Midaxo

Guide to Post-Merger Integration

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- Cost Savings begin
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3+ Years
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Post-merger integration (PMI) is a fundamental stage to realizing the value of an M&A deal. It is a highly complex process, usually requiring swift action and in unison with the running of core business activities. There is no one-size fits all approach to a successful PMI process – however, careful planning, focusing on the strategic objectives of the deal and the identification and capturing of synergies will help maximize deal value.

It is inevitable that some element of information will be withheld from a Buyer pre-deal. Only upon deal close will the Buyer benefit from full insight into the Target and gain access to accurate information on which to base implementation plans. Furthermore, not all the synergy benefits originally identified in the deal will prove to be achievable – the foremost challenge for management at the outset of the PMI process is therefore to identify how value can be captured from the newly combined organization via synergies and cost savings.

The PMI process will likely be complex, time pressured and unfamiliar.

PMI is a complex process – often necessitating changes in a company's business operations, people, processes, culture and structure. The bringing together of two companies experiencing change (perhaps for the first time) while at the same time ensuring that business continues as usual is a challenge that should not be underestimated and one requiring the upmost level of planning.

It is important that the PMI process is approached with speed in mind. Investors typically expect to see synergies captured and cost savings realized within 12-24 months of deal close. The longer the

PMI process is drawn out the more likely it is that potential synergies will be lost, cost savings and economies of scale will not be realized, management will become disillusioned and key staff will leave.

For most companies PMI is not a core attribute. Rather, it is a process that will be encountered once, or perhaps a handful of times if a serial acquiring is considered. PMI requires a different skillset than is required for usual business operations. The approach taken to PMI depends on the strategic rationale behind the deal and the future intended strategy of the new organization.

Guiding Principles

The PMI process should be set against the backdrop of the deal rationale and aligned to the strategy underlying the deal. Areas which may be considered include:

i. What the underlying logic of the deal is;

ii. If the deal is to involve the Buyer absorbing the Target or the actual merging of the two entities;

iii. Which areas of the Buyer and Target are to be integrated and which are to remain as standalone;

iv. Which systems will be adopted – those of the Buyer or a combination of the best from both entities and;

v. What are the expectations of investors – how soon post-deal do they expect a return and are their expectations realistic given knowledge of the challenges which lie ahead.

Closing & Day One

'Closing' refers to the date when the SPA (Sales Purchase Agreement) comes into force and ownership of the Target transfers from seller to Buyer. This is commonly called 'Day One', as it is the first day that the Buyer is the owner of the acquired operation, or that the operations work as one legal entity. This is when the integration of the companies, or alternatively, the emerging operations, starts. Three important concepts that managers must focus on during this critical time are:

i. Communications;

ii. Operative structure;

iii. Systems & controls.

Communications

- Good communication is the way to build trust, develop motivation and share important information. Well-planned and well-implemented communication enables managers to lead an M&A project more effectively. It can prevent the negative impact of rumours and help to unify different parts of the joint company.

- If there is a long delay between the original announcement and the closing of the deal, important elements may need to be communicated again to personnel and other stakeholders. At this point, stories about new key individuals and product and service material from the acquired company can be used to enhance the message. Communication issues may include:

- What needs to be communicated on Day One?;

- What stays the same?;

- What changes immediately? (redundancies, close/mode of operations, etc.);

- What changes in the near future?;

- Where can more information be found?;

- Who answers any questions?

Provide Regular Updates	• Share information and updates on a regular basis; • Reach out to all relevant audiences; • Utilize different means of communication (company intranet, internet, newsletter, press, TV).
Engagement Managers	• Keep managers and HR updated – their buy-in is important; • Employees will turn to managers with questions and concerns.

Prepare for Leaks	• Develop a strategy should information be leaked; • Assign roles and responsibilities; • Ensure stakeholders are informed should leaks occur.
Timing is Key	• Develop a timeline and action plan; • Consider assigned roles and responsibilities of the Buyer and the Target.
Answer Questions	• Create an FAQ chart and update across the PMI process; • Address questions from customers, employees, stakeholders, partners and the media.
Tell a Story	• Connect with stakeholders; • Help audiences understand the rationale for the deal; • Consider what the audience wants to hear.

Welcoming Letter/Message

- Immediately after closing, a welcome letter or individualized e-mail should be sent to the employees of the acquired entity. Ideally the message is translated into the local language, including:
- Welcoming words from the CEO;
- Business unit lead is selected;
- Employment terms outlined;
- New location (ensure that every transferring employee is assigned a work place and is aware of it);
- New boss/supervisor/line managers appointed;

- Point of contact for questions/answers, etc.

Letter To Customers

- The Buyer's corporate communications function should arrange for all customers to be sent a letter informing them about the acquisition and any anticipated changes from their point of view;
- Key customers should be contacted directly by a sales representative and management, where appropriate.

Letter To Vendors/Suppliers

- Identify all important vendors and partners that need to be informed;
- Prepare a letter of information about the acquisition and anticipated changes;
- Co-ordinate with the corporate communications team for a unified message.

Operative Structure

Clear communication about the new management and operational structure/reporting procedure is required from Day One. If this information is not available, or is poorly communicated, there may be a tendency for personnel to follow their familiar habits. Initiating change later on can be very difficult.

When personnel changes are planned, HR should play an important role. In order to support the management in structural planning and in choices for managers, their teams and future staffing, HR must understand the company strategy.

Decisions about the new operative structure and systems are made when the joint company's strategy and goals have been agreed upon. Typically, the legacy organization structure continues until that point. How quickly the new structure can be finalized depends on the size and complexity of the deal. Unless there has been a decision to keep operations separate, a joint operating structure is normally decided upon and communicated within three months (approx. 100 days). Once the Target and its personnel are better understood, modifications are normally made to the structure after six to twelve months.

If a large M&A deal involves multiple markets, entities may need to be integrated in each of the locations.

Appoint A Managing Director/CEO

The process for selecting a new Managing Director (MD)/CEO for the joint business needs to start early.

Once selected, the MD/CEO should be involved in the acquisition process. Since personnel look to the leader in uncertain times, it would be ideal to appoint the MD/CEO from Day One. It is quite common that this individual comes from the Buyer (or its group or corporate entity). If the Target is primarily foreign, this might require an expatriate agreement. In some cases the existing MD/CEO of the acquired entity continues in the same role. In such a case it is recommended that the Buyer nominates a controller from its own organization to ensure financial integration and smooth reporting.

Decide On Key Managers

It is important to ensure that key personnel of either the Buyer's or the Target's operations are not lost before or during the integration phase. The positions and roles of key personnel during the integration process should be planned in advance and communicated at closing. However, depending on the deal, the Buyer may not have the chance to meet with any or most of the Target's managers. In that case, the first 100-day integration period can be used to gain a better understanding of the managerial competencies of both integrated operations before assigning roles. The better the needs for future managers have been specified, and processes developed to evaluate the candidates, the faster decisions can be made.

Agree On Operative & Statutory Structures

Operative

- The top-level operative organization is typically chosen by the Target's leadership (this often means the project owner and/or steering group). HR provides support to the decision-making process and assists with the implementation work.

Statutory

- If the acquisition covers a country where the Buyer already has a legal entity, a legal merger with the acquired entity should be considered.

Note: The Buyer's tax department should always be consulted regarding the tax consequences of corporate structuring. If the Buyer does not have an in-house tax team the engaging of an external advisor should be considered.

Set Governance & Management Guidelines

It is important to ensure that the Target operates under similar corporate governance principles as the Buyer's other entities. It should be ensured that the Target's managers are acquainted with the Buyer's policies.

Do's and Don'ts cover issues such as:

- New hiring;
- Redundancies;
- Salary changes, commission schemes and benefits;
- Cost approvals/authorization limits;
- Travel (approval of);
- Reports (travel, visits etc.);
- Investments, etc.

Agree On Authorizing Officers

- List the individuals who have the authority to approve (sign for) various documents (sales orders, purchase orders, employment contracts, etc.) on behalf of the organization;
- For those individuals new to the organization, it is recommended that tight approval limits are set in the first instance.

Agree On Office & Manufacturing Locations

- Study the possibility of physically consolidating the Target. The location can be one of the existing sites, or a new site if the current premises are not suitable for the combined entity. The associated costs – moving and/or renovation, selling of old premises – should be estimated as part of the study and agreed upon.

Systems & Controls

Continuation of financial and sales reporting is crucial for management to be able to control the operations of the Target and the progress of integration. It is recommended to have clear and detailed instructions with ready-made forms and templates available to the acquired entity's financial team on Day One.

- Systems may be different, but the new business, market and service areas need to be clearly instructed on the content of reporting and reporting times;
- If operational structures are not finalized at this point, temporary management systems and controls need to be established. These include comprehensive reporting and systematic management practices such as regular management team meetings;
- The acquired operations should be closely supervised to ensure transparency and control;
- The acquiring company and its corporate functions need to provide adequate support.

Cash Flow & P/L

- The newly combined organization does not automatically generate higher cash flow (see page 30).

Operative

- Track development;
- Prepare best and worst-case earnings forecasts;
- Prepare best and worst-case cash flow forecasts;
- Review and update continuously;
- Look for early warning signals of forecasts being off-track.

Statutory

Study issues including:

- Do operations continue as separate legal entities or are they combined?
- Are there tax or other implications?

Based on the information:

- Do not panic;
- Make quick decisions (apply the 80-20 rule);
- Act fast: speed is better than not acting at all!;
- Communicate any changes demanded and the reasons for them.

Assess & Act On Due Diligence Issues

- Review the due diligence report(s) prepared pre-deal to identify the issues to be addressed during the integration process. Separate issues may be allocated into different 'baskets'/responsibilities.

Embed Buyer's Management Calendar

- Implement the management calendar from the Target (for example – the schedule for monthly reporting, quarterly reporting, forecasting, medium range planning and business planning). This ensures that the Buyer's management procedures are adopted, with complete content and timely execution. Keeping deadlines is important. The Target needs to be made aware of this.

Business Plans/Budgets For The Current/Next Fiscal Year

- If the acquisition takes place well before the end of the fiscal year, prepare a business plan/budget for the current fiscal year. Otherwise, start joint business planning and budgeting for the next full fiscal year based on the schedule defined by the Buyer's management calendar;

- Investment plans should also be reviewed (and updated if necessary) as part of the budgeting/business planning process;

- Expect the business plan/budget process to take longer, as many working to implement it will be following the Buyer's guidelines for the first time;

- In the case of a smaller scale acquisition, personnel from the Target may not be familiar with a comprehensive business planning/budgeting process. It is important to explain the importance of the process to them and motivate the personnel to work on it.

Company Factsheets

- Data acquired on the Target should be collected and stored into the Buyer's corporate and local operation's databases. Use the standard company/corporate fact sheets or templates if available.

Stakeholders in the PMI Process

The PMI process can only be said to be successful if all stakeholders are happy. A stakeholder is an individual, group, or organization who may affect, be affected by or consider itself to be affected by a decision, activity, or outcome of the deal and the subsequent PMI process. This may include those internal to the organization such as project team members and employees, or those external to the organization such as customers, suppliers, business partners and finance providers.

If the deal is small the number of stakeholders may be small. However, if the deal is large in both value and geographical coverage many stakeholders may need to be considered. All stakeholders are not equal and every stakeholder has different requirements and expectations. As part of the PMI process it is important to identify every stakeholder, their needs, expectations and requirements. Doing so will increase the chance of a successful PMI process. If important stakeholders are not identified difficulties may be faced further along in the PMI process.

Stakeholder	Concerns
Owner	Confidence in the ability of new management
Management	Security of position
Employees	Security of position
Customers	Reliability and continuance of service
Suppliers	Pressuer on prices/contract items
Business Partners	Continuity of business
Tax Authorities and Regulators	Adherence to regulations
Finance providers	Impact of cash flow and debt servicability
Media	Bad press

Part II

Post Merger Integration

The Post Meger Integration Process

Pre-planning	Set the timeframe of the PMI process; Consider core strategy issues and consider engaging external advisors if necessary.	**WHEN:** Pre-deal close as due diligene nears an end
Integration Due Diligence	Obtain all relevant data on business areas and activities (consult the pre-deal due diligence report(s) if necessary).	**WHEN:** Post due dili-gence/approach to deal close when decision to proceed has been made
Integration Planning	Establish who will lead the PMI process – a mix of internal resources and external advisors may be appropriate.	**WHEN:** From Day 1
Implementation	Covering from the commencement of integration activities to the end of the PMI process. Take stock regularly to ensure the timeframe is being adhered to.	**WHEN:** From Day 1 to 100 & Beyond
Wrap-up	Complete any integration closing activities and surveys if appropriate.	**WHEN:** Day 100 at the earliest

Visioning, Shaping & Transforming

Achieving a successful PMI process can be viewed as a series of steps covering Visioning, Shaping and Transforming.

Visioning

Visioning entails setting the strategy and establishing priorities. This includes questioning what type of synergies should be prioritized – revenue synergies, cost synergies or technology. Each synergy requires a different degree of integration. People and culture are at the heart of the new organization's success. Therefore it is critical to retain key people (particularly leaders), to pay attention to cultural sensitivities and identify the type of culture that will be accepted by the Buyer and Target.

Shaping

Shaping entails defining how the Buyer and Target and their respective functions should to be integrated.

This includes detailing and implementing the integration process, in addition to managing cultural and people challenges. It is important to secure the commitment of management to capture key synergies. Unrealistic deadlines or lack of resources can easily disrupt this early process. Therefore, a project management office team should be given the responsibility of creating an integration organization structure, including an integration committee and integration teams (e.g. social/cultural negotiations, system integration, HR matter), and documenting key actions to be taken.

Carefully selected leadership, spanning line managers to executives, will facilitate making the vision a reality and foster the ideal culture for the new organization. In the context of M&A people are a sensitive issue and may be resistant to change. Therefore, a culture gap assessment/diagnostic could be carried out (such as a survey covering cultural and social matters). Furthermore, the requirements of stakeholders should be considered with the pivot points of change carefully managed and a clear message sent to them in terms of what the PMI process and resultant new organization will mean for them.

Transforming

Transforming entails the actual integration of the Buyer the Target with the end-goal being the new organization. This is the final stage of the PMI process entailing the implementation of all action points decided during the shaping phase – with the primary objective being to realize the deal value via the capturing of synergies and achieving of cost savings. This stage is the most critical and typically the most time consuming in the PMI process. It involves the monitoring of the integration progress in terms of synergy capturing and risk management, while ensuring everyone feels motivated and involved in moving the new organization forward.

PMI Success Factors

There are a myriad of factors which may contribute to the failure of a PMI process. These factors may span the visioning, shaping or transforming stages of the PMI process (see page 14) and can be categorized in terms of missed targets, loss of key people and inadequate performance in daily operations.

		Timing in the PMI Process		
		Visioning	Shaping	Transforming
Missed Targets	Strategy	✓	✓	✓
	Synergies	✓	✓	✓
Loss of Key People	Culture	✓	✓	✓
	People Retension	✓	✓	✓
Inadequate Performance in Daily Operations	Business Continuity	✓	✓	✓
	Master Plan	✓	✓	✓
	Communication	✓	✓	✓
	Process	✓	✓	✓

Pre-deal

Post-deal

PMI Overview

Integration is the phase in which the operations of the Target are merged/integrated with the Buyer's existing operations. It is also the phase during which the results of the buyer's M&A strategy and expectations for the closed deal start to materialize.

Integration Structure

- The integration process can be divided into sub-projects taking place before and after the closing (change of ownership);
- Integration planning should commence as early as possible, but during due diligence at the latest;
- Day One: first day after change of ownership;
- First 100 days: the time during when decisions are made and priorities set, so that the organizational structure can be finalized;

- 12–18 months (transition to line responsibility) during which changes are implemented;
- 3–6 years are needed for a cultural change (in some parts of the new company corporate culture may never fully change).

Top Management Alignment

Top managers of the Buyer and Target are, for the first time, part of the same organization. Up until now they have followed the different strategies given by their respective owners. Also in M&A deals, where the parties have been able to conduct open discussions during the purchase phase, the change of ownership changes personnel's priorities and commitments.

Genuine agreement and deep commitment require in-depth discussions and sometimes it entails fighting for those closely-held views and opinions. This is a process that requires time and patience.

It is recommended that soon after the change of ownership, management should take some days out of the office to get to know one other, to discuss and agree on the following issues:

Historical matters such as the pre-deal strategies, choices and individual histories;

- Markets and technology trends;
- Competition;
- Future strategy;
- Company values;
- Value creation potential, costs and risks;
- Company goals;
- Competences, size and structure of entity to fulfill the strategy;
- Integration goals, process and resources

The purpose of such a meeting is to ensure the new management team is aligned and committed to the same goals. Only this way can they convey and communicate the same message to the new organization.

First 100 Days

The first 100 days is the maximum period people can live with the uncertainty regarding the new organizational structure and decision on redundancy.

During the first 100 days:

- Put into action pre-closing decisions;
- Verify the purchase-phase (due diligence) data and gather additional information for prioritizing and decision-making;
- Better understand the Target's history, strategy and reasons for its earlier strategic choices;
- Get to know the acquired entity's management and employees.

Project Management

Every integration project needs its own budget. First estimates of integration costs can be made during the transaction or purchase phase, but in any case the integration manager/team should review and refine these estimates during the first days of the integration project. The integration manager is responsible for preparing and updating the integration budget and tracking activities and costs against the budget. The budget is then approved by the project owner or the steering group.

Typical integration costs include:

- Basic information and communication technology (ICT) infrastructure changes;
- Travel & meeting costs;
- Legal and other costs to ensure compliance with local laws and the Buyer's standards;
- Professional fees paid to M&A advisors, consultants and accountants;
- Costs related to changing the Target's insurance policies;
- Costs related to management changes (search fees, redundancy costs);
- Wider costs relating to human resources;
- Organizational change costs;
- Wider IT/systems integrations costs;
- Costs in relation to investments in product changes;
- Training;
- Marketing;
- Costs in relation to changes in back office functions;
- In addition to the above, any significant project-specific items should be budgeted for.

Integration costs can be problematic in situations where part of the purchase price is based on the future financial performance of the acquired entity (an earn-out structure). In these situations the previous owner of the Target is often reluctant to accept any additional costs that would affect the Target's bottom line and therefore, the earn-out due to them. The general guideline is that the integration costs should be excluded when determining the financial performance of the Target for the purposes of earn-out calculations.

The PMI Pathway

PRE-CLOSE Learn	• Establish value drivers • Consider strengths & weaknesses	• Consider synergies • Identify cost savings
CLOSE Plan	• Focus on Day One planning • Prepare all necessary action plans	• Communicate the intent of the merger and extent of integration
INTEGRATION Launch	• Launch integration teams • Monitor and measure progress	• Begin capturing synergies • Commence cost saving activities
INTEGRATE	• Assure sustainability of the business combination post PMI • Seek to monetize synergies	• Course correct if necessary • Embed culture

The actions of the First 100 Days will have huge consequences on the value created by an M&A deal. Management of this sensitive time is a fundamental factor of deal success or failure. The First 100 Days is a time of anxiety and uncertainty for Buyer and Target alike. It is a time of change and provides management with the opportunity to create the right first impression, capture synergies, maximize deal value and establish the direction for the future. It is also the time of greatest potential loss of value.

Resources & Responsibilities

Success of the integration project depends on leadership, project management capabilities and selection of the right personnel to the work in teams/streams.

Integration Owner

As in the transaction/purchase phase, the owner/sponsor is normally a member of the Buyer's management team. The owner of the integration phase can be the same individual as in the transaction/purchase phase.

Integration Steering Group

The integration steering group is the governing body of the integration phase. Their role is to supervise the work of the integration project manager and the integration team. They should meet at least once a month.

Members

- Representatives of the Buyer and the Target;
- May include individuals with specific, relevant expertise;
- Normally 3–7 individuals to maximize the effectiveness of team work;
- The integration project manager is normally not a member.

Responsibilities

- Selects the members of the integration team (based on integration project manager's proposal);
- Specifies the measures, goals/targets and reporting instructions for the integration team;
- Supervises and supports the integration team's work;
- Makes decisions on the more significant issues;
- Monitors the project costs vs. budget and approves the expenses incurred by the integration teams;
- The steering group should be headed by an individual who has decision-making authority and is trusted by the CEO and/or the project owner. Typically he/she is a business-responsible member of buyer's management team.

Integration Manager

The integration manager is the project manager. They should be appointed during the transaction/purchase phase. If the integration manager has little or no project management experience, active hands-on support is required from the M&A project owner.

As the reality in the market areas may well differ from the global view, it should be decided whether a local integration manager (reporting to the global integration manager) should be appointed to work more closely with a particular market or country operation role.

Responsibility for day-to-day management of the integration:

- Integration management work is difficult to perform as a part-time activity, so the Buyer's management needs to carefully consider the importance of the task and allocate the time necessary;
- Duration varies from 3 to 18 months.

Responsibilities

During due diligence, the integration manager should:

- Become acquainted with the Target's business and assist in preparation of questions and issues to be studied from the integration point of view;
- Prepare and modify the integration plan;
- Work with transaction team, HR and communications on the messages in the initial announcement, in order to get a positive start to integration;
- Define goals, resources and timetables;
- Bring integration teams together;
- Plan and run the kick-off meeting and follow-up meetings;
- Guide and support the integration teams;
- Coach and assist in problem solving;
- Report on and define instructions and goals to/from the integration steering group;
- Ensure the teams meet expectations in the allotted time;
- Make sure non-negotiable issues are understood and implemented;

- Help personnel adjust to change;
- Assist in identifying and reducing cultural barriers;
- Ensure that tools and information are shared between the teams;
- Develop learning methods;
- Prepare reporting and reviews;
- Hold summary discussions;

Integration Team/Stream Manager

After appointment of the integration manager, the next step is to decide which integration streams are needed. Streams are areas of the organization split into district parts but which are aligned to the overall strategy. Streams may include customer service, operations, legal, product and quality, etc. Managers of the streams are responsible for developing and implementing the detailed plans.

Best results can be achieved when team members are experienced individuals from the Buyer and the Target. In the case of integrating support functions (HR, ICT, finance and legal), it is recommended that the members recruited have previous experience with integration projects. This way, expertise in integration accumulates and the buyer's integration performance should improve over time.

Experienced team members can facilitate the integration work by setting up company-standard procedures and systems, quickly and efficiently. After the integration phase they then hand over their responsibilities to the local or line organization.

The support functions to be covered in an integration project include the following:

- Finance and control;
- Legal;
- IT;
- HR;
- Communications;
- Customer finance (if relevant);

The other members of a core integration stream are usually business managers and/or other specialists from the buyer's product line/business segment/division. The following functions are commonly covered:

- Sales and marketing;
- Spare parts and services;
- Production and sourcing;
- R&D.

Integration stream managers (as per previous page, those responsible for distinct areas of the organization such as customer service, operations, legal, product and quality, etc.) are typically selected from among the Buyer's managers. Only where the Target's manager(s) have specialized knowledge or a similar attribute are they appointed team leader, the "pros" of appointing the acquired entity's manager include:

- Gives message of value to the personnel of the Target;
- Better communication within the Target;

However, the "cons" include:

- Target's managers do not know the buyer's business and strategy in detail;
- Harder to manage team priorities;
- Buyer's operating corporate culture is not transferred in the same way to all teams;

The integration stream manager's tasks include:

- Acting as the team builder;
- Introducing the team members to each another;
- Ensuring that the team members have all information/tools needed for the task;
- Clarifying the goals/targets/timetables/reporting, etc.;
- Ensuring that everyone in the team understands the goals the same way and is committed;
- Managing and encourage the team to progress;
- Ensuring that the team keeps to the schedules and prepares reports;
- Being a source of assistance and guidance, when needed.

Integration Team/Stream Members

After the initial planning phase (or at the latest, at change of ownership), the team should expand to include managers and specialists from the Target as well as staff from the major locations of both the Buyer and the Target. These individuals will work in area-specific "sub-teams" covering, for instance, HR and production may be responsible for a number of "sub-projects" (being smaller project, which support a larger project). Local involvement is also critical for anchoring employees to the new organization, both for the existing Buyer's employees and for those moving across via the acquisition.

The appointment of the best personnel resources speeds up the integration process. For the teams to make a mark and move the new organization forward, they need to go into detail. Therefore, the appointed integration team members from both entities should be the experts in their represented areas.

Note: Line authority or position, as such, does not guarantee the best knowledge of the issues to be covered.

The composition of the team will, to a certain extent, depend on the size of the Target. Although all of the above areas need to be covered in all integration projects, it is often the case in a smaller acquisition that many areas are handled by the same individual(s). In such situations, the Buyer's integration team must be careful not to overburden the Target's resources during the integration phase. Prioritizing the tasks and focusing on the most essential is the best solution.

Usually personnel have little or no integration experience. If training is given to the Buyer's personnel before closing, the same training should be arranged for the Target's team members before they start working in integration teams. Using common terminology and information from the same sources can mitigate any "we/they" conflict.

Market Area/Country Integration

In cross-border M&A, integration takes place on two levels or on multiple levels; globally, in local markets, where sales and or service operations may be integrated and possibly in local manufacturing operations.

The market area/local integration structure and streams cover the same functions/topics as the global integration process. These can report directly to the integration manager and steering group or to global integration streams.

Operative

- When integration covers multiple countries, it is important to clarify which global guidelines, rules and tasks can be applied at the local level, and where country-specific exceptions need to be made.

Statutory

- Level of integration – retain separate legal entities or merge;
- Choose company name to be used for ordering, invoicing, etc.;
- Coach/facilitator – if the Buyer has limited integration experience or none at all, an integration coach can be appointed to assist the integration steering group and/or integration manager. A coach or a meeting facilitator can also be useful at the kick-off meeting and when considering specific team issues, such as HR.

Working Methods & Tools

Depending on the M&A strategy and the transaction/purchase phase (pre-closing phase) information, one of several approaches can be chosen:

- Business teams/streams using representatives from both entities;
- Functional teams/streams organized by the Buyer's and Target's experts;
- One or several cross-functional team(s)/streams for quick decision making;
- Paired experts by function or specialization (commonly used in addition to the above).

Goals, Measures & Compensations

The integration teams/streams require:

- Clear goals and measures;
- Good guidelines;
- Clear management and responsibilities;
- Continuous support;
- Good reporting tools.

Integration activities are commonly performed in addition to the normal daily responsibilities – thus requiring long working hours and often, a lot of traveling. This impacts not only the work of the people involved in the integration, but puts also great pressure on their personal life.

Kick-off Meeting

The integration work starts with a kick-off meeting in which typically all team members and integration management participate. Some line managers and specialists may also attend.

Purpose of the meeting:

- Introduce management and let members get to know one another;
- Bring participants up to speed on events in both predecessor entities and explain the joint strategy, team goals, etc.;

- Provide instructions, guidelines and templates;
- Start the team work;

Agenda issues for the first integration team meeting may include:

- Present responsibilities and career history;
- Discussion of each entity's pre-deal vision, strategy and decision-making processes;
- Sharing of market data;
- Review of summarized due diligence findings; identifying items to be noted later in the project;
- Review vision and strategy for the new company and their implications for the team's work;
- Agree on the team members' roles and tasks;
- Specify goals and measurements;
- Set project plan with timetable;
- Assess need for outside support, information and co-operation with other teams;

Typically, a kick-off meeting is a two-day session, including time to socialize.

Best Practice (Internal & External)

The M&A integration project enables a critical review of business structure, operations and performance. The value of new ideas and any best practices should be examined.

Early Warning Signals

List and analyze the most critical issues in the integration. These may include:

- Losing key personnel;
- Retention of key customers;

Measures and actions:

- Loss of employees:
  - Not losing more than x% of employees within the first year;

    - Continuous follow-up on departing individuals;
    - Interview to establish reasons for leaving.
- Loss of key customers:
    - Top management to meet with key customers;
    - Relevant sales individual to keep in close contact.
- Reduction in customer visits due to integration disturbances:
    - Continuous monitoring of sales funnel: additions per sales visit versus historical trend.
- Complaints from the Buyer's or the Target's customers:
    - Monitoring of quality indicators;
    - Measures for service delivery processes.

Reporting & Reviews

As with any project, effective post-merger integration management includes regular reporting, reviews against set goals, feedback and summaries of the results. At the integration kick-off meeting, it is imperative to set dates for intermediate review meetings.

Report examples for post-merger integration:

- Team/stream reports;
- Integration manager's reports;
- Market/country reports;
- Integration steering group reports;
- Board reports;
- Owner's reports.

Intermediate Reviews

The purpose of the intermediate review is to see that the integration moves forward as scheduled, there

are no pitfalls or bottlenecks and that the streams work well. In larger and lengthier integration projects, there is typically more than one intermediate review organized after the kick-off meeting.
There can be quite a lot of variation on how the intermediate meetings are organized and who participates in them. For example, in the steering group meetings:

- Integration stream leaders together;
- All streams;
- One stream leader at a time.

The key to the integration success is speed in decision-making. It is critical that the integration management stays up-to-date on progress, makes decisions and provides quick feedback and information to the streams and to the whole organization. Intermediate reviews are a great way to keep track of progress and developments.

Final Reporting

Each global business team and market/country team should prepare a final report at the end of the project. This will initially be at the end of the first 100 days but follow-on reporting is recommended – this will need to be decided on a case-by-case basis (for instance after 6 months or a year). A key factor to consider is that the steering group reserves enough time to discuss the reports and any finding and recommendations.

It should also be determined how the reporting will be carried out/delivered. Meetings can be held with single team managers, single team managers, with all of the team members, or with just the team managers without the team members.

Final reports should cover at least the following issues:

- Results achieved;
- Comparison of results to initial goals with explanation of variances;
- Suggestions for next steps: transition to line responsibility;
- Feedback on team work: what worked, what did not;
- Feedback on the integration project: suggestions for improvements/lessons learned;

A post-integration meeting, similar to the kick-off meeting, should include:

- Highlight the end of the integration project;

- Continue to build joint spirit;
- Provide a forum for presentation and discussion of learning reviews and feedback from customer/employee satisfaction studies;

Securing Sales & Customer Relationships

During post-closing, there is a great risk for operations becoming introverted, losing focus on the customer, and for the support to the frontline organization to weaken. In addition, individuals who are not part of the integration work may feel that their work is less valuable due to a lower level of support from their managers. This introversion can result in a reduction in orders and sales overall.

Activities to ensure on-going sales include:

- Clear goals and measures (linked to special bonuses);
- Close follow-up of the sales funnel;
- Time spent by management with customers;
- Celebrating short-term wins with communication;
- Regular presentations and info sessions to staff by top management;

Support For The Sales Force

Sales and service personnel may react emotionally if clear information and guidelines are not available. If the Buyer and the acquired organization were previously competitors, the situation can be difficult. Immediate information and instructions on sales and marketing related issues for the frontline personnel is needed to ensure that people feel secure and are able to face customers with confidence.

Some of the methods to help reduce uncertainty include:

- Answer the question "Why this deal?";
- Explain the implications to sales personnel (changes in territories, products, salaries and benefits etc.);
- Be clear about whether the sales and service forces are to be integrated or kept separate;
- Explain what the deal means to customers (contact individuals, products sold, prices, delivery and other terms, etc.);

- Listen to the need for top management to meet key customers;
- Arrange training (products, services for cross-selling etc.);
- Explain changes in the distribution channel.

It is notable that the use of “double commission” could be used (paying commission to both sales representatives) in instances where the Buyer/Target sales representatives collaborate.

Transition to Line Responsibilities

A post-merger integration process does not finish when the work of the integration team ends. Depending on the size or type of integration, the First 100 Days may result only in agreement on the key priorities and initial operational structure for the new organization.

As integration progresses, more personnel become involved and affected by the changes taking place.

Each time a new individual or a new group of personnel becomes involved in the integration, the following is required:

- Provide the same information that was given to the first integration team members;
- Answer questions and concerns, which often are the same as those expressed by the 100-day team members;
- Offer support;
- Show attention from top management;
- Provide training in cultural co-operation (critical in cross-border/multi-country M&A).

Change Management

- Change management is crucial for the success of any M&A. Facilitating implementation of necessary changes will ascertain and accelerate the integration process.
- Change is always driven by the Buyer’s strategy. After the first integration phases, the goal of the integration continues through change projects.

How change in an M&A context differs from a “normal” change project:

- Multiple change projects simultaneously;

- Cultural differences;
- High visibility;
- Customer expectations;
- Shareholder expectations, for a publicly-traded buyer.

Financial Integration

The new organization is dependant on the finance function to ensure a successful integration process and the capturing of synergies in order to maximize deal value. This covers integrating business operations, streamlining of the internal controls environment, providing accurate and consistent financial reporting, ensuring tax compliance (with consideration given to overseas jurisdictions if the deal is cross-border) and founding interim legal structures and business processes, which provide newly combined organization with the flexibility it needs to grow. It is vital for the finance functions of the Buyer and the Target to be aligned in order for the new organization to move forwards in the right direction.

A deal, similar to other types of corporate change, presents an excellent opportunity to set a new course, both operationally and across the various support functions of the new organization. Across all business functions, setting the new course requires establishing clear leadership and roles during the transition. This enables members of the integration team (including the finance function) to communicate effectively and make decisions in line with the new strategy.

Setting the right direction for a streamlined finance function necessitates early and immediate consideration so as to tackle critical matters in the early stages of a deal. These may include establishing clear reporting lines and accountability for financial operations, management reporting, control of expenses, and accounting closing procedures.

Establishing such areas of accountability and control should ideally be covered as early as possible in the PMI process so as to allow for immediate actions to be taken. Areas such as accounting policies, expense approval authorization limits, financial reporting requirements, and month close procedures are examples of areas that can be established in advance so as to expedite the financial integration process.

Once the immediate areas requiring action have been identified the longer-term strategy for financial integration can be outlined. The financial integration strategy must be aligned with the organization-wide integration strategy to guarantee alignment in capturing synergies, realizing deal value and achieving wider integration objectives.

The financial integration strategy defines all decisions within the finance function – it sets out the extent of integration (what will be combined, what will be kept separate) and covers people, processes and systems.

As with other areas of the PMI process, to effectively manage the multitude of financial integration activities, it is imperative for leadership to identify a financial integration leader. This leader must establish a financial integration team, define the structure of the finance function and ensure it is realized. The financial integration leader should pick a team with thorough knowledge of the Buyer's organization (and ideally the Target, if possible) in the key areas of focus in context to the integration strategy.

Area of Focus	Financial Integration Plan
Overall Organization	• Day one reporting lines should be established; • Establish a transition plan aligned with process and systems migration plans.
Internal Controls Environment	• Establish controls procedures from Day One; • Establish a controls environment to mitigate risks and ensure regulatory compliance; • Any changes to controls resulting from the integration process need to be established and communicated.
Cash/Treasury	• Cash flow requirements should be planned and assurance over adequate funding should be gained; • Cash controls should be established; • Banking arrangements should be understood; • Bank account authorization thresholds should be implemented and communicated; • Debt covenants must be understood; • Align treasury policies; • Commence combined cash forecasting and cash management; • Align investments, foreign currency and any hedging arrangements (if applicable);

Financial Statements	• Consider an interim consolidation process to account for the consolidated entity (first quarter following Day One); • Establish opening balances (assets/inventory/etc.); • Ensure accounting policies are applied consistently (such as in the instances of depreciation policy, treatment of foreign currency and stock valuation), etc.; • Consider capital expenditure requirements for the combined organization covering the first year; • Establish a combined financial close process for month end (but also giving consideration to the longer term); • Consider resignation of an auditor (likely the Target's auditor – this should have been agreed in the SPA);
Procurement	• Ensure capital expenditure requirements covering the first year are aligned with the objectives and strategy of the new organization; • Procurement authorization limits to be established and communicated;
Financial Planning	• Establish interim financial reporting procedures; • Develop integrated budget and planning protocols; • Ensure management information is prepared on the same basis for both the Buyer's and Target's financial results; • Develop a tool to monitor the capture of synergies; • Develop a tool to monitor cost reductions achieved and map targeted economies of scale;
Cash Controls	• Reconcile the bank statements of the Target to confirm its liquidity position; • Reconcile any customer variances/discrepancies in the receivables ledger; • Establish a common revenue recognition policy if possible (the Buyer and Target organizations may differ to the extent that this is not possible);
Tax	• Consider tax planning and the design of a tax efficient combined organization; • Ensure tax filings are submitted (consider overseas filing requirements if the deal is cross-border); • Ensure compliance with all tax matters (consider overseas filing requirements if the deal is cross-border); • Ensure the business combination has been reported to the relevant tax authority (it is most likely the deal will have been reported at the point at which the Letter of Intent was signed by both the Buyer and Target); • Consider transfer pricing;

Those working in the financial integration team may have had exposure to the Target prior to the PMI process commencing if they were also part of the due diligence team (or they may have been exposed to some of the key financial issues identified during the due diligence process). In either case, it is conceivable that the financial integration team may have the benefit of a slight head start in the sense that they will have amassed knowledge of month close processes, accounting policies (including disparities between those adopted by the Buyer and the Target) and even issues pertaining to SEC reporting.

For financial integration to be successful it is important that the integration team tasked with this sets detailed and clear milestones for the integration of finance-related technology, processes and personnel. The financial integration team should manage these milestones and position themselves so that risks and problems can be tackled as they are encountered. The financial integration team must also work closely with the Buyer's and Target's IT team to ensure that financial integration essentials are met and that the intended future financial framework will be achievable (taking account of any IT constraints). The financial integration team should also consider using the immediate PMI process to build ideas for larger scale transformations in the future (such as more extensive consolidation between the Buyer and Target).

Financial Integration – Operational or Complete

As part of the financial integration process consideration should be given to the extent of the integration and whether this should be 'Operational' or 'Complete'.

Operational integration entails low-level integration but without affecting the continuing operations of the Buyer and the Target (they remain operating as distinct entities). In essence, it results in low-level integration that is reversible if necessary.

Financial integration at the operational level may include:

Treasury

- Assignment of existing loans to realize borrowing costs;
- Renegotiation with the finance providers over the terms and conditions of borrowing (such as relaxation of covenants in the first year).

Procurement

- A common supplier is agreed upon to bring about economies of scale. At the same time alternative suppliers may be evaluated;
- Beneficial payment terms may be negotiated now the combined organization has additional buying power;

- Logistics may be considered – for instance, combining of shipments between the Buyer and Target. Additionally, a joint goods dispatch depot may be considered rather than operating separate Buyer and Target locations.

Sales

- A reorganization of customers may be considered in order to achieve cost and logistics efficiencies. For instance, a customer of the Buyer may move to being supplied by the Target if the Target's production facility is situated in closer proximity to this customer than the Buyer's.

Production

- If the new organization is involved in production consideration could be given to a reorganization of suppliers, customers, logistics, and production efficiencies. Again, the Target may begin producing products for the customer of the Buyer if the Target's production is situated in closer proximity to this customer than the Buyer's.

Complete financial integration entails a permanent, long-term decision that seeks to achieve in a new 'financial identity' for both the Buyer and the Target in the form of a combined organization.

Accounting

- Complete financial integration from an accounting perspective requires the merging of financials within the existing regulatory framework with an overarching objective of preventing adverse impact to shareholders' value.

The choice of method of accounting for consolidation is of great significance to other areas of the accounting function – which may impact on shareholder value. For instance:

- Integration of the financial statements where the Buyer and Target have different year-ends and accounting policies;
- Redefining of Management Information Systems
- Rethinking of the internal controls environment due to changes in the size of the combined organization, the hierarchical structure of the combined organization and access to more advanced technology.

It is vital that the combined organization sets measures for gauging how much change the finance function can tolerate before the risk may become unacceptable. The availability of resources (internal and external), budget constraints and the complexity of the changes being implemented should be given due consideration when determining the extent to which the finance function should be integrated. Furthermore, other projects and priorities should not be forgotten – indeed, it is vital that a balance is reached in terms of realizing integration efforts while ensuring the continuance of day-to-day operations.

IT/Systems Integration

The new organization will encounter many technology challenges post-deal and will need to work to streamline business processes. It is unusual for the Buyer and Target to be using identical IT systems and supporting applications. Therefore, it is it vital for the Buyer and Target to integrate systems, applications, and databases as quickly as possible and run these in a synchronized manner. The primary challenges that the organization face in integrating the IT function include:

- A lack of synchronization across IT infrastructure can create problems with everyday business processes (for instance, the on-boarding of new employees or customers) and therefore, create complications and produce inefficiencies which detract from the capturing of synergies and achievement of cost reductions. Moreover, without the integration of supporting/operational applications (for instance, HR, finance, Customer Relationship Management, sales, marketing) mistakes and data replications are inevitable. This can distract the new organization from concentrating on core business operations. Therefore, it is vital to ensure that a universal standard is developed and adhered to by both the the Buyer and Target.

- If the Buyer and the Target are operating in the same market it is conceivable that duplicate customer information will be held. It is therefore important that a single customer view is achieved so that a single customer is not contacted by two sales representatives (which would portray the new organization as being disorganized).

- Data integration ensures that the new organization has access to up-to-date information across the entire organization regardless of whether it is stored on internal servers or cloud-based. With the absence of an effective data integration solution, accessing information saved across numerous servers or applications is complicated and prone to mistake.

Applications

- Streamline applications and projects;
- Rationalize maintenance contracts;
- Integrate CRM system.

Technology

- Consolidate data centers
- Rationalize maintenance agreements, telecoms and network contracts;
- Retire obsolete hardware and replace.

IT Organization

- Reduce duplicate workers;
- Rationalize development and support resources;
- Consider gaps in skills and competencies.

Midaxo

Top Ten Tips for PMI Success

1. Top 10 Scoring

It is important to convey how the value of a deal will be captured (and where the risks lie). An organization may want to map out the top ten most important value drivers and top ten risk factors in order to establish the direction of first actions to be taken. Some risk areas may have been flagged during the due diligence process – if so, appropriate remedying action may have already been considered. Integration teams may be structured based on the key sources of value – teams must understand the value for which they are accountable and how this will be unlocked via the PMI process.

2. Consider The Nature Of The Deal

Any organization driving M&A activity must be clear as to the nature of the deal (scale/expansion/scope or a mixture). This may dictate follow-on decisions including what is to be integrated and what is to remain as stand-alone, what the adopted culture will be and which people are to be retained. Scale deals are usually engineered to facilitate cost savings and will typically generate economies of scale. Scope deals are usually engineered to increase revenue. They may take longer to realize since cross-selling and other revenue channel growth initiatives can be challenging and time-consuming. In any case, it is critical to design the PMI process with the nature of the deal in mind.

3. Prioritise People

The newly combined organization should be planned around the deal and the new vision. It is important to appoint people from both the Buyer and Target who are enthusiastic about the new vision and happy to contribute to it. The more quickly new leaders and key staff are appointed the more quickly roles below can be filled – therefore minimising the chance of talent flight.

Needless delays can exacerbate anxieties amongst staff, can create unwanted speculative conversations or result in staff responding to approaches from head-hunters

4. Be On Time

The Buyer should begin planning the integration process before the deal is announced. Once announced, the Buyer should identify everything that must be done prior to closing. A possible approach to facilitate getting the Buyer “up-to-speed” is for teams to operate under a non-disclosure agreement (or similar legal document) so that the Buyer can review key data/information in a ‘clean room’ environment before the integration process begins in earnest.

5. Decision Roadmap

Organizations may create a myriad of templates and processes to manage the integration process. However, too much paperwork and bureaucracy can detract from the key issues and exhaust the integration teams before the PMI process has even begun. The new organization may employ a Decision Officer who drafts a Decision Roadmap to manage the integration by ensuring that the right people make the right decisions, at the right time, with the best available information to hand.

6. Follow The Leader

A deal requires a strong leader. They must have the authority to make decisions and be comfortable in doing so, have the skills to coordinate teams, to set the pace and ensure this is being adhered to. The selected individual should ideally posses a strong strategy background and should have capacity to dedicate at least 75% of their time to the integration process.

7. Evaluate & Re-evaluate

Once the integration process is complete it is important to review how the process went – what worked and what would be done differently next time? This is most important for frequent acquirers since implementing an incorrect PMI process repeatedly can lead to the attrition of synergies and a significant proportion of the potential deal value not being captured across a number of deals.

8. Culture Is Key

The two organizations coming together will have their own cultures, norms, values and rules – perhaps fashioned over many decades. Therefore, one of the most significant challenges of the PMI process lies in determining which culture to adopt. Typically, the Buyer will intend to maintain their culture. It is important that the desired culture is discussed from the outset and put into practice as soon as possible. The CEO downwards must manage and encourage the adoption of the chosen culture. Compensation/benefits systems to reward behaviours fitting with the chosen culture may be considered. Furthermore, new organizational core competencies may be mapped out in order to harmonize culture.

9. Win Friends & Influence People

Deals can cause worry and anxiety. Those involved are often uncertain as to how the deal will change things. Employees may wonder how they will fit into the new organization or whether there will be a place for them at all. This means that those driving the deal must not only sell the idea of the deal to customers, shareholders and other stakeholders, but to employees as well. It is important that the message conveyed is consistent and focused on people rather than the value the deal will create via synergies and cost savings (which can infer job losses and exacerbate anxieties).

10. Set The Direction

It is important that management does not allow itself and the organization to get distracted by the integration process or indeed the glamour of the deal if the M&A process is new to the Buyer. Doing so will mean both organizations will suffer – to the detriment of the business combination. The CEO should set the course. They should dedicate the majority of their time to the core business and focus on existing operations. It is crucial to ensure customer needs are made a priority – particularly at a time when systems may be changing. To ensure things remain on course, the core business should be monitored closely across the integration process – with the course being corrected if necessary and the strategy being re-confirmed or re-directed.

Appendix

Integration Checklist

Finance & Control

At Closing, the Target's finance and control (F&C) department needs clear instructions and templates for financial reporting. The better the information, the fewer surprises there are due to poor reporting or absence of data.

Organization – Global/Local

The Buyer's head of F&C normally has a key role in M&A deals during the purchase phase and in most cases continues as the head of the F&C function in the new organization for the joint company.

When the deal involves local operations or markets, business needs and personnel competences should be evaluated in each market. Issues to be checked include:

- Existing F&C organization;
- The quantity and quality of the existing resources versus the Buyer's own requirements;
- International Financial Reporting Standards (IFRS) – awareness and language skills of control function;
- Internal or out-sourced accounting (it has an impact on headcount).

Hand-over From Due Diligence

Findings made during due diligence need to be reviewed immediately after change of ownership. It is important to check all pre-signing notes and recommendations. Going through these with the acquired operation's finance department/managers as quickly as possible is recommended.

Statutory Reporting And Group Accounting

The Buyer should have its own guidelines, instructions and reporting contents (and possibly formats) available to the acquired entity's F&C personnel from Day One, or earlier, if co-operation between the parties has been possible. Although ICT systems cannot be changed rapidly, the Buyer's accounting principles need to be implemented from Day One.

Follow Up Of Due Diligence Findings/Stock Purchase Agreement (SPA) Issues

At change of ownership there are at least two kinds of issues to work on issues from due diligence, including:

- Evaluation of allocations and balance statement;
- Check of data validity;
- Review of pensions, taxes, liabilities, etc.
- Issues based on the SPA, including:
- Final price allocation;
- Possible impact of related agreements;
- Special management bonuses, such as retention bonuses;
- Earn-outs.

Setting Up The Opening Balance Sheet

The Buyer needs to provide its guidelines and templates for “closing the books” and the opening balance sheet.

- Closing the books at the closing date should be done according to the Buyer’s corporate (or its local company’s) accounting rules with adjustments to the buyer’s accounting policies and standards (based on IFRS).
- The opening balance sheet includes all assets and liabilities;
- It is important to start accounting from the opening balance sheet immediately after closing because it creates the basis for systematic financial reporting;
- Written confirmation from the (local) auditor is recommended to help ensure the new reporting is based on reliable figures.

Implement Buyer's Corporate Accounting Principles

Benchmark differences in the accounting principles of the Target and the Buyer, including:

- Compliance with IFRS;
- Coverage of reporting, types of report.

Fulfilment Of Local Legal Requirements

- Implement local country bookkeeping and accounting requirements, if applicable:
- Companies are responsible for the statutory closings according to local legislation;
- All statutory documents need to be filed according to local law – tax returns, annual filings, etc.;
- Local auditing is the responsibility of the local company.

Arrange Auditing

Good practice dictates that the Buyer makes a full audit at the closing of the deal, including auditing of:

- Inventories;
- Demonstration equipment, monitoring systems, etc.

The Buyer's Corporate Governance Rules Set Guidelines For:

- Selection of appropriate auditors;
- Annual audits;
- Internal audits.

HR & Personnel

The HR integration team is managed by the Buyer's HR manager.

Responsibilities Of The HR Team

- Participation in planning and managing integration;
- Holding welcome meetings and informal social events when the deal is announced;
- Organizing a two-way communication structure;
- Scheduling communication meetings – monthly or weekly – in different locations;
- On-going support at each location to address emerging issues.
- Responsibilities of the internal network include:
- Arrange links (on an individual level) between the acquired and the Buyer organization(s) for a two-way transfer of knowledge
- Focus on individuals by addressing the “me” issues;
- Search for answers to the question “What is in it for me to join the buyer?”;
- Identify fears among personnel and try to find appropriate solutions;
- Develop “in-house ways” to act.

Depending on the size of the acquisition, local task teams may need to be organized to plan integration activities related to:

- HR organization and procedures;
- Organizational structure and processes.
- Culture and personnel processes;
- Legal issues;
- Liabilities and potential claims and terms of employment.

Organizational Structure And Top Management

Plan staffing for the new organization, considering issues such as:

- Definition of roles and responsibilities;

- Competences required for each position;
- Alignment of task titles;
- Recruitment of CEO/managing director and other key positions in consultation with integration steering group;
- Confirmation of places in the joint organization;
- Introduction plan for new managers;
- Prior to employment, screening individuals using: credit checks, background checks, drug screening and reference checks.

Assessment Of Key Personnel

- Identify and assess key personnel;
- Understand the motivation for key personnel or groups and act accordingly;
- Keep key personnel well informed, ensure that they are given responsibilities and involve them in the decision-making processes;
- Fill key positions by new hires only if internal candidates lack the right mix of knowledge, skills and experience.

Assess The Acquired Entity's Management & Other Key Personnel In Detail.

- How have key personnel performed in the past?;
- Do key personnel have the talent, skills, competencies, style and motivation needed in the new organization?;
- Do the personnel have capable successors?;
- How to motivate the key personnel and successors for retention;
- Identify possible successors both in target and acquirer organizations;
- How to ensure that key personnel succeed;

- Individual retention plans will need to be created for key personnel;
- Use successor plans to identify key individuals (use management review templates);
- Analyze the impact of losing an individual on the business to verify/evaluate retainer incentives;
- Plan how, when and who will communicate to the individuals their status as a key individual;

Selections:

- Who will stay, who will be replaced?;
- Reserve sufficient replacements if the acquired entity's personnel are not retained;
- How long will it take to find replacements and how long will it take for them to get them up to speed?.

Target's staffing costs:

- Assess the costs the buyer is willing to sustain for staffing the Target;
- Calculate the cost of meeting staffing requirements;
- Financial bonuses/rewards for integration work;
- Plan for severance pay, if needed;
- Estimate approximate total staffing synergies;
- Develop scenarios for workforce reduction, including cost estimates. In some European countries, employees will be entitled to redundancy pay if they are not transferred on substantially similar terms.

The following defines a fair process when staffing levels are affected:

- Information should be communicated throughout the organization;
- Employment offers made to transitioning employees reflect the objectives and philosophies of the acquiring company;
- When approaching an employee with a layoff decision, always communicate in a timely and honest manner and show respect;
- Arrange an appeal process for employees who feel they have been treated unfairly.

Issues Identified In HR Due Diligence

- HR due diligence should be executed prior to signing (or in some cases between signing and closing). Review the due diligence report and identify issues to be addressed during the integration project.

Legal Issues

HR legal issues are mostly evaluated for their financial impact and risk to the new organization. These can be issues such as pending lawsuits or other legal complaints against the company. Plans are needed to minimize the impact/risk of HR legal issues.

Agreements (employee, labor union etc.) need to be compared against the standards of the buyer. Issues to be checked are, for example:

- Severance and redundancy obligations;
- Confidentiality, non-competition and non-disclosure;
- Intellectual property;
- Employment terms;
- Impact on trade union agreements;

Employment Terms:

- Examples of employment terms/templates to be checked can include:
- Collective agreements;
- Local agreements and additional conditions;
- Standard employment agreement templates for each employee category;
- Management contracts;
- Bonus and incentive agreements;
- Global assignment contracts and conditions;
- Expatriate agreements;
- Special agreements (e.g. study commitments);

Impact on Trade Unions

- Laws and agreements impacting the new organization, including:
- Applicability Co-operation Act;
- Applicable agreements;
- Rules for negotiations.
- Worker representation/trade union representatives;
- Co-operation procedures;
- Responsible individuals;

HR Fact Base

Check the personnel database and align it with the buyer's practices, when appropriate.

Employment

Unify HR reporting – names and physical location of personnel, by:

- Staffing level;
- Education, other qualifications;
- Age structure;
- Permanent employment;
- Fixed-term employment;
- Length of employment;
- Project tasks;
- Maternity/parenthood leave, childcare leave;
- Study leave, task alteration leave;
- Part-time employment;
- Military service;
- Freelance arrangements;
- For outsourced personnel, evaluate:
- Staffing level;
- Education, other qualifications;
- Age structure;
- Location;
- Length of employment;
- Employees to be relocated;
- Relocation benefits;
- Severance payment may be required if an employee is not offered employment within a certain geographical distance from current position;
- Relocation must be considered carefully, poor handling may result in a loss of talent;

HR Administration

Compare and align issues including:

Financial

- Granted company loans;
- Savings plans;
- Credit card practice.

Working Hours

- Daily, weekly, periodical
- Overtime arrangements and rules
- Compensation for travel time
- Emergency work, add-ons, separate compensations
- Flexible working hours, flexible working schedules, accrued hours, extra days off

Vacation, holidays and other leave

- Accrued vacation days;
- Parenthood leave;
- Sick leave;
- Study, celebrations, other agreed leave.

Other

- Non-standard promises and agreements to individual employees;
- Present/gift policy.

Occupational Health & Safety

Compare and align, when possible, occupational health care regulations, instructions, training;

Occupational safety;

Organization, resources;

Work accidents, statistics;

Deficiencies, risks;

Procedure at company premises;

Instructions;

Training practices;

Confidentiality obligations;

Risk management.

Legal

The role of the legal function does not end at the Closing. Many legal items need to be listed and considered immediately after this phase. Special events, such as acquisitions of minority shares or the formation of joint venture companies, always have to be considered separately.

Follow Up Memo To SPA Or APA

The business control function (finance department) of the Buyer needs to be aware of the key terms and conditions of the SPA (Sale Purchase Agreement) or APA (Asset Purchase Agreement) in order to follow up on post-closing and potential claim items, and to react quickly, if needed.

This goal is best achieved by drafting a memo covering at least a summary of:

- Claim-making procedures and instructions on how to contact the Buyer's legal department;
- Deadlines relating to the central representations and warranties of the Target;
- Specific indemnity clauses;
- Purchase price related issues;
- The seller's non-compete obligations;
- Post-closing obligations;
- Other items needing follow-up.

The acquisition follow-up memo is to be used regularly in the monthly management reviews to ensure that a continuous follow-up mechanism is in place and potential claims and other necessary follow-up actions are noted and executed in time.

There are always deadlines – the absolute latest date – for making claims. It can also be required that a claim is made "immediately" or "without undue delay" after the Buyer becomes aware of an event that is entitled to a claim for compensation/damages. As there may also be some other aspects or procedures that need to be observed, the Buyer's legal department should be contacted immediately in the event of potential claims, representations or warranties. List at least the deadlines for making claims under the representations and warranties. Ensure that such deadlines are understood and noted by the relevant business control function.

Indemnity Provisions

- List and explain all of the specific indemnities given by the Target in the SPA/APA so that the business control function is able to follow-up.

Purchase Price-related Issues

- The purchase price mechanisms are often such that only part of the purchase price is paid in connection with the closing. The rest is either paid in arrears and/or dependent on the financial performance of the target. Again, the business control function should be made aware of the purchase price mechanism in order to properly follow up. If an escrow arrangement is used, this also needs to be described and the relevant contact information of the escrow agent should be stated.

Seller's Non-compete Undertaking

The Target is, without exception, required to undertake obligations:

- Not to compete with the sold entity (either directly or indirectly by holding interests in competing companies);
- Not to recruit or induce any key employees working for the Target to leave the Buyer's employment;

Normally strict penalties are attached to breaches of such obligations.

Post-closing obligations

- Frequently the seller, the purchaser or both have obligations that, by agreement, will be handled after closing – with or without a deadline.
- The obligations need to be listed and explained in the acquisition follow-up memo.

There may also be other items agreed on in the SPA/APA. These need to be listed and explained in the acquisition follow-up memo.

Follow-up on Due Diligence Findings

Due diligence is made to ensure that representations made for the Target are true. When properly conducted, due diligence should reveal the main deficiencies and shortcomings in the legal matters of the Target. The exercise of due diligence is mainly done to spot "deal breaker" issues that may also affect the purchase price, as well as to follow the principle of "caveat emptor" – let the Buyer beware.

The results of due diligence should also be used during integration to remedy flaws found and maximize the contribution of the Target to the Buyer. Opportunities identified in the due diligence exercise should also be capitalized on.

Attending To Critical Shortcomings/Processes

- Communicate the findings of legal due diligence to the relevant personnel;
- If any non-compliant activities were identified during due diligence, such activities should be stopped immediately on change of ownership and, where applicable, the activities replaced with new procedures in line with the buyer's code of conduct or other relevant policies or guidelines;
- Attention to findings in the due diligence material related to competition law are of special significance, as after the closing date, any penalties due to a breach will be calculated from the turnover of the entire Buyer group, not just the turnover of the Target;
- Pending litigation: critical information on all pending legal cases needs to be communicated to the legal department for their records and to enable monitoring and follow-up.

Employee Participation Mechanisms/Union Relations

Identify and evaluate the need to hold meetings with unions or employee representatives. In some cases this is a legal requirement sanctioned with penalties. In any case it is good practice to keep the personnel of the target (as well as the purchasing) entity informed about the transaction and its immediate effects.

Risk Management

The adequacy of the insurance coverage of the Target needs to be evaluated (often done in connection with due diligence).

Information on the insurance base covers at least the following issues:

- General third party and product liability insurance;
- Directors' and officers' liability insurance;
- Property damage and business interruption insurance;
- Construction and erection all risks insurance (CAR/EAR);
- Business travel and other individual insurances;
- Risk management also needs information on the following: current insurance administration (brokers), claims history over the last five years by insurance lines and open claims by insurance lines;

- After closing the acquired entity's insurance policies need to be consolidated with the buyer's group insurance policies;

All of the Target's insurance policies overlapping with the Buyer's existing insurance policies should be either terminated or allowed to expire. For this purpose, the Buyer's risk management function (and the Buyer's insurance broker) should be notified of the deal.

Risk management needs the following kind of information: type of company (manufacturing, service, sales, other); main property owned by the company by country; main activities, products and services; sales of products and services by country; main suppliers.

Communication

Successfully using the Buyer's and the Target's corporate or marketing communications functions for announcing and explaining progress in the integration project is a net sum of many factors:

- Building motivation among personnel requires proactive communication;
- Focus effort on explaining the strategic objectives;
- Communication should be timely, open and honest: clarify expectations and reduce ambiguity;
- Use interpersonal communication as extensively as possible;
- Information flow should be two-way at all levels of the organization;

Integrating the procedures and practices of the communications functions needs careful planning. Done effectively, it supports the business during integration. Consistent messages help organizations adapt to change. Using multiple communication channels ensures that the messages reach as many personnel as possible.

A detailed integration communications plan is important as it will include the following tasks:

Announcing appointments of key individuals involved in the integration;

- Communicating the main messages;
- Establishing the target groups;
- Selecting tools and channels;
- Integrating actions and timetables in the communications functions;

- Preparing press releases or other media materials;
- Arranging kick-off meetings;
- Describing the business processes that are subject to change;
- Announcing the progress of integration;

The target groups addressed and the communication tools used may vary in each case, but in every M&A the employees of the Target and the Buyer's employees are the most important target groups. Other groups can be customers, vendors, authorities, shareholders, local society, analysts/investors and media.

The communication tools and channels used depend, in part, on what the acquired entity used previously.

These are likely to include:

- Email, intranet;
- Newsletters;
- Magazines;
- Presentations;
- Workshops, discussions;
- Video conferences;
- Conference calls ("T-cons" ensure two-way information flow better than traditional printed media);

Success stories are key tools in integration communication.

Issues Transferred From Due Diligence

Review and act on tasks listed during due diligence related communications.

Even when no clear tasks were identified and delegated, after the change of ownership a review of due diligence and management review notes can bring up important issues that need further action or planning.

Review Current Practice Of The Acquired Entity

Review prior practices of the acquired entity and those of the buyer. Select the best practices for the integration project. Introduction of new methods can be gradual if existing corporate communications meet current needs.

Internal communication issues to be analyzed include:

- Tools used currently;
- Composition of personnel receiving information;
- Language used;
- Distribution lists;
- Photo and video material;
- Organization;
- Corporate culture;
- Use of external services;

External communication issues to be analyzed include:

- Media contact lists;
- Organization;
- Language;
- Distribution (newswires, mail and email);
- Press service;
- Service providers;

For external communications, the legacy functions need to be integrated rapidly to avoid confusion. Typically, the Buyer's corporate communications function takes control of all decision-making and often all activity.

Marketing communication should be reviewed at the early stages of the integration as this is the visible face of the new organization towards its customers. Many marketing activities (for example exhibitions and product launches) are planned far in advance and changes can require long-term planning.

From a marketing communications point of view, the impact of the integration needs to be assessed on issues including:

- Graphic design;
- Business cards;
- Crisis communication;
- Exhibitions/conferences/customer events;
- Advertising gifts (and their suppliers);
- Products/parts (colors, signs, names);
- Communication suppliers (possible co-operation);
- E-business;
- Image banks/stock libraries.

ICT

The goal of the ICT integration process is to link the ICT networks of the acquired entity with the Buyer's corporate ICT network. This is necessary to facilitate access to systems and services provided by the Buyer and needs collaboration with business/market areas.

The ICT integration process consists of:

- ICT infrastructure and services implementation;
- Information security assessment and risk analysis;
- Information systems integration planning.

The ICT integration process requires participation of the ICT manager, ICT staff or other ICT contact individuals in the acquired entity. Depending on the number of sites and the differences between the sites, representation from each site may be required. The integration process is typically led by an ICT individual from the Buyer's corporate/company ICT or business/market area ICT (the individual is referred to as the ICT integration manager).

Issues Transferred From Due Diligence

As most activities are linked with ICT, the due diligence findings contain important information for integration work. A thorough review of pre-closing findings is necessary.

ICT Infrastructure & Services, Process Description

A common understanding of the structures and processes can be established within the organization, for example, by sending a survey and verifying the returned documentation with the local ICT individual(s) during a site visit by the buyer's ICT integration manager.

- The Buyer's ICT integration manager or integration team manager provides the ICT manager or the contact individual of each of the acquired entity's sites with a "Pre-integration ICT survey" document;
- The document is completed by each site in the acquired entity;
- The document is returned to the Buyer's ICT (the format of the document is maintained by the buyer's corporate ICT function);
- Issues included in the survey may include present ICT personnel, ICT needs and ICT agreements (local ICT agreements, license agreements, service agreements and on-going development project agreements);

The ICT integration manager arranges an information meeting with the local ICT personnel regarding the buyer's ICT standards to discuss:

- Technical issues;
- Centrally managed ICT agreements;
- Centrally provided and managed ICT services;
- Security guidelines;
- Business or market area specific standards (business applications);

Deviation reports (based on site visits) are made to reveal items (hardware, software, communication, security, etc.) that do not comply with the Buyer's standards.

Assess ICT Security

- During site visits an ICT security assessment is carried out;
- The assessment is done as part of the ICT survey or as a separate effort, depending on the size, location and business/market situation of the acquired entity;

Decide on the integration strategy and draw up an integration plan. Based on the deviation report and the standard integration task list, the ICT integration manager outlines an ICT integration project plan for implementing the required changes. The next steps include the following tasks.

To verify the integration plan with the project owner and local contacts:

- Review the ICT integration project plan with the integration project owner;
- Make adjustments, as necessary;
- Present the final plan to the local ICT functions and the local businesses;
- To implement standard ICT infrastructure:
- Local site connects to the Buyer's wide area network;
- Applicable standards are implemented, including: IP address space, client security, etc.;
- All mandatory changes noted from the deviation report are implemented;
- The site is connected to the corporate network.

Local ICT personnel and other contact individuals are trained to utilize the standard ICT services and to support their local organization. All documents and reports are maintained and stored by the Buyer's corporate ICT function, with copies kept by each local ICT team.

Culture

An M&A deal will impact corporate cultures, both on the Buyer's and the Target's side. Personnel in the Target may notice the changes faster. For personnel of the Buyer, changes may be noticed later and even come as a surprise, when operations become more deeply integrated.

Culture has increasingly become a critical factor in integration success. This is especially the case in cross-border M&A. Even companies working in same line of business and the same area can have very different corporate cultures.

Factors that impact corporate culture may include:

- Line of business (service, manufacturing, construction, etc.);
- Company structure;
- Age structure;
- Geography, local area, city;
- Nationality;
- Ethnic group;
- Religion;
- Language.

History, Pre-deal Identity & Experiences

Companies and personnel are products of their respective histories. Different owners and business situations have certain values that influence behaviour. Culture is never right or wrong, what is important is how well the culture fits and supports the overall company strategy. The Buyer's top management and individuals in charge of integration should become familiar with the acquired entity's history, national culture, educational systems, society, arts, sports, etc.

Comparison Of Corporate Cultures

The better the Buyer's management knows its own corporate culture, the faster it can learn to understand the differences in corporate cultures and how they impact personnel behaviour and decision making. There are many cultural assessment methods and systems available that can be used during the purchase phase to speed up integration.

Developing Joint Company Culture & Values

The Buyer should decide to what extent to import and implement its values and work patterns. It is also important to communicate to everyone in the new organization, what the global "must" issues are and how local cultures are integrated.

Change takes a long time. Culture and values are lived. If spoken values differ from the way management really behaves, cultural change will not happen. Indeed, the outcome may even be the reverse of what is desired. reverse of what is desired. True corporate culture becomes visible through decisions made under in stressful situations, when spontaneous opinions and emotions arise.

To develop a joint corporate culture, the means available include:

- A clear and well communicated, corporate vision and strategy;
- What company values mean to the individual's work;
- Ensure that individuals knows their own position within the company structure;
- Use of common terminology;
- Measurement of conduct, highlighting deviations and open communication of results;

When implementing the "buyer's way":

- Assess needs for cross-training;
- Prepare a training plan;
- Implement appropriate training, e.g. for sales, service, leadership.

Sales & Marketing

Sales and marketing (customer relationship management) is often a difficult and sensitive area to be changed in the integrated organizations. Consideration needs to be given to issues such as:

- Key customer retention;
- Momentum in on-going sales;
- Stabilization and motivation of the sales force;
- Level of integration of the sales and service forces;
- Level of integration of other sales channels;

Issues Transferred From Due Diligence

Sales and marketing information may often be restricted or limited. During due diligence important recommendations or notes can be found.

Organize Integration Review Meetings

The sales forces need to have quick and full access to detailed information regarding customer service, sales force structure and the employment terms. Several meetings may be required, but the first one should be held immediately after the joint management meeting. Issues to be covered include:

- Review of the M&A strategic targets and goals;
- Presentation of the Buyer's strategy, operations and key individuals;
- Presentation of the acquired entity and its key personnel;
- Review of the standard/typical sales/marketing processes by Buyer, Target and local market;
- How to execute sales force integration;
- Establishment, if needed, of smaller groups for further work on the issues.

Inform Customers

Together with the Buyer's corporate communications and legal departments, prepare the content of an introductory customer letter and a "script" for individual visits.

All customers should be informed either by a personal visit or by mail. Decide which key customers are to be visited individually, by whom and when (at least one individual from both parties). Keep records of all customer visits and feedback.

Prepare Sales Protection Plan

The Buyer needs to try to ensure that the M&A disturbs the customer relationships as little as possible. If the customers regard the deal positively, this is not a major issue. But if customers express fears, for example that the offering may be limited or prices may rise, then actions need to be taken to protect sales.

Identify:

- The most critical/largest deals (on-going/starting);
- Most critical/largest customers;
- Prepare and implement action plans, including customer visits (by whom and when/message);

Revise sales targets:

- Review and agree upon revised sales plans and budgets for the balance of the current year;
- Allocate resources to meet sales targets (critical in the case of overlapping business);
- Make sure that each sales individual has a clear understanding of the targets, strategy and goals;
- Set up a sales (sales funnel) monitoring system, reporting monthly at minimum;
- The first months are usually critical for customer retention;
- Active follow-up is needed from both the sales department and the integration team.

Review sales and service distribution (agent and representative) network:

- Review the sales and service network;
- Identify and review the current sales distribution agreements;
- Decide which distribution relationships will continue;
- Make a plan for transition of business from relationships that will not continue.

Ensure Continuity Of Customer Contracts

In asset deals, the running contracts are exposed to evaluation from the customer's side (price, terms, etc.). Contracts can only be transferred to the Buyer after customer consent.

On Day One, and with the Buyer's legal department, immediately prepare consent letters for all customers (using available data). Plan to visit the most important customers. Confirmations need to be received from all customers in writing and should be filed. Consider carefully before opening current contracts for renegotiation.

After Sales & Service

Service is increasingly important in value creation. Consequently planning and implementation of service integration is a key part of future success for many companies.

Review Due Diligence Findings

Check due diligence recommendations and notes. Ensure that the integration team is fully aware of all relevant findings made during the due diligence phase. Distribute due diligence reports (internal and/or from advisors) to the integration team.

Key After-sales Processes

Organize an integration review (meeting) to determine key after-sales processes:

- Inform the service personnel of the acquisition and explain the strategic goals;
- Present the Buyer company, its vision, strategies, operations and individuals;
- Arrange a presentation by the Target and its personnel;
- Go through the typical service and sales/marketing processes;
- Plan and decide how to execute the integration;
- If needed, establish smaller working groups;

The general method to be followed can be described by the following steps:

- Review the current processes/work routines;
- Benchmark the best practices within Buyer and Target companies;
- Review and allocate resources;
- Agree upon and implement the processes to be used;

Review, agree upon and implement a common spare parts process;

- Clarify the order processing for spare parts;
- Define variations allowed from the Buyer's standard process;
- Starting process can differ from standard process – plan actions of standardization process;

Review and agree on ICT changes;

- Agree on the ICT system to be used/continued;
- Ensure that training is offered for all personnel, with HR's assistance;

Review, agree upon and implement spare parts logistics process and work routines

- Review current work routines for spare parts logistics including: forwarding agencies, courier services;
- Agree on service providers to be retained.

Review, agree upon and implement processes for:

- Maintenance and service contracts;
- Implement conversion/refurbishment;
- Modernization;

Review, agree upon and implement the warranty/guarantee process for sales and service functions

- Review the current processes/work routines by business area/product line
- Benchmark with best practices;
- Review and allocate resources;
- Agree upon and implement processes.

Review, agree upon and implement accessories process

- Review the current processes/work routines;
- Review and allocate resources;
- Agree upon and implement the processes to be used.

Review, agree and implement approval/certification process

- Review the current processes;
- Review and allocate resources;
- Agree upon and implement the processes to be used;
- Set a training plan to introduce the program;
- Ensure competence levels.

Supply Chain Management

A reduction in supply chain costs is one of the key sources of synergy savings. These are typically gained through elimination of overlapping activities, lower purchase prices and improvement in purchase terms due to increased volumes.

Initially, the focus of integration is primarily on securing continuity. Since fundamental change requires detailed planning and calculation, it is left to a later phase of integration.

Review Of Due Diligence Findings

Ensure that the integration team is fully aware of all relevant findings made during the due diligence phase. Distribute due diligence reports (internal and/or from advisors) to the integration team.

Complement and refine the knowledge gained during due diligence:

- Calculate the Target's annual purchasing expenditures by category and supplier;
- Assess key supplier relationships: annual volumes, prices and other contract terms;
- Assess, from a risk management perspective, any critical supplier relationships.

Leverage The Joint Company's Purchasing Power

Meet with the key suppliers and build mutual commitment by explaining M&A strategy and plans. Assess supplier quality, etc.

- Ensure availability of key components;
- Seize opportunities to cross-utilize the buyer's and the Target's supplier bases;

- Negotiate discounts where prior entities had shared suppliers, based on consolidating volumes to preferred partners;
- Address the non-product related spending, including: travel, ICT, telecoms, etc.

Production

Although decisions regarding the continuity of production sites are sometimes made before closing, often these decisions require more experience and planning and are thus made at later stages.

Review Of Due Diligence Findings

Ensure that the integration team is fully aware of all relevant findings made during the due diligence phase by distributing summary reports and memos.

- Complement and refine the knowledge gained during due diligence;
- Learn and understand the Target's "make vs. buy" situation;
- Analyze key sub-contractor relationships: annual volumes, prices and other contract terms.

Securing Deliveries

Ensure that customer deliveries continue uninterrupted during the integration phase

Plan To Leverage Buyer's Scale In Production

- Assess value of consolidating production or insource/outsource production based on calculation of annual return versus a one-time implementation cost;
- Develop transition plans if potential for consolidation or other change exists;
- Calculate ramp-up schedule per item/category, sequencing of items/categories to be moved;
- Assess resource requirements for transition period, risk management, etc.;
- Set milestones for volumes and quality from new production set-up.

Implement Production Re-organization

- Execute the transition plans once the actions have been agreed on. Monitor progress of the project against set targets and take corrective action if required.

Technology

To what extent the integration focuses on technology and R&D depends on M&A strategy. If the reason for the acquisition is to gain new technology or strengthen existing capabilities, then integration will also be more focused on these issues.

Since technology and product research and development are deeply rooted in a company's corporate culture and values, change tends to take a long time.

Review Of Due Diligence Findings

Ensure that the integration team is fully aware of all relevant findings made during due diligence.

Technology Portfolio

Prepare a comprehensive assessment of:

- The current focus areas for development activities and technology investments;
- Assess the IPR situation: focus, relevance, expiry dates;
- Level of technology standardization.

R&D Capabilities

Prepare a comprehensive assessment of issues including:

- Internal resource profile: number of personnel, experience, age, skills, education, turnover rate;
- Identify key individuals;
- Design/development applications in use;
- Testing facilities;
- Sub-contractors: extent of use, nature of use;

- Key partners, quality of relationships.

Documentation Practices

- Assess the level and quality of the acquired entity's standards and resources versus the buyer's equivalent levels.

Leverage Of Buyer's R&D Scale/Power

- Develop a plan to assess the opportunities for future project-based co-operation and focus areas for R&D investments.

Synergies

For many, the term "synergies" has unfortunately become a synonym for cost-reductions and redundancies. Still synergies can mean new strengths and opportunities from combined knowledge and experiences.

From the Buyer's point of view, the purpose of an M&A deal is value creation and ultimately an increase in the long-term shareholder value. Integration of the buyer and the acquired entity creates opportunities for an increase in value. However, the risk for value destruction, due to the integration of the deal failing to meet its objectives, must be considered. Equally integration costs are to be in the calculations.

Review Of Due Diligence Findings

One of the reasons for the due diligence is to ensure that the Buyer's estimated strategic fit and synergies would not be threatened after closing the deal. The integration owner, the steering group and the integration manager need to review the due diligence findings before starting the integration stream work.

Value Creation Items

Value can be increased through both financial actions and operational activities, including:

- Revenue generation through cross-selling;
- Expanding sales to new customers;
- Increasing prices;
- Product life-time extensions;
- Cost reductions.