

# MASTERING **P**OST **M**ERGER **I**NTEGRATION

Results of our survey –  
The approach to success

Hamburg, November 2006



# Mastering Post Merger Integration – Results of our 2006 PMI-survey (overview)

## Ongoing merger wave

The current wave will continue for at least three more years

## More cross-border mergers

More international mergers drive the cultural diversity and complexity for PMI

## Activities of financial investors

Financial investors change the rule of the game – constant challenging, pressure on time and results

## (New) awareness for so-called soft skills

Sustainable value-creation requires more than applying basic integration tools

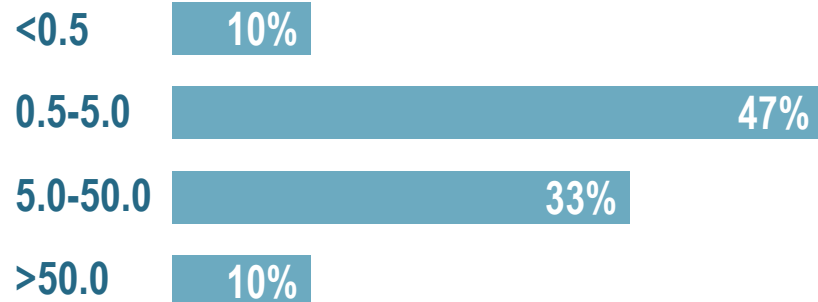
## Increasing requirements in the PMI process

- > **Maximize company value** to increase share price as a currency for future acquisitions, and to avoid becoming a target
- > Set up the **PMI process** to **deliver results** without losing attention to **cultural issues**
- > Install **leadership** in the PMI management that has the capacity **to manage hard and soft skills**

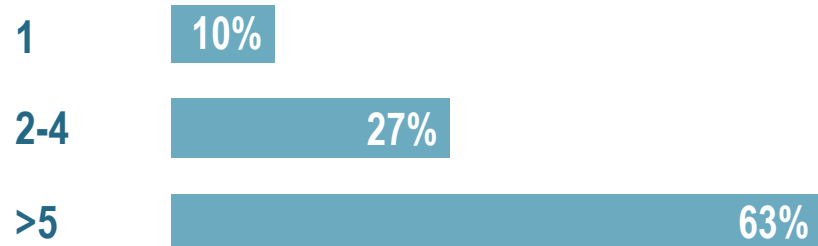
## PMI Survey 2006 – 30 experts interviewed

### Survey structure [background of interviewees]

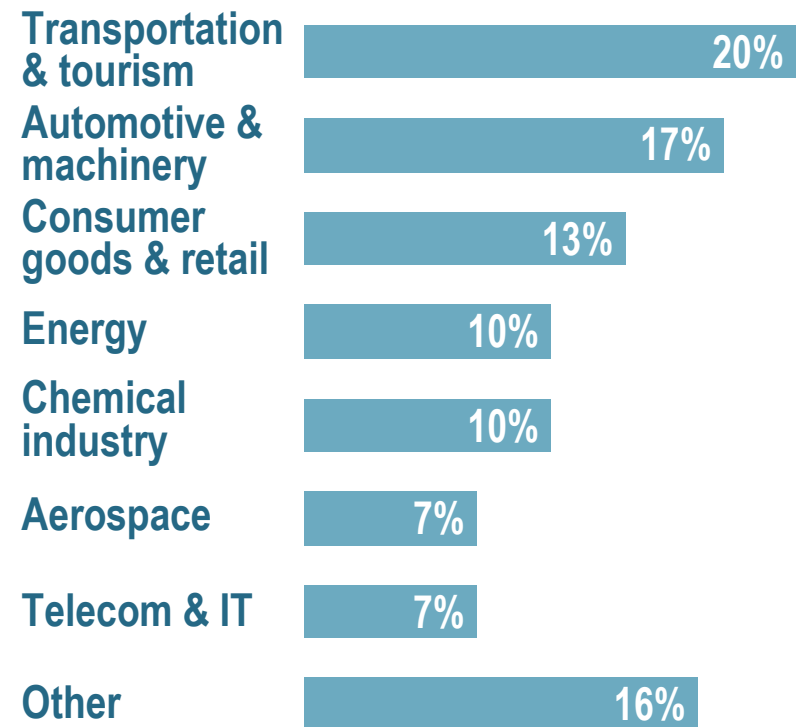
#### Sales [EUR billions]



#### PMI-experience (number of mergers)



#### Industry







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- A. The present M&A wave will continue, with more cross-border transactions**

# The present M&A wave will continue, with more cross-border transactions

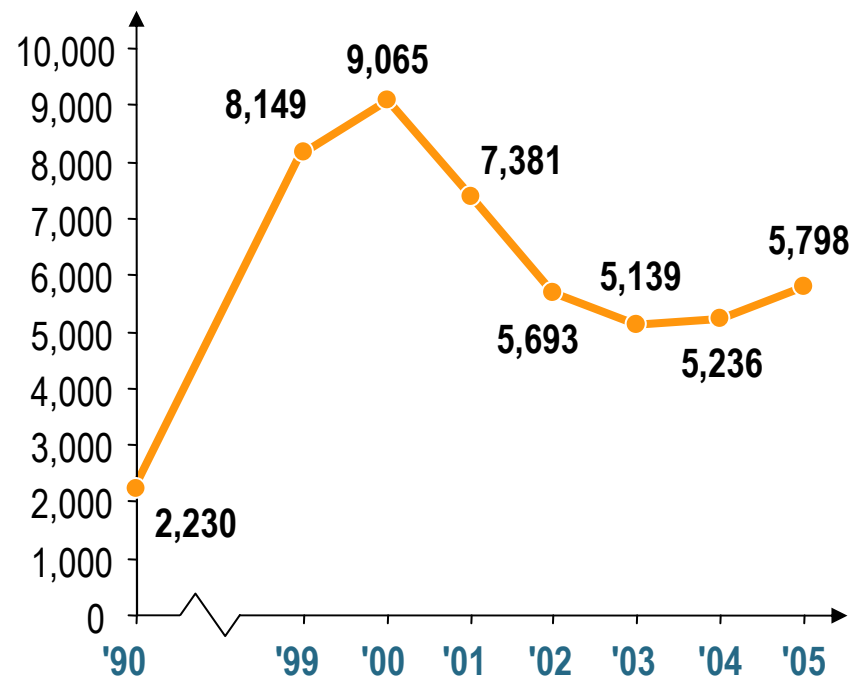
## TREND expectation Approval

<ul style="list-style-type: none"> <li>&gt; The <b>present M&amp;A-wave</b> will <b>continue</b></li> </ul>	<p>Ongoing concentration on <b>core competencies</b>/no diversification</p>	 <span style="font-size: 24pt; font-weight: bold;">70%</span>
<ul style="list-style-type: none"> <li>&gt; Most important <b>barrier</b> today: <b>vendor price expectations</b></li> </ul>	<p>Influence of <b>financial investors</b> to increase further</p>	 <span style="font-size: 24pt; font-weight: bold;">80%</span>
	<p><b>Buyers</b> might become <b>targets</b></p>	 <span style="font-size: 24pt; font-weight: bold;">70%</span>
	<p>Share of <b>cross-border</b> transactions will increase</p>	 <span style="font-size: 24pt; font-weight: bold;">93%</span>

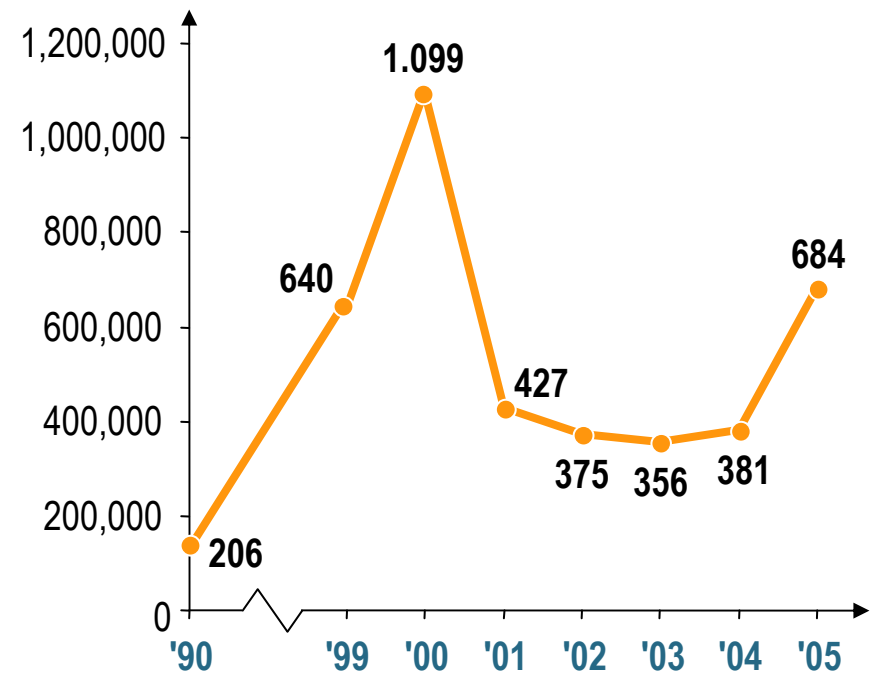
## M&A is back in Europe – especially in terms of volume

Mergers in Europe (European buyers and vendors)

Number of targets \_\_\_\_\_

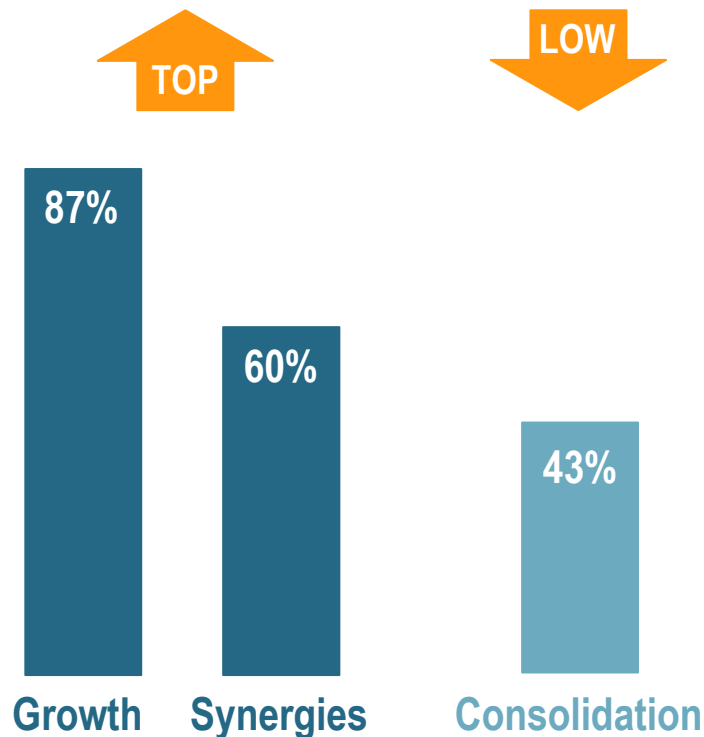


Transaction volume [USD billions] \_\_\_\_\_

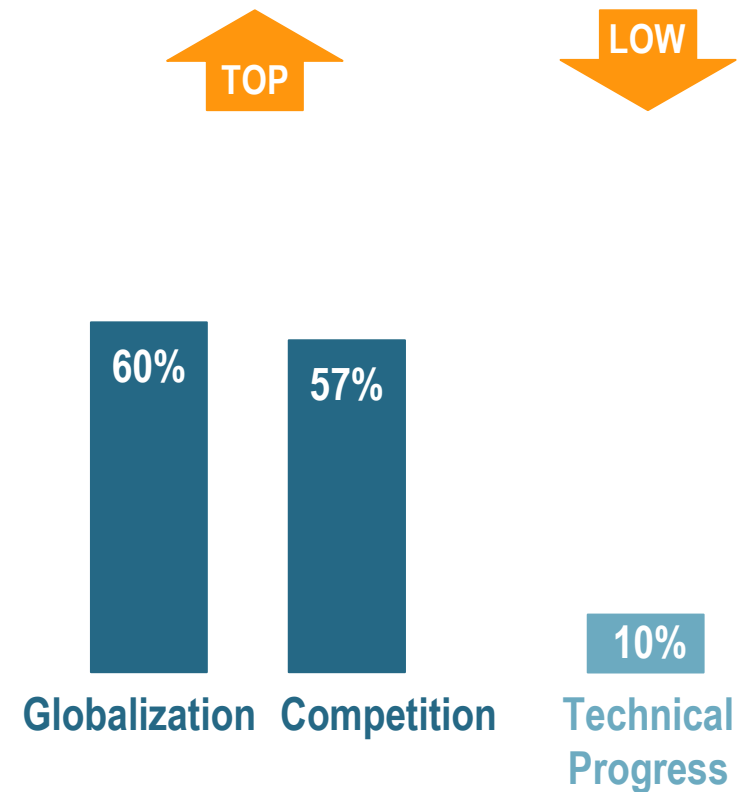


## Growth and synergies are the most important M&A objectives – driven by globalization and competition

### M&A objectives



### External drivers



## The M&A strategy pattern is clear – concentration on core-competencies with international focus

M&A objectives	Focus		
	LOW		HIGH
Core competencies	–	–	100%
Diversification	59%	34%	7%
Home market	53%	30%	17%
International	–	7%	93%
Small acquisitions	17%	20%	63%
Big acquisitions	30%	27%	43%

- > **Access to growth** (markets and products) is key – gaining **critical size** in **bigger markets**
- > **Diversification is not an issue**, companies rather stick to their **core competencies** and search for acquisition targets **abroad**

# The rising M&A activity is welcomed by investors – But critical voices can also be heard

## Transactions (examples)

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- > BNP – BNL (EUR 9 bn)
- > Hapag-Lloyd – CP Ships (EUR 1.7 bn)
- > Linde – BOC (EUR 11.7 bn)
- > T-Mobile – Teling (EUR 1.3 bn)
- > Bayer – Schering (EUR 16.5 bn)
- > Mittal – Arcelor (EUR 26 bn)
- > Euronext – NYSE/Deutsche Börse
- > Endesa – E.ON/Gas Natural
- > ...

## Reactions

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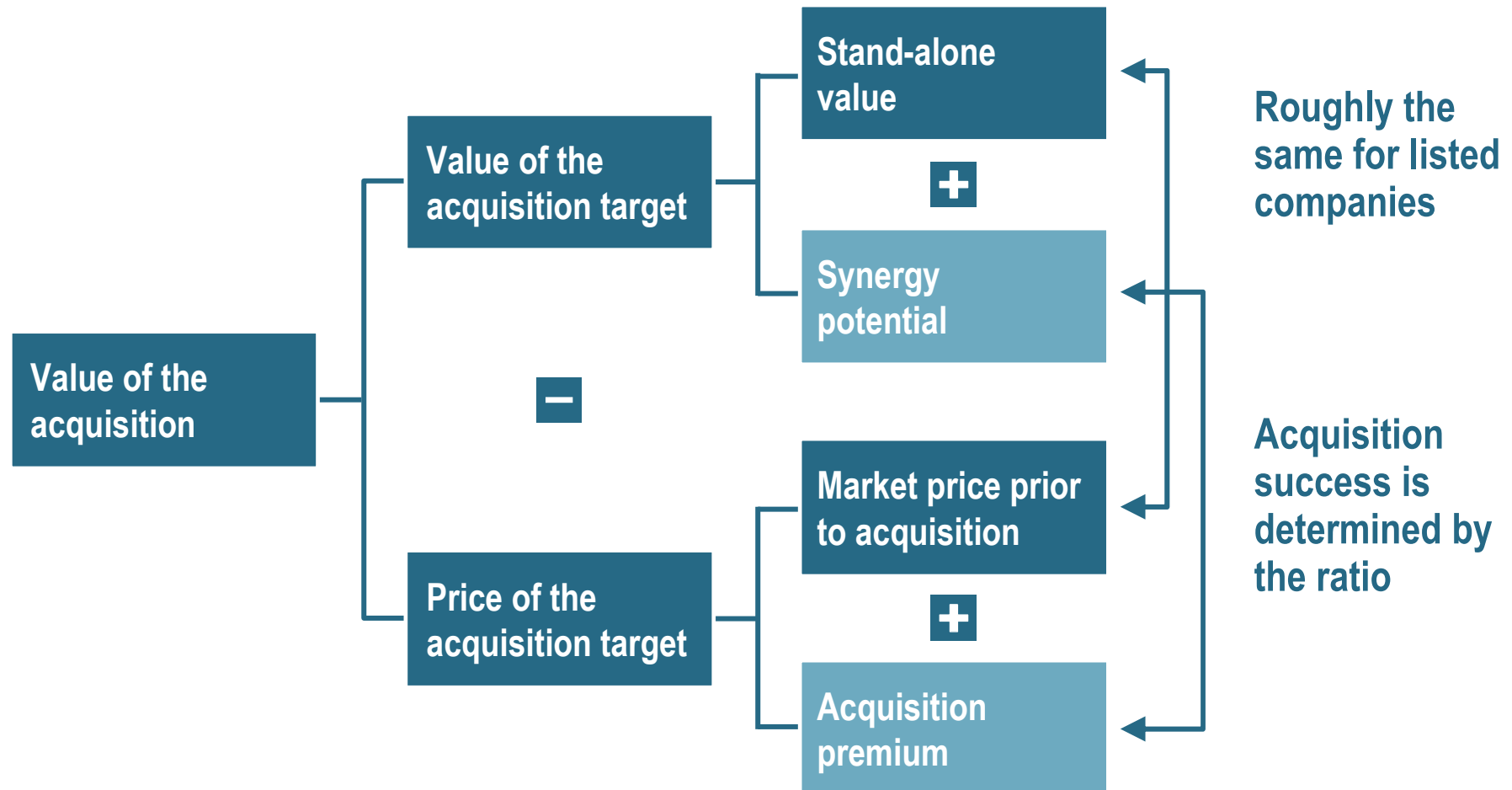
*M&A is viewed as*

- > Classical growth strategy
- > Help to foster the core business
- > Enhance competitive positioning
- > ...

*Stakeholders get more critical*

- > Share prices & acquisition premium rising in bidders' battles again
- > Political & regulatory bodies intervene
- > ...

## The logic – Acquisitions create value only if future synergies exceed the premium paid up front



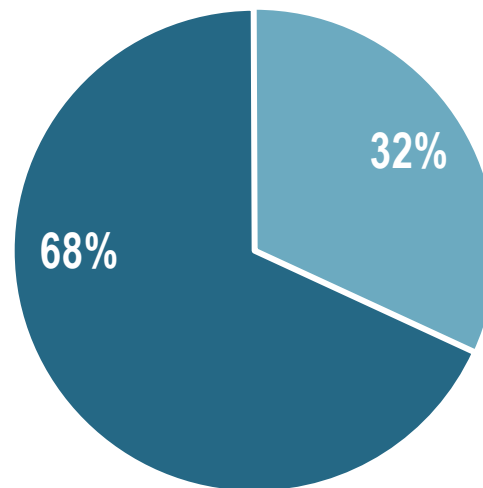
## **B. Post Merger Integration (PMI) today – the critical success factors**

## We asked the experts – were their last merger(s) successful and, if so – why?

PMI Success rate (individual perception as interviewees)

### Yes, because ...

- ... we outperformed the stock market
- ... synergies were realized/company value increased
- ... market share rose
- .... integration smoothly completed



### Partly/no ...

- ... mix of hard and soft factors responsible!

## Many mergers still fail – the reasons being a mix of hard and soft factors

Due diligence badly conducted \_\_\_\_\_

Synergies overestimated \_\_\_\_\_

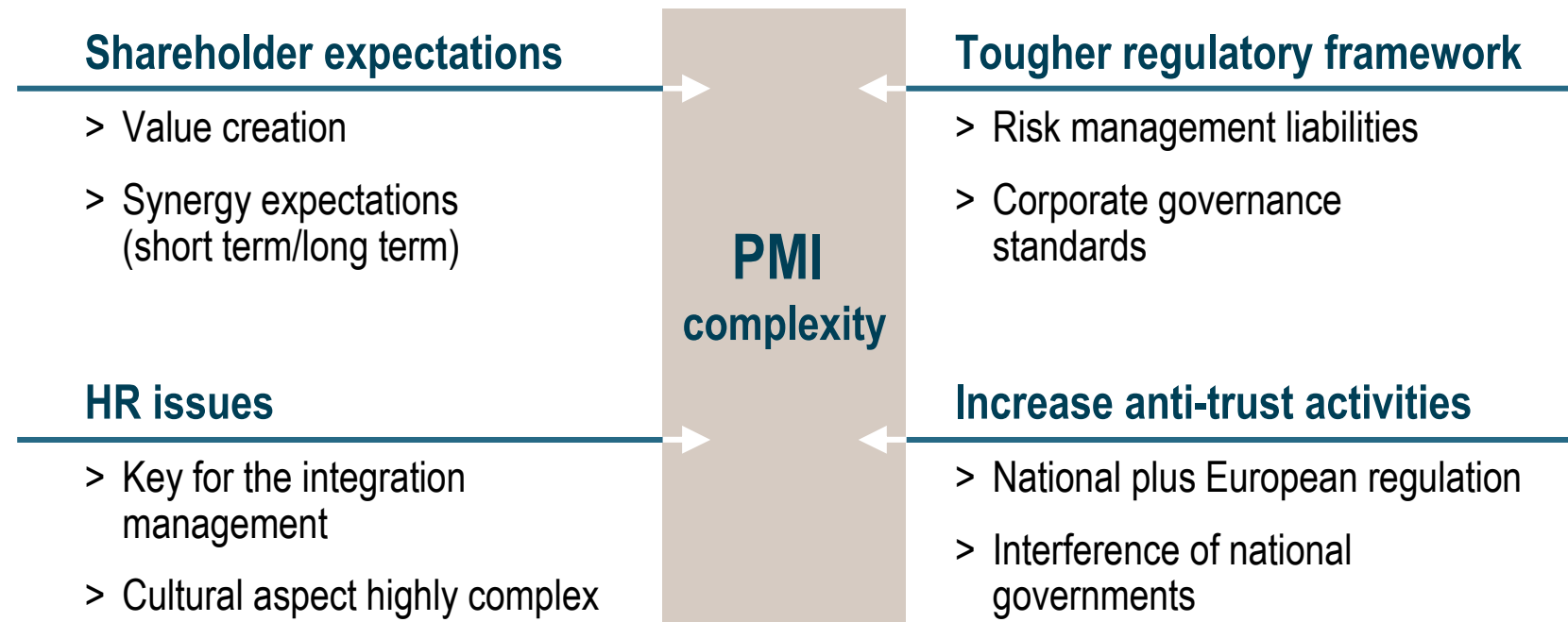
Synergies not realized/took too long \_\_\_\_\_

Stakeholder resistance underestimated \_\_\_\_\_

Cultural differences caused integration problems \_\_\_\_\_

# Managing mergers is getting more complex – driven by increasing expectations from stakeholders

## Top PMI complexity drivers today



***Plus: increasing share of cross-border transactions!***

# Experienced managers pay (more) attention to cultural differences

## Backward

### Strategic context

- > Have clear rules for assessing the strategic fit – be prepared to stop the process
- > Clarify crucial issues prior to closure – deeper due diligence
- > Have a master plan for integration ready – derived from the strategic concept of the merger

## EXTENDED PMI PERSPECTIVE

### Functional implementation

- > Secure functional integration
- > Have standards for process and system reengineering as platform for integration
- > Keep strict synergy management with effects, responsibilities and milestones

## Foreward

### Cultural dynamics

- > Anticipate complexity, concentrate on critical issues
- > Have early discussions/ constant communication with stakeholders
- > Focus on integration of different corporate cultures

# Successful Post Merger Integration – requires more than "PMI Basics"

## "PMI Basics" \_\_\_\_\_

i.e. the activities and skills aiming at **pure functional integration**

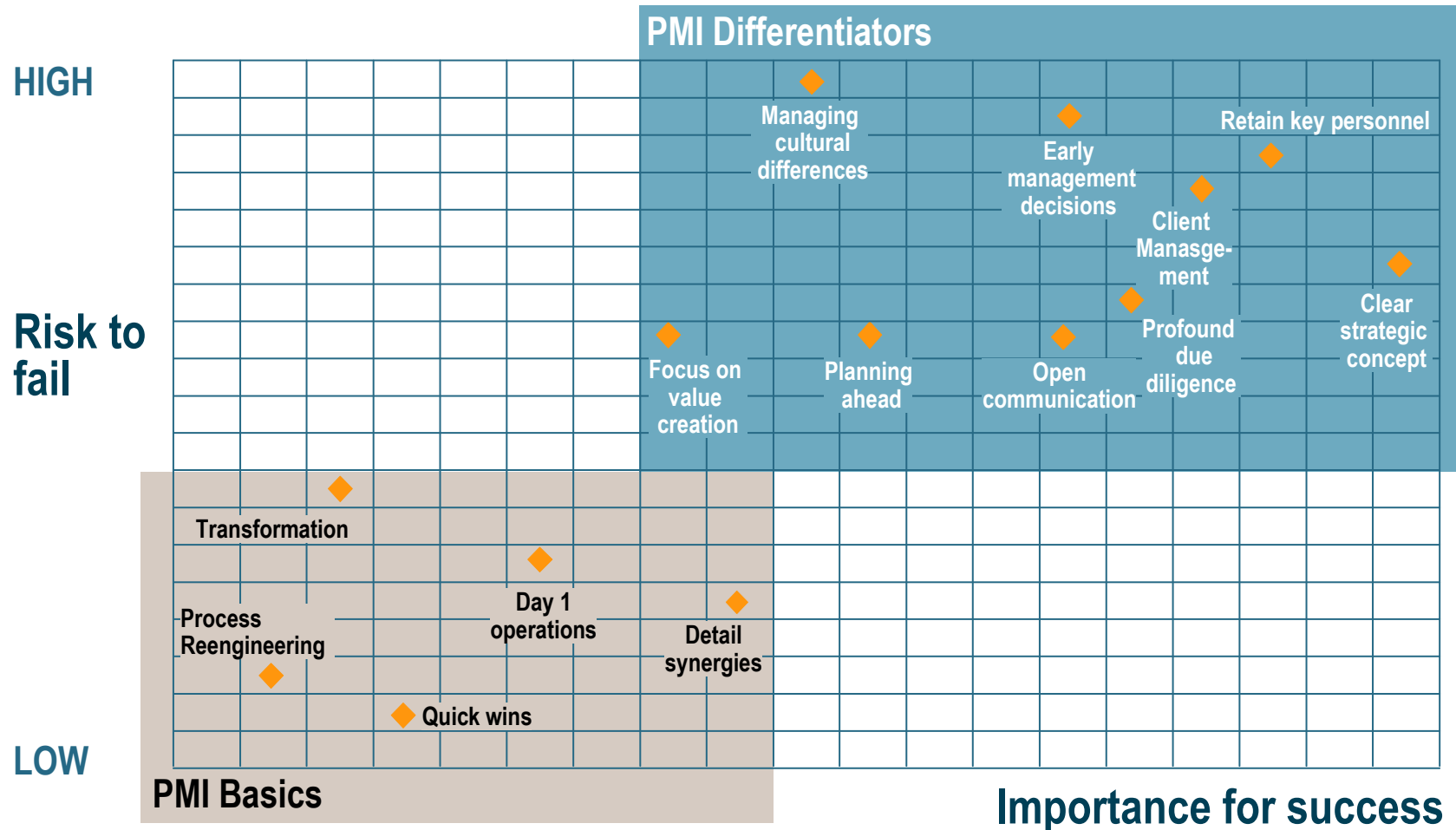
- > From process integration to quick wins
- > A repetitive procedure, manuals are helpful
- > Necessary, but not sufficient for success

## "PMI Differentiators" \_\_\_\_\_

i.e. **managing complex processes**, interacting with the relevant internal and external stakeholders

- > Convincing/retaining key clients and employees
- > Highly volatile, each merger is different
- > The lever for sustainable value creation

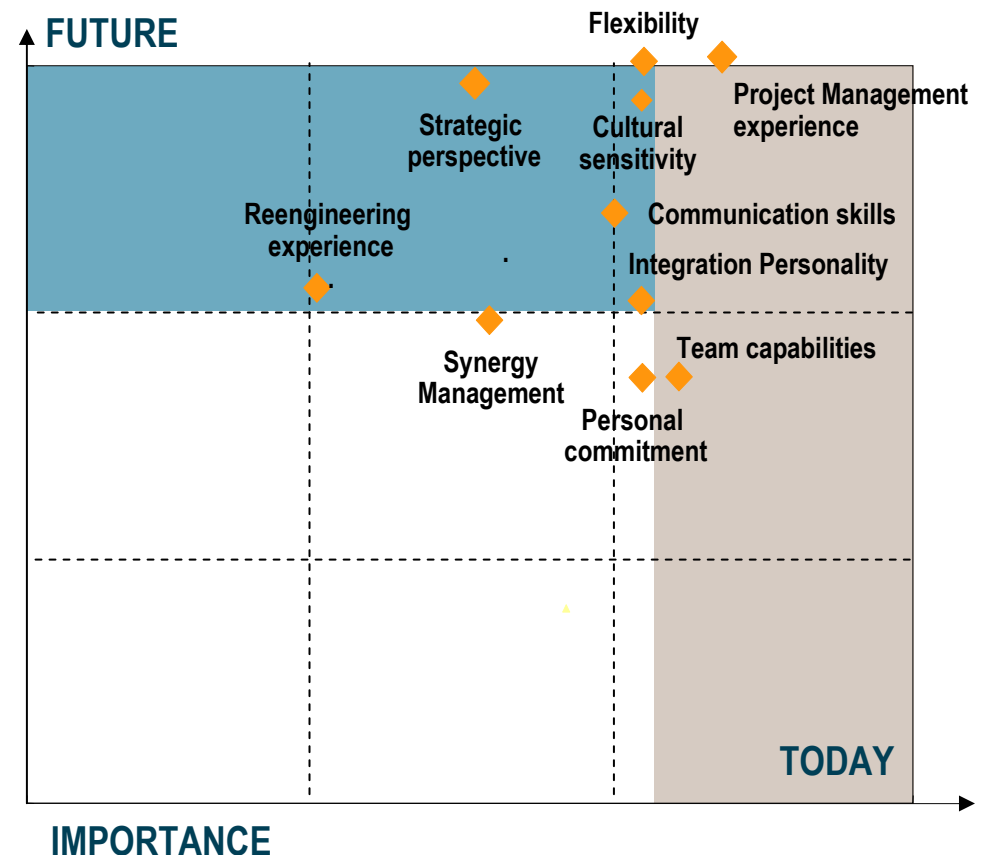
# Outcome of our survey – two levels of PMI success factors



# The PMI Manager of the future has to balance hard and soft skills

## Capability ranking for PMI Manager

- > Project management experience will continue to be a must
- > However, new/additional skills become critical for success
  - Steering the process with strategic perspective/overview (distinguishing the urgent from the important)
  - Managing conflicts (that always arise) effectively
  - Be culturally sensitive
  - And overall: having an integrative, trusted personality



## Conclusion of our survey – the people are the true value drivers for mergers

### CONCLUSION \_\_\_\_\_

- > Synergies and speed are crucial
- > Mergers are getting more complex!
- > Manuals and instruments might help – but each case is unique!
- > Managing cultural issues is the key to success

### Statements of interviewees \_\_\_\_\_

*" Due Diligence, activity tracking and early HR-decisions are important "*



*" The numbers must fit, but success depends on the people "*

***"Get the people on board, and all will be good"***

## **C. Effectively managing the integration – Our PMI approach**

## Our PMI-approach – manage the integration on three levels simultaneously

### BUSINESS INTEGRATION

- > Define **strategic concept** (future market positioning, objectives)
- > Integrate **operations**
- > Realize **synergies** (market-wise, cost-wise)

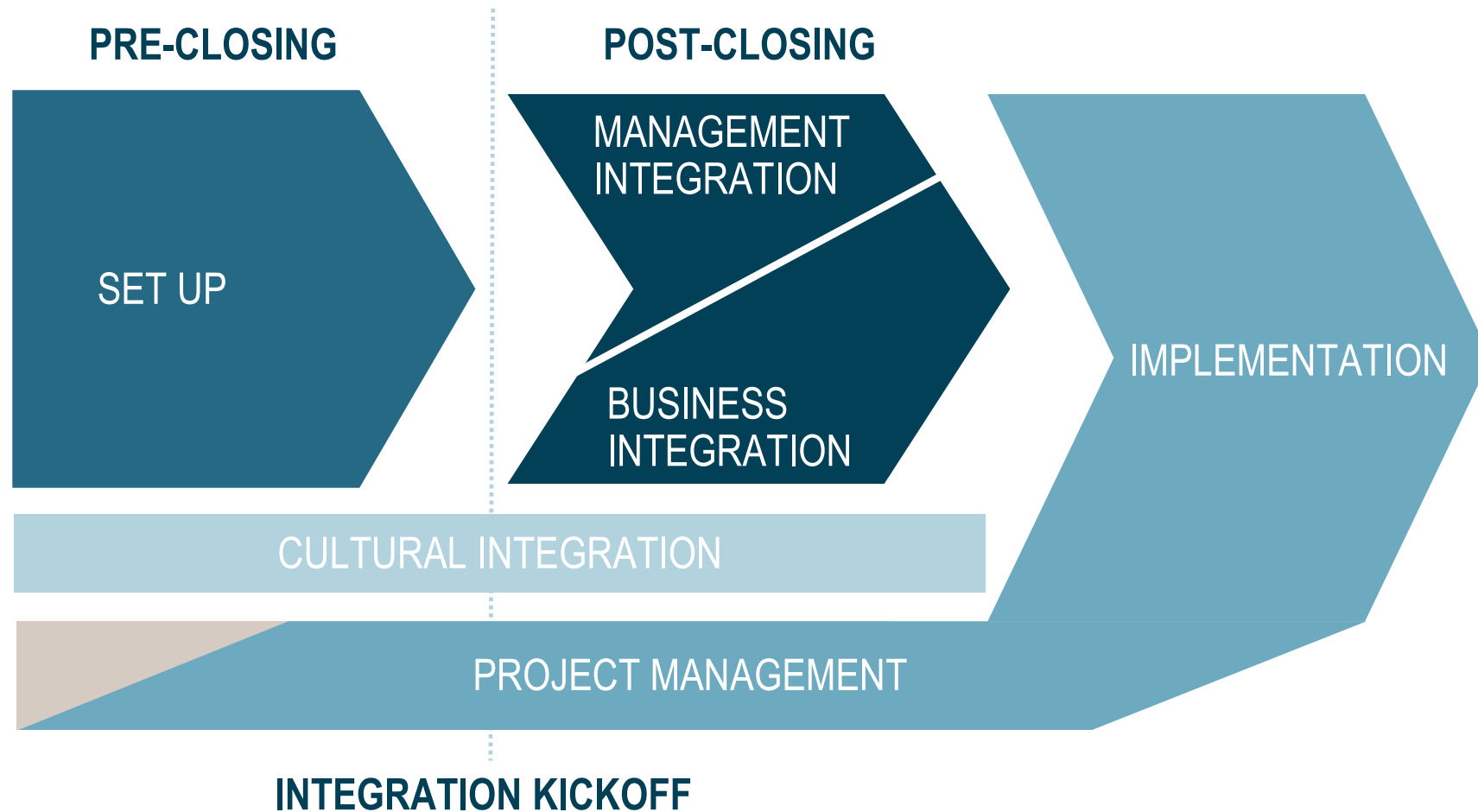
### FUNCTIONAL INTEGRATION

- > Secure **Day 1**-operations
- > Manage the two objectives **speed and completeness** pragmatically (80/20-rule)
- > Safeguard smooth **migration process** (esp. top-management positions, HR-transfer, internal/external communication)

### CULTURAL INTEGRATION

- > **Integrate** the two **cultures, overcome barriers**
- > **Manage conflicts**
- > **Involve** the employees, **create positive momentum**

## Two steps – pre- and post-closing



# Pre-closing – Define the framework for the integration

## 1. DEFINE MANAGEMENT OBJECTIVES

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- > **Vision** (perspectives, objectives for the new field of business activities)
- > **Strategic goals** (market potentials, cost reductions, structural requirements etc.)

## 2. DEVELOP MANAGEMENT STRUCTURES

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- > Clarification of **responsibilities** (new management structures)
- > Realigning **legal structure**
- > Distribution of **responsibilities**
- > **Decision making rules**

## 3. ADAPT MANAGEMENT PROCESSES

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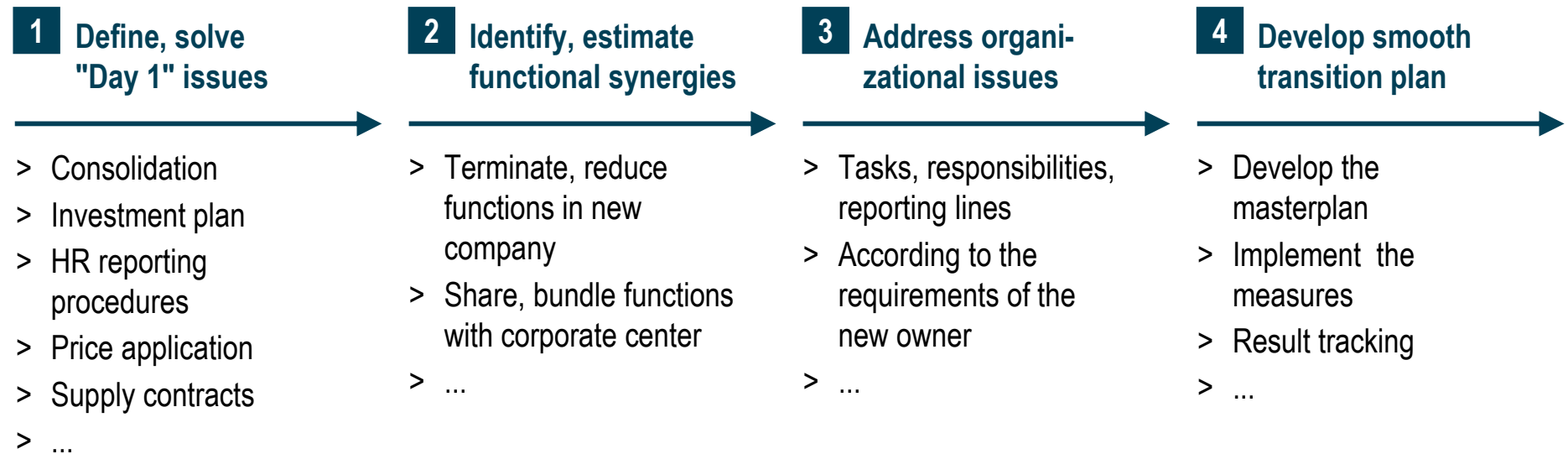
- > Integration into strategic **planning** and **budgeting processes**
- > Definition of **key performance indicators**
- > Adaption of **reporting structures** and **formats**

## 4. SELECT MANAGEMENT POSITIONS

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- > Selection of **board positions**
- > Decision on **key management positions**
- > **Staff exchanges** on top, middle, lower management levels in both directions

# Management Integration – the masterplan for the crucial integration issues



1 Finance	2 Controlling/ Accounting	3 Human Resources	4 Procurement/ Logistics	5 IT
6 Communication	7 Internal Audit/ Organization	8 Legal/ Insurance	9 Core Business	10 Operations

# Business Integration – Develop business model to meet top-down targets

## PHASE I

### Transparency

- > Set up **Business Integration Teams**
- > Analyze **current situation**
- > Identify, quantify synergy, efficiency **areas/levers**
- > Roughly estimate additional **business potentials**
- > Develop first ideas on **business models**
- > Develop **project organization** for Phase II

4-6 weeks

## PHASE II

### Business model

- > Validate **cost savings**
  - Operationalize synergies/efficiencies
  - Define implementation requirements
- > Detail **market potentials**
- > Specify **business concept**
  - Strategy
  - Structure
  - Capacities, etc.
- > **Management** appraisal
- > **Personel** transfer

12 weeks

## PHASE III

### Implementation

- > **Transform** project organization into formal structure
- > **Transfer** savings into new management structure
- > Detail **structures** and **interfaces**
- > Optimize **business concept**
- > Develop **project-controlling** system
- > Monitor **implementation**

3-9 months

# Cultural Integration – four elements to reach the people in the merger process

## IV Management

- > Definition of initiatives
- > Clarifying the responsibilities and timing
- > Coordination of the initiatives
- > ...

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- > Top-Management-Seminar
  - > Cultural workshops
  - > Media programs (with journalists etc)
  - > Information platform
  - > ...

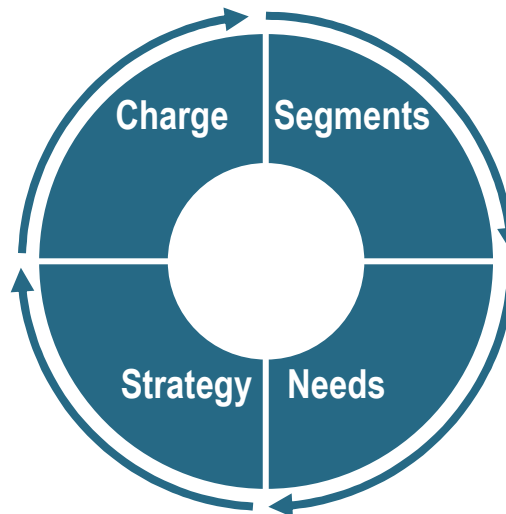
## III Program

## I Target groups

- > Integration, non-integration managers
- > Top/middle/lower management, staff
- > Shareholders, unions, media
- > ...

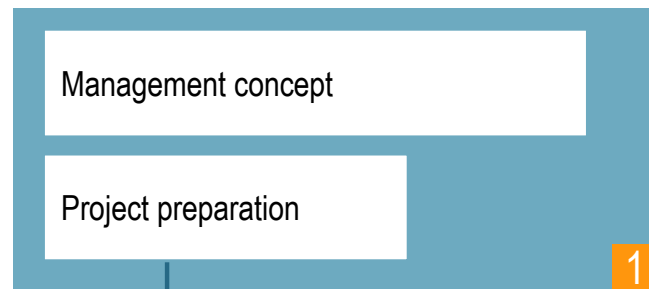
- 
- > Background (cultural etc)
  - > Organization, procedures etc.
  - > Integration results
  - > ...

## II Information needs



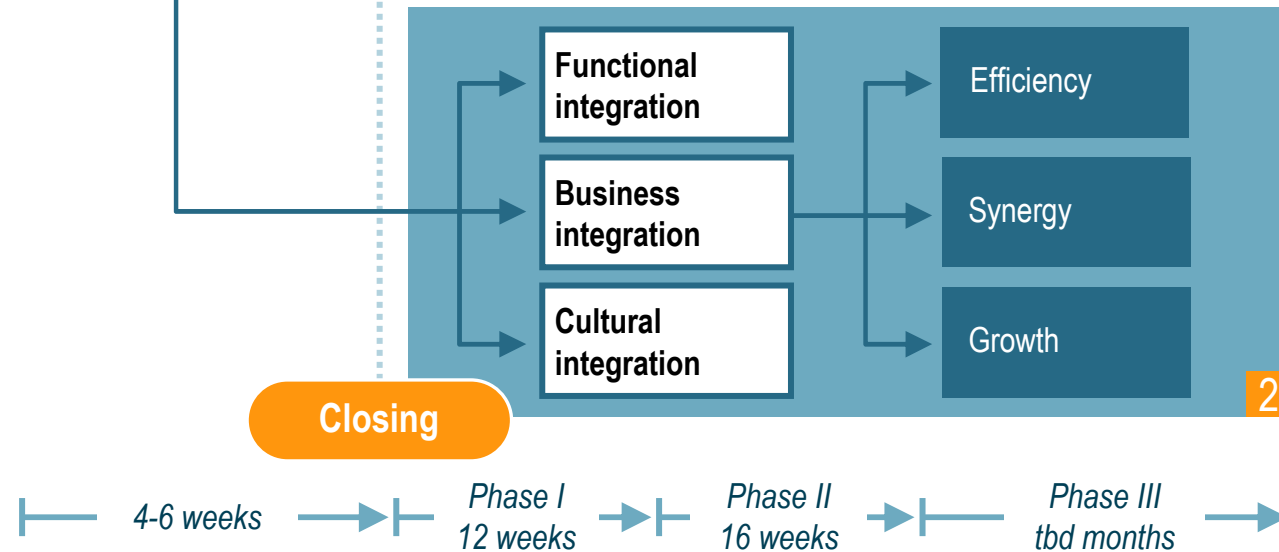
# Roland Berger Project Case – Expanding the European platform for a network-provider through a merger

## Approach



## Objectives

- > Expansion of top position in **European market**
- > Growth platform for **other businesses**
- > **Cross-border Synergies**

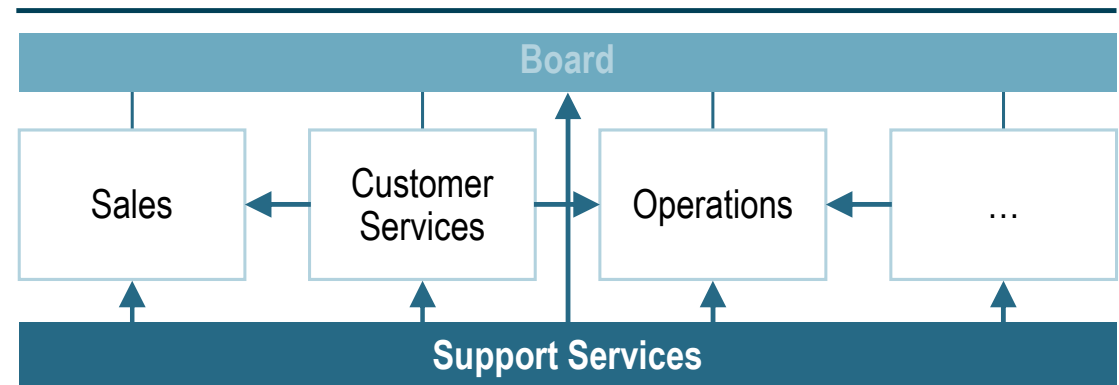


# Roland Berger Project Case – applying PMI Basics to create the sustainable platform for the merger

## Key Results

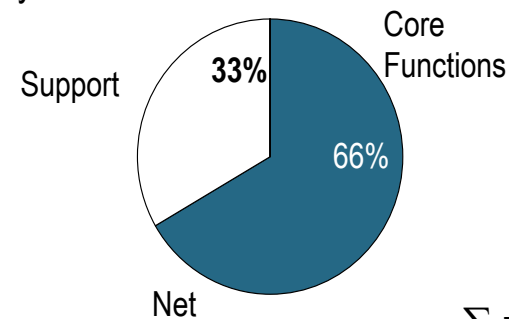
- > Create smooth **transition** path
- > Achieving "**Day 1**" workability
- > Making **operations** work
- > Create new **business** concept
- > Operationalize **organizational** model
- > Leverage **best-in-class** skills
- > Realize **cost** synergies
- > Develop **growth** platform
- > Increase current business **performance**

## Develop New Business Model

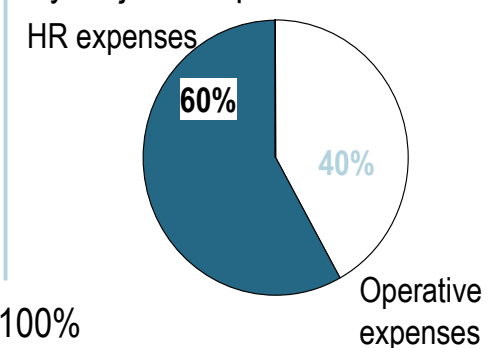


## Increase Company Performance

By value chain activities

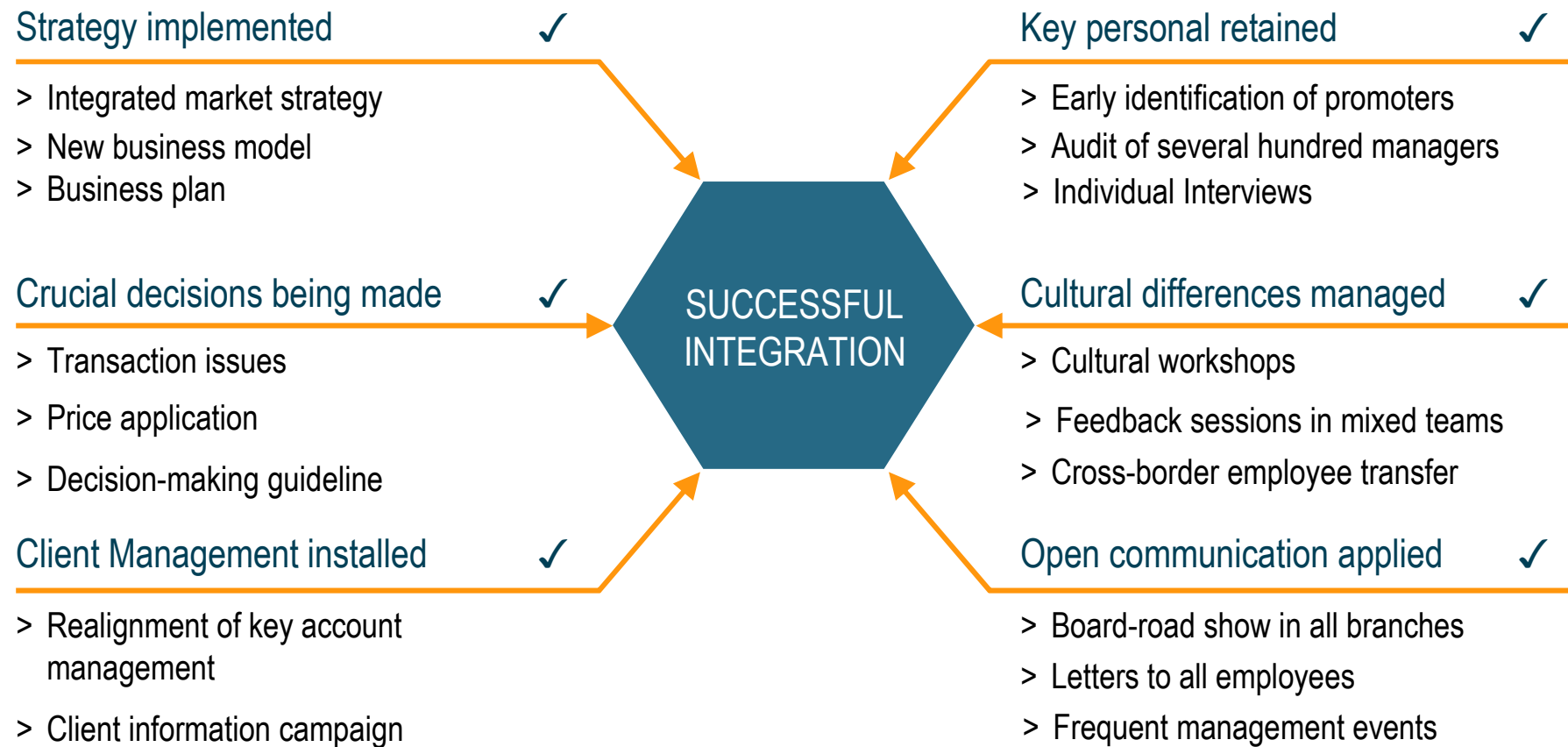


By major cost positions



$\Sigma = 100\%$

# Roland Berger Project Case – applying PMI Differentiators for the successful integration



## **D. References and contact**

## Successful PMI-projects – our references (selection)





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