

Mergers & Acquisitions

Driving speed to value from an M&A growth strategy: Establishing an in-house merger integration capability

By Jill Dailey, Ana Dutra and Donna Peters

Jill Dailey is a New York-based senior manager in Accenture's Strategy service line.
jill.s.dailey@accenture.com

Ana Dutra is a managing partner in Accenture's Strategy service line and the global lead for Accenture's Organization and Change Strategy practice. She is based in Chicago.
ana.dutra@accenture.com

Donna Peters is an Atlanta-based senior manager in Accenture's Strategy service line.
donna.peters@accenture.com

After suffering from a post-dot-com era hang-over, the global mergers and acquisitions market is thriving again. The marketplace has recently experienced a 38 percent year-over-year increase in global deal volume, with half of the Fortune 500 expecting to participate in merger activity in the coming year.

The current focus on growth through acquisition, however, is unfolding in a very different environment than its dot-com predecessor. More companies are now "serial acquirers" that plan to pursue a series of deals to fuel growth for years to come. Dealmakers also face new challenges. Intensifying competition, growing activism among investors and Sarbanes-Oxley requirements are among the market-changing influences that are heightening expectations for mergers to realize more value and deliver larger returns—and to do so faster than ever before.

Accenture believes that, for companies using acquisitions as an instrument of growth, an internal merger integration core capability is essential to capture and preserve maximum value from each deal.

The value of an in-house integration capability

The value at the heart of an in-house integration core capability is in bridging a knowledge and perspective gap many companies have between those making the deal and those in charge of making the deal work.

- **Ongoing alignment with operations.** Successful acquisitions require aligning the dealmakers' rationale with the operational

and organizational realities of the business. In many instances, a company's in-house dealmakers—focused on deal structure and far removed from operational concerns—essentially toss a deal over the wall to the operational leaders to sort out how to make it work. Unrealistic expectations about launch dates, complex distribution channels or systems integration challenges can lead to projections that underestimate what is necessary to deliver an acceptable ROI.

- **Anticipating upstream challenges.** On the other side of the house, operational leaders may lack appreciation for the challenges faced upstream by the corporate development team. Each merger presents its own set of discrete negotiation challenges regarding the competitiveness and structure of the deal (which can drive aggressive goals and timelines), as well as board pressure to follow a specific course of action. Each of those factors can compel a buyer to accept concessions and targets that create downstream implications.
- **Providing both long-term and short-term resources.** For companies using acquisitions as a long-term growth strategy, ongoing skills and capabilities are essential. Companies do not want to take the time to bring new people along a learning curve every time an acquisition is in the works. No two integration initiatives are exactly the same, but there are common merger integration management skills upon which a company must depend in the long term. An in-house capability can also oversee the kinds of short-term or interim resource needs that enable the

company to manage “business as usual” needs while ensuring a well-managed integration process.

Speeding the establishment of in-house merger capabilities

Based on Accenture's experience supporting clients on more than 350 M&A integrations with Fortune 500 clients over the past five years, we have identified a set of proven approaches and supporting assets that can support more effective merger integration.

The Accenture M&A Playbook

The Accenture M&A Playbook is a proven and tested set of diagnostics, customized integration methodologies, performance metrics, tools and templates that can mitigate integration risks and speed companies to greater value with their M&A strategies. By building repeatable and scalable processes tailored to any company's specific needs, the playbook leads companies through the steps and questions for the most vital integration activities and functions.

Accenture follows a four-phase process in developing its M&A Playbook:

1. Analysis. The first step is an analysis of a company's current merger integration capabilities to isolate the most pressing general integration issues.

2. Design. Findings from the analysis phase then drive the design of the diagnostic and playbook, including an outline of the methodologies, performance metrics and other tools that should be included.

3. Development. The development phase includes creation of the integration asset suite, and then the identification of pilot cases suitable for testing the playbook's efficacy.

4. Release. Finally the playbook is put to the test in a live merger integration initiative, an undertaking that should be supplemented by progress reviews to identify revisions needed for future versions.

Shape integration activities to match the intent of the M&A strategy.

Mergers and acquisitions can support corporate growth strategies in a variety of ways. The shape and complexity of the integration of any merger will be greatly affected by whether a company seeks to boost scale and market share, expand its product portfolios or R&D capabilities, vertically integrate elements of its supply chain or some other overarching strategic purpose. It is vital to understand the impact of a company's particular path on the integration process long before that process begins so that decision makers can factor those implications into the calculus of the deal.

Create the right organizational structure for a merger integration unit.

A successful merger integration team demands coordination and cooperation across all functions of a corporation. Operational units cannot create integration plans and processes in a vacuum, removed from customer-facing sales and marketing teams or corporate functions such as human resources. In terms of staffing, the merger integration team must be seen as a coveted assignment. An organization should select its best and brightest—not just “who is available”—given that this team will greatly influence the acquirer's ability to create value from a deal.

The merger integration team must also work in close collaboration with the corporate development unit that evaluates potential deals early in the process to offer an operational point of view to the due diligence phase.

Develop repeatable, scalable merger integration processes.

Perhaps most critical to the success of an in-house merger integration capability is learning from proven best practices—the repeatable and scalable integration processes that can guide all integration planning and implementation activities. The Accenture M&A Playbook, for example (see sidebar), includes diagnostics, customized integration methodologies, performance metrics, tools and templates tailored to the acquiring company's needs, and which can be applied in a manner consistent with the value drivers of a particular deal.

A key component of the set of processes and assets is a diagnostic tool that helps the acquiring company gauge a deal's complexity before entering the due diligence phase.

The diagnostic tool includes a series of function-specific decision tree analyses designed to zero in on the ramifications of the most likely trouble spots in the integration efforts. While not intended to replace due diligence, the tool can surface potential downstream integration challenges in areas such as sales and marketing, or the supply chain, while there is still time to influence the terms and conditions or, if warranted, walk away from a deal.

Assembling the right team

As your company evaluates its next acquisition opportunity, who besides the CEO will have a performance review based on the success of the entire acquisition effort? An internal merger integration core capability can deliver added accountability for the result of the deals pursued by acquiring companies—not just in one deal, but for a series of deals over the long haul. Companies that assemble a merger integration team to design, apply and maintain repeatable, scalable integration processes will more likely reap the benefits and be positioned to achieve high performance through a merger-oriented growth strategy.

Outlook Point of View

April 2006, No. 1

Copyright © 2006 Accenture

All rights reserved.

The *Outlook Point of View* series offers insights about leading trends and innovations across all industries.

David Cudaback, Editor-in-Chief
Craig Mindrum, Managing Editor
Jacqueline H. Kessler, Senior Editor

For more information on *Point of View* and other *Outlook* publications, please visit our website: <http://www.accenture.com/Outlook>

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.

The views and opinions in this article should not be viewed as professional advice with respect to your business.