Post-merger integration planning

An EXL whitepaper

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PMI (post-merger integration) planning sets the pace for achieving expected commitments through a corporate development transaction such as synergies and growth, with a focus on delivering transformational benefits. A process-based approach to post-merger integration planning should embrace project management techniques and the change management needs of M&A deals.

Dealogic found that 2015 was the largest year for M&A deals by dollar value. M&A activity has shown double-digit growth around the world in last three years, with high-impact deals announced in the energy, insurance, healthcare and consumer goods industries. The most common strategic rationales behind deals were a search for scale and growth,
Generally, senior executives attribute deal failure to a lack of integration planning, unrealized synergies and negotiation mistakes, as well as organizational issues such as leadership clash, cultural mismatch, reduced employee motivation and poor communication.

A 2015 corporate leader M&A survey from BCG indicates that most companies have standard processes defined for deal preparation and execution like target search, due diligence and decision parameters, but lack the same for PMI planning and execution. The high M&A failure rate may be attributable to these missing components.

Do M&A deals create value?
While the figures look positive, almost a quarter of the deals by value failed to see conclusion between 2014 and 2015. High-value deals where companies of equal worth merge often feature a higher degree of complexity and industry opposition, making them more difficult to succeed in comparison to small scale, tuck-in acquisitions.

Most of the research on M&A deals shows that more than 70% of all mergers and acquisitions fail to deliver the expected benefits to shareholders, while over half the deals adversely impacted the shareholder value.

Source: http://imaa-institute.org

2015 M&A report by BCG
Common challenges for PMI planning

The key objectives for the PMI planning phase are insulating and ensuring expected synergies, reducing disruption to business operations, preventing brand reputation issues and keeping employee morale high.

Achieving these objectives requires the extensive involvement of cross-functional stakeholders, detailed plans for tasks beyond the initial stages of the merger, management of interdependencies between various functions and an explicit pursuit of tangible benefits from the deal.

While PMI planning must be tailored and flexible enough to address the unique challenges every deal presents, approaching several common issues systematically will ensure peak value is realized during the implementation phase.

The right approach to PMI

A value-focused change management approach is the key to an accretive and seamless integration.

Value-focused change management includes identifying cultural strengths and weaknesses, and defining how to leverage them to overcome the barriers to changes. This requires a disciplined and structured process, as well as creating a detailed plan beginning with day one and continuing through each phase of the integration process. This plan should include essential go/no go checks at each stage, focusing on the financial view and tracking targeted synergy benefits.

After the deal is announced, the first action should be developing an integration project strategy and setting up an integration management office. Designing the team, tools, time lines and...
governance is critical for ensuring that all components of the planning process are effective. This includes creating a company-wide stakeholder engagement plan, and ensuring the key and strongest leaders are involved and fully committed to the integration. Merger of two entities can become demanding from a personnel and financial perspective, and can quickly go out of control if high level goals and future aspirations are not outlined quickly by management. Quick and clear decisions on target operating model and required synergies will establish follow-up processes that can then be managed. Various functions will face challenges, but having a mitigation plan for potential risks in tandem with appropriate senior management involvement will ensure that these functions are prepared for any complications.

**Challenges addressed by PMI**

- **Overall Management**
  - Key decisions delayed at IMO level
  - Access to data across both companies
  - Inter-dependencies across different work streams

- **Sales**
  - Messaging to customers/clients
  - Partner expectations and possible negotiations

- **Human Capital**
  - Morale
  - Retention
  - Data for workforce planning
  - Consultation terms

- **Operations**
  - System accesses
  - Call center/IVR management
  - Maintaining service expectations

- **Information Technology**
  - IT Roadmap
  - Data migration planning

- **Communications**
  - Control over external/internal communications
  - Perception handling

- **Facilities and Procurement**
  - Vendor selections
  - Real estate and co-location
The key elements that make a difference between a well-managed or poor integration:

Value-based approach and key elements:

- Announce the deal
- Define target operating model
- Define synergy targets and goals
- Define day-one plan
- Develop methodology to track synergy savings
- Implement plans
- Establish detailed plans
- Implement plans
- Measure success
- Revisit objectives on a regular basis
- Business as usual

Project management:
- Stakeholder mapping
- Tools and templates
- Project governance
- Reporting & tracking
- Risk/issues mitigation

Change management:
- Communication plan
- Query management
- Top-down & bottom-up feedback
- Clear roles and responsibilities
- Transparency & consistency
Each stage should be supported by tools and templates with a clear governance association of roles and responsibilities. Having standard processes and templates ensures a consistent output and identifies all interdependencies.

This outline of the key elements for an integration management office to consider when developing the detailed integration plan is illustrated using operations as an example.

<table>
<thead>
<tr>
<th>Elements</th>
<th>Key actions to be planned to ensure implementation success</th>
</tr>
</thead>
</table>
| **Process**               | ◦ Redesign processes to service customers without disturbing existing service levels  
 ◦ Define and plan exception workflows to handle escalations/issues  
 ◦ Define roles and responsibilities to avoid duplication of tasks  
 ◦ Create and document an operations play book for Day 1 and beyond |
| **Communication**         | ◦ Provide customers with a clear communication matrix to reach out for questions/clarifications  
 ◦ Create/revise scripts for call centers/IVRs/reception staff in line with new guidelines  
 ◦ Create FAQ for customer facing staff to handle queries  
 ◦ Update templates for presentations, letters and other external documentation |
| **Systems**               | ◦ Ensure system accesses for all required systems on Day 1  
 ◦ Agree workarounds for managing data across multiple systems  
 ◦ Define key reporting guidelines and data sources |
| **Legal and compliance**  | ◦ Get legal and compliance approvals on all types of communications to customers, vendors and other external parties  
 ◦ Update compliance procedures (audits, reporting, etc.) |
Conclusion

The key skills required during the various phases of an M&A cycle are vastly different. While the initial phases are focused on building a business case for the deal and the financial benefit resulting from the transaction, the planning and implementation phases require target operating model design, ongoing operations and change management with emphasis on combining the two organizations as efficiently and effectively as possible.

The broad steps for a PMI are fairly standard in terms of setting up an IMO and planning post-merger operations. The difference between a successful Integration which achieves or exceeds synergy goals and one that fails is distinguished by a two-pronged focus on value and change executed in a controlled manner and with support and attention from leadership. In this environment, it is the role of the integration management office and the integration project team to ensure that all functional organizations are engaged and project initiatives are managed collaboratively to ensure successful, efficient operations.

<table>
<thead>
<tr>
<th>Typical M&amp;A advisory skills</th>
<th>M&amp;A Strategy</th>
<th>Target Screening</th>
<th>Due diligence</th>
<th>PMI planning</th>
<th>Implementation</th>
</tr>
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<tbody>
<tr>
<td>Knowledge of market and macro trends</td>
<td>HIGH</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
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<tr>
<td>Corporate finance</td>
<td>HIGH</td>
<td>HIGH</td>
<td>HIGH</td>
<td>HIGH</td>
<td>HIGH</td>
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<tr>
<td>Legal &amp; regulatory knowledge</td>
<td>HIGH</td>
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</tbody>
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<thead>
<tr>
<th>Skills for PMI support Team</th>
<th>Target operating model creation</th>
<th>Project management</th>
<th>Operations consulting</th>
</tr>
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<tbody>
<tr>
<td>HIGH</td>
<td>HIGH</td>
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<td>LOW</td>
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