work with Sales to update positioning, advertising, branding, and other marketing tactics to align with the end-state GTM plan and product and service roadmap.</td>
</tr>
<tr>
<td>Organizational and workforce transition</td>
<td>Define newly combined Marketing management with reporting lines. The Marketing function works closely with HR to transition the Marketing organization to an interim state while designing the end state Marketing organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Marketing operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. Manage rewards and performance throughout the transition and integration.</td>
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</tbody>
</table>
Conclusion

Marketing plays a critical role in mitigating uncertainty among stakeholders and sustaining lead generation during mergers and acquisitions to deliver on the combined company GTM plan. The Marketing organization will assist in driving important and timely communications to customers, determine and execute the go-forward brand strategy, and establish a combined marketing strategy and plan for long-term success.

Following the approach to Marketing integration articulated in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to accomplish revenue growth objectives while instilling confidence among their stakeholders.
Customer Support Integration

Preserving and enhancing the customer experience

By Marc Suidan, Jeff Hersh, and Gregg Nahass

January 2018

At a glance

Customer Support plays an important customer facing role during integration, and can be leveraged to support critical deal drivers.

Customer Support integration aligns with the goals of M&A by focusing on a customer’s experience, ensuring no disruption to field service and support operations.

Newly combined companies can improve customer satisfaction, drive increased loyalty, and create new opportunities to bolster sales through an effective Customer Support integration.
Leaders across industries are increasingly focused on satisfying customer demands by delivering new products and services while managing their bottom line. Decision makers will often look towards M&A as an opportunity to meet these demands and bolster top line growth.

Go-to-market (GTM) deal functions are traditionally focused on driving revenue creation. Growth in market share and access to new customers are common value drivers of deal success. However, without careful planning and alignment of enabling functions, such as Customer Support, these GTM objectives may be at risk.

Immediately after deal announcement, companies enter a time of high uncertainty, and customers of both companies will have concerns about how their experience may change. This requires a high degree of coordination between companies to minimize disruptions in the customer experience.

At its core, the objective of Customer Support integration is to preserve and enhance the customer’s experience, instilling trust and confidence, deepening loyalty, and surpassing customer expectations every step of the way. Customer Support is one of the most visible and prevalent customer touchpoints within an organization. Achieving levels of high customer satisfaction helps companies maintain their existing base of customers and promote new opportunities for additional revenue and long term growth.

While a consistent, top-down enterprise-wide integration process is a key success factor for any M&A integration, it is especially important to minimize disruption or deterioration of the customer experience. A successful integration of Customer Support operations should first and foremost meet existing customer obligations and preserve the experience that customers expect. Opportunities for operational efficiencies, new revenue streams, and more satisfied customers may also be achieved driving integration.
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
Set the course

An 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 during the transition. This empowers members of the integration team—including Customer Support—to communicate effectively and take decisive action.

A Customer Support integration plan should align to the overall acquisition strategy and the specific goals of Sales & Marketing to increase the likelihood of success for completing GTM milestones, achieving revenue synergy capture, and mitigating business continuity risks. Setting the course for Customer Support requires rapid planning to ensure business continuity on Day One, and typically include the following areas.

**Understanding customer support obligations** – Before the integration strategy is set, all legacy support obligations of the target company should be captured and reviewed by Customer Support leaders. Standard support terms and conditions, such as service level agreements (SLAs), channel offerings, and service schedules, should have been vetted during due diligence. However, the legacy customer contracts extending beyond deal close will define what levels of support must be delivered throughout the integration and serve as key inputs into Customer Support’s integration approach. Non-standard or high-risk support terms need to be identified and addressed prior to deal close.

**Maintaining customer experience** – Customers’ expectations about their support experience do not change because of a deal announcement. So the customer support experience of acquired customers should be preserved throughout the integration journey. Support offerings and the channels through which customer support is delivered should be mapped by customer-type between target and buyer to identify gaps. Based on the findings of the mapping exercise, Customer Support leaders may need to make tradeoffs to support and service delivery (e.g., consolidate support entry points, modify field service schedules). The goal is to minimize change for customers despite the various transitions that will happen internally.

**Communicating effectively to employees, customers, and partners** – Following deal announcement, several communications should be sent to stakeholders to mitigate issues caused by the uncertainty that comes with a deal. Key support employees of both the target and buyer should receive focused communications on the critical role they will play during the integration period as they will be interfacing with customers before, during, and after integration. If either the target or buyer is utilizing partners for customer support delivery, they should also be communicated to about their role and future engagement with the combined company. Finally, customers should receive pointed messaging that is closely aligned to Sales and Marketing communications, specifically detailing any changes to support (e.g., updated support channels, modified service schedule, support policy changes). In-person or one-on-one conversations should be considered for high-priority and/or shared customers to address concerns, mitigate confusion, and strengthen existing customer relationships.

**Determining the future customer support model** – A support strategy and operating model aligned to the goals of M&A should be defined early in the integration process. While there are clear cost synergy opportunities within Customer Support (e.g., tools and process consolidation, support organization reorganization, support asset realignment), opportunities to drive revenue directly and indirectly should not be overlooked. Monetizing premium support offerings, proactive field service through the Internet of Things, and aligning support offerings with the joint GTM plan are just a few of the ways Customer Support can contribute to the top-line. A combined Customer Support plan that outlines short and long-term steps to achieve the desired future-state operating model should be developed to assist in capturing revenue synergies.
To manage the myriad of Customer Support activities, it’s important for company leadership to promptly identify a Customer Support integration leader, who should establish a Customer Support integration team, governance structure, and program management office. The Customer Support integration team should be made up of resources with the institutional knowledge of the buyer organization (and the target company, if possible) in areas of focus for the integration strategy.

Customer Support areas can be divided into those that ensure business continuity (i.e., operations) and those that address the preservation and enhancement of the customer experience design. Customer experience design areas are focused on defining and executing the desired customer experience for Day One and beyond. High levels of collaboration across the Customer Support function allow for the operational focused areas to support and deliver on the enablement of the Day One, Interim, and End State customer experiences. Please see Figure 2 for key areas of Customer Support integration focus.

<table>
<thead>
<tr>
<th>Phase I – Planning &amp; Day One</th>
<th>Phase II – Interim</th>
<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Support Operations (ensuring business continuity)</strong></td>
<td></td>
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</tr>
<tr>
<td>Customer obligations</td>
<td>Legacy support obligation identification; non-standard terms identification</td>
<td>Shared customer plan; contractually obligated support delivery</td>
</tr>
<tr>
<td>Support operations and processes</td>
<td>Support and field service capabilities assessment, Day One support delivery planning</td>
<td>Interim support operations and processes for legacy delivery; tools and process consolidation planning</td>
</tr>
<tr>
<td>Support team readiness</td>
<td>Day One support training requirement identification and content development</td>
<td>Support team scope of responsibility assessment; training methodology determination</td>
</tr>
<tr>
<td>Reporting and analytics</td>
<td>Interim support metrics identified for Day One</td>
<td>Interim reporting and dashboard production and design process</td>
</tr>
</tbody>
</table>

| **Customer Experience Design (preserving and enhancing)** | |
| Customer segmentation | Target customer list assessment; shared and high priority customers identified | Interim customer support plan by segment implemented; shared customers supported jointly | Combined support model by customer-type; support alignment with GTM for net-new customers |
| Channels | Gap analysis of target vs. buyer channels | Legacy channel sunset plan; future-state channel plan | Channel consolidation; tools and assets for future-state channel delivery |
| Support offerings | Gap analysis of target vs. buyer support and field service offerings | Legacy offerings enabled; preparation for lighting up new offerings | Offerings alignment with all-up GTM plan |

**Figure 2.** This chart outlines key areas of integration focus for Customer Support, along with their typical timing across the PwC integration process.
The Customer Support integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for key cross-functional areas that involve the Customer Support organization, and with their typical timing across the integration process for large-scale and middle market transactions.

Figure 3. This chart outlines key cross-functional areas of integration focus for Customer Support, along with their typical timing across the PwC integration process.

*Typically led by the Supply Chain organization, however support may play a role in warranty management and initiating the returns process upon customer request.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at deal close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential operations.

The Customer Support integration team should define what is in and what is out for Day One. This exercise should be informed by the key integration areas established while setting the course and the interim and go-forward vision for the combined Customer Support organization. The primary goal for Day One is to minimize disruption for target and buyer customers while fulfilling legacy support obligations.

The level of Day One planning and integration activity for the Customer Support organization is highly dependent on the level of integration planned between the target and buyer’s products and offerings. No matter the level of integration, Day One planning should first be focused on delivering contractually obligated support and minimizing the impact to the customer. Customer Support integration leaders should focus on how customer support will be delivered on Day One to all customers (current and target) and determine how this might vary by customer and offering. Any changes made should be communicated to customers, and leaders can consider “white-glove” treatment for shared, high-priority customers.

Focus areas for Day One integration

<table>
<thead>
<tr>
<th>Customer Support Operations</th>
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</thead>
<tbody>
<tr>
<td>Customer obligations</td>
</tr>
<tr>
<td>Support operations and processes</td>
</tr>
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<td>Support team readiness</td>
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<tr>
<td>Reporting and analytics</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Customer Experience Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer segmentation</td>
</tr>
<tr>
<td>Channels</td>
</tr>
<tr>
<td>Support offerings</td>
</tr>
</tbody>
</table>
Design and maximize future state operations

Designing and executing the go forward operating model is important for realizing long term revenue synergies and maintaining a positive customer experience. Due to the customer-facing nature of the Customer Support organization, this function can play a significant role in achieving key benchmarks that external analysts and stakeholders use for measuring integration success (or failure).

The same cross-functional areas that applied during Day One planning will continue to be focus areas as the Customer Support integration team shifts its focus after deal close. To realize efficient and effective future-state support and field service operations, the Customer Support function should continue working closely with the Sales, Supply Chain, Human Resources (HR), Information Technology (IT), Legal, and Finance functions to plan and prioritize overlapping areas related to field service capabilities and the Customer Support organization.

Cross-functional focus areas for future state operations

| Go-to-market plan and roadmap | While the Sales organization defines the GTM plan, the Customer Support integration team needs to align with Sales to quickly adapt to changes that may develop in the plan. If the acquired product or service continues to be sold, Customer Support will work with Sales and Legal teams to establish support offerings and execute contract renewals, ultimately transitioning legacy support terms off of target paper to a set of standard terms. A clear end-of-life plan for support should be defined for applicable product retirement and Customer Support should promote consistent communication of alternative customer offerings. This includes collaborating with Sales on the strategic landing spots for the transition of key customers. |
| Value drivers and synergies | Leverage the synergy analysis and financial models developed during the due diligence process and work across functional teams to include the most current information from Day One planning in developing Customer Support value driver business cases. The overall synergy tracking effort is typically managed by Finance. |
| Communications and customer experience | Manage the transition through communications tailored to each category of Customer Support employee groups and to customers, partners, distributors, and the market. Communications should be delivered in a consistent manner throughout the integration. Customer Support, Marketing and Sales should be closely aligned to deliver one message to all relevant stakeholders. Finally, this cross-functional area should deliver a robust Support training program to ensure Support employees adopt the integrated policies, processes, and systems as changes occur. |
| Business process and systems integration (BPSI) | Manage and coordinate BPSI-related dependencies across functions and geographies. Customer Support systems are critical to enable support ticketing, assisted support channels, self-help content management, product defect notifications, warranty management, and customer profiles. The overall BPSI effort is driven by IT as a part of the enterprise wide systems roadmap and migration efforts. Customer Support plays a critical role in defining requirements, identifying systems, migrating data, and updating business processes to meet the capabilities required to run the combined business. |
| Organizational and workforce transition | Define newly combined Customer Support management with reporting lines. The Customer Support function works closely with HR to transition the Customer Support organization to an interim state while designing the end state Customer Support organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Customer Support operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy, keeping in mind specific requirements for the geographic and product alignment for support agents. Manage rewards and performance throughout the transition and integration. |
| Returns | Work with Legal to manage all non-standard warranty terms and execute plan to fulfill remaining warranty obligations. While Supply Chain traditionally manages product return pipelines, Customer Support needs to align with any relevant return policies and provide input into returns supply chain consolidation. Help design future-state returns model based on geography, product, and/or customer type. |
Conclusion

Customer Support plays a critical role in driving customer satisfaction throughout the uncertainties that come with M&A. By understanding support and field service obligations, focusing on customer experience, engaging in thorough stakeholder communications, and developing a future-state vision, it increases the probability of stronger customer retention and new opportunities for long-term revenue growth.

Following the approach to Customer Support integration articulated in this paper can guide companies along the path to a successful integration, limit disruptions within the support and field service experience, build momentum, and position the company to accomplish core business objectives while instilling confidence among their stakeholders.
Supply Chain Integration

Maintaining customer service and optimizing the supply chain

By Mile Giguere and Amit Verma

May 2017

At a glance

Integrating the Supply Chain during mergers and acquisitions can vary greatly from industry to industry, but a Golden Rule applies: No disruption in service to the customer.

To minimize disruption to the product flow, Supply Chain synergy capture efforts must be balanced with integration priorities, taking execution complexity into consideration.

Effectively executing the tactical requirements of Supply Chain integration will create operational efficiencies for capturing deal value.
Integrating Supply Chains during mergers and acquisitions can vary greatly from industry to industry, but a Golden Rule applies: No disruption in service to the customer. Orders are fulfilled and shipments will continue as promised, product quality will not be compromised, and there will be no deterioration in customer service.

The primary objective during Supply Chain integration is to preserve relationships with key customers and strategic vendors. Being aware of the transaction, customers and competitors will look to realign their strategies to their benefit. In such an environment when rumors are rampant, it is important to maintain supply velocity and manage relationships with strategic vendors during the transition period. A proactive approach is required to retain these relationships and ensure no disruption.

To minimize disruption to the product flow, synergy capture efforts must be balanced with integration priorities, taking execution complexity into consideration. When manufacturers merge, the buyer is typically eager to achieve cost synergies and efficiencies. However, those charged with completing the integration often face multiple complicating factors, including regulatory oversight, union contracts, extended lease commitments, agreements with states and municipalities, and work-force morale, among others. For manufacturers with multiple plants and distribution centers, site selection and consolidation options must be carefully considered.

Industrial and consumer products companies typically include procurement, distribution, and transportation disciplines within the Supply Chain function. Aspects of the Supply Chain that do not provide a strategic advantage are usually outsourced. In Technology companies, while the primary focus is on R&D and Engineering, Supply Chain integration must account for relationships with component manufacturers and third party logistic (3PL) providers.

Regardless of the industry, or the breadth and complexity of the Supply Chain integration, the paramount requirement is that customer service levels are maintained. The combined company is critically dependent on the tactical requirements of the Supply Chain function to quickly and successfully integrate to maximize deal value, minimize deal cost, and realize synergies.
An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities 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. Setting the course involves defining clear objectives and establishing clear leadership and role clarity during the transition. This empowers members of the integration team – including Supply Chain – to communicate effectively and take decisive action.

Setting the course for Supply Chain integration requires immediate attention to address critical matters important in the early stages of a merger or acquisition. Setting the course typically addresses the following areas.

**Business Insights** are developed based on analysis to meet and exceed initial synergy targets sooner than planned. This includes assessing the target to determine what to keep, defining the combined operating model, identifying the Supply Chain footprint, outlining Supply Chain processes (plan, source, make, deliver, and return), enabling systems infrastructure, and interacting across functional teams. These insights serve as a basis for integration planning, including estimating resources and time needed for the integration and to develop an interim operating model.

**No Customer Disruption** is the Golden Rule in Supply Chain integrations and critical to making the M&A process seamless to customers. Day One readiness planning is a crucial component to ensure operations continue without disruption, minimizing the impact on forward and reverse flow of products and materials; aligning the organizational structure, leadership selection, and roles and responsibilities; identifying key employees that need to be retained; developing a Supply Chain roadmap to smoothly migrate to common processes; and rationalizing third party providers and suppliers.

**Synergy Realization** is about identifying, optimizing, and realizing synergies across the Supply Chain. Evaluating and prioritizing synergy opportunities against “Speed of Implementation” and “Financial Impact” will help maximize deal value for shareholders. The key is to focus on those value drivers that promise to deliver the most shareholder value. These include rationalizing footprint and partners (CMs, 3PLs, etc.), standardizing and enhancing processes, integrating common functions, rationalizing the supply base, leveraging facilities and infrastructure, rationalizing product and service offerings, defining market presence (e.g., enter/exit markets), and aligning Supply Chain strategy with corporate strategy.

To manage the myriad of Supply Chain integration activities, it is important for company leadership to quickly identify a Supply Chain integration leader. This leader should then establish a Supply Chain integration team, an integration governance, and a program management office. The Supply Chain integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in the areas of focus for the integration strategy. See Figure 2 for common Supply Chain integration focus areas.
### Typical supply chain capabilities to be assessed

<table>
<thead>
<tr>
<th>Manufacturing (in-house or contract)</th>
<th>Procurement and sourcing</th>
<th>Distribution and warehousing</th>
<th>Transportation and logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>The two companies may have facilities in similar geographies or may have different or unique strengths and competencies (e.g., efficiency, cost, quality, throughput, etc.). The two companies may also have different outsourcing strategies. When consolidating the manufacturing footprint to drive synergies, it is critical to proactively reduce the risk of supply disruption.</td>
<td>Procurement consolidation or leveraged purchasing efforts is often a significant area of synergy. Companies often have common spend areas in direct materials (inventory), indirect materials (packaging supplies, maintenance supplies, office supplies), and services (benefits, freight, security, maintenance). It is important to identify and prioritize the value from “quick hit” opportunities that require minimal effort, versus value from opportunities that will be accomplished over the longer-term.</td>
<td>Similar to manufacturing, both companies may have distribution facilities that serve similar geographies, or have available capacity. Rationalizing the distribution footprint by product, customer, or geography is often a key area of synergy. Establishing a timeline and sequencing plan early in the integration is critical.</td>
<td>Companies typically have multiple contracts with third-party logistics firms ranging from long-haul freight carriers to overnight express shippers. Consolidating contracts to recognize immediate synergies is often a focus area early in the integration.</td>
</tr>
</tbody>
</table>
The Supply Chain integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for the key cross-functional areas that impact the Supply Chain, and the typical timing across the integration process for large-scale and middle market transactions.

<table>
<thead>
<tr>
<th>Phase I – Planning &amp; Day One</th>
<th>Phase II – Interim</th>
<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value drivers and synergies</strong></td>
<td>Conduct supply chain synergy analysis</td>
<td>Validate key value driver initiatives</td>
</tr>
<tr>
<td><strong>Communications and change management</strong></td>
<td>Develop stakeholder engagement plan</td>
<td>Deliver Day One communications; prepare 100 Day communications</td>
</tr>
<tr>
<td><strong>Organizational and workforce transition</strong></td>
<td>Define Day One organization</td>
<td>Design detailed organization structure and refine roles and responsibilities</td>
</tr>
<tr>
<td><strong>Business process and systems integration</strong></td>
<td>SC systems roadmap</td>
<td>Interim system solution</td>
</tr>
</tbody>
</table>

**Figure 3.** This chart outlines key cross-functional areas of integration focus for Supply Chain, along with their typical timing across the PwC integration process.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential operations.

It is critical to develop a combined Supply Chain strategy and operation model that includes both growth strategies and a high-level consolidation before developing detailed integration plans. The Supply Chain integration team should develop integration plans that define what is in and what is out for Day One, along with an interim and go-forward vision for the combined Supply Chain function.

Focus areas for Day One integration

| Plan | Consolidate the sales, inventory, and operations planning processes, including calendar inputs, partners and business drivers, and priority areas for Day One. Understand the forecasting process and granularity, paying specific attention to rationalizing forecast inputs for overlapping products. Determine the use of systems (ERP, planning, spreadsheets) in the planning process. Align forecasting methodologies and identify core metrics for tracking performance of combined operations. |
| Source | Complete an end-to-end sourcing and procurement process assessment, including developing a combined procurement operating model and set of priority areas for Day One. Assess the staff stock and buffers needed to cover the integration phase and determine inventory policies and targets to ensure continuous supply. Execute a vendor relationship assessment process and develop a coordinated supplier communication plan. |
| Make | Work with manufacturing and facilities counterparts to determine both the supply footprint of the target and priority areas for Day One. Ensure inventory accuracy, opening and closing balances, and excess and obsolete allocations. Identify vendor KPIs to manage and assess inventory policies and targets and evaluate use of manufacturing systems. Identify current capacity and capacity limitations both internally and with Supply Chain partners. |
| Deliver | Assess warehouse volume and shipments, operating procedures, current service level agreements (SLAs), and facility operations, and identify priority areas for Day One. Evaluate annual volume, shipments, and spend by mode, lane, and carrier to identify potential consolidation opportunities while still enabling continuous flow of goods throughout the network. |
| Return | Evaluate the in-place reverse-logistics process and support network for processing the return of goods. Identify consolidation opportunities and priority areas for Day One. |
Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

For the Supply Chain function, transaction close provides an opportunity to optimize the manufacturing and distribution footprint of the combined company, align and optimize processes, enabling systems, and personnel, and segment and re-align vendor relationships.

To realize an efficient and streamlined future-state operation, the Supply Chain function will have to work closely with several functions to plan and prioritize overlapping areas, including Sales Operations, Customer Service, Product, Research and Development, Human Resources, Information Technology, and Finance.

Cross-functional focus areas for future state operations

<table>
<thead>
<tr>
<th>Focus area</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td><strong>Value drivers and synergies</strong></td>
<td>Leverage the synergy analysis and financial models developed during the diligence process work across functional teams to include the most current information from Day One planning in developing Supply Chain value driver business cases. Finance commonly manages the overall synergy tracking process.</td>
</tr>
<tr>
<td><strong>Communications and change management</strong></td>
<td>Manage the transition through communications tailored to each category of Supply Chain employee group, including permanent hires, transitional employees, and terminated employees. The Supply Chain function works closely with HR to communicate retention strategies, including compensatory for transitional employees and primarily non-compensatory for permanent hires. Deliver a robust Supply Chain training program to ensure Supply Chain employees adopt the integrated policies, processes, and systems as changes occur. The training program should also consider cultural differences and focus on aligning cultures to help ensure a cohesive Supply Chain operating model that supports newly integrated employees.</td>
</tr>
<tr>
<td><strong>Organizational and workforce transition</strong></td>
<td>Define new combined Supply Chain management with reporting lines. The Supply Chain function works closely with HR to transition the Supply Chain organization to an interim state while designing the end state Supply Chain organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Supply Chain operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. Manage rewards and performance throughout the transition and integration.</td>
</tr>
<tr>
<td><strong>Business process and systems integration (BPSI)</strong></td>
<td>Manage and coordinate BPSI related dependencies across functions and geographies. Supply Chain systems are critical to enable manufacturing, fulfillment, logistics, customer service, and returns. The overall BPSI effort is driven by IT as a part of the enterprise-wide systems roadmap and migration efforts. Supply Chain plays a critical role in defining requirements, identifying systems, migrating data, and updating business processes to meet the capabilities required to run the combined business.</td>
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</tbody>
</table>
The Supply Chain can be a significant source and enabler of synergies during an integration. It is important to ensure the flow of material from suppliers and products to customers is not impacted, despite the urgency to focus efforts on realizing synergies.

Leaders of the Supply Chain function following the Supply Chain integration process laid out in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to accomplish growth objectives while instilling confidence among their stakeholders.
At a glance

Managing an R&D organization is both an art and a science with many unique considerations required for integration planning.

While the R&D organization is an important source of value, broader transformational opportunities for new product development should also be evaluated to maximize value.

Identifying, valuing, and pursuing R&D and product development should begin during due diligence and be an integral part of the overall integration roadmap.
Research and Development (R&D) and product development can be critical sources of value in mergers and acquisitions. However, most companies find that R&D is one of the most challenging functions to integrate.1 Though with the proper integration focus, synergies can be delivered to help maximize total deal value with benefits realized quickly after transaction close.

Aligning product and development roadmaps, retaining key talent, rationalizing product lines, and maintaining development productivity are the most common sources of value. Key considerations include how project portfolio can be rebalanced, how product platforms and intellectual property (IP) assets can be leveraged, how product complexity and costs can be reduced, and how development processes can be streamlined.

Assessing and integrating an R&D organization is an art, as much as a science, as the successful launch of products and services requires a blend of invention know-how and commercialization savvy. New product development processes are inherently people driven and market needs are dynamic.

Identifying, valuing, and pursuing R&D and product development opportunities should begin during due diligence and be an integral part of the overall integration strategy and plan.

1PwC’s 2017 M&A Integration Survey Report
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities 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. Setting the course involves defining clear objectives and establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including R&D—to communicate effectively and take decisive action.

Setting the course for R&D is commonly focused on the following areas and seek to answer key questions.

**R&D organization structure, people, and facilities**
- How will the R&D organization be structured to support the combined companies? What is the degree of organizational integration expected to support the combined product roadmaps?
- Where will development sites be located and what resources, skills, and partners will be require? Will there be changes to use of onshore, nearshore, or offshore sites?
- How will facilities, labs, equipment, and engineering software be integrated?

**Product and technology roadmaps**
- What is the product strategy of the combined company and how will that influence development priorities?
- What are changes to platform architecture or technology roadmaps?
- Will certain products become end-of-life or extended and will R&D need to support customer migrations?
- What are the key IP, patents, and third party relationships to harness?

**Product development execution and opportunities for improvement**
- What are the key metrics that will track the level of R&D throughput and value?
- What is the status and value of current development projects?
- What are product margins and quality levels?

A holistic assessment of the R&D organization and product strategy should begin during due diligence to identify key risks, develop a hypothesis of the R&D target operating model, and understand levers for deal valuation. Assessment findings are also the foundation for developing integration plans for Day One and beyond, including the structuring of potential R&D value creation or investment initiatives.

The revenue and margin contribution from the current product portfolio is only one aspect of deal value. The product and technology roadmap represent a set of future revenue options. How quickly new quality products can be launched depends on the capabilities and capacity of the R&D and product organization. Studies show that moving an R&D organization from an average performer to a top performer can drive 30%+ productivity improvements.\(^2\) Having the right expertise and industry benchmarks helps to assess additional value and integrate them into plans early.

To manage the complex set of integration activities, it is critical to select strong leadership to run the R&D integration team. The R&D integration leader will need to effectively engage talent from both legacy companies, and understand how to navigate across multiple functions, including Finance, Product Management, Marketing, Sales, and Manufacturing, given that new product development is a cross-functional effort. This collaboration should begin early and continue throughout the integration process.

\(^2\)PwC Operational Excellence Benchmark
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations.

Target company R&D organizations are often reluctant, or legally prohibited, from sharing detailed product strategies and roadmaps until post transaction close due to IP protection concerns and anti-trust laws. Given this common limitation, integration teams should be in a position to quickly mobilize a robust methodology to rapidly assess and execute the following focus areas for Day One integration.

Focus areas for Day One integration

<table>
<thead>
<tr>
<th>R&amp;D organization and structure</th>
<th>R&amp;D leadership and organization</th>
<th>Select the R&amp;D leadership and draft a future state organizational chart, including new roles (CTO, VP of Engineering, etc.) to support the future product strategy. The leadership team should determine how the R&amp;D organization will be functionally and geographically structured, and what skill gaps need to be closed. Consider headcount and staffing ratios for the combined organization and determine timing for structural changes or hiring needs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D talent</td>
<td>Identify key personnel and define retention strategies to mitigate loss of talent. Evaluate knowledge transfer plans, appropriate documentation and potential R&amp;D TSA in a carve out situation if certain specialized skills are needed.</td>
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</tr>
<tr>
<td>R&amp;D footprint and facilities</td>
<td>Determine the future R&amp;D footprint based on where certain types of work need to occur based on customer, supplier, partner locations, or centers of excellence. Specialized facilities, labs, and testing equipment should be assessed against future R&amp;D needs. Some equipment may be challenging to move or require special building conditions.</td>
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</tr>
<tr>
<td>Product line changes</td>
<td>Determine impact to legacy products based on any changes to product strategy. Communicate changes to the market and customers, particularly on plans for support, maintenance, transition and obsolescence. Competitors often take advantage of market uncertainty or confusion after an M&amp;A announcement to get customers to switch.</td>
<td></td>
</tr>
<tr>
<td>Technology platforms</td>
<td>Conduct technology platform diligence to understand core technology platform. For example, will SaaS-based software solutions scale to meet growing transaction volumes? Are cloud-based unit economics in line? Are there high levels of technology debt that needs to be addressed or is there investment required to achieve architecture or security standards? Or for a product company, are there embedded components, materials or ingredients that are nearing end of life and must be managed appropriately?</td>
<td></td>
</tr>
<tr>
<td>Intellectual property (IP)</td>
<td>Determine a strategy for IP and patents, estimate their value, and plan how to leverage them to accelerate time-to-market or create new revenue or licensing opportunities. Understand how to manage any potential IP risks or infringements.</td>
<td></td>
</tr>
<tr>
<td>New product development governance</td>
<td>Determine how new product development projects will be prioritized, resourced, and funded. The R&amp;D organization should continue to make progress against key efforts throughout the integration. Any changes to priorities should be communicated across all involved functions.</td>
<td></td>
</tr>
<tr>
<td>Engineering IT systems</td>
<td>Capture the Product Lifecycle Management (PLM) systems, workstations, collaboration tools, and specialized engineering software. Understand how bill of materials (BOMs) and other product data is stored and how they will be managed going forward, especially if PLM or enterprise resource planning (ERP) systems are changing. Manage and renegotiate software license transfers, data migration efforts, and data security protocols across R&amp;D. Collaborate with IT and Finance, as needed, for planning and budgeting.</td>
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</tr>
<tr>
<td>Technology and development partners</td>
<td>Evaluate spend on technology licenses and external partners. Reduce third party costs by adopting more favorable license terms or ownership rights. Consider ways to optimize the number of external development partners based on service levels, location, and legacy contract terms.</td>
<td></td>
</tr>
<tr>
<td>Continuous improvement projects</td>
<td>Evaluate the legacy organization’s set of internal initiatives focused on improving R&amp;D productivity or reducing cost of goods sold (COGS). Rationalize these initiatives across the combined entity.</td>
<td></td>
</tr>
</tbody>
</table>
Design and maximize future state operations

R&D leadership and the integration team should focus on three primary areas as they design and rollout future state operations.

1. **Create a blueprint for the future operating model** – The new product development operating model is a key enabler for future benefits. For example, synergies may be achieved based on rebalancing work across low cost countries or partners. Opportunities to increase quality and productivity may also exist by creating “Centers of Excellence.” The blueprint typically consists of an R&D organization structure, a development site footprint, development process standards, and product development governance, partner strategy, and infrastructure (tools, metrics, labs). In situations where R&D organizations are combined, a coordinated set of development procedures, metrics, and tools needs to be defined and deployed. Formal training and communications is also needed to manage the change and to ensure everyone is operating from the same playbook.

2. **Create an integration plan and transformation roadmap around the five Ps (Portfolios, Platforms, Products, People, and Processes)** – The transaction is often a catalyst for change and an opportunity to transform the R&D organization and new product development. A formal roadmap of initiatives should be planned with short, mid, and longer term initiatives identified. Savings achieved from short-term actions can fund longer term transformational initiatives.

3. **Track integration and deal value through operational metrics** – Both integration milestones and operational performance metrics can be used to baseline and measure progress against integration efforts and R&D value realization. Key performance metrics should be summarized in a set of standard chart views that executives, functional leaders, and development teams can all use to track progress against targets. This “dashboard” becomes a critical tool in tracking integration progress and achievement of the deal thesis.

### Maximize deal value through the five Ps

| Portfolios: Align development resources with product strategy | The portfolio of development investments defines future revenue potential. The mix of R&D efforts across innovation, product extensions, and sustaining work should be balanced with new product revenue objectives in mind. Product development pipelines are often overloaded with R&D resources spread across too many projects. This causes projects to suffer by not receiving the required resources and funding. Low priority projects that do not align to the new product strategy should be cancelled freeing up capacity. Balancing limited R&D resources against projects with the highest return should improve overall productivity and time-to-market across the development portfolio. |
| Platforms: Reduce complexity and cost through product and technology platform management | For product-based companies, significant benefits can accrue if platform strategies are adopted. This is where multiple product families use a shared architecture and a common set of technology components. A well known example is a common drive-train platforms used across different car models. A similar technique is used for software companies where code reuse is promoted through development standards and knowledge sharing. Both examples help lower costs, improve time-to-market, and reduce overall complexity. |
Maximize deal value through the five Ps (continued)

| **Products:** Improve product and service margins | One technique to improve EBITDA is to identify what products have poor sales or margins and then to take action with suppliers or customers. These benefits can accrue relatively quickly but the number of opportunities may be limited based on company type. Design-to-cost and supplier negotiation tactics can be used to reduce COGS on legacy products. Product tear downs or “value engineering” allow component costs to be benchmarked and can lower product cost or reduce complexity out. Full product redesigns can achieve savings in manufacturing, supply chain, and serviceability costs. For software-based products margins can be improved by optimizing cloud architecture and eliminating technology debt or number of software versions maintained. |
| **Process:** Improve new product development practices | The benefits of adopting leading development practices can be measured using a well designed Product Innovation maturity model and set of relevant benchmarks. Assessing both the parent and target company helps determine which practices should be adopted for the combined company. In addition to the portfolio management processes defined above, opportunities may also exist to enhance:  
- Product lifecycle management  
- Resource management  
- Software engineering, testing, etc.  
- Requirements management  
- Release management  
- Engineering change order (ECO) management  
Acquiring a company with less mature practices could be weighed as part of the deal negotiation, but can also be a source of upside. Better development practices improve productivity and lower costs, and help to manage predictability of future revenues. |
| **People:** Retain top engineering talent | Critical to any R&D organization is the quality of the people and the uniqueness of the R&D culture. Key leaders and talent must be identified as part of the diligence and retention plans should be well defined and managed through the integration process. Knowledge management and succession plans are important considerations. Coordination with the overall HR integration workstream is critical especially when addressing some of the cultural differences across technology organizations. |
Maximizing deal value with R&D and product development requires rigorous planning and execution. An integrated plan that addresses organizational structure, product development processes, engineering IT systems, and in-market products should be developed by those who understand the industry and product technology.

Picking the right management team to lead the R&D organization and selectively implementing transformation opportunities is essential. The leaders create the vision, drive a new sense of urgency, and set the pace and tone for the future R&D organization.

Leaders should expect to have a highly visible role, especially for new product development governance as they make priority tradeoffs and begin to institute key changes across the organization.

A defined operating model and a clear product roadmap should be developed for the integration team to implement. Following the “5Ps” (Portfolios, Platforms, Products, Processes and People) should be considered to assist in delivering deal value and facilitating smooth integration of the R&D organization.
Finance Integration

At a glance

Integration success is critically dependent on an effective Finance function to deliver business insight, help ensure compliance and controls, and create operational efficiencies for capturing deal value across the organization.

Integrating business operations and systems, maintaining common controls, providing accurate and consistent financial reporting, ensuring tax compliance, and establishing interim legal structures and business processes are common Finance integration activities.

In conducting these activities, newly combined companies obtain the flexibility they may need to grow and thrive.
When combining two of anything—let alone two things as dynamic and complex as active, operational companies—you first should 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 people who comprise the two organizations can understand one another and speak the same language.

In the world of M&A, that language is the universal language of business—the language of strategy, process, organizational structure, roles and responsibilities, information systems, and—yes—financial budgets, forecasts, profit and loss, and reporting. All of these combine to create the driving force enabling companies to realize shareholder value and achieve results in market share and profitability.

The combined company is critically dependent on the tactical requirements of the Finance function to help ensure a successful integration in pursuit of capturing deal value. Success is derived by focusing on three primary imperatives:

• Delivering business insights
• Creating finance function efficiency
• Maintaining compliance and control

These tactical requirements provide newly combined companies with the flexibility they need to grow and thrive.

It’s only when the financial compass, sails, and rudder of a newly expanded corporate ship are properly aligned that leadership can hope to set the right course, steer in the right direction, and track progress toward the final destination.
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

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

An 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 during the transition. This empowers members of the integration team—including Finance—to communicate effectively and take decisive action.

Setting the course for Finance requires immediate attention to address critical matters important in the early stages of a merger or acquisition. Setting the course typically addresses the following areas.

1. **Business insights** are developed based on analysis to meet and exceed initial synergy targets sooner than planned. This includes defining the combined company business plan (and updating as information becomes available throughout the process), creating key performance metrics, aligning budgeting and forecasting activities, identifying critical reporting requirements, and incorporating specific integration reporting into the related financial planning and management reporting.

2. **Operational efficiency** in designing a combined finance function that eliminates duplicative effort and optimizes the cost of running the Finance function. These include simplifying processes to improve external and internal reporting, strengthen performance management, budgeting and forecasting capabilities, and optimizing cash flow; standardizing company and accounting policies; optimizing systems and data management; designing a high performing organizational structure; and focus on aligning skills and roles to maximize the talent in the Finance function.

3. **Compliance and control** in closing activities to ensure the Finance function is ready for Day One (e.g., Day One reporting ability, data migration, compatible IT systems, controls over funds). This includes preparing for a smooth transaction close and minimizing the significant risks that exist during the first three to six months post-close (e.g., purchase accounting, controls certification, accounting policy alignment). Areas such as the chart of accounts, accounting policies, expense approval levels, reporting requirements, and close time lines are examples of standards that can be established in advance to drive speed in the Finance integration process.

Once the immediate actions are defined, the longer term strategy for Finance integration should be outlined. Finance integration strategy should be aligned with the enterprise-wide integration strategy to ensure alignment in realizing transaction value and integration objectives. Finance integration strategy serves as a guide for all decisions within the Finance function, spelling out the degree of integration for what will be combined and what will be kept separate, including people, process, systems, and organizations. Please see Figure 2 for key areas of Finance integration focus.
### Phase I – Planning & Day One
- **Record to report**: Interim consolidation process
- **Internal controls and compliance**: Evaluating and aligning internal controls and compliance process
- **Financial planning and analysis**: Combined budget for current year/current long-term planning
- **Treasury**: Cash control, liquidity and funding, insurance alignment
- **Order to cash**: Customer communications
- **Procure to pay**: Align CAPEX purchases
- **Hire to retire**: Stock conversion
- **Tax**: Tax structure planning

### Phase II – Interim
- **Record to report**: Purchase accounting, accounting policy alignment
- **Internal controls and compliance**: Interim process controls
- **Financial planning and analysis**: Interim internal reporting & synchronized planning calendar
- **Treasury**: Forecasting capabilities; capital structure; risk management policy
- **Order to cash**: Interim OTC operating model
- **Procure to pay**: Procurement synergies/Interim PTP model
- **Hire to retire**: Payroll & indirect procurement on-boarding
- **Tax**: Maintain tax compliance filings

### Phase III – End State
- **Record to report**: Integrated consolidation
- **Internal controls and compliance**: Integrated compliance programs
- **Financial planning and analysis**: Integrated budgeting, reporting and planning
- **Treasury**: Integrated treasury function and processes, insurance portfolio consolidated
- **Order to cash**: Integrated OTC
- **Procure to pay**: Integrated PTP
- **Hire to retire**: Integrated HTR
- **Tax**: Entity tax structuring and consolidation

**Figure 2.** This chart outlines key areas of integration focus for Finance, along with their typical timing across the PwC integration process.

The Finance integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for the key cross-functional areas that are Finance-led or impact Finance, and the typical timing across the integration process for large-scale and middle market transactions.
To manage the myriad of Finance integration activities, it is important for company leadership to quickly identify a Finance integration leader, who should then establish a Finance integration team, structure, and program management office. The Finance integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in areas of focus for the integration strategy. Often times a Finance team can be launched prior to deal announcement, focusing on areas such as diligence, financial modeling, close process, accounting policies, and SEC reporting. The Finance integration leader may build upon the pre-announcement team in place, expanding activities to include areas of integration focus not yet covered, including transactional and operational areas.

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**Figure 3.** This chart outlines key cross-functional areas of integration focus for Finance, along with their typical timing across the PwC integration process.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations.

The Finance integration team should define what is in and what is out for Day One, along with an interim and go-forward vision for the combined Finance function.

**Focus areas for Day One integration**

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record to report (RTR)</td>
<td>Design an interim consolidation process to capture the financial activity of the consolidated entity for the first quarter ending after Day One. Determine target opening balances such as asset valuation and inventory, ensure consistent accounting policies on technical areas such as foreign exchange translation and stock compensation accounting, convert outstanding equity from one organization to the other, and ensure proper disclosure in financial statements and filings. Design a process for purchase accounting required in the first year. Begin to design a combined company financial close process for the longer term that is fast, efficient, and accurate, including automation of manual processes to be developed during the earlier phases.</td>
</tr>
<tr>
<td>Internal controls and compliance</td>
<td>Establish effective disclosure and controls procedures for Day One to remain compliant with 302 certification requirements. Begin to establish an effective and efficient control program to mitigate risk and ensure regulatory compliance. In addition, protocols for identifying and reporting changes in controls resulting from integration need to be established within the integration teams.</td>
</tr>
<tr>
<td>Financial planning and analysis (FP&amp;A)</td>
<td>Develop an interim management reporting package with select reports required for management to make key early decisions on the combined company. Establish firm cost baselines as a starting point for the combined company for use in evaluating synergy achievement going forward. Develop a synergy tracking process and tool to monitor and track results for cost reduction and other synergy initiatives. Begin to design an integrated management reporting package to efficiently and effectively support internal and external reporting requests, along with budgeting and planning processes.</td>
</tr>
<tr>
<td>Treasury</td>
<td>Establish control over cash accounts on Day One, ensuring current year cash management and cash flow requirements are planned and adequately funded. Understand debt and banking covenants to remain in compliance. Develop plans for changes in bank account control and business authorization thresholds. Align key treasury policies for the combined organization. Begin to design the combined company cash forecasting and cash management processes to optimize global cash flow and requirements. Begin to align treasury policies related to investments, foreign currency, and hedging.</td>
</tr>
<tr>
<td>Order to cash (OTC)</td>
<td>Establish an interim operating model for OTC. The model should be designed in conjunction with the Sales, Operations, and IT teams. The interim operating model accelerates the joint go-to-market activities essential for realizing early revenue enhancement synergies. Reconcile key discrepancies in customer terms and conditions, establishing common policies and accurate revenue recognition. Begin to design the future state of order to cash processes, systems, and organization in conjunction with the Sales, Operations, and IT teams.</td>
</tr>
<tr>
<td>Procure to pay (PTP)</td>
<td>Establish an interim operating model for PTP. The model should be designed in conjunction with the Operations, HR, and IT teams. Review target capital expenditures and ensure alignment with combined company objectives. Begin to identify procurement synergies from vendor consolidation, increased volume and purchasing power, SKU rationalization, and policy alignment.</td>
</tr>
<tr>
<td>Hire to retire (HTR)</td>
<td>Develop approach to integrate the two payroll and benefit processes and services, including travel services and related corporate cards, and expense management. Determine plan to convert all the employee shares at legal close.</td>
</tr>
<tr>
<td>Tax</td>
<td>Ensure compliance requirements and tax filings are met for Day One. Identify trade compliance issues and develop a consistent transfer pricing policy. Leads the key cross-functional area of Legal Entity Integration.</td>
</tr>
</tbody>
</table>
Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

Integrating the Finance function can be complex, and is often a key indicator of integration success or failure (particularly in large-scale and cross-border transactions). Whether to support revenue generating synergies, such as bundling buyer and target company products and cross-selling into new channels and geographies, or to drive cost reduction synergies by eliminating redundant processes and policies, integrating financial applications and their surrounding financial and business processes is a critical path prerequisite. And it is here where companies most often falter.

The Finance function will often play a substantial role in designing and maximizing future state operations for cross-functional integration areas, such as, value drivers and synergies and legal entity integration. The Finance function will frequently work hand in hand with the human resource and information technology functions to plan and prioritize overlapping areas related to financial systems and the Finance organization.

### Cross-functional focus areas for future state operations

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Legal entity integration</strong></td>
<td>As Tax designs a tax efficient legal entity structure and step plan, cross-functional coordination is required to align tax steps with operational and financial integration changes. The aim is to minimize business disruption while optimizing tax structuring steps. Tax works with Operations, Sales, Human Resources, and Finance to determine the structure that minimizes disruptions to the business. Identify cash repatriation requirements and confirm legal entity structure.</td>
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<tr>
<td><strong>Value drivers and synergies</strong></td>
<td>Leverage the synergy analysis and financial model developed during the diligence process and work across functional teams to include the most current information from Day One planning, in developing value driver business cases. Finance commonly manages the overall synergy tracking process and aligns this with the annual operating and financial plan. Finance also takes a lead in measuring deal success over a longer term period.</td>
</tr>
<tr>
<td><strong>Business process and systems integration (BPSI)</strong></td>
<td>Manage and coordinate BPSI related dependencies across functions and geographies. Finance systems are critical to enable financial transparency across an integrated organization. The overall BPSI effort is driven by IT as a part of the enterprise wide systems roadmap and migration efforts. Finance plays a critical role in defining requirements, migrating data, system selection, and updating business processes to meet the capabilities required to run the combined business.</td>
</tr>
<tr>
<td><strong>Organizational and workforce transition</strong></td>
<td>Define new combined Finance management with reporting lines. The Finance function works closely with HR to transition the Finance organization to an interim state while designing the end state Finance organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Finance operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. Manage rewards and performance throughout the transition and integration.</td>
</tr>
<tr>
<td><strong>Communications and change management</strong></td>
<td>Manage the transition through communications tailored to each category of Finance employee group, including permanent hires, transitional employees, and terminated employees. Finance works closely with HR to communicate retention strategies, including compensatory for transitional employees and primarily non-compensatory for permanent hires. Deliver a robust Finance training program to ensure Finance employees adopt the integrated policies, processes, and systems as changes occur. The training program should also consider cultural differences and focus on aligning cultures to help ensure a cohesive Finance operating model that supports newly integrated employees.</td>
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</table>

PwC | M&A Integration 108 Finance Integration
Capturing and communicating deal value requires successful finance integration in all areas—within finance and across functions.

The finance function provides visibility into critical operating metrics and generates business insights required by management to assess progress and make decisions in navigating through the integration. Addressing finance integration activities early and focusing on integrating processes and systems that create business insight, enhance operational efficiency, and help ensure compliance and control will assist companies in capturing deal value and minimizing risks.

Following the approach to Finance integration articulated in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to accomplish synergy objectives while instilling confidence among their stakeholders.
At a glance

Research consistently shows that integrating information systems is one of the top integration challenges, particularly for sizeable transactions.

The IT function itself often has the highest volume of integration activity over the longest period of time, and commonly has the highest number of dependencies from other functions.

Close collaboration with business leaders to determine the business impact of IT Integration is a key success factor for any integration.
Introduction

M&A transactions are often executed to gain access to new markets and products. While the revenue building effects of new markets and products can be fairly immediate, and certain redundant costs can be quickly eliminated, capturing and sustaining value over the long-term is a more difficult task. One of the most complex areas to manage over the long term is the integration of Information Technology.

The highest volume of activity over the longest period of time in an integration, particularly a large-scale integration, most often occurs in the Information Technology environment. This volume alone increases complexity, and this complexity is exacerbated by the fact that Information Technology (IT) commonly has the highest number of dependencies from other functions. It is no wonder why research consistently shows that integrating information systems is one of the top integration challenges for sizeable transactions.¹

To deliver following a deal, an organization’s IT integration strategy must be closely aligned with the company’s strategic objectives and goals, and further refined to meet the unique needs of each individual business unit. Without alignment, the IT integration will result in a list of initiatives with little connection to the big picture. Building staff commitment to new goals and ways of doing business, and supporting these initiatives through a smooth integration of information technologies is vital to securing the stability and momentum to realize cost efficiency and maximize synergy capture.

IT collaboration and partnership with business leaders to determine the business impact of IT Integration is a key success factor for any M&A integration.

¹PwC’s 2017 M&A Integration Survey Report
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
Set the course

An 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 during the transition. This empowers members of the integration team—including information technology—to communicate effectively and take decisive action.

Early planning and a clear understanding of the newly combined company’s goals are essential to successful IT integration. The needs and requirements of the combined company’s current and target business models will determine which IT integration approach—absorbing one company’s systems into the other’s, using the best of both companies’ systems, or developing and supporting standalone systems—will allow the company to achieve the desired end state quickly and efficiently.

Setting the course for IT integration involves a thorough assessment of the IT environment across all major IT components—business applications, supporting infrastructure, organization, spending, assets, etc.—to provide a complete picture of integration opportunities and challenges. This requires close collaboration and partnership with business leaders to determine the business impact of IT integration opportunities—one-time costs, time-phased cost savings, timing, and risks—as well as potential interdependencies. IT opportunities are then based on revenue enhancement, cost savings, timing, level of effort, and risk avoidance.

For the newly combined company, this forward-thinking approach requires a strong IT decision-making and ownership structure. With such a structure in place, a company can be assured that emerging issues will be resolved in a way that is consistent with the company’s overall goals and strategy and will help reduce or avoid disruption to operations. This is particularly important when it comes to connecting business process integration responsibilities with systems integration responsibilities.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations.

Because IT makes up the backbone of internal and external communications, it is imperative that certain systems and management reporting tools are operational on Day One. These systems typically include interim solutions for connecting internal and external users, providing key data and select application access, seamless help desk support, and specific systems that support financial reporting and human resources. Not only are these systems integral to smooth operations, they also provide connectivity and communication between the newly combined company.

The key initiatives and IT projects for Day One should be rigorously managed as they tend to involve complex, expensive, and most likely permanent solutions. Moreover, any problems with these systems will cause frustration among customers and employees and have the potential to disrupt operations.

Another primary Day One imperative is to establish guiding principles that will dictate how specific IT integration projects will be structured. This will be crucial as the company moves forward to develop its future state operations.

Focus areas for Day One integration

| Business applications | Availability of key business applications is critical for Day One. Management information, application usage, systems access, and training requirements should be defined for each application to help ensure seamless operation of the surviving or parallel applications on Day One. In planning for the longer-term integration, the newly formed company should agree upon standard applications for each business function, an integration roadmap for enterprise systems, a joint team of business users and IT professionals for all impacted areas, and established standards for conversion and integration tools. |
| Management reporting | Almost immediately, leadership will require tools and processes to provide a consolidated view of the business’ key performance indicators (KPIs). IT should anticipate an immediate need for reporting tools to consolidate information from the acquired business to provide enterprise-view business performance. Early identification and evaluation of key data sources and data structures, as well as available reporting tools, will be critical to help ensure the necessary management reporting is available on Day One. |
| Office of the CIO (IT Business Operations) | The Office of the CIO should be ready to manage ongoing IT business operations in addition to supporting the integration effort of combining IT organizations on Day One. The IT integration team will typically report to this office as it makes human capital and financial decisions for the new IT function in the areas of IT project management, IT governance, compliance, integrating IT resources, and developing a financial plan for the function. This also typically includes the custodian of records function in close collaboration with the legal team to help ensure compliance for all document or data retention requirements. Management should also move quickly to define clear accountability and reporting relationships throughout the IT organization. Headcount rationalization should be completed to keep the team focused during the transition phase, and a time-phased staffing plan of the future operating structure should be defined. |
| Infrastructure | IT infrastructure affects a range of IT elements, including data centers, data networks, voice networks, email and calendaring. IT integration can be an important opportunity to make the transition from parallel, and often redundant, infrastructure to single, shared data networks, voice systems, domain structures, audio/video conferencing, software and hardware deployment processes for PC workstations, and systems management tools. |
### Plan for and execute Day One

#### Focus areas for Day One integration (continued)

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td><strong>Enterprise architecture</strong></td>
<td>Setting the proper course and planning for Day One requires insight into both companies’ existing enterprise architectures—network and application architecture and architectures for data, voice, computing, directories, platforms, and operating systems. A high level assessment will help ensure Day One planning and execution teams are in agreement on immediate requirements and solutions, and may also point out key gaps that can potentially impact the long term IT integration strategy and incremental investment(s) to achieve an integrated end state.</td>
</tr>
<tr>
<td><strong>Information security</strong></td>
<td>Information security is a crucial element of IT management. For Day One, the newly combined company needs to implement interim and long-term plans for an integrated Information Security organization, starting with a common security governance and architecture. Integrated incident response, access management for new employees and select non-employees, and security compliance are also high priority areas.</td>
</tr>
<tr>
<td><strong>Projects</strong></td>
<td>Priority should be placed on rationalizing the IT project portfolio to include only critical projects so that resources can be made available to plan and execute potential deal synergies. A focused review of the existing project portfolio across both entities is required to help ensure only those projects that have strategic value to the combined business are continued. In addition, a resource capacity analysis should be completed to determine the availability of existing resources and the need for third-party support.</td>
</tr>
<tr>
<td><strong>Spending</strong></td>
<td>A total spend analysis should be completed to understand the “cost to serve” across each entity and to identify areas where costs can be reduced through consolidation, process improvement, or elimination of services and/or assets. In addition, a complete and time-phased understanding of the one-time costs (e.g., consulting, software licensing, and hardware/equipment) should be developed to provide a holistic view of the P&amp;L impact. These estimates should be compared to third-party benchmarks and industry data to validate current and future spending levels.</td>
</tr>
<tr>
<td><strong>Systems operations (support)</strong></td>
<td>Day One IT operations should include support. This means developing the right support framework, procedures and processes for the delivery and enhancement of information technology central to day-to-day customer support. This can include enterprise change management, service level agreements, help desk support, asset management, and training support.</td>
</tr>
<tr>
<td><strong>IT vendor management</strong></td>
<td>A consolidated view of IT related third party commitments should be established as soon as possible. This includes a defined set of vendor processes—typically partnering with the Procurement department, a consolidated set of service level metrics, a consolidated contract database and beginning templates, and an initial master roadmap for contract consolidation.</td>
</tr>
<tr>
<td><strong>Outsourcing</strong></td>
<td>The use of qualified outsourcing to provide non-strategic IT services may reach critical mass and continue to play a significant future role in IT. With any merger of two organizations where outsourcing is used, a well thought out plan of the future state of the outsourcing relationship needs to be developed. Key elements to consider include impact of the contractual terms (e.g., early termination, change in ownership, change in services), the vendor’s ability to service the combined entity, and the cost impact of any potential changes (both one-time and run-rate). In addition, the company may consider outsourcing in the future to accelerate the integration, reduce ongoing costs, inherit best practices, and improve service levels.</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>Outside of facilities, IT often maintains the single biggest pool of assets within an organization. Management should focus on developing a detailed inventory of assets (e.g., PCs, Servers, Network Equipment, Data Center equipment) and soft assets (e.g., software licenses, intellectual property) to determine consistency, compliance, and potential cost avoidance due to oversupply or economies of scale. In addition, any change of ownership issues should be identified and addressed to avoid surprise one-time costs.</td>
</tr>
</tbody>
</table>
Design and maximize future state operations

IT integration must be carefully orchestrated to maximize value creation, minimize costs, and realize integration objectives. This includes integration of IT core processes, such as systems development and delivery, data management, and infrastructure provisioning; supporting processes, such as third-party services, IT reporting structure, and operating procedures; and control structures, including governance practices, internal policies, and the usage of specific tools.

Every aspect must come together to deliver the fundamental promise of IT: the creation of value for customers (internal and external) through the effective deployment of technology. Developing and deploying a detailed IT integration plan can increase the likelihood of realizing value creation and maximizing the effectiveness of future state operations. The IT detailed integration plan consists of a balanced mix of application and data, infrastructure, and process related projects by business unit.

Creating the IT detailed integration plan typically has four key stages that should begin just before the transaction closes and be complete about 100 days after that closing. Please see Figure 2.

**Figure 2.** The PwC four stages to create and deploy the IT detailed integration plan.
## IT detailed integration plan creation and deployment

<table>
<thead>
<tr>
<th>Stage I: IT transition operating model and IT environment assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>This stage utilizes two key tools to guide the overall IT integration process. The IT Transition Operating Model serves as a transition guideline containing as-is, intermediate, and end-state stage models defining the key components (process, applications, data, infrastructure, people) of the IT Organization targeted for implementation and deployment. The overall assessment and Asset Inventory is necessary to help ensure comprehensive integration analysis, identifying interdependencies, and appropriate decision making throughout the integration process, and includes three key components: business applications and systems, key infrastructure and hardware components, and vendor contracts and license agreements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage II: Gap/fit analysis, rationalization, selection, proposed projects</th>
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</thead>
<tbody>
<tr>
<td>This stage begins the detailed, tactical level analysis of the IT integration process with a gap/fit analysis, rationalization, and selection in three areas—business applications and systems, infrastructure and hardware, and vendor contracts and license agreements. This process should include an assessment of the cost savings, revenue enhancement, or risk avoidance that can be achieved through the integration of the two environments. Once decisions are made and gaps identified, individual projects are proposed for implementation to achieve the desired integrated future state. Each project needs to include timing, incremental funding, and staffing requirements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage III: Proposed project portfolio and funding/staffing approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proposed project portfolio includes all the initiatives to be implemented for achieving the desired future state, and to address gaps identified during the gap/fit analysis. This stage should also include the rationalization of existing projects and the re-evaluation and re-prioritization of the IT project portfolio to include a mix of both near and long term integration requirements. The proposed project portfolio will be presented to the executive sponsors for overall timeline, funding and staffing. Once approved, this portfolio becomes the IT detailed integration plan of record and provides the structure for governing multiple IT investments across the organization, managing these investments to create value, and ensuring a transparent and accountable project management approach to achieve IT and overall integration objectives.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage IV: Project portfolio deployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Following the approval of the proposed project portfolio, the company will need to establish the means to manage the integration effort on project, functional, and enterprise levels. Strategizing and planning is only as successful as the ability to execute. The initial excitement and focus following a successful deal closing tends to fade quickly. So a framework for execution based on sound project management principles and discipline should be created as soon as possible by leveraging dedicated resources early in the integration process. Sustaining a transparent and measured integration management process will often determine integration success or failure.</td>
</tr>
</tbody>
</table>
Conclusion

IT Integration can be a significant challenge. The sheer volume of activity creates complexity, and most functions are dependent on the IT organization to execute tasks before moving forward with their own integration plans. Close collaboration with business leaders to determine the business impact of IT Integration is a key success factor. The systematic approach to IT Integration laid out in this paper can guide companies along the path to a successful integration across functions, and position the company well for accomplishing synergy objectives.
At a glance

HR operates on the frontline of several critical aspects of the integration process. HR designs and manages the programs that attract, grow, and retain the talent needed to deliver deal value.

Effective HR integration planning and execution will equip newly combined companies to obtain the flexibility they need to engage talent and drive growth.
People are at the forefront of deal success or failure, and the Human Resources (HR) function plays a central role in driving the people agenda throughout the integration process. Changes in work practices, decision making styles, reporting relationships, organization structure, and operating models all impact how employees will perform in the combined company.\(^1\)

If HR’s integration roles are not well coordinated, risks mount and there is a greater likelihood of business interruption, talent defection, declining sales, and market confusion over the direction of the organization.

Managing the myriad of HR roles and requirements during integration demands an effective HR integration plan that aligns to the overall integration strategy. With a dedicated HR leader and integration team executing the plan, the newly combined company should obtain the flexibility they need to engage talent and drive growth.

\(^1\)PwC’s 2017 M&A Integration Survey Report
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.
Set the course

An 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 during the transition. This empowers members of the integration team—like Human Resources—to communicate effectively and take decisive action.

Setting the course for HR requires immediate attention to address critical matters important in the early stages of a merger or acquisition. Setting the course typically addresses the following areas.

**Manage people and rewards** – People follow leaders. Early selection of future company leadership will help accelerate the integration process. Selection of key talent for retention and transition should also be swift and supported by a total rewards program. The people and rewards activity should follow a systematic process and be effectively communicated throughout the combined company. The total rewards strategy should also strike the right balance between deal synergy achievement and supporting the business’ future talent needs. Missteps in any of these areas are highly visible and present reputational risk for the acquiring organization.

**Drive HR operational efficiency** – Integration is an opportunity to evaluate how best to deliver HR services to the combined organization. Driving HR operational efficiency in an integration context means designing a future-state combined HR function that eliminates duplicative effort and optimizes the cost of running the HR function. HR should outline the appropriate go-forward HR structure and services that define the HR Service Delivery model. The supporting plan should outline changes to policies, processes, and support systems.

**Address regulatory bodies and compliance matters** – Cross-border deals inherently bring complexity through legal entity and regulatory matters. The activities to manage employee transfers can be extensive, including employment contract union negotiation, interactions with government bodies, and management of immigration policies and laws that govern the employment of foreign nationals and expatriates. Cross-border transfers require additional coordination and employee relations expertise to ensure local jurisdiction and labor regulation requirements are met. It is important to inform leadership about employment negotiation requirements early in the deal process to avoid unforeseen deal delays.

Once the immediate actions are defined, the longer term strategy for HR integration should be outlined. HR integration strategy should be aligned with the enterprise-wide integration strategy to ensure alignment in realizing transaction value and integration objectives. As HR activities impact the human capital assets of the company, HR activities should also align to the newly combined company’s mission, vision, and values. HR integration strategy serves as a guide for all decisions within the HR function, spelling out the degree of integration for what will be combined and what will be kept separate, including people, process, systems, and organizations. Please see Figure 2 for key areas of HR integration focus.
<table>
<thead>
<tr>
<th><strong>Phase I – Planning &amp; Day One</strong></th>
<th><strong>Phase II – Interim</strong></th>
<th><strong>Phase III – End State</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HR organization and services</strong> Day One operating model defined</td>
<td>Future state operating model (including shared services or outsourcing) determined</td>
<td>Future state operating model and structure finalized and implemented</td>
</tr>
<tr>
<td><strong>HR information system (HRIS), payroll and talent systems</strong> HR systems, payroll, and time and attendance systems roadmap developed; payroll delivered on Day One</td>
<td>Long-term HR/Payroll systems strategy defined; vendor selection started; data migration strategy defined</td>
<td>Migration to combined HR / Payroll system completed</td>
</tr>
<tr>
<td><strong>HR processes and procedures</strong> Governance structure and decision making for Day One until processes and procedures are aligned</td>
<td>Define future state processes and procedures across functions – KPIs, reporting, work flows</td>
<td>Business processes harmonized across function (KPIs, reporting, work flows) implemented and aligned with systems integration</td>
</tr>
<tr>
<td><strong>Total rewards analysis and harmonization</strong> Total rewards due diligence, including current employment agreements and change of control requirements, conducted; retention program defined</td>
<td>Harmonization strategy for all programs developed, including base salary / pay, incentives, and benefits; compensation / title leveling reviewed</td>
<td>Total rewards programs, job structures and performance cycles aligned</td>
</tr>
<tr>
<td><strong>Employee transfer, onboarding approach and legal entity changes</strong> Employment transfer requirements defined based on legal entity structure decisions; offer transfer letters prepared and issued</td>
<td>Onboarding program implemented for transferred employees</td>
<td>Track and monitor transfers as legal entity structure requires</td>
</tr>
<tr>
<td><strong>Employee relations and policy analysis and harmonization</strong> Day One policies and procedures defined and implemented</td>
<td>Plan and timeline to harmonize HR policies and employee handbook defined</td>
<td>Combined employment and HR policies/employee handbook harmonization completed</td>
</tr>
</tbody>
</table>

*Figure 2.* This chart outlines key areas of integration focus for Human Resources, along with their typical timing across the PwC integration process.
The HR integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for the key cross-functional areas that are HR-led or impact HR, and the typical timing across the integration process for large-scale and middle market transactions.

**Figure 3.** This chart outlines key cross-functional areas of integration focus for Human Resources, along with their typical timing across the PwC integration process.

To manage the myriad HR integration activities, it is important for company leadership to quickly identify an HR integration leader, who should then establish an HR integration team, structure, and program management office. The HR integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in areas of focus for the integration strategy. Often times an HR Integration Management Office can be launched prior to deal announcement, focusing on areas such as organizational structure, key talent, executive agreements, compensation and benefits, culture, and legal matters. The HR integration leader may build upon the pre-announcement team in place, expanding activities to include areas of integration focus not yet covered, including transactional and operational areas. Concurrently, the HR integration leader should lead in the development and execution of the enterprise change management strategy and plan encompassing the seven critical change drivers.²

²PwC’s Change Management in M&A Integration
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations. The HR integration team should define what is in and what is out for Day One, rapidly prepare for employee onboarding, and develop an interim and go-forward vision for the combined HR function.

Focus areas for Day One integration

<table>
<thead>
<tr>
<th>Focus area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR organization and services</td>
<td>Define Day One combined HR organization structure, with reporting lines, decision rights, processes that align with the overall organization strategy and business needs. HR operating model and delivery model is defined and adjusted to meet the needs of the combined organization. Once the HR delivery model is finalized, then assess the alignment of the current HR infrastructure to support the delivery of HR services.</td>
</tr>
<tr>
<td>HR information system (HRIS), payroll and talent systems</td>
<td>Processing payroll is one of the more important Day One requirements. The HR function should be properly equipped for Day One and beyond as it relates to payroll, time and expense, and time and attendance. This includes both the policies and processes along with the supporting technology. Engage Finance and IT stakeholder (and other appropriate functions) to align on Day One data migrations. Determine how best to integrate the target’s HR technology, infrastructure, systems, processes and policies with the acquirer’s existing HR systems, policies, technology, and infrastructure.</td>
</tr>
<tr>
<td>HR processes and procedures</td>
<td>Critical HR processes are harmonized and streamlined to ensure HR services are delivered in alignment with the Day One HR operating model and business strategy. Governance and decisions rights for the combined HR team are clearly defined and understood.</td>
</tr>
<tr>
<td>Total rewards analysis and harmonization</td>
<td>Executive agreements are evaluated for change in control provisions and to understand triggers and Day One payout requirements. New agreements may be required (or desired) for executives retained post close. Financial retention program is developed and budgeted for pre-close. Equity conversion and payout (as defined in the purchase agreement) also needs to be analyzed and executed.</td>
</tr>
<tr>
<td>Employee transfer, onboarding approach and legal entity changes</td>
<td>Identify employee transfer requirements based on deal structure and/or legal entity changes and plan to execute transfers on Day One. In some cases, transferring employees may need new offer letters, to meet the buying company’s employment requirements (background and drug tests for example), and to complete new HR paperwork (such as I-9s) on or before Day One.</td>
</tr>
<tr>
<td>Employee relations and policy analysis and harmonization</td>
<td>Determine compliance, regulatory and other high-priority HR polices – for example, code of conduct or inside trading polices – that require Day One implementation. Once Day One policy requirements are defined, an implementation plan for employees to acknowledge the new polices is developed and deployed on or soon after Day One.</td>
</tr>
</tbody>
</table>
Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

Integration is an excellent opportunity to evaluate how best to deliver HR services to the combined organization at a competitive cost. HR delivery models may take several forms, including whether to manage with in-house or outsourced resources or a combination the two. HR leadership should carefully consider the overarching vendor strategy and available options in terms of the fee structure relative to the level and quality of service delivery. During the delicate transition stage, HR should balance cost against the risk of jeopardizing a smooth process. HR service delivery should also have an interim state and a future state, and consider the following initiatives:

- Simplify and standardize policies—from hire to retire
- Optimal sourcing strategy (outsourcing, co-sourcing, insourcing) to address unique business needs
- Optimize systems and data management

The HR function will also play a substantial role in designing and maximizing future state operations for cross-functional integration areas, including organization design, workforce management, communications, and change management. The HR function will frequently work closely with the Finance and Information Technology functions to plan and prioritize overlapping areas related to HR systems and the HR organization.

Cross-functional focus areas for future state operations

| Organizational and workforce transition | HR typically works closely with leadership of each function to design and implement the future state organization. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. |
| Communications and change management | Manage the transition through communications tailored to each category of HR employee group, including permanent hires, transitional employees, and terminated employees. Communications should leverage retention strategies, including compensatory for transitional employees and primarily non-compensatory for permanent hires. |
| Value drivers and synergies | Leverage the synergy analysis and financial model developed during the diligence process and work across functions to include the most current information from Day One planning in developing HR value driver business cases. The overall synergy tracking effort is managed by Finance, and HR plays a key role in facilitating activities related to talent attrition. |
| Legal entity integration | As tax designs a tax efficient legal entity structure and step plan, cross-functional coordination is required to align tax steps with operational and financial integration changes. The aim is to minimize business disruption while optimizing tax structuring steps. HR collaborates across functions to determine the structure that minimizes disruptions to human capital assets. |
Capturing and communicating deal value requires successful HR integration in all areas—within HR and across functions. HR operates on the frontline of several critical aspects of the M&A Integration process that drive or erode deal value. HR designs and manages the programs that attract, grow, and retain the talent needed to deliver desired deal outcomes. HR also plays a critical role in stabilizing the organization through leadership selection and organization transition.

Following the approach to HR integration articulated in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to deliver results while instilling confidence among stakeholders.

Conclusion
Facilities Integration

Leveraging facilities for deal success

By Barrett Shipman

April 2017

At a glance

Good Facilities integration looks beyond the usual cost saving opportunities.

The impact Facilities consolidations and workplace changes can have on employee culture and productivity should not be underestimated.

Decisions to outsource or centralize operations should be considered prior to adopting a Facilities consolidation plan.
Introduction

In an M&A context, Facilities integration is often regarded as an afterthought. However, detailed Facilities integration planning prior to transaction close and execution of initiatives post-close have a very real impact on a company’s chances for integration 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 significant impact on critical intangibles like company culture, employee morale, and retention.

Tactical changes 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 employees and to the broader marketplace.

1PwC’s 2017 M&A Integration Survey Report
The issues our clients face, the actions we help them take

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**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities 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. Setting the course involves defining clear objectives and 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. An important challenge can arise in planning for and executing the Facilities operating model, considering that a facility and its office layout can directly impact workforce culture and productivity. For example, office layout designs that create “neighborhoods” can enhance collaboration and productivity, while separating departments across different floors and locations may have the opposite impact. Making the right decision on the Facilities operating model is a critical step in providing an environment suitable for the business needs of the organization and its departments.

In addition, Facilities integration relies heavily on cross functional communication and executive guidance. Facilities plans are 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.

Common areas of focus to Set the Course for Facilities integration

<table>
<thead>
<tr>
<th>Real Estate Portfolio and Lease Administration</th>
<th>Shipping and receiving</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lease strategy</td>
<td>• Mailroom</td>
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<tr>
<td>• Property management</td>
<td>• Third party vendors</td>
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<tr>
<td>• Space and capacity planning</td>
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<tr>
<td>• Site strategy and integration</td>
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<tr>
<td>• Finance and budgeting</td>
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<tr>
<td>• Site specific vendor lists</td>
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<tr>
<th>Buildings and Sites</th>
<th>Security</th>
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<tbody>
<tr>
<td>• Signage</td>
<td>• Physical building</td>
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<tr>
<td>• Permits</td>
<td>• Executive security</td>
</tr>
<tr>
<td>• Maintenance, testing and inspection</td>
<td>• Badges and access control</td>
</tr>
<tr>
<td>• Infrastructure</td>
<td>• Site emergency contact list</td>
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<tr>
<td>• Help desk</td>
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<thead>
<tr>
<th>Administrative Services</th>
<th>Health and Safety</th>
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</thead>
<tbody>
<tr>
<td>• Reception and telecommunications procedures</td>
<td>• Local laws and regulations</td>
</tr>
<tr>
<td>• Hallways and conference rooms</td>
<td>• Safety programs</td>
</tr>
<tr>
<td>• Break and common areas</td>
<td>• Fire safety</td>
</tr>
<tr>
<td>• Supply and copier areas</td>
<td>• Defibrillators</td>
</tr>
<tr>
<td>• Cleaning</td>
<td>• Material safety data sheet</td>
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</tbody>
</table>

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<thead>
<tr>
<th>Hospitality</th>
<th>Spill prevention, control, and countermeasure</th>
</tr>
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<tbody>
<tr>
<td>• Food and beverage services</td>
<td></td>
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<tr>
<td>• Fitness services</td>
<td></td>
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<tr>
<td>• Concierge services</td>
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</tbody>
</table>

Cross-functional areas to consider:

• Insurance
• Purchasing cards
• Travel
• Technology infrastructure
• Legal contracts
• Insourced/outsourced vendors
• Business continuity planning
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential 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. Matters like insurance, company credit cards, executive security, and employee travel are sometimes handled by other functions such as 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 telephone 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. Figure 2 provides a framework for optimizing the future state Facilities operations.

Facilities Optimization Framework

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.
Conclusion

Consolidating Facilities is often an important part of two companies coming together, and it often has a high impact on employees. The physical closure of Facilities and movement of assets from one facility to another may be considered a routine activity in capturing synergies to deliver deal value. However, organizations should not overlook the people impact of Facilities consolidations and the messages such movements communicate, intended or not.

The impact of Facilities consolidations extend to overall integration strategy. Consolidations must be in sync with the future operating models and long-term integration plans of other functions. Accordingly, companies need an optimized Facilities model early in the integration process and in conjunction with cross-functional activities.
Legal Integration

The legal function’s role in
enabling integration

By Paul Hollinger and Gregg Nahass

April 2017

At a glance

The volume of Legal work
to be completed as part of a
deal can be overwhelming.

The burden on the Legal
department is often
exacerbated by the need
to perform contract reviews
before other functions can
commence critical integration
planning.

Prioritizing Legal requirements
and implementing disciplined
project management are key
success factors for the Legal
department in navigating
transaction pitfalls.
Transactions take a toll on Legal departments. From initial due diligence to antitrust clearances, from intellectual property matters to employment law challenges, and from reviewing customer and vendor contracts and licensing agreements to preparing new ones, there is much to be done—many third parties and Legal professionals are often involved.

The sheer volume of Legal work that must be performed during M&A integration can be overwhelming. A Legal department can find it challenging to organize and prioritize efforts, quickly becoming a bottleneck to critical integration activities across the company. Legal miscues and delays can cost both time and money, and in some cases, can even cost the deal itself.

Already understaffed Legal teams are overwhelmed by the added workload associated with a transaction, often struggling to manage transaction-related responsibilities on top of normal day-to-day tasks. The burden is increased by the need to prioritize and perform Legal reviews and approvals to support integration activities across the company. Even though Legal departments typically have the freedom and the budget to engage outside counsel for help, in-house counsel is still ultimately responsible for the work of their advisors and the related outcomes.

While a consistent, top-down enterprise-wide integration process is a key success factor in any M&A integration, this is especially critical for the Legal department’s success.
The issues our clients face, the actions we help them take

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Essential Legal tasks should be identified, planned, and prioritized before they can be executed in a coordinated manner. Setting the course for Legal requires attention to critical matters throughout the merger or acquisition. Please see Figure 2 for key areas of Legal integration focus.

<table>
<thead>
<tr>
<th>Phase I – Planning &amp; Day One</th>
<th>Phase II – Interim</th>
<th>Phase III – End State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-trust and information management</td>
<td>Coordinate information requests</td>
<td>Manage antitrust filings</td>
</tr>
<tr>
<td>Contracting</td>
<td>Manage Change In Control (CIC) issues</td>
<td>Assist with renegotiations</td>
</tr>
<tr>
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<td>Ensure Tax considers HR and labor issues with structuring</td>
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<td>Litigation</td>
<td>Review and assess pending litigation</td>
<td>Manage impacts of transaction on litigation</td>
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<tr>
<td>Intellectual property (IP)</td>
<td>Protect IP through close</td>
<td>Support tax team to identify optimal future entity to hold IP</td>
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<td>Corporate administration and structuring</td>
<td>Assist Tax on restructuring step plans</td>
<td>Execute and monitor steps in the transaction close</td>
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**Figure 2.** This chart outlines key areas of integration focus for Legal, along with their typical timing across the PwC integration process.

Setting the course for Legal success requires a simultaneous and coordinated effort on a number of fronts. One of the critical success factors is the establishment of a Legal integration lead, responsible for identifying sub-teams and leaders for each Legal specialty, setting ‘rules of engagement’, determining escalation protocols for dealing with specific matters, and developing action plans for handling special issues such as ongoing litigation and contract disputes. This structure forms the basis of the Legal integration management office.

A Legal integration management office should also be responsible for training others about information sharing protocols and the need for commercial confidentiality during the transition period. Allowed and disallowed activities, and procedures for handling proprietary information, should be identified and communicated to the various integration teams, both in the U.S. and internationally.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of mission critical operations.

Day One is about demonstrating the combined company’s ability to achieve business as usual as quickly as possible—and those early operating successes (or failures) signal the likelihood of success, to both employees and other stakeholders.

A critical Day One requirement for the Legal department typically involves contract reviews. The volume of contract reviews requested by virtually every function prior to transaction close can be overwhelming. Common ones include sales requests for customer contract review of pricing, volume, expiration, and other key terms necessary for evaluating cross-selling and other revenue generating synergy opportunities. Operations, R&D, and business unit requests for key vendor and partner contract review of product development commitment, intellectual property ownership and licensing, supply purchase commitments, and title ownership over goods, facilities and equipment for the evaluation of future product development and manufacturing roadmap plans. Facilities requests for lease contract reviews, information technology requests for software license contract reviews, and finance requests for other vendor contract reviews—all necessary for evaluating procurement and cost saving opportunities. And human resources requests for employment contract reviews to identify change of control and other key provisions required to ensure smooth employee transition and to evaluate stock option and other compensation requirements.

While most in-house counsel is utilized for day-to-day tasks, contract reviews can become overwhelming. If this process does not start early, and in a coordinated fashion, contract review and associated tasks can quickly become too great for the organization to handle.

Another area that often takes precedence for the Legal department is compliance with U.S. and foreign antitrust laws. Notification and waiting period requirements in the U.S. under Hart-Scott-Rodino (HSR) serve to limit the sharing of commercial information during the transition period. And, with more and more deals involving an international component, the rules and regulations of the European Union and other government bodies require local country pre-notification and prohibit circumstances that may give rise to implied mergers, with some countries imposing civil—and criminal—penalties for violators.

Some things to remember when integrating Legal functions

- **Proactively manage cross-functional dependencies between Legal and other functions.**
  Legal must strike a balance between establishing control to prevent inadvertent Legal, tax, and employment law exposure and providing timely guidance across the enterprise to allow for rapid execution of integration activities. Be sure there is a clear process for identifying and escalating Legal review of cross-enterprise integration activities and communications.

- **Understand what’s in and what’s out.**
  It is critical to identify which tasks are owned by Legal versus Human Resources (e.g. managing employee severance and transitions), versus Communications (e.g. employee and external communications) versus Tax (e.g. Legal input on the entity structuring and potential impacts).

- **Examine Legal agreements and contracts early.**
  Immediately inventory all agreements and contracts and focus on those with Change in Control (CIC) provisions, intellectual property (IP) ownership issues, or other priority contractual obligations. Thoughtful planning, review, renegotiation, termination, and execution of new agreements could save millions.

- **Work with resources in your local markets.**
  The more globally dispersed your operations, the more you will need to depend on local Legal and regulatory advisors to deliver on your plans.
Design and maximize future state operations

In addition to managing the integration of the buyer and target Legal functions, Legal plays an important role in defining the pace and course of integration activities across the enterprise. Legal must monitor and execute the appropriate Legal tasks to consummate the transaction, including drafting agreements, preparing Board reviews and approvals, gaining internal consents, and preparing for shareholder approvals. Concurrently, Legal must partner closely with leaders across the organization to ensure tax benefits are preserved, Legal exposures are minimized, and clear communications around what, where, and when certain activities can be executed across the enterprise and across multiple jurisdictions.

Proper planning for Legal integration should address each of the following matters, and more

Legal entity consolidation
- Identify post-merger legal entities
- Develop entity consolidation plan, clarify timing of integration activities
- Determine regulatory and anti-trust impacts
- Determine cross-functional legal requirements (Facilities, Finance, HR, Marketing, Sales, etc.)

Intellectual property
- Develop plan for cross license agreements
- Define process for handling patents, copyrights, and trademark agreements
- Segregate files consistent with the sale of intellectual property

Reduction in force and employee reviews
- Research employment law considerations
- Comply with works council, notification rules, and other country-specific guidelines
- Review employment contracts for change-in-control and other triggers
- Review employee handbooks and ethics policies

Litigation
- Review pending litigation substitution activities and filings
- Review common interest agreements
- Determine and review outside counsel and conflict resolution

Import/Export requirements
- Reconcile differences in planned distribution models
- Ensure all import processes are in place

Vendor, supplier, and licensing agreements
- Resolve conflicts in confidentiality and teaming agreements
- Secure third party license consents needed to cross sell
- Determine material change-in-control impacts

Customer contracts and leases
- Reconcile differences in future pricing models
- Review contracts and leases for change-in-control impacts
- Prepare new joint sales contracts and lease agreements

Systems and processes
- Develop plan for migrating contract management systems
- Define contract authorization thresholds and protocols
- Determine document retention policy and archiving

Documents and Records Management
- Review retention policy review
- Transition physical archive transition
The Legal department plays a critical role in getting the deal done while mitigating risks and exposures of the newly combined company. The Legal department is also instrumental in enabling the rest of the organization to operate efficiently in pursuit of realizing synergies and sustaining daily operations.

M&A transactions place a significant burden on corporate Legal teams due to the volume of deal related activity occurring from diligence through post transaction close. As a result, the Legal department should plan early for the myriad of activities across the enterprise requiring Legal input and review. The Legal team should be prepared to staff appropriately for managing the volume of work.
At a glance

The volume of tax work and activities to be completed as part of a deal can be overwhelming.

Planning early in the transaction can significantly impact the combined company’s future effective tax rate, cost of tax compliance, and ability to utilize tax attributes.

Tax considerations are also the drivers that help shape legal entity integration, transfer pricing and operating model rationalization, and employee deployment.
Introduction

Amid the excitement of a transaction, the tax aspects of integration are often viewed as overwhelming, overly complex, and “back-burnered” to the realm of post-deal business integration timelines. Having an aligned tax, business, and transaction strategy can help buyers focus their efforts on critical integration activities and avoid costly mistakes, as tax considerations are the drivers that help shape legal entity integration, transfer pricing and operating model rationalization, and employee deployment.

While executing a tax strategy and integration may be admittedly challenging, careful planning before and immediately following transaction close can have a significant impact on the combined company’s future effective tax rate, cost of tax compliance, and ability to utilize tax attributes.

Although the tax positions of a target company are carefully studied as part of the due diligence process, acquiring companies often fail to pay enough attention to the intricate requirements of integrating the operational aspects of the tax structure and tax department function to enable a smooth transition.

The early involvement of the tax department in integration decisions is critical because it enables the company to achieve desired pre-acquisition structuring while coordinating with other functional teams such as legal, finance, IT, and HR to prepare a plan for Day One and post-acquisition activities.
The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

Figure 1. The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities 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. Setting the course involves defining clear objectives and establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including Tax—to communicate effectively and take decisive action.

Setting the course for tax integration success requires a disciplined focus on key value drivers:

- Creating a tax efficient structure that produces an improved effective tax rate and allows for efficient cash movement and redeployment to where it is needed, both inside and outside the US
- Rationalizing the overall legal entity structure to improve compliance and administrative costs while preserving potential tax attributes
- Designing a reporting system and managing documentation that will allow for efficient tax accounting and compliance

Early stage cross-functional communication is critical to successful tax integration since tax planning can be significantly impacted by Legal, Finance, IT, HR and other functional decisions. For example, the decision to change a legal entity’s structure or historical operations, adopt new general ledger systems, relocate material functions, or terminate employees can have a significant impact on the combined company’s tax position and ability to comply with tax accounting and tax return deadlines. Leading practice is to identify a tax integration lead—a person who is responsible for identifying sub-teams and leaders for each tax area of interest.

The tax integration lead is primarily responsible for ensuring that tax matters are addressed by other functions and tax-related input is considered within other major workstreams, leading to seamless integration planning. Please see Figure 2 for key areas of tax integration focus.

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**Figure 2.** This chart outlines key areas of integration focus for Tax, along with their typical timing across the PwC integration process.
Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential operations.

The goal for Day One is to have a plan in place to manage the combined company’s tax function and meet the financial and compliance reporting obligations of the collective organization over the next nine to 12 months. Ideally, while setting the course, critical decisions have been made jointly with cross-functional teams, and now it is time to execute the plan.

While setting the course, many companies decide that duplicative legal entities within a jurisdiction will be eliminated post-close in an effort to reduce complexity and the cost of compliance (both for tax return and statutory account purposes). However, the need to reduce complexity must be balanced against whether there are any valuable tax attributes—such as tax losses, credit carryforwards, or high tax basis—which may be inadvertently eliminated in the absence of careful structuring.

For example, in some jurisdictions a merger of a legal entity with tax loss carryforwards may prohibit the use of the tax losses. In other jurisdictions, the ability to preserve tax losses depends on whether the buyer or target’s legal entity survives the merger. It will be critical for the tax integration team to be involved in the decision about how best to eliminate legal entities.

Tax due diligence procedures may have been undertaken while setting the course to identify potential historic tax liabilities inherited in the transaction. It is critical that tax exposures identified during due diligence are further researched, properly documented, and recorded in purchase accounting. Note that under FAS 141R, liabilities not identified in purchase accounting (generally within one year of the close of the acquisition) and not accrued as part of purchase accounting will result in an adjustment directly to the provision for income taxes in the period incurred.

Additionally, the buyer should anticipate people attrition in the target company’s tax and finance department. During this transition it is critical to quickly identify, secure, and understand the tax related documentation of the target company to ensure the combined entity will be able to comply with its tax accounting and tax compliance deadlines. The buyer may be required to defend the historic tax positions taken by the target company under examination long after the target company’s personnel have left the company.

Some things to remember when integrating Tax functions

- Proactively manage cross-functional dependencies between Tax and other back-office functions, including Legal, Finance, IT, and HR. The decisions made by other functional areas may have an adverse impact on the combined company’s tax position without proper tax input. Be sure there is a clear process for identifying and escalating tax review of cross-enterprise integration activities.

- Understand what’s in and what’s out. It is critical to identify which tasks are owned by the tax function. Areas such as Section 280G (i.e., golden parachute provisions) and Section 409A (i.e., deferred compensation) are often handled by HR or Legal, and cash redeployment is often handled by Treasury.

- Work with advisors that have appropriate global reach. The more globally dispersed your operations, the more you will need to depend on local legal and tax advisors to deliver on plans that are carefully tailored to the local taxation system complexities.

- Develop an integration schedule that meets the ongoing financial reporting and compliance obligations. Quarterly tax accounting and tax return deadlines will still need to be met while the integration process is underway. Be sure that accounting and tax information required to meet these deadlines continues to be accessible during the integration process. Additionally, the complexity of reporting for the combined operations must be considered.

- Design a tax organization structure with an optimal number of people with the right skills in the right positions to support the integration. The integration process and resulting tax structure may require tax personnel to transition to new roles, or may require the hiring of personnel with the optimal skill sets to support the new organization. Another approach may be to outsource tax planning to a third party.
A critical post Day One tax integration activity is to develop a strategic plan for the combined function. The goal is not simply to select leadership, reduce headcount and enable continued operations, but to improve tax-related activities — positioning the new department to be effective in the future. The integration strategy should be aimed at establishing proper controls, increasing efficiency, and reducing risk.

### Proper planning for Tax integration should address each of the following matters, and more

#### Purchase accounting
- Ensure potential tax exposures are properly identified and recorded, where appropriate
- Assess the need to record or release a valuation allowance on acquired tax attributes
- Evaluate IP ownership to ensure appropriate deferred tax accounting
- Assess stock option plan assumptions to ensure that appropriate deferred tax accounting is applied
- Establish appropriate APB 23 assertions (cash permanently invested off-shore)

#### Tax compliance
- Identify jurisdictions where combined or stand-alone returns must be filed going-forward (US federal and state, foreign jurisdictions)
- Identify requirements to file pre- and post-closing short-period tax returns
- Assign responsibility for the tax compliance function of the combined business in the various jurisdictions

#### Legal entity simplification
- Review combined legal entities by jurisdiction
- Assess potential elimination of legal entities and analysis of any adverse tax consequences associated with their elimination (e.g., triggering of tax, loss of tax attributes, etc.)
- Coordinate with other functional areas to confirm proper documentation of legal entity rationalization and ensure intended tax treatment
- Identify local country filings and other requirements

#### US Federal tax planning
- Prepare additional documentation to support future attribute utilization (i.e., Section 382 analysis), and identification of planning opportunities to more effectively utilize existing tax attributes going-forward
- Conduct accounting methods study and execute advantageous accounting methods changes where relevant
- Complete transaction costs analysis and cost segregation studies, as applicable
- Make tax elections related to the completed transaction as applicable (Section 338 elections, election to waive NOLs, new election to file a consolidated return, etc.)

#### Global structuring
- Develop tax efficient value chain (e.g., consider U.S. versus foreign sourcing of income, location and profitability of manufacturing operations, use of principal distribution companies)
- Plan business alignment of non-US intellectual property (IP)
- Ensure IT platforms are equipped for additional compliance burdens
- Consider global treasury strategies such as the use of internal leverage, intermediate holding companies, financing entities, etc.
- Identify whether off-shore cash can be redeployed and at what cost
- Pursue planning opportunities to more effectively utilize foreign tax credits
- Examine implications of new post-acquisition structure of current and proposed transaction flows on indirect tax (e.g., VAT, customs or duties)
- Identify and assess foreign currency issues

#### Transfer pricing
- Conduct transfer pricing analysis to ensure appropriate pricing of various related party transactions
- Assess debt capacity and supportability of inserted leverage and interest rates
- Consider how new IP platform, global financing structure and combined operations of legacy business and acquired company’s business will change transfer pricing policies going-forward
- Support transfer pricing methodologies with contemporaneous transfer pricing documentation

#### State and local tax
- Identify and complete tax elections necessary due to change in ownership (e.g., water’s-edge elections, state consolidated return elections)
- Assess impact of change in ownership on credit and/or incentive packages of acquired entities, including need to terminate/recertify credits
- Assess sales and use tax filing requirements under new integrated structure, and need to collect additional documentation (i.e., exemption certificates) to strengthen compliance of acquired business
- Consider need for additional state registrations (e.g., sales/use tax, payroll/unemployment tax, historic wage base)
Consolidating tax functions is often an important part of two companies coming together, and it often has a high impact on the overall integration plan of the entire transaction.

Early involvement of the tax department in integration decisions is critical to managing the tax implications of the deal, managing the effective tax rate, ensuring compliance with regulatory laws, and maximizing the deal value.

Aligning the tax strategy to the business strategy helps to enable the combined businesses improve the company’s long term tax position. Aligning tax strategies and creating an integration plan to sync a tax-efficient legal entity structure with the target operating model of the combined businesses should be done in conjunction with other cross-functional activities of the company. M&A transactions place a significant burden on tax functions due to the volume of deal related activity occurring from diligence through post transaction close. As a result, the tax function should plan early for the myriad of activities across the enterprise requiring tax input and review. The tax function should be prepared to staff appropriately for managing the volume of work.
Contacts

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For more information, please contact one of our practice leaders or your local PwC partner.

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