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Putting the pieces together

Post merger integration survey 2010

Insights for ensuring success in post merger integration

pwc

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Foreword

We would like to thank all the respondents who supported us in the process of this survey and helped us develop some insights which we believe will be useful to the Indian industry.

We would also like to thank the various people we spoke to, who shared their experience with us.

We hope that you find this report useful and we would love to hear from you.

We wish you a pleasant and insightful read.

- Delivering Deal Value team, PwC India
  January 2011

Executive summary

Growth through acquisition is the modern mantra of corporate world. Sustainable value creation is not achieved only by closing the transaction, but by conducting successful joint businesses afterwards. This success is usually elusive and many organisations fail in the process. Research shows that most mergers and acquisitions fail to meet the expectations set for them. This failure could be because of mistakes in all the three phases of the acquisition - pre deal, during the execution and post deal. Post deal phase by virtue of its complexity is probably the biggest culprit. Despite the best intentions, deals often fall short when the time comes to begin translating carefully developed strategy into the right mix of people, process and technology. The transaction instead of generating synergies ends up reducing enterprise value.

Capturing sustained economic value in a merger or acquisition has proven to be one of the most significant challenges for today's growth minded companies.

The respondents to our survey echoed the belief that deals fail to achieve their objectives and the post merger integration process is not adequately managed.

- 49% organisations failed to meet the objectives set for the deal
- 67% organisations reported that the integration process negatively impacted their business-as-usual
- 61% organisations lost key people
- 88% respondents believed that they could have managed the integration process better

Having reinforced this hypothesis, we tried to better understand the factors leading to this unhappy situation. We asked questions around some of the critical activities that will ensure success. These dimensions are:

- Tracking synergy
- Defining and managing timelines
- Budgeting for integration costs
- Planning the integration
- Setting up of an Integration Management Office(IMO)
- Formation and implementation of a communication strategy
- Managing the culture issues
- Involving the management

The report provides insight into the views of our respondents. It gives an idea of what works and what does not work and provides indicators to what could be potentially important focus areas. Based on the data collected we were able to draw some inferences about what facilitates the integration process. This gives us pointers to what organisations in the race for acquisitions could do.

1. Create a robust process for quantifying and tracking of synergies identified as part of strategy
2. Develop an exhaustive integration plan and ensure timely execution. An effective IMO is critical for driving the plans
3. Manage the timelines and ensure that this does not become an endless exercise
4. Budget the integration costs and monitor them
5. Ensure that the communication strategy addresses all stake holders' at all crucial junctures of the deal
6. Involve the leadership team of both organisations in the process

This study will provide value and insights to all those companies that are looking for inorganic growth through mergers and acquisitions. While there is no one right answer the experience of others could be a good way of ensuring success.

Methodology

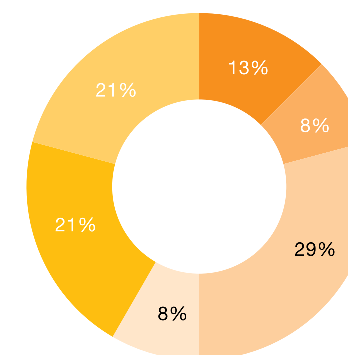
We collected data through two surveys which were conducted in September-October 2010

In the first survey we reached out to the senior management of Indian companies that had been involved in an acquisition in the last two years. Our sample consisted of large and midsized Indian companies across sectors. The participants of this survey fell into the following industry groups:

- Banking & Financial Services: 8%
- Information technology: 21%
- Metals & Manufacturing: 29%
- Pharmaceuticals & Life Sciences: 21%
- Power and Energy: 8%
- Telecommunication: 13%

The survey had a set of questions designed to investigate the post merger integration experience of their company's recent acquisitions. The questionnaire was designed with a set of objective type questions divided into four sections. While the first three sections focused on the three phases of the integration process – planning, execution and achieving results, the fourth section focused on the overall experience of the integration process.

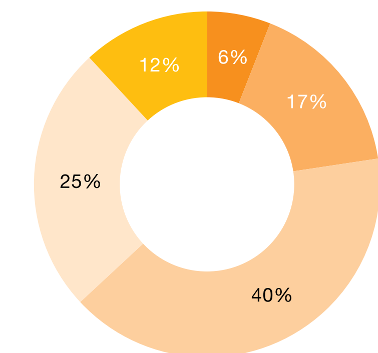
Industry break-up



Telecom
Banking & Financial Services
Metals & Manufacturing
Power & Energy
Pharmaceuticals & Life sciences
IT/ITES

The second survey was a poll conducted at the CFO conclave organised by PwC at Udaipur in October 2010. This was attended by CFO's of 120 Indian companies. The CFO's represented companies of different sizes from across the entire length and breadth of the country.

CFO survey: Size of company



Rs. 200 Cr
Rs. 200 -500 Cr
Rs. 500 - 2000 Cr
Rs 2000 - 10000 Cr
Rs 10000 Cr +

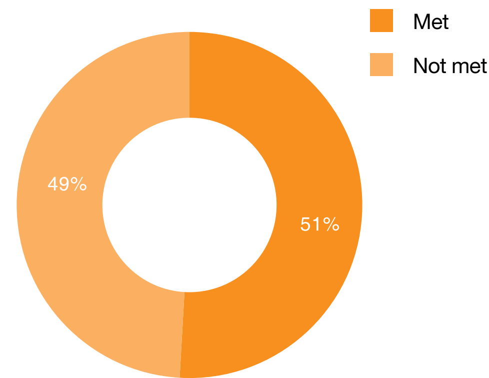
Deals fall short of expectations

While there may be many reasons for taking the merger or acquisition route, it is ultimately about creating long-term value for shareholders. That's what doing business and deals is all about. Yet far too often real shareholder value is lost and not gained after the paperwork has been signed and all the bankers and lawyers have gone home. Achieving financial and operational objectives post close continues to remain elusive. This is the common belief that almost all M&A professionals carry. Research done by multiple agencies validates this belief.

We wondered if the experience of Indian companies was different and our survey tried to collect data on some of the metrics that could be looked at to determine if value was created. While meeting of objectives is probably the most obvious question but we also know through our conversations with people that very few organisations clearly define these objectives let alone monitor them.

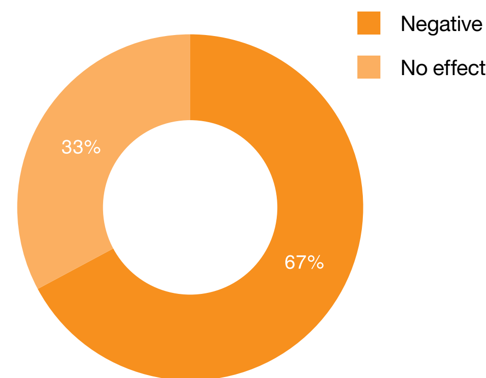
Hence, we also looked at certain indicators like impact on business as usual, loss of key people and above all we tried to find out if the organisations were satisfied with the way the integration process was handled.

Objectives met?



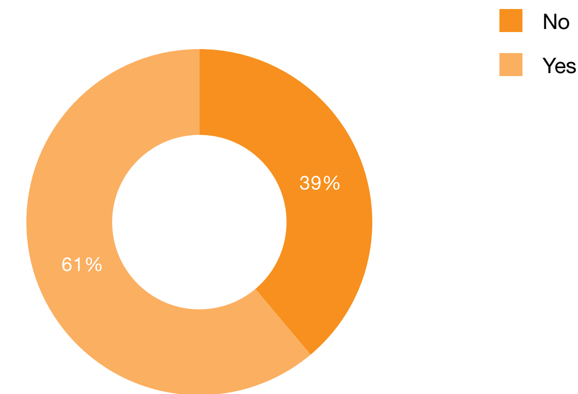
49% of the respondents said that they had not met objectives

Impact on business as usual



67% of the respondents agreed that business as usual was impacted negatively during the integration process

Loss of key people



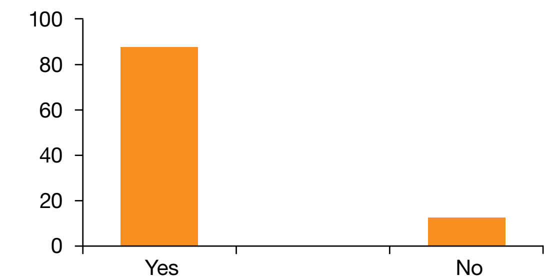
61% of the organisations surveyed lost key people as part of post merger process

This is sufficient evidence to believe that even in the Indian context deals are not able to deliver on the stated objectives. And are therefore, not able to create the value that the organisation is looking for.

Deals fall short of meeting their expected synergy forecast, organisations are unable to meet the objectives of the deal and the process is plagued with loss of key people.

Management of these organisations do not look back to this process with satisfaction and will be keen to find a better way of doing it the next time around.

In hindsight, could you have managed the integration better



88% respondents believe that the integration process could have been managed better than what was done

Ensuring success

So the Indian industry is not happy with the way post merger integration is managed and believes they could do it better. So, what can they do? What needs to be done to manage the process better? How can you ensure that the deal delivers expected value?

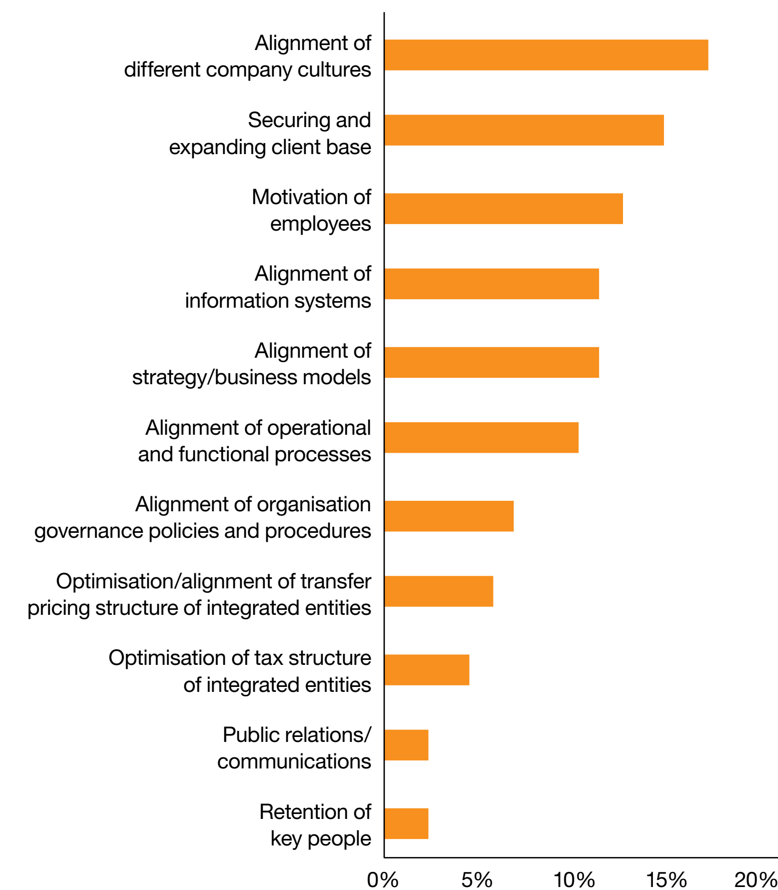
There is enough written about this and while most practitioners believe that there is no one right answer there are obvious areas for improvement. PwC through its experience and through studies done in the past believes that some of the dimensions that need to be managed or ensured include:

- Synergy tracking
- Defining and managing timelines
- Budgeting of integration costs
- Integration planning
- Setting up an Integration Management Office (IMO)
- Formation and implementation of a communication strategy
- Managing the culture issues
- Involvement of management

Our survey asked the respondents to rate these dimensions to help us determine what they found most challenging.

We then collected data on how organisations fared in the planning and execution of each of these dimensions. Our survey attempted to find out where the Indian industry spent its energy and what was not given enough attention. In the subsequent pages we have shared the data and also shared with you our point of view on each of these dimensions.

Challenges faced

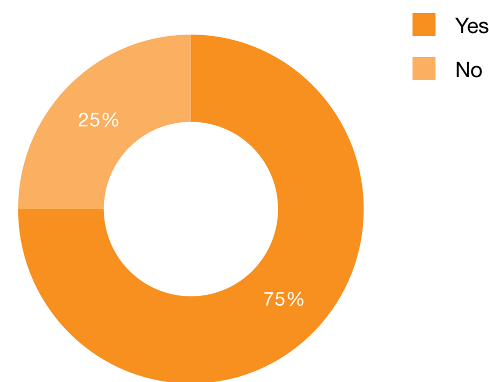


Alignment of company culture was the most challenging aspect followed by securing and expanding client base and motivation of employees

Defining the objectives

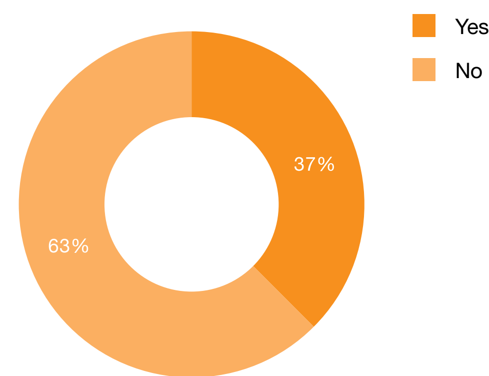
This dimension is about setting and tracking the objectives of a deal. It aims to determine whether objectives were defined, quantified and regularly monitored. Our survey showed that:

Objectives defined?



Deal objectives were defined by 75% organisations

Objectives quantified and monitored?



Quantification and monitoring of objectives was done by 37% of respondents

"Clearly defining and quantifying synergies and having the transition team involved right from the due diligence stage brings better understanding and a sense of ownership."

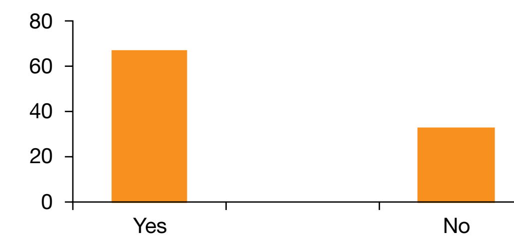
PwC point of view:

Most companies identify the synergies and define the objectives early in the deal process. In order to capture the maximum potential of any deal, an organisation must quantify each synergy and then track it in the post integration process. This will ensure that the focus on meeting objectives is not lost.

Integration timelines

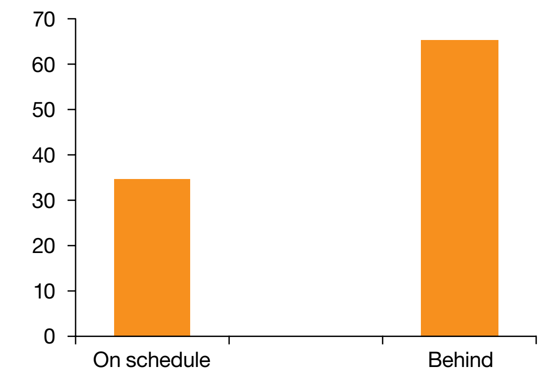
This dimension is about tracking the time taken in integration. It aims to determine whether timelines were set and if yes were they adhered to. Our survey showed that:

Integration timeline set



Integration timelines were set by 67% respondents

Time taken



Integration work was completed in time by 35% respondents

"Strict adherence to timelines was missing"

"In hindsight, we should have taken lesser time from start to end for deal closure"

PwC point of view:

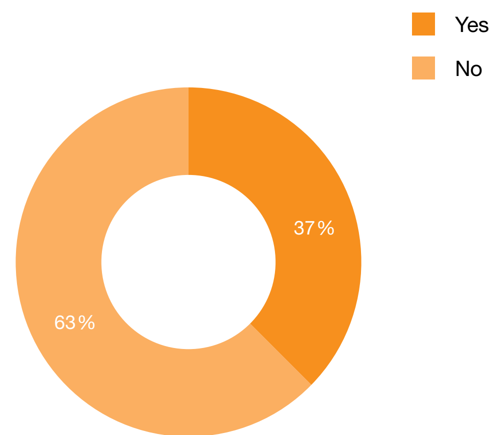
Delays in completion of the integration process affect the organisation in many ways. Time delays usually lead to increase in cost of integration and delay the realisation of synergies. It negatively impacts the business as usual activities and leads to poor performance. Delays can also demotivate the employees and create uncertainty. Organisations must start the integration process as soon as the deal closes and clearly define the key milestones. The same need to be tracked and closely monitored to ensure timely completion. Dependencies should be identified and the escalation process should be clearly defined.

Cost of integration

This dimension is about estimating the integration costs. It aims to determine whether costs are budgeted and whether they are estimated correctly. Our survey showed that:

Integration cost estimated

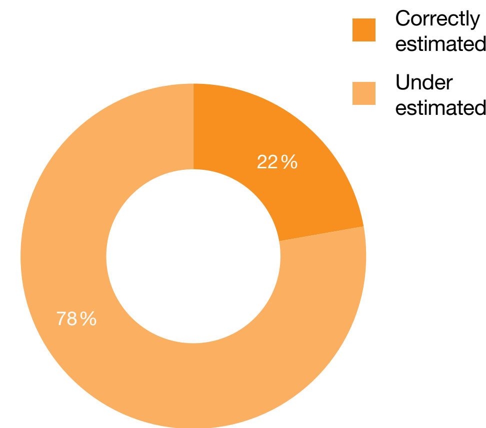
Yes
No



Cost of integration was estimated by 37% respondents

Costs budgeted

Correctly estimated
Under estimated



Cost of integration was correctly estimated by 22% respondents

"… escalation of post merger integration costs reduces the total value that the organisation was likely to achieve from the acquisition…"

PwC point of view:

Most organisations overlook the cost of integration during the deal closure. As a result value is lost instead of being created. Cost overrun in any project is common and can happen because of time delays, changes in plans, non availability of right skills etc. Organisations need to determine the cost of integration early in the planning cycle and create a dashboard to track these costs so that the integration is completed within the budget.

Integration planning

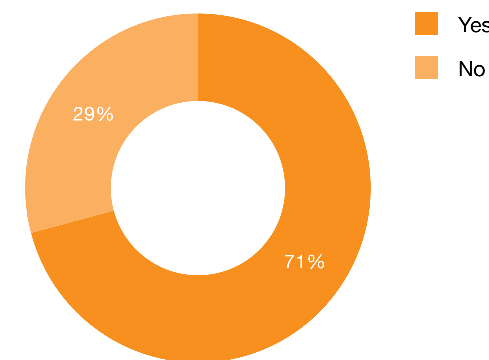
This dimension is about planning and management of the integration process. It aims to determine whether integration plans are created, when they are created and whether they are monitored. Our survey showed that:

"Formation of a complete roadmap with measurable milestones was missing"

"Better prioritisation of key activities was required"

Integration plan created

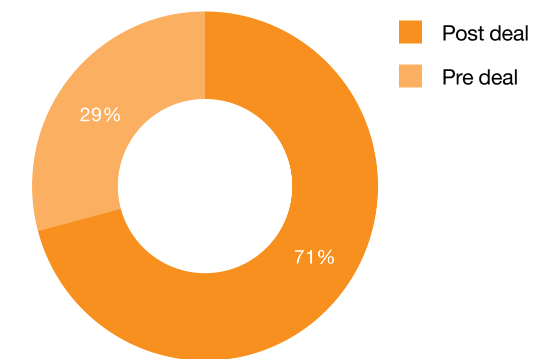
Yes
No



Integration plan was created by 71% of the respondents

Integration plan finalised

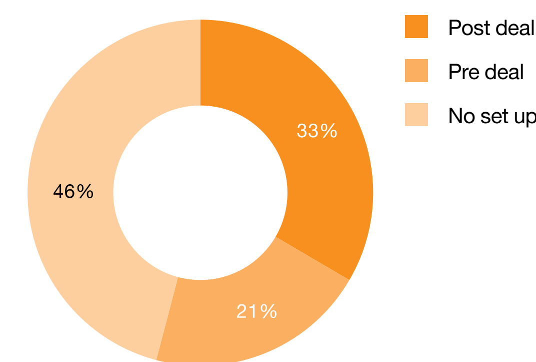
Post deal
Pre deal



Integration plan was finalised pre deal by 29% respondents

IMO setup

Post deal
Pre deal
No set up



Integration Management Office was not set up by 46% respondents

PwC point of view:

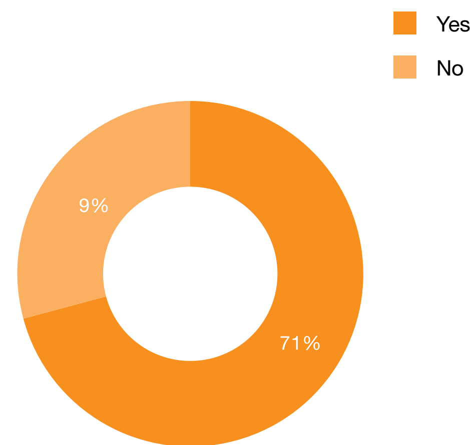
Early integration planning plays a crucial role in driving success of the integration process. Although majority organisations realise the importance of creating an integration plan, most companies do not make a robust plan or do not start the planning process early in the life cycle of the deal. Organisations must start the integration planning even before the deal closure. The plan should focus on the day 1 activities and the 100 day plan for longer term initiatives. It should have clearly defined milestones and estimate the resource requirement. A dedicated Integration Management Office (IMO) needs to be set up to track and monitor progress and escalate issues timely. The IMO should also have sufficient authority to resolve issues and manage dependencies.

“We should have communicated with stake holders earlier”

Communication strategy

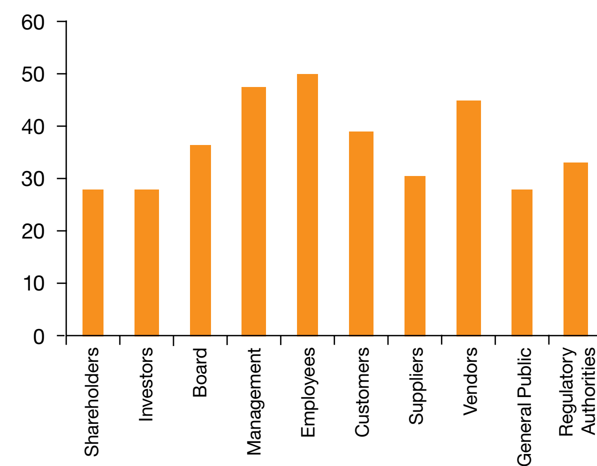
This dimension is about the level and quality of communication during the deal process. It aims to determine whether a communication strategy was created and whether it was considered adequate. Our survey showed that:

Communication strategy created?



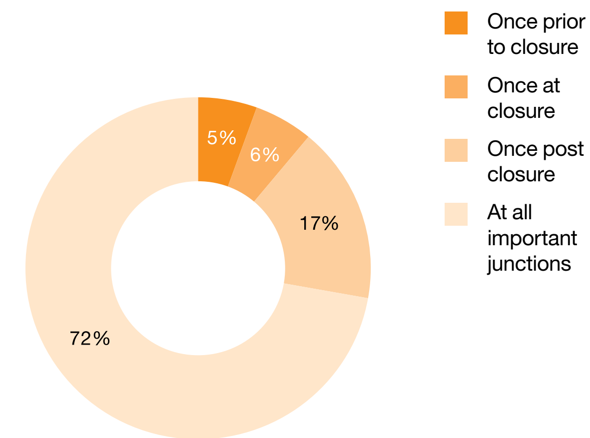
Communication strategy was created by 71% respondents

Communication addressed to (in percentage)



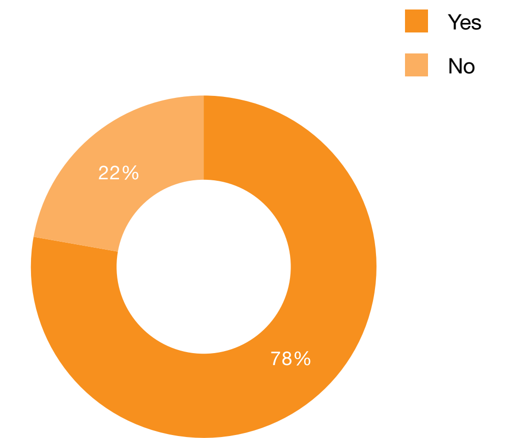
Communication was not addressed to all stakeholders except to employees

Frequency of communication



72% reported that communication was provided “at all important junctions of the acquisition process”

Was the communication adequate?



22% respondents felt that their level of communication was not adequate

“Re-designing the communication and branding strategy post closure and creating a crisp and quantified integration plan with stronger focus on implementation is required”

PwC point of view:

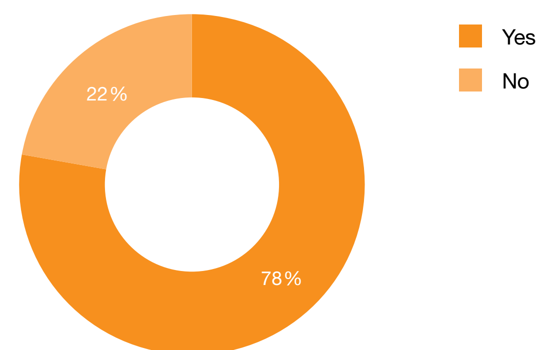
Communication is probably the most important tool during an acquisition. Poor communication can lead to anxious customers, de-motivated employees, uncooperative suppliers and demanding shareholders. Each stakeholder’s requirement needs to be understood and managed through adequate and timely communication. Organisations need to create an effective communication strategy that addresses each stakeholder by understanding their needs. This will prevent non issues from becoming issues. The well known proverb ‘a stitch in time saves nine’ is probably most relevant in this context.

> "We realised that managing cultural issues was critical ... and we never got it right ... led to huge challenges."

Culture issues

This dimension refers to the management of culture issues post merger. It aims to determine whether culture issues were dealt with adequately and how they were dealt with. Our survey showed that:

Culture issues addressed adequately



Culture issues were addressed adequately by 78% respondents

PwC point of view:

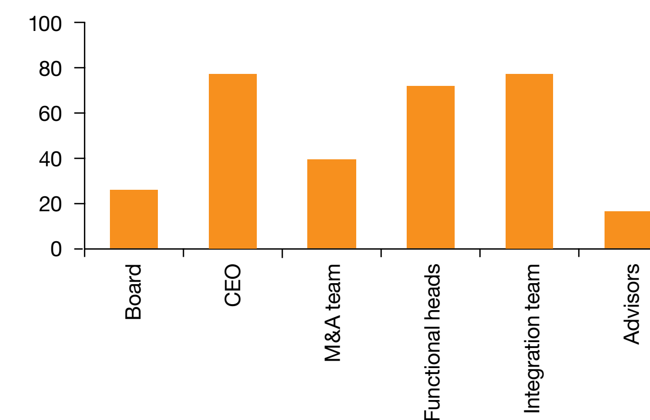
One of the biggest challenges organisations face during an acquisition is alignment of people and culture. The cultural differences between the two organisations need to be managed and addressed. As Indian companies start focussing on cross border M&A this dimension will become even more critical as you are now dealing not only with organisational culture but also with the culture of two different nations. It is important that the cultural differences are mapped and plans need to be drawn up to manage the difference. Even identifying the differences can be a huge enabler.

Management involvement

This dimension relates to the involvement of the management in the integration process. It aims to determine the level of involvement of various key people. Our survey showed that:

> "The CEO never had time for the post merger process ... it was delegated to the operations team."

Level of Involvement (in percentage)



Very few companies involved the board and the M&A team in the post merger process. Only 17% of the companies used advisors.

PwC point of view:

Post merger integration is not an activity that can be delegated to the operations team. The tendency of the executive committee and the merger acquisition team to wash their hands and live in the glory of the concluded deal is not likely to work. Both the executive team and merger acquisition team needs to continuously support the post merger process. While the merger acquisition team brings in valuable insights of why the deal was structured and the strategic thinking behind the deal, the executive committee has to support the process with timely decisions. The CEO's involvement in making sure that the plans and budgets are being managed and the pressure is maintained is also critical. A timetable of regular calls to ensure involvement of all parties is very useful in ensuring this.

Insights

A riddle

Five frogs are sitting on a log. Four decide to jump off. How many are left?

One – No!

All five! Because, there is a difference between deciding and doing.

The responses to our survey provide us some insights on how organisations approach the post merger integration process. While this is not a prescription for success these insights could definitely provide ideas on how the organisations should handle their post merger process for greater chances of success.

1. Quantification and monitoring of synergies:

Organisations should translate the strategic intent of a deal into quantified synergy targets. A clear method of ensuring success and a process of monitoring needs to be set in place. Quantification of goals increases clarity and facilitates the integration team in driving the achievement of objectives.

2. Integration planning and management:

Investment in creating an exhaustive integration plan is critical. The integration project plan should be detailed and should reflect the inter-relationship of activities. The activities need to be prioritised based on financial impact, probability of success, and timeline requirements. Resources must be allocated and costs budgeted. An IMO must be established to take ownership of this plan and to monitor progress.

3. Speed of integration:

Mergers and acquisitions rarely fail due to flawed strategy. Rather, failure is most often a result of not executing the strategy in a timely fashion. Integration must be planned to happen quickly and systematically – the period of time between deal announcement and deal close and the first 100 days post close are absolutely critical to realising quick wins and preparing the company to maximise value over the long term. There is no value in delay.

4. Integration cost budgeting:

Integration costs if not monitored will escalate and erode value. Budgeting of costs and carefully tracking them during the course of the integration process will ensure that the objectives are met. In the excitement of the deal and the complexity of the post deal the focus on cost is usually ignored.

5. Detailed communication strategy:

Different stakeholders will have very different anxieties. Addressing the concerns of each of these stakeholders in a timely manner is key to successful communication. The communication strategy must be developed based on a detailed mapping of all stakeholders. It should provide for frequent communication to all stakeholders affected by the deal at all key junctures of the deal cycle.

6. Involvement of senior management and M&A team:

Involvement of people across levels especially the executive committee helps drive the integration process and ensure continued momentum. Senior management has to lead from the front by addressing issues and demonstrating that this activity is critical. Further, the involvement of the M&A team helps provide the background knowledge to the integration team – the reason for the acquisition, the objectives, discoveries along the way etc.

About Delivering Deal Value

PwC has a dedicated practice to help organisations in their post merger integration process. We have developed a strong global methodology basis our years of experience of helping companies in their integration journey.

For a more detailed discussion on this subject please contact:

Salil Agrawal
Leader - Delivering Deal Value practice
PricewaterhouseCoopers Private Limited
8th Floor, Building 8B, DLF Cyber City,
Gurgaon 122 002
Phone: +91 124 462 0552
Email: salil.agrawal@in.pwc.com

Ambarish Dasgupta
Leader - Consulting
PricewaterhouseCoopers Private Limited
DN-56, 57 Salt Lake City, Sector V,
Kolkata 700 091
Phone: + 91 33 4404 4297
Email: ambarish.dasgupta@in.pwc.com

Sharat Bansal
Leader - Advisory
PricewaterhouseCoopers Pvt. Ltd.
252, Veer Savarkar Marg,
Shivaji Park, Dadar,
Mumbai 400 028
Phone: +91 22 6669 1538
Email: sharat.bansal@in.pwc.com

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