SHAPING THE FUTURE BUSINESS

The FD is a critical player in any M&A project, from the initial investment stage right through the integration process. In the first of a series of articles addressing post-merger integration, **Danny A Davis** of Davis Consulting and **Stephen Dawes** look at how the FD helps to shape the strategy for future business.

Establishing strong financial planning and review processes before and after the completion of any deal allows the FD to support the CEO and other directors in their strategising and decision making. The better the quality of the information available to you as the FD the better placed you are to challenge people's thinking around which levers they should focus on. Better planning helps all the directors understand what they personally have to do to maximise return on investment.

The goal of this financial planning process is that everyone knows and understands why a deal makes sense commercially and how to make it a success.

If the FD can ensure this is clear and well understood then they will have played a key role in ensuring their business is well positioned for the future. They will also have increased the chances of success for any integration activity because a robust answer to this question acts as a blueprint for the integration team. A robust answer is one where the assumptions of the business case can be clearly stated in a way that means individuals understand what they must do to ensure success. If the main assumptions in an M&A business case can't be simply articulated then the integration activity usually lacks focus.

Shaping plans for growth

The commercial leadership will need help from the finance team to create solid projections for the future. They should be helped to quantify their instincts about what the combined business is capable of doing and then challenged about what needs to happen in order for that to take place. You want them to own and understand their forecasts but you also need to know that these have been well tested. Scenario planning is invaluable; help them to compile pessimistic, optimistic and realistic forecasts and wherever possible get them to articulate the rationale behind these numbers.

What are your commercial teams assuming in terms of business growth? After the integration will one plus one equal two on the sales ledger? Or better still, two and a half? Or, as is so often the case, will it be more like one and three-quarters? If it is the latter then are there situations where that would be an acceptable result?

Also, do the two businesses have overlapping or competing product lines? Does the merger bring new desirable brands or will you trade under one brand? If you are removing brands from the market will that reduce your overall marketing spend?

Investment and R&D

What investments are you making in new product lines or R&D? Are there projects that no longer make sense because the acquisition has effectively replaced a piece of R&D? Can these projects be closed down and funds released for use elsewhere?

Divestment

It is also worth questioning whether you are inheriting non performing product lines. If so, how are your colleagues planning to handle them? Do they have skills to restructure them into profitable lines or do you need to close them down altogether?

These questions are a flavour of some of the challenges your team will need to put to the business as they develop their financial plans for the combined future. They are not intended to be an exhaustive list because each deal and each project will be different. However, they are drawn from checklists based on our experience to help people sanity-check their integration plans. If you have an established planning cycle that asks these questions regularly then this will be easy for you. If your business doesn't operate in this way or is not large enough to justify dedicated planning and analytical resources in the finance team then you will have more work to do to create the models you need.

Shaping the cost base

Post-merger integrations also present a chance to radically rethink parts of your operating model and cost base. Sometimes this will be driven by the necessity to remove duplication within the entities you are merging such as overlapping management structures or duplicate support structures. On other occasions the merger just represents a good time to streamline parts of the business that have needed it for some time. Again, the FD and the finance team can take the lead in helping individual directors understand and develop their cost plans for the future business.

After tackling areas of obvious duplication, people usually start to ask whether the acquisition gives them the ability to leverage economies of scale. These could come by absorbing work from one office or location into another, significantly reducing the overall size of the workforce or, perhaps through increased purchasing power with suppliers. Indeed, even if you have not substantially increased purchasing power, a full audit of supplier contracts and pricing agreements across both businesses may well yield differences in pricing that open up opportunities for renegotiation. When looking at duplication and economies of scale the creation of shared service centres for support functions such as HR, IT, legal and finance is often a popular way to increase overall productivity.

Many businesses also use integration as an opportunity to consider outsourcing non-core aspects of their operation. This is sometimes because outsourcing can dovetail with parts of a divestment strategy. Could you, for instance, package up parts of the operation for divestment into an existing outsourcer – eliminating the need for large scale redundancies and significantly reducing your overall cost base as a result?

Variations in compensation and benefits, pensions and pension liabilities are often areas that need to be closely scrutinised and can impact the overall balance of costs favourably or unfavourably. You may find some geographies are cheaper to operate in than others and this may influence your operations strategy. Or, perhaps you will uncover additional costs associated with harmonising pension schemes or compensation and benefit schemes to achieve equality across the workforce. If this is the case it is better to understand those risks early in the process before they can significantly impact your plans.

Process efficiency and use of technology is another area that should be investigated. Does one of the two operations bring with it more efficient processes or perhaps better technology for getting the same task done? If so, what can be saved by migrating the whole business onto that way of working?

The cost challenges are usually a little easier to evaluate than the growth ones. The data is often more concrete and the actions, while sometimes difficult due to the nature of the restructuring involved, can often be more straightforward to plan. The key once again to ensuring that this financial planning sets the integration on the right footing is that at the end of this process the levers for success are clear to all.

30 days post-completion

There are also some key actions that need to be undertaken in the early days of the integration. In this period the FD will need to get control on large areas of scheduled expenditure and also ensure that appropriate financial reporting exists to validate the key assumptions of the plan.

These include a full review of the current R&D activity; instigating reviews of all ongoing projects to understand where they are in their lifecycle and what expenditure they have scheduled; getting control on existing department spending plans and checking how these fall in line with future plans; understanding what is committed in terms of marketing or business development budgets and again, evaluating how this falls in line with the agreed brand and go-to-market strategies.

Some of this will have started during due diligence but access to information is never perfect at that stage and so once you have full access to the people and data you should act quickly to validate your understanding of existing commitments.

Once these review processes are in place the FD can exercise early control over expenditure and encourage directors to bring their functional spending in line with the agreed future plans.

Plan ahead

With good quality financial planning and analysis the FD is be able to offer a lead by challenging the rest of the management team about what sort of performance they expect from the future business and what size it needs to be to achieve this.

This financial planning process then needs to be backed up with the implementation of early reviews and controls to help validate the projections and assumptions in the business case.

By doing both of these the FD is able to help steer a course towards a profitable future where acquisition value has been maximised rather than destroyed. FDE

To receive a free CFO checklist, email ***danny.davis@ddavisconsulting.com***

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