

M&A Integration

Day 1

Our Services

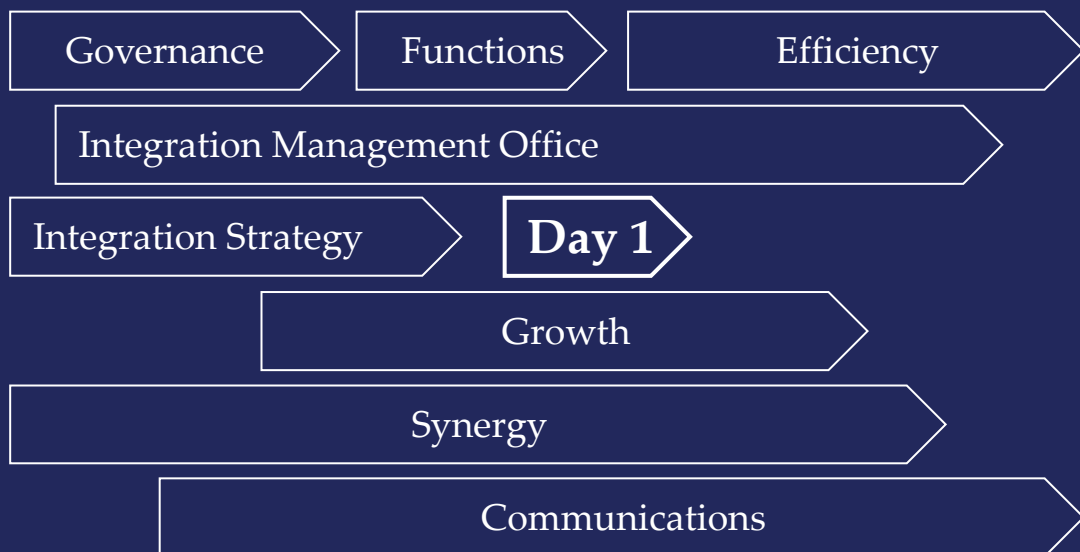
Due Diligence

Sign

Close

Interim State

End State



Why do you need Integration help?

If you are thinking about buying another company, you will know your business and what you want to achieve with the acquisition, therefore, you will probably believe you do not need help.

You have quality systems and people, whether they have M&A experience or not you will expect them to identify all the potential issues of an integration, understand their importance and produce a comprehensive plan.

So why is it then that approximately 80% of mergers and acquisitions fail to deliver value. Failure is not only expensive, but, can also impact on future growth (or even viability) and will certainly add significant stress to your systems and employees.

That is why you need Integration help.

Why should you get this help from DD Consulting?

We believe that DDC's successful history of helping clients deliver real value from M&A activity is driven by the quality of our people, their industry and M&A experience, but, also by the way we help and support our client's teams.

Over a number of years we have used our experience to develop integration methodologies, tools, checklist, and playbooks which help us maximise not only our value to you, but also, the value that your team can deliver.

We do not "flood" you with junior staff but look to develop and support you in delivering a successful outcome.



Introduction

Day 1 is a key stepping stone to ensuring that an integration delivers maximum value and minimum disruption, but, it requires a clear focus on essential deliverables, communication with all stakeholders and interim processes that ensure that externally it is seen as “business as usual” whilst internally everyone is clear on how to deliver this. Given the inherent stresses that will occur with all stakeholders, external and internal, Day 1 is a challenging task for your teams if they do not have the experience of integrations (and sometimes even if they do), a clear detailed plan is essential.

Communications, with all stakeholders, ensuring uninterrupted supplier and customer interfaces. These stakeholders will be concerned about the impact on their own businesses, good communication will ensure they support your business during integration and beyond.

Your people, communication internally has to ensure that they are fully engaged, have clear direction on the RACI Management structure (who makes decisions). Your people, from senior management throughout the organisation, will be delivering Day 1 they must be fully informed and work safely (maintain focus). Functions such as Finance, HR, IT have to ensure that systems run, adequate controls are in place (purchases, sales and costs are accurately recorded and reported, limits of authority are clear and workable).

Procurement and Sales/marketing, process changes (i.e. invoicing details, new entity information) and responsibilities have to be fully functional and ensuring business is seamless.



Ensure through good Day 1 planning that the new leadership is in place, take good financial control of our new entity and have financial control over it. People understand what they need to be doing from Day 1 on both sides and what critical work needs to be done in the lead up to Day 1 to ensure the companies continue to run with minimal disruption.

Can you be sure that everything will continue to work on Day 1 if you have not planned for it well in advance and know what your going to do and tell everyone.

Readiness Assessment

We need to understand which parts of the business are ready to be taken over and run as a new separate entity, and which parts are ready to be integrated. Often there are areas of the organisation that are just not up to scratch and so should not be merged with another part. This can occur on either side of the transaction.

Examples might include the idea of rolling a target organisation into our computer systems. Upon review it is clear that our IT systems can not yet cope with the additional volume of work or transitions. It could be we wish to roll the targets finance admin into our shared service center, we might decide we are not ready to accept that additional work, and want to improve our systems, and process before we start hiring new people in.

The readiness assessment might include:

- Evaluating all items on the integration time line and understanding if our company is ready to do that integration. How efficient is our company being run, are we already at a stretch where we can't take any more, without fixing some things.
- Review the integration tools and templates we have in place and are intending on using.
- Understand the proposed integration team structures, check these are adequate for the integration at hand.

Synergy

Synergy estimates

The synergies are estimated pre-deal and often used in the discounted cash flow (or other models) to decide on the purchase price. For the deal to succeed, we then need to plan and deliver these synergies.

As we head towards Day 1 more information is available about the company and we need to start to break down the synergies into manageable and deliverable packages, assigning them to projects and people for delivery. With a clearer insight we can update the estimates pre-deal and will go through the process rapidly post deal of checking that they are all deliverable.

This is the process of checking and updating, then delivering them.

Synergy Planning

Each of the synergies has a project created to deliver them, in an appropriate manner. These plans are checked, approved, resourced and mobilised.

We focus firstly on quick and easy wins, to get the integration off to a good start. Maintaining accountability in the newly formed organisation.

Synergy Delivery

A business case is written for each synergy project, and goes through an approval process with the steering committee. Ensuring all costs and synergies add up to the required totals to ensure the deal is a financial success.

Projects get planned and communicated.

Launch IMO

With a good set of projects, the integration management office is launched to fund and track all the projects over their life time.

The IMO provides integration team structure, objectives, resources, work tools, and governance, assigns resource and develops timelines and milestones.

Set up workstreams

Workstreams are often set up before Day 1. These can now be ramped up across all the organisations, with consistent and clear methodologies, aims, and deliverables. Integration capacity is reviewed for all the area's e.g. Finance, IT, HR, Sales, Marketing, Operations, Supply Chain, Procurement, Property.

Finance

Finance is another important part of Day 1. As we purchase a company we become financially liable for it. All the money, people, assets, IP, products, services, dept, liabilities, law suits are ours.

Financial Control & Reporting

We need to take control of the company financially and understand what is going on over there. Could someone write a cheque on Day 1 and take our money? Who can sign off on sales contracts, represent the company, new procurement contracts, new branding, new sales documents. Who can sign off budget spend for the integration items?

Put delegation of authority in place.

We also need to know what is going on in the business day to day and month by month. Understanding management reporting and translating it into our language.

People

Getting the people part of the deal right is critical, and the first day we own the company is the first time we get to see them and they see us.

The first thing is to ensure leadership is in place, is aligned and heading off in the same direction. Who will we loose on purpose and who by accident. What reporting changes will there be on Day 1 and what is the organisation structure.

Integration workstreams need to be ramped up and resourced from both organisations, as well as ensuring Business As Usual continues along side any people changes that may occur.

Ensuring the business continues running, and the basics are in place. Payroll, IT systems, data issues, transition orientation, employee contracts, talent assessments, retention, new hire plans and onboarding.

People – leadership clarification

Ensuring leadership is in place for all parts of the organisation, organisation structures are clear to all, together with budgets and authority levels. Where changes are to take place, these should be planned in detail.

People – Executive Alignment Workshop

Now that everyone is in place, we will need workshops to ensure all the executives are pointing in the same direction from both companies. Everyone needs to have a common understanding of the deal, current and future objectives, rules and regulations around the integration process.

People – incentivisation

Understand what we want each person or “group of people” to be doing, where we want them to be pointing, KPI’s or targets and incentivise them correctly for this. Across the range of different outcomes each person or group may face through the different phases of the integration.

People – Day 1 look and feel

There is a whole bucket of planning work to decide what we want Day 1 to look like for the employee and then how to deliver that.

People - Culture Discussions

What are the known differences in culture pre-deal. Do we have an idea of the culture we would like to create for the new companies. Sometimes this is a chunk of work and takes time, but often there are a few things we know and want. Start planning how to encourage employees to act in these ways.

People - Communicate why decision have been made

We should communicate why certain decisions have been made, what is the reason or rationale behind them. It is not always the case that we want to do this. Stakeholders will ask, what decisions have been made and why? In my opinion, honesty is always the best policy. Be ready with answers.

Sales & Marketing

Growth starts on Day 1 as does the uncertainty of what will happen to the Sales and Marketing people, products or services and customers. Day 1 is when competitors start to create more problems than usually, when we should be communicating with customers and ensuring we minimise losses and disruption.

Creating one sales force that works together rather than competing, though understanding the overlap and creating clear rules of engagement and Day 1 internal and external communications plans. Organisation charts, customer accountability for the interim state and when an end state will be reached.

Our aim is sales force clarity and customer clarity.

What team am I on now?

Who is my manager?

Which of my accounts are shared with Equinix

When will we have clarity on long-term account assignments?

What prospect are assigned to me?

Do I have the same compensation plan and for how long?

How do I sell in joint accounts and where can I go to help me with this?

Day 1 customer and external communications is also our opportunity to kick off cross selling and increasing revenues and profit for our overarching group.

Develop TSA & SLA

Transaction service agreement: often between seller and acquirer

Service level agreement: often internal between departments

Where a TSA is needed, ensure it is in place in a timely manner and that the items in it cover what the business needs, remembering that the business must deliver to the terms agreed in the TSA during the integration or be penalised. Appropriate SLA to be set up in the integration between service providers in the TSA or between departments.

Leadership clarification & Roll Clarification & Interim organisation

Challenges that face the new senior executive team:

- Create a new effective management team supporting the merger vision in their respective roles
- Develop and communicate a credible and inspiring corporate “story”
- Shape a strong performance culture
- Championing the interests of key external stakeholders
- Balance speed with time to reflect and absorb integration specific learning's by creating an environment of corporate self awareness
- Agreeing delegation of authority

Day 1 Plan Creation

Create a detailed plan for Day 1 (DD Consulting has a check list which proves useful), also ensure critical actions, issues and dependencies are flagged, planed, approved, assigned accountability, resourced and actions.

Day 1 Transition team workshop

The integration team, needs a meeting or workshop to get them going, as of Day 1 all parts of the organisation can start working together and this needs to be co-ordinated correctly.

Key process owners and functional leaders should define the most relevant actions to focus on, who will do this work and by when. Discuss control of the acquired company and that appropriate controls are in place. Learn of any immediate critical business issues that need to be addressed, and check high level risks and resolve. Review risk of losing key customers, employees, productivity, operational effectiveness.

Day 1 actions

Day 1 actions should cover, not just those that need to take place on Day -1 and Day 1 but also those that need to be addressed during the first 30 days.

Take immediate control of the newly acquired company. Think financially, bank accounts, signatories, customer contracts. Anything where a person is creating an obligation for the company, or agreeing the completion of an obligation e.g. completing a litigation or negotiation.

Preserve the value of the company you just bought. People, customer, IP, etc. can fly out of the door. Would you like to put an account manager in place for your targets largest customers – so there is a back up. Succession planning if a senior person jumps during the first few weeks?

Are there any legal obligations that need to be satisfied. Customer contracts with change of control clauses.

Are there any business controls that are critical and need to be in place, as soon as possible after close.

Often we can hold a meeting with the target management day -1 or Day 1 and they will tell us some large risks that we didn't know about. Address these immediately.

Risk Management

A number of risks have been identified, through the deal process. Some of these are not catalogues, remembered, planed and resolved or mitigated correctly. It is often the case that issues that have been spotted or at least questioned, come back to bit us eventually. There is a large chunk of integration work associated with risk and their management. Ensure all parts of the deal (due diligence, valuation, negotiations, etc.) all feed into the integration risk mitigation plans.

Pre-deal checklist

Some of the additional things we would like to think about before buying a company:

- Develop day 1 Plan
 - Develop day 90 Plan
 - Develop the integration approach
 - Establish the integration team structure
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- Estimate synergies
 - Develop full integration plan
 - Risk identification and mitigation
 - Launch integration management office & teams
 - Develop customer retention strategies
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- Gather and analyse data
 - Recommend and prioritize integration activities
 - Develop transition plans
 - Establish success metrics
 - Roles & responsibilities
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- Develop business strategies
 - Develop and execute communications and culture plans
 - Develop the interim organizational structure
 - Manage integration risk
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- Monitor and report progress

Are you ready for M&A?

Do you fully understand the ramifications of early decisions? What is your integration Strategy? Do you have the resources in house? What does Day 1 look like? Who will do what on Day 1 and do they know it? What interdependencies exist and who owns them? Do you have a communications plan? How will you take control of the company? Do you understand all the synergies and how to deliver them? How will integration workstreams be resourced and governed? Can you see all the risks that will appear? How do you keep day to day operating effectively? Do you have agreement on integration approach for each department and division? Do you know who your good people are? Do all the 100 Day Plans work together and pull in the same direction?

Why DD Consulting?

DD Consulting specialises in M&A integration and carve-out. With corporate, big four and private equity backgrounds, our team has supported clients of all sectors, through some of the most iconic acquisitions of the last 20 years. We are passionate about planning, mobilising and delivering deals. We're different because we work with you in smaller, agile, highly experienced teams and take the time to transfer our knowledge to improve your capability. Whatever the brief, DD Consultants bring with us:

- M&A experience, key knowledge and skills learnt from numerous previous deals.
- A library of tools, templates, check-lists and methods which have been refined over years of engagements. We will share these with you, but more importantly, we will teach you how best to apply them.
- An outside and objective point of view, free from agenda, incentive or bias.
- A history of delivering client engagements to the highest standards, on time and on budget.
- We work in small teams together with you, not trying to sell more, not trying to spread out.
- M&A it's our bag, we don't do anything else.

Some of our deals



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