

# M&As

Improving the effectiveness of Pre-Deal Fit Assessment and Post-Deal Integration

*Presented by Mark LaScola and Peter Turgoose*  
**ON THE MARK**

OTM Original Webinar  
28<sup>th</sup> July 2016





# Webinar Objectives

1. **Appreciate** the role M&A continues to play in growth.
2. **Recognize** common reasons M&A's achieve less than optimal results.
3. **View** common M&A cycle and integration strategies.
4. **Discover** the importance of assessing and predicting "fit" as pre-requisite to deal close and determining the integration strategy.
5. **Compare** and contrast traditional approaches to post-deal integration to using an organisation design approach.
6. **Highlight** practical considerations and wisdoms



# About the **presenters**

<http://on-the-mark.com/meet-the-team>



**Mark LaScola**  
**Founder & Managing Principal**



**Peter Turgoose**  
**Senior Consultant**



# About OTM

## Our Solution Sets



**Organization Design and Business Transformation –**  
Concept through Implementation



**Accelerated Change Readiness –** Planning through  
Implementation



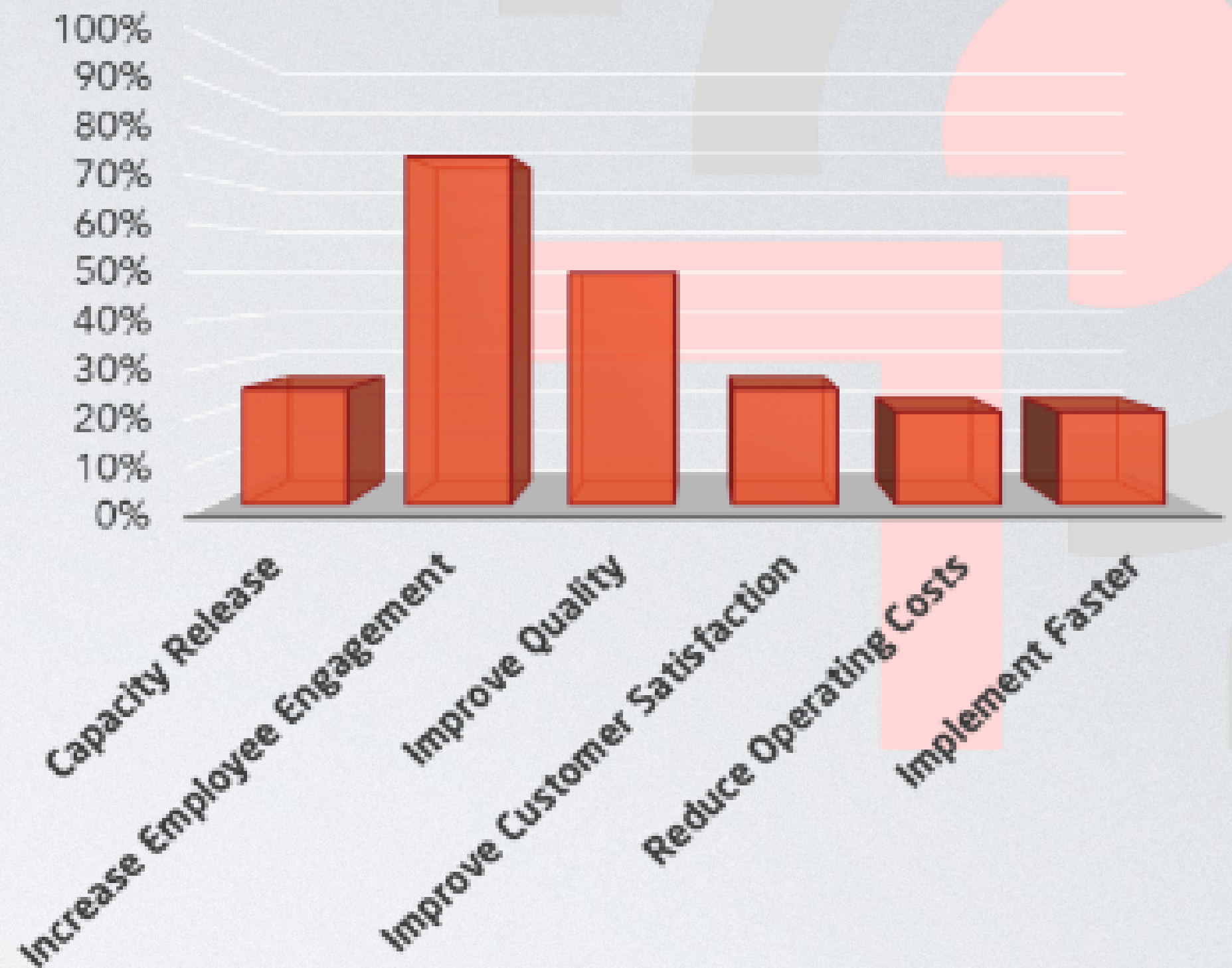
**M&A, Business Integration –** Due diligence “fit predictor”  
through implementation



**Accelerated Decision Making, Planning and Problem  
Solving –** Issue identification through resolution,  
implementation, embed and support



**Capability Building –** Assessment, delivery and support  
(10/20/70)



OTM is a leader in collaborative organization design and business transformation. Now in our 26<sup>th</sup> year of operation, with offices located on both sides of the Atlantic (Phoenix, AZ and London, UK), OTM is recognized by many as their preferred vendor in providing real, substantive and lasting change. Our passion is for collaborative business transformation and our work is guided by research, evidenced-based and established best practice and emerging methodology. Our work achieves a common results footprint:



# About OTM

## Unparalleled Depth of Expertise & Breadth of Experience

OTM has delivered over 400 organization design and transformation projects, in over 35 different countries, on five continents with every type of business function and countless industry sectors. OTM offers our customers one of the industry’s most collaborative, disciplined, comprehensive and integrated transformation solution. Trained and developed over 5000 executives and internal change agents.

Sectors	Functions	Geography
Aerospace Defence Energy Financial Services FMCG Government Healthcare Pharmaceuticals & Bio-medical High technology IT Software & Services Logistics & Distribution Manufacturing Retail Telecommunications	Human Resources Lean Six Sigma Legal Supply Chain Manufacturing Operations Finance, IT Regulatory Sales, Marketing Engineering Outsourcing – BPO Skunk works	North America Western Europe Scandinavia Eastern Europe Latin America Middle East South East Asia South Pacific

## OTM Support Offerings

OTM offers a variety of informational, educational and enlightening support services including executive briefings and primers, internal or external multi-day, hands-on skill building workshops using real projects, behind the scenes support and guidance, case studies, webinars, conference presentations and TED Talks. Contact David Howlett, OTM Global Marketing Director at [dhowlett@on-the-mark.com](mailto:dhowlett@on-the-mark.com).



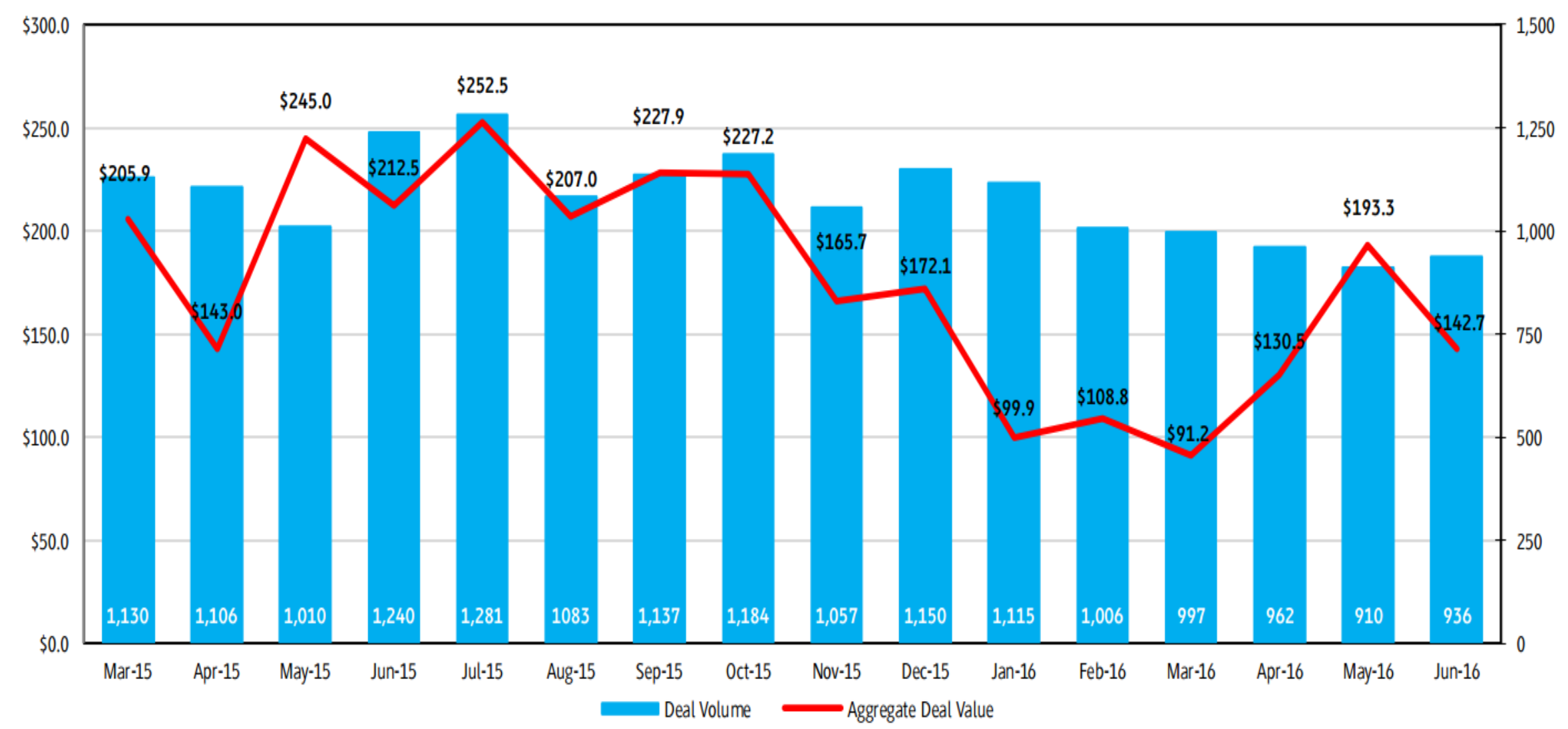
# M&A is still an **attractive** option for **growth**



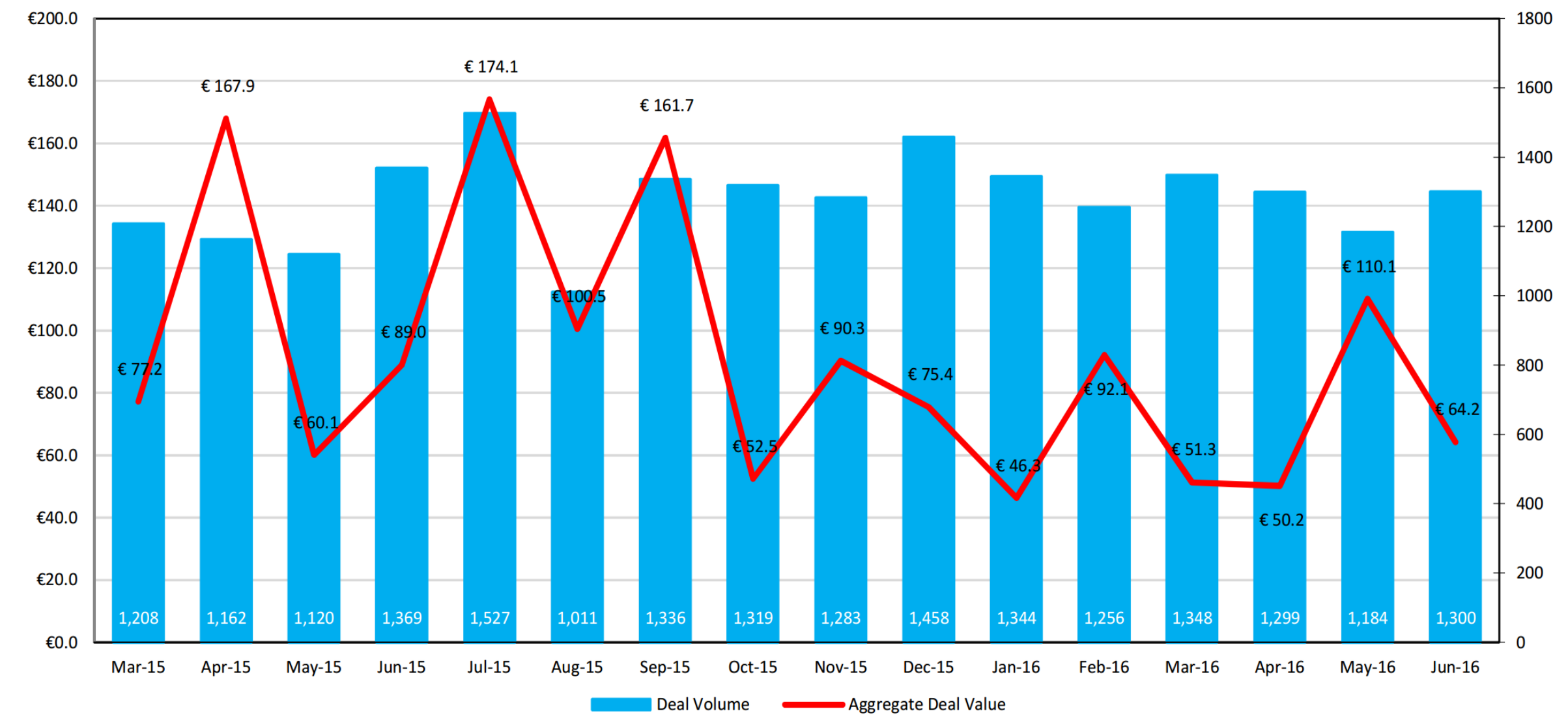


# M&A is still an **attractive** option for **growth**

The US Mergers & Acquisitions Market Index



The European Mergers & Acquisitions Market Index



The numbers are staying stable despite the small drop in deal value



# M&A is still an **attractive** option for **growth**

## 2016 key themes

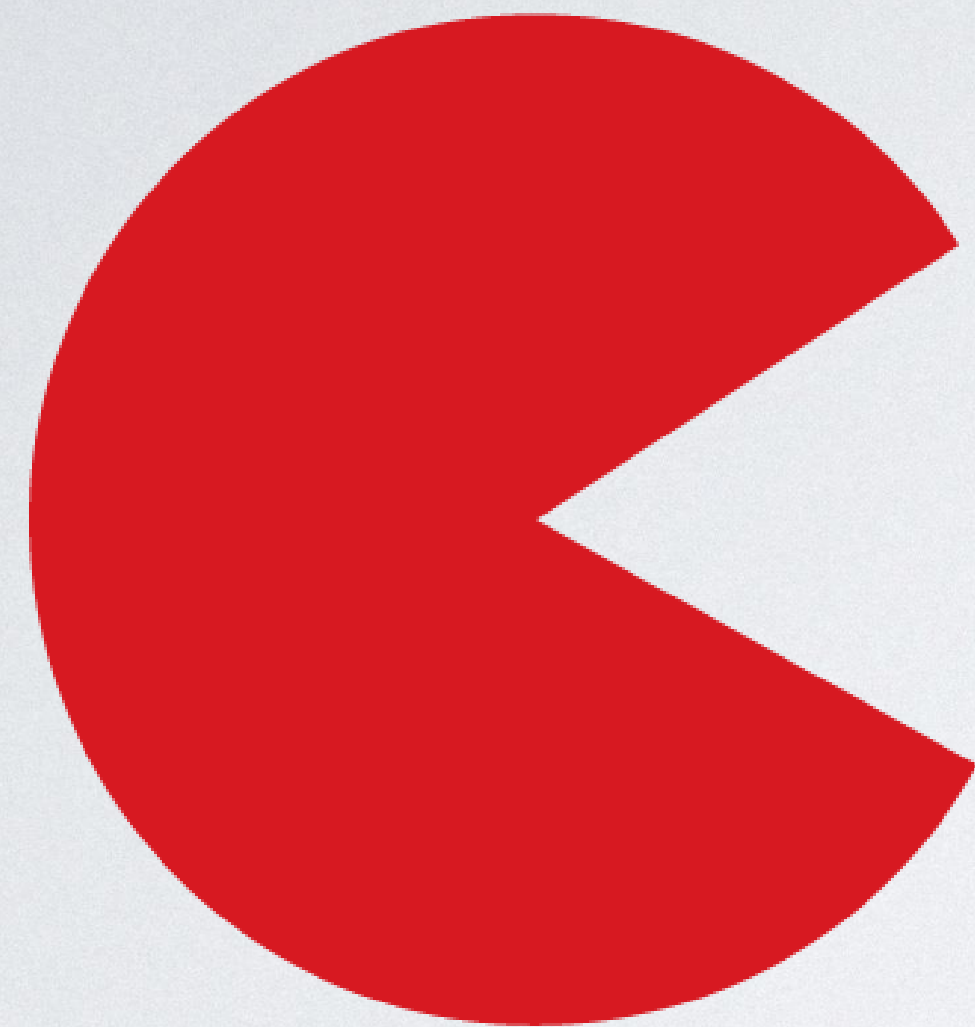
- **Supportive deal environment continues:** Dealmakers will benefit from factors supportive to M&A, and businesses may take up numerous deals in a “domino effect” after observing successful peer transactions in 2015. It may also be a year with new areas of activity, such as those in commodity-related sectors
- **Balanced mix will characterize activity:** Confident CEOs are armed with \$6 trillion to pursue growth as well as defensive combinations to enhance scale and fortify balance sheets weakened by commodity prices. Additionally, private equity funds may increase their activity to deploy substantial available equity
- **Cross-border transactions will provide a significant source of value creation:** As corporations seek external growth, businesses are increasingly turning to cross-border transactions
- **Activist investors will continue to seek expansion:** Activists are eyeing new geographies outside of North America, increasingly Europe, the Middle East and Africa (EMEA) and Japan

<https://www.jpmorgan.com/global/insights/maglobaloutlook>



# M&A Successes & Failures

## Case For Doing it Differently



**83% fail**  
to create a sustainable  
competitive advantage

Source: Wharton



**66% fail**  
to add  
shareholder value

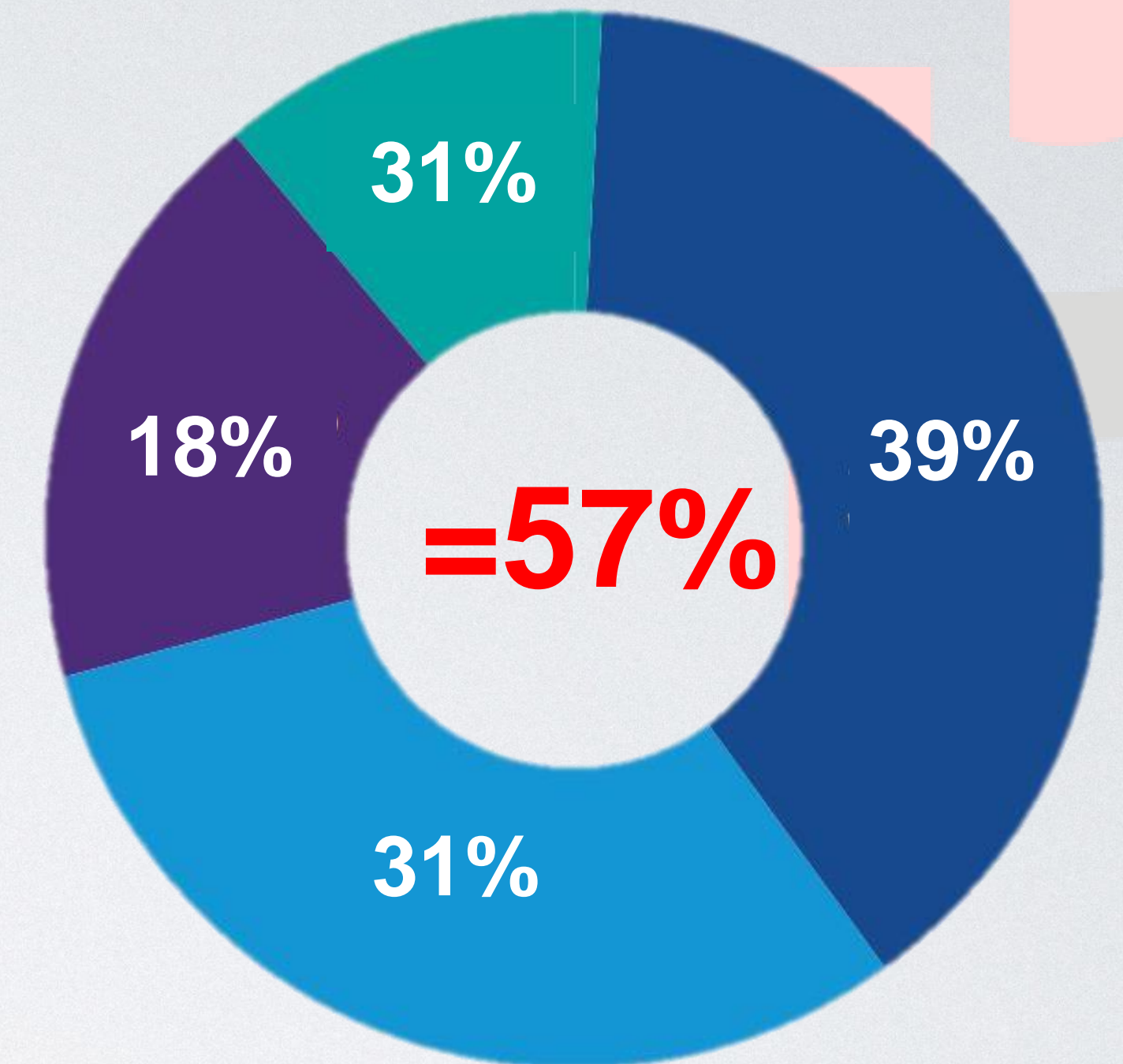
Source: Harvard



**60% destroy**  
company  
value

Source: Deloitte

In your experience what factor is most important  
for deal success? (%) of respondents



- Well-executed integration plan
- The correct valuation/deal price
- Effective due diligence, including real-time data analytics
- Positive economic conditions

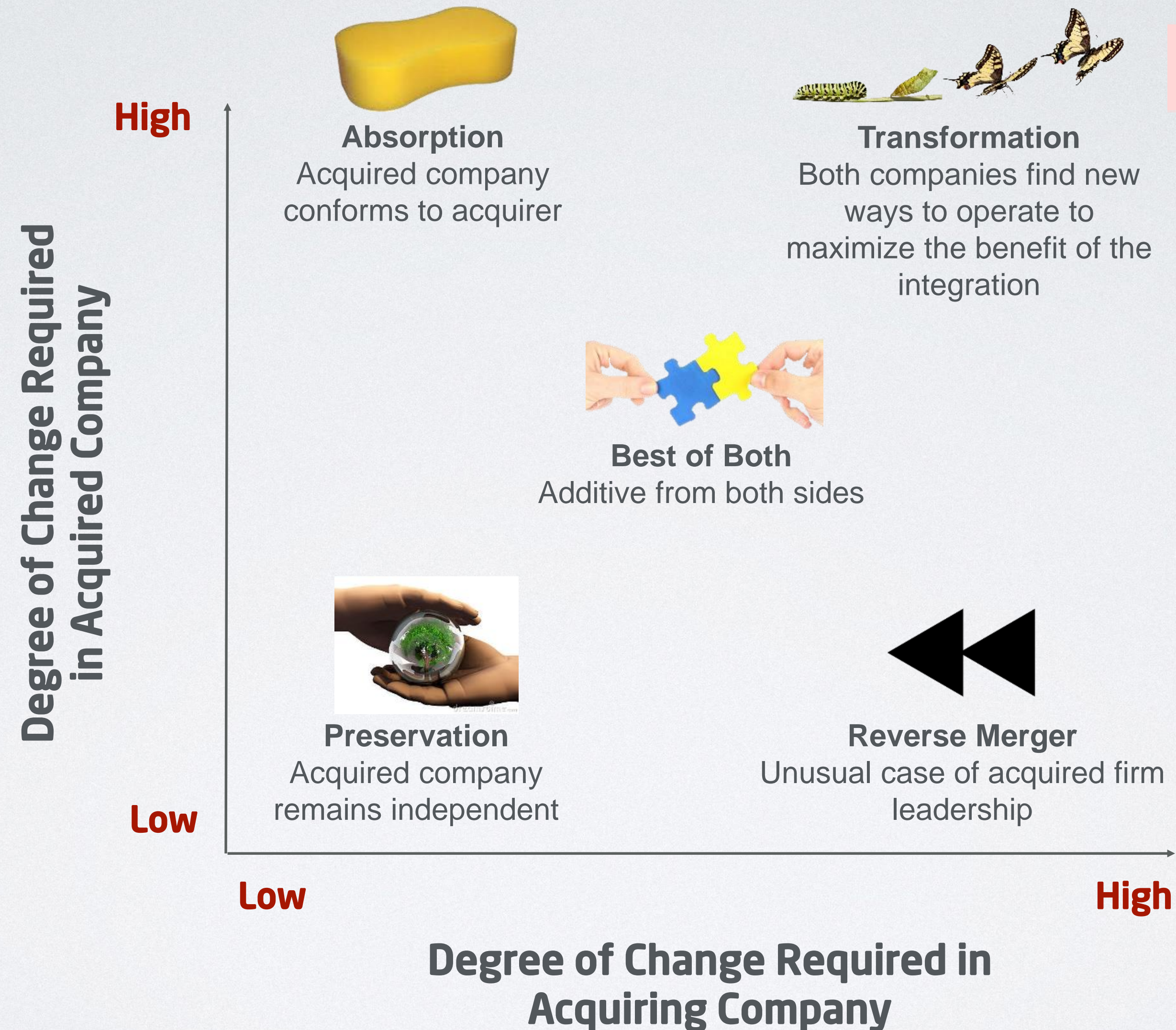


# Typical M&A Cycle



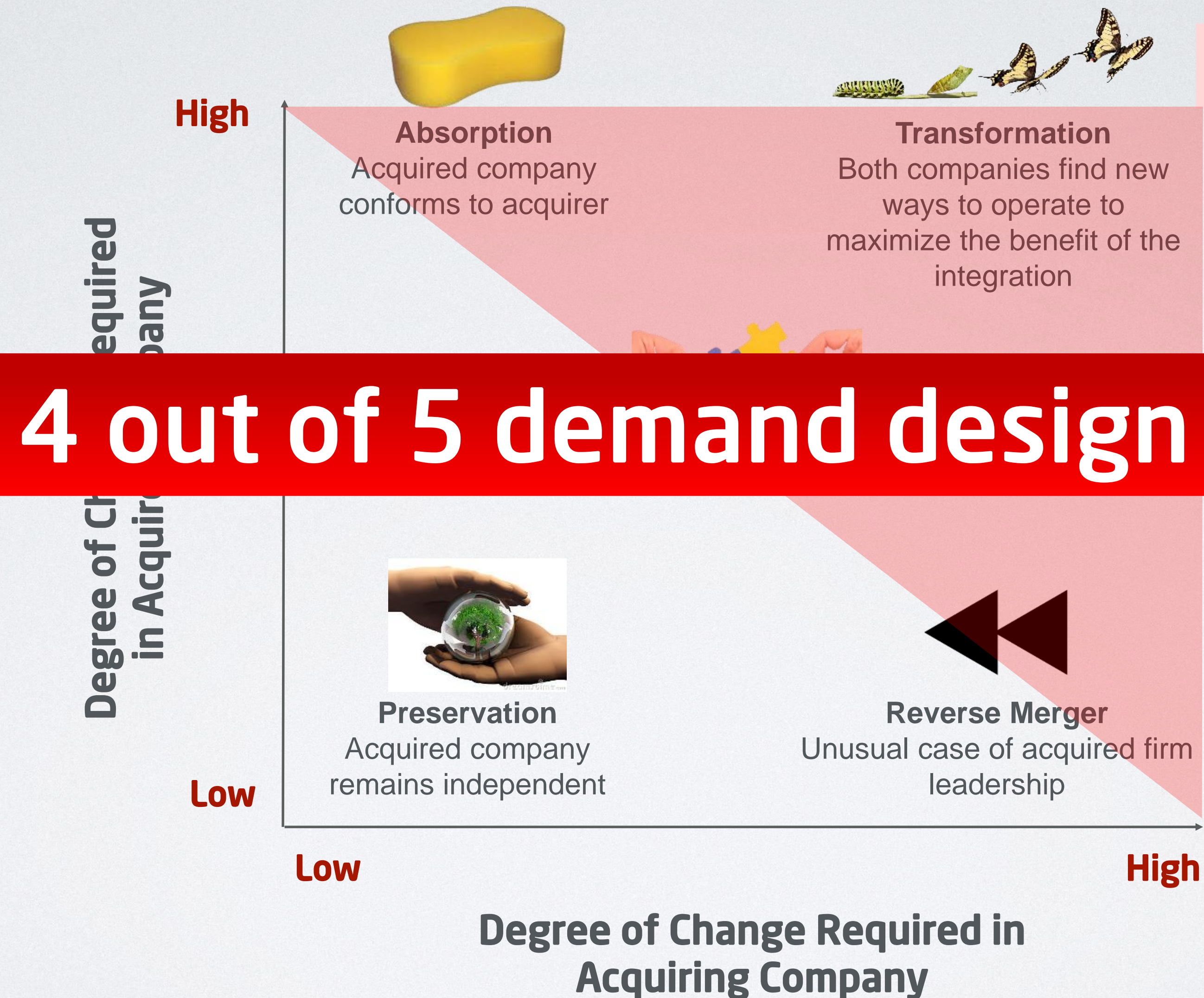


# Five integration strategies





# Degree of **integration**





# Where It Goes Wrong





# Traditional approach to M&A



- a) Legal and Finance driven
- b) Risk assessment
- c) Identify potential cost savings
- d) Deal synergies

- a) Determine integration strategy and plans
- b) Retain key talent.
- c) Transition of compensation plans

- a) Conduct integration work and change mgmt.
- b) Capture synergies.
- c) Monitoring people-related integration activities

- a) Fix as you go; or never fix



# Three factors...

1. Absence of “fit” assessment (know what you are getting into)
2. Take a fragmented, overly people-focused, functionalized approach to integration
3. Push downstream and/or delay real integration work until later, or maybe never (STS)














# A fragmented, **over-functionalized** approach to integration

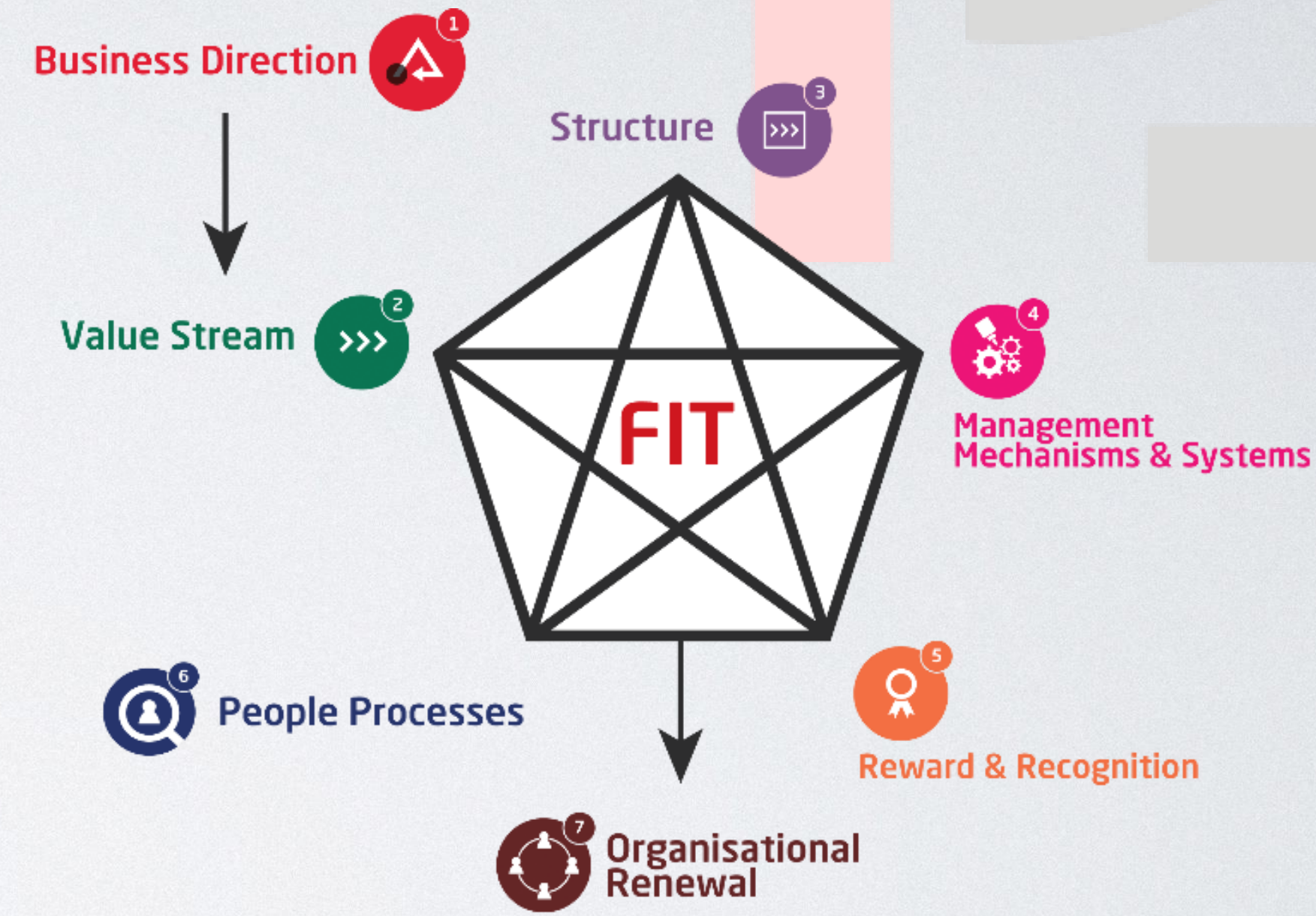
1. Top management on-boarding:
2. Data transition and management
3. Payroll
4. Cultural alignment
5. Employee engagement
6. Synergy capture





# A fragmented, **over-functionalized** approach to integration

1	Top management on-boarding		
2	Data transition and management		
3	Payroll		
4	Cultural alignment		
5	Employee engagement		
6	Synergy capture		



What about all the other points of the star?



# Consider Doing It Differently



# Org Design work overlaid the **M&A process**

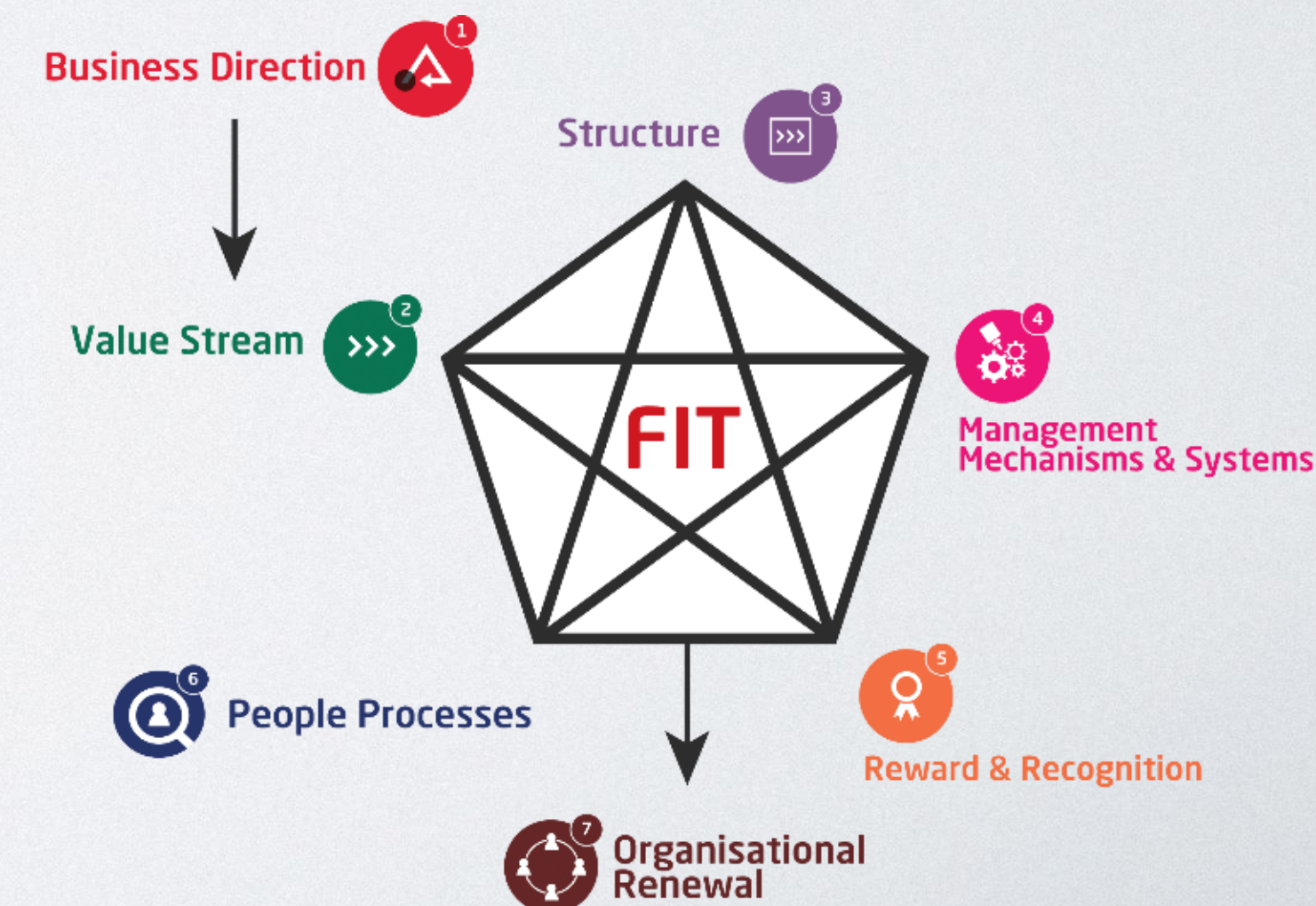




# Org Design work overlaid the **M&A process**

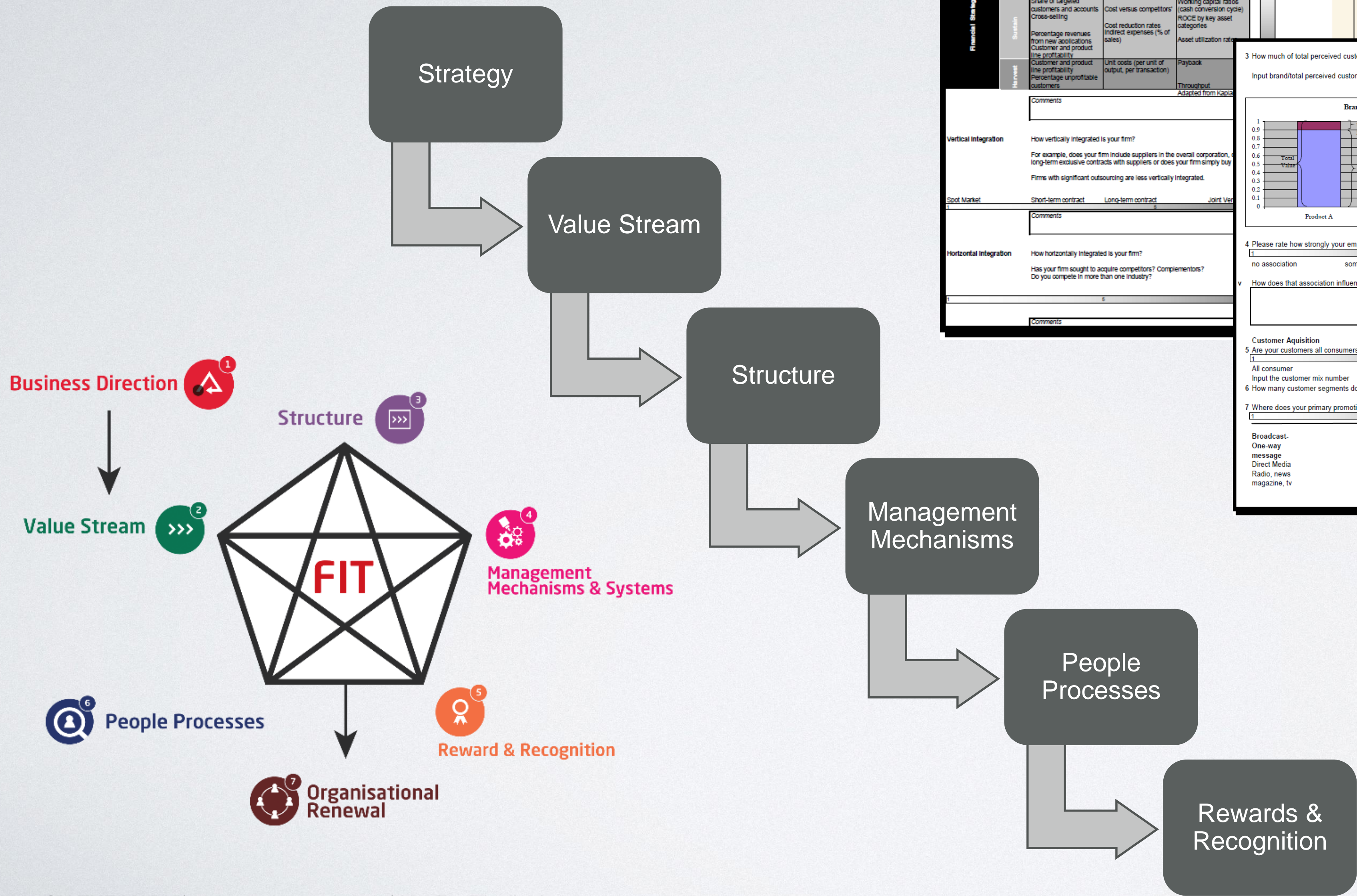


1. Conduct Early Fit and Integration Predictor; As-Is Phase;
  - a) Legal and Finance driven
  - b) Risk assessment
  - c) Identify potential cost savings
  - d) Deal synergies.
  - e) Comprehensive Fit Predictor





# Fit predictor



**Fit predictor**

**Industry Structure**

Overall, is there one financial strategy (growth, sustain, harvest) that best describes your firm-level strategy? Perhaps different business units in your firm are following differing financial strategies. For instance, your wireless unit pursues growth goals while a VCR unit is in harvest mode.

If you think you can pick one number between 1 and 10 to describe the overall firm-level financial strategy, please do so. You can comment in "Critical Issues" below.

Please input a number from 1 to 10 to describe your firm:

**Financial Themes**

Revenue Growth and MktCost	Reduction/Productivity	Asset Utilization
Percentage revenues from new product, services and customers Sales growth rate by segment	Revenue/Employee	Investment (% of sales)
Share of targeted customers and accounts Cross-selling	Cost versus competitors	R&D (% of sales)
Percentage revenues from new applications Customer and product line profitability	Cost reduction rates Indirect expenses (% of sales)	Working capital ratios (cash conversion cycle) ROCE by key asset categories
Customer and product line profitability Percentage unprofitable customers	Unit costs (per unit of output, per transaction)	Asset utilization rates

Comments

**Vertical Integration**

How vertically integrated is your firm?

For example, does your firm include suppliers in the overall corporation, long-term exclusive contracts with suppliers or does your firm simply buy firms with significant outsourcing are less vertically integrated.

Spot Market Short-term contract Long-term contract Joint Vent

Comments

**Horizontal Integration**

How horizontally integrated is your firm?

Has your firm sought to acquire competitors? Complementors? Do you compete in more than one industry?

Comments

**3 How much of total perceived customer value is attributed to brand?**

Input brand/total perceived customer value as a %:

Brand / Total Value

Product A Product B

**4 Please rate how strongly your employees associate with your brand.**

no association some association very strong association

**5 How does that association influence employee behavior?**

**Customer Acquisition**

5 Are your customers all consumers, all businesses or a mix?

1 All consumer 5 Mix

Input the customer mix number

6 How many customer segments do you serve?

1 5

7 Where does your primary promotion process fall along the continuum?

Broadcast- One-way message Direct Media Radio, news magazine, tv Two-way w/ time lag response Mailings Catalogs Infomercials Email

**Structure**

Part I:

- Read the descriptions, characteristics and priorities of the different organizational types.
- Note that most firms will of at least one structure.
- Read the proxy questions if you desire additional information about the organizational types.
- Check the box of the type that best describes your organization.
- If you prefer, put a "1" in the type that most describes your organization and a "2" in another box to note that this second option also describes your organizational structure choices, albeit to a lesser extent.

Org. Type	Description	Characteristics and priorities	Check to describe your organization	Key Questions
Function	Organized around major activity groups such as R&D operations, marketing, finance or HR.	single product line commodity mkt long product development cycle long product life cycle common standards economies of scale	<input type="checkbox"/>	Are strategic business unit decisions made by functional or product managers? Is product marketing for the entire organization centralized? Is R&D for the entire organization centralized?
Geography	Organized around physical locations such as states, countries, or regions.	Low value-to-transport cost ratio Service delivery on site Closeness to customer for delivery or support Perception of organization as local Geographical market segments needed	<input type="checkbox"/>	Are the ratios of gross margins to transport costs high or low? Are raw materials in fixed locations? Are frontiers costly or difficult to cross? Is it vital to be close to the customer?
Product	Organized into product divisions, each with its own functional structure to support product lines.	Product focus Multiple products for separate customers Short product development or life cycles Minimum efficient scale for functions or outsourcing	<input type="checkbox"/>	Is time to market more important than scale? Does a single manager control operations marketing & distribution per product?
Customer	Organized around major market segments such as client groups, industries, or population groups.	Important market segments Product or service unique to segment Buyer strength, customer knowledge advantage Rapid customer service and product cycles Minimum efficient scale for functions or outsourcing	<input type="checkbox"/>	Does fixed capacity exceed cyclical demand? Is specialization more important than scale? Do buyers have more power than suppliers? Does IT build customer advantage? (credit cards)
Front-Back Process	Combines elements of both the product and customer structures in order to provide the benefits of both.	Just-in-time inventory Focus on business process reengineering Flexible standards	<input type="checkbox"/>	Do organizational boundaries leave core process work flows intact? Is the organization broken into sub-units according to beginning-to-end work flow?

© Galbraith

Part II: Choose the best answers to the questions regarding the dimensions of organizational structure (bottom of page).

Different structures can be understood according to four dimensions: (1) Shape (2) Specialization (3) Distribution of Power (4) Departmentalization

**Specialization** Characterize your organization along this continuum, trying to capture the aggregate way of doing business:

1 more specialists less job rotation specialization "silos" slower coordination among departments 5 10 more generalists greater job rotation easier coordination among low-skill tasks faster coordination among departments

Specialization Indicator (1 to 10)

**Shape** Shape refers to the span of control of tasks: a narrow shape means each manager supervises a relatively small number of employees, while a flat shape means most of the work is coordinated at the level where it is performed. In a flatter shape, a manager will tend to supervise a higher number of employees, e.g. 75.

Narrow 1 5 10 Broad

relatively low experience level lot of variety in work -- more heterogeneous relatively high experience level not much variety -- more homogenous work

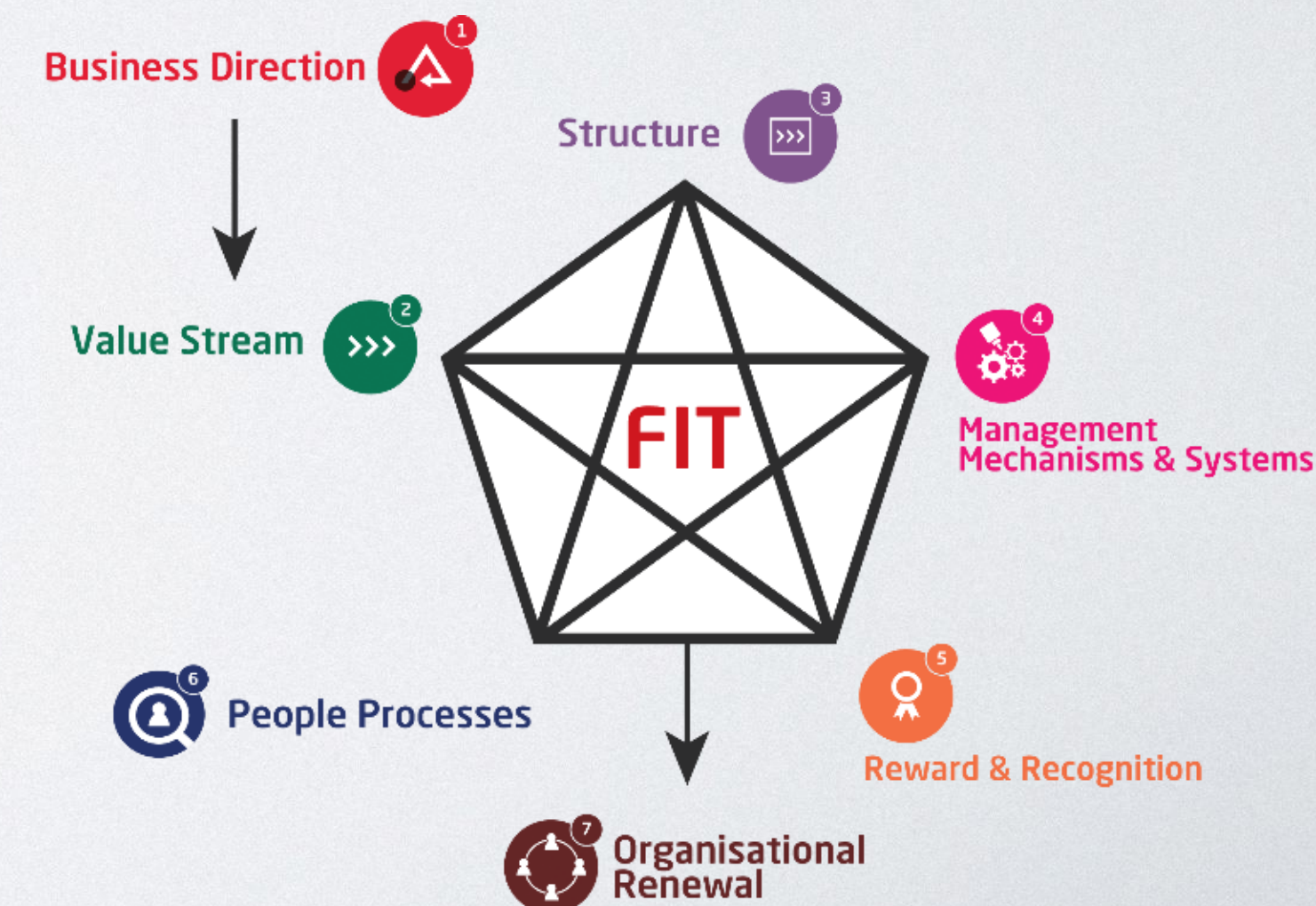


# Org Design work overlaid the **M&A process**



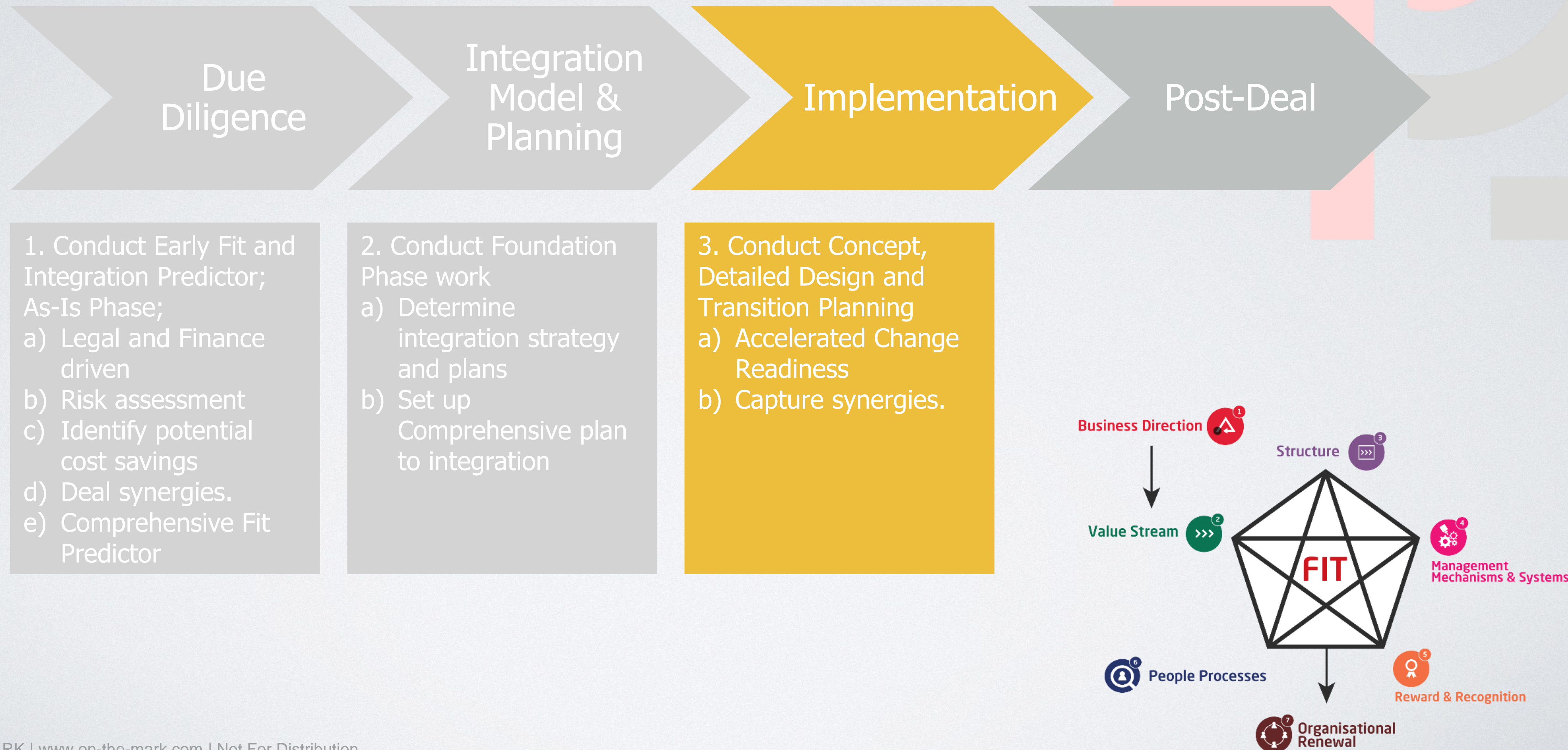
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As-Is Phase;  
a) Legal and Finance driven  
b) Risk assessment  
c) Identify potential cost savings  
d) Deal synergies.  
e) Comprehensive Fit Predictor

2. Conduct Foundation Phase work  
a) Determine integration strategy and plans  
b) Set up Comprehensive plan to integration



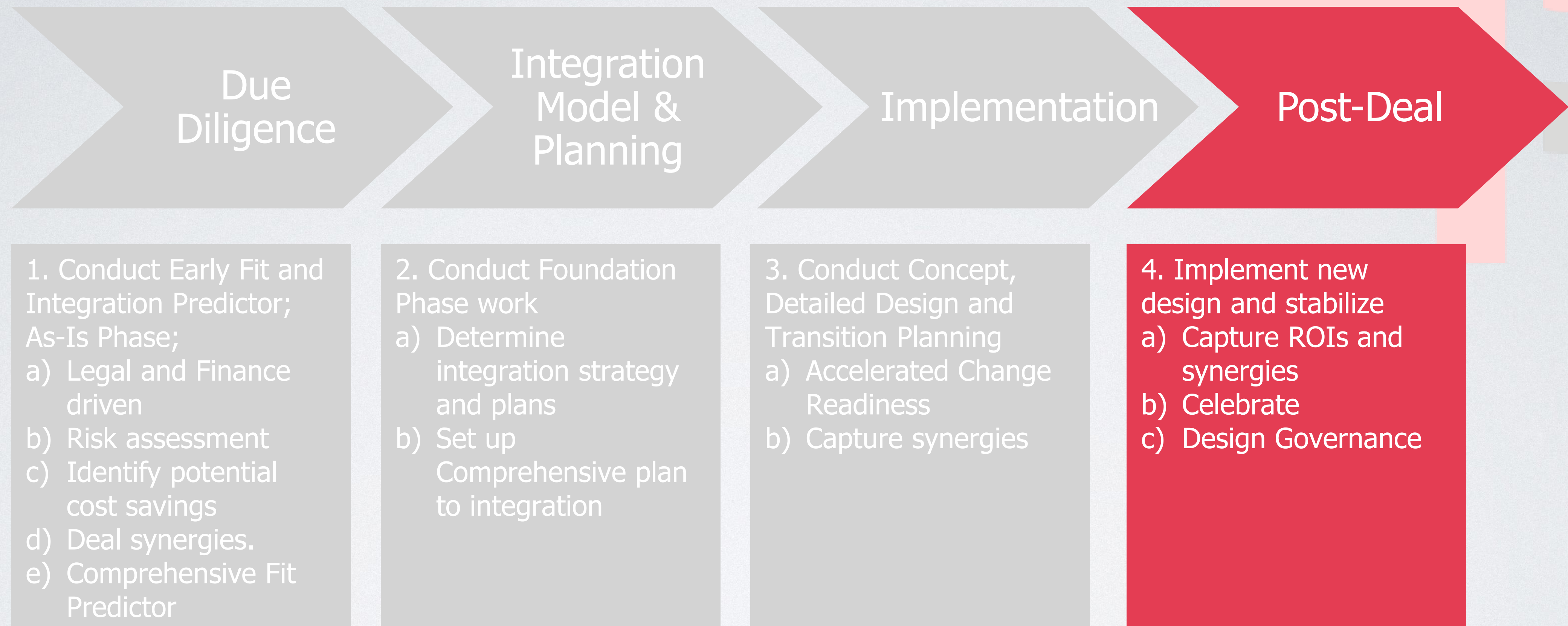


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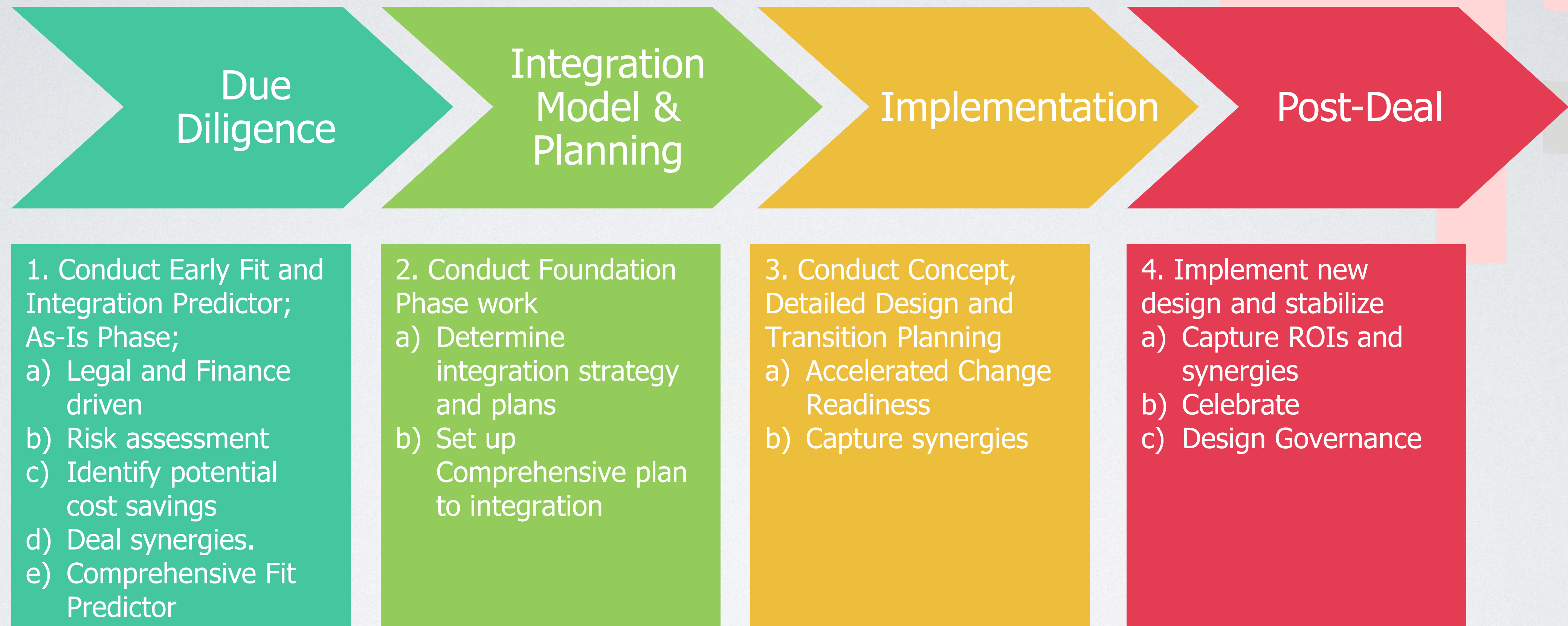


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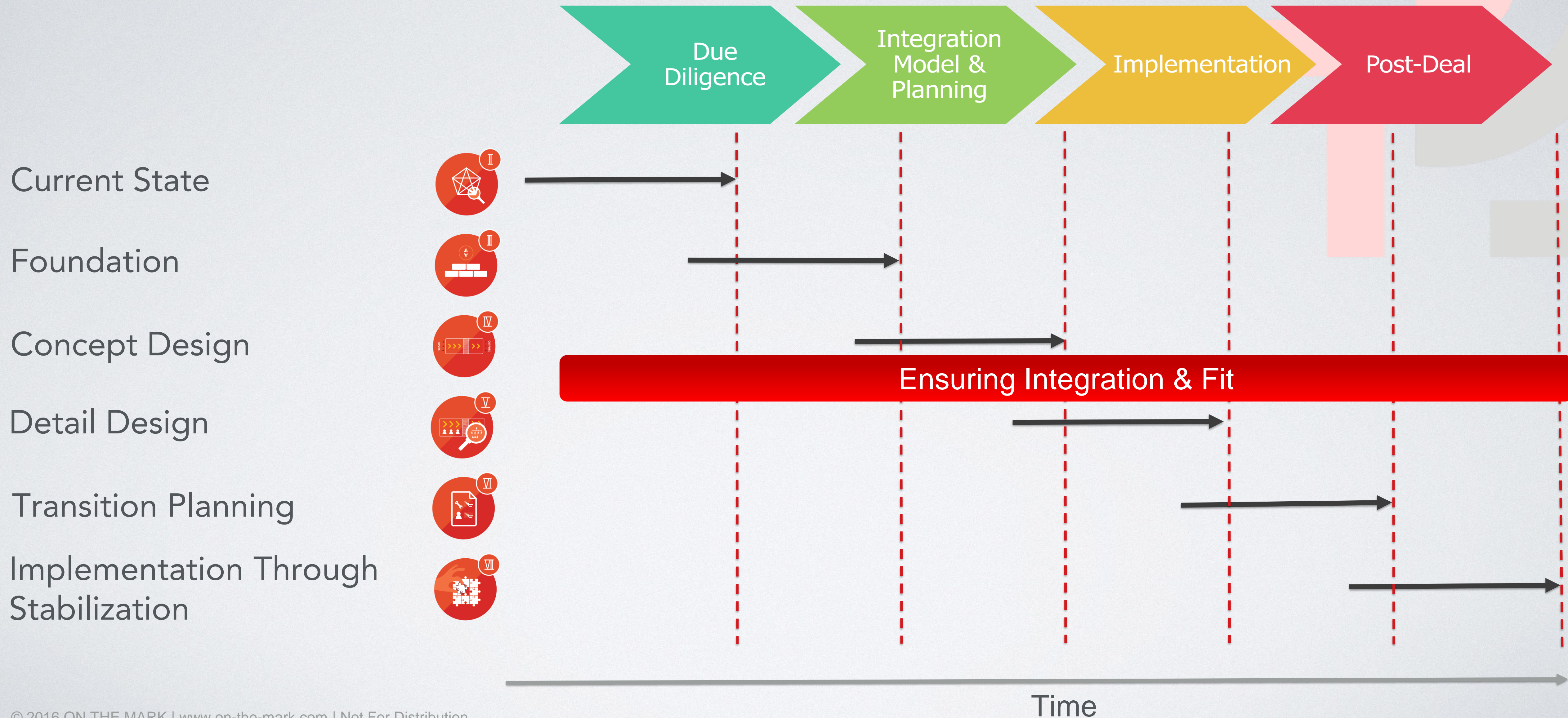


# Org Design work overlaid the **M&A process**





# Org Design Work Overlaid the M&A Process

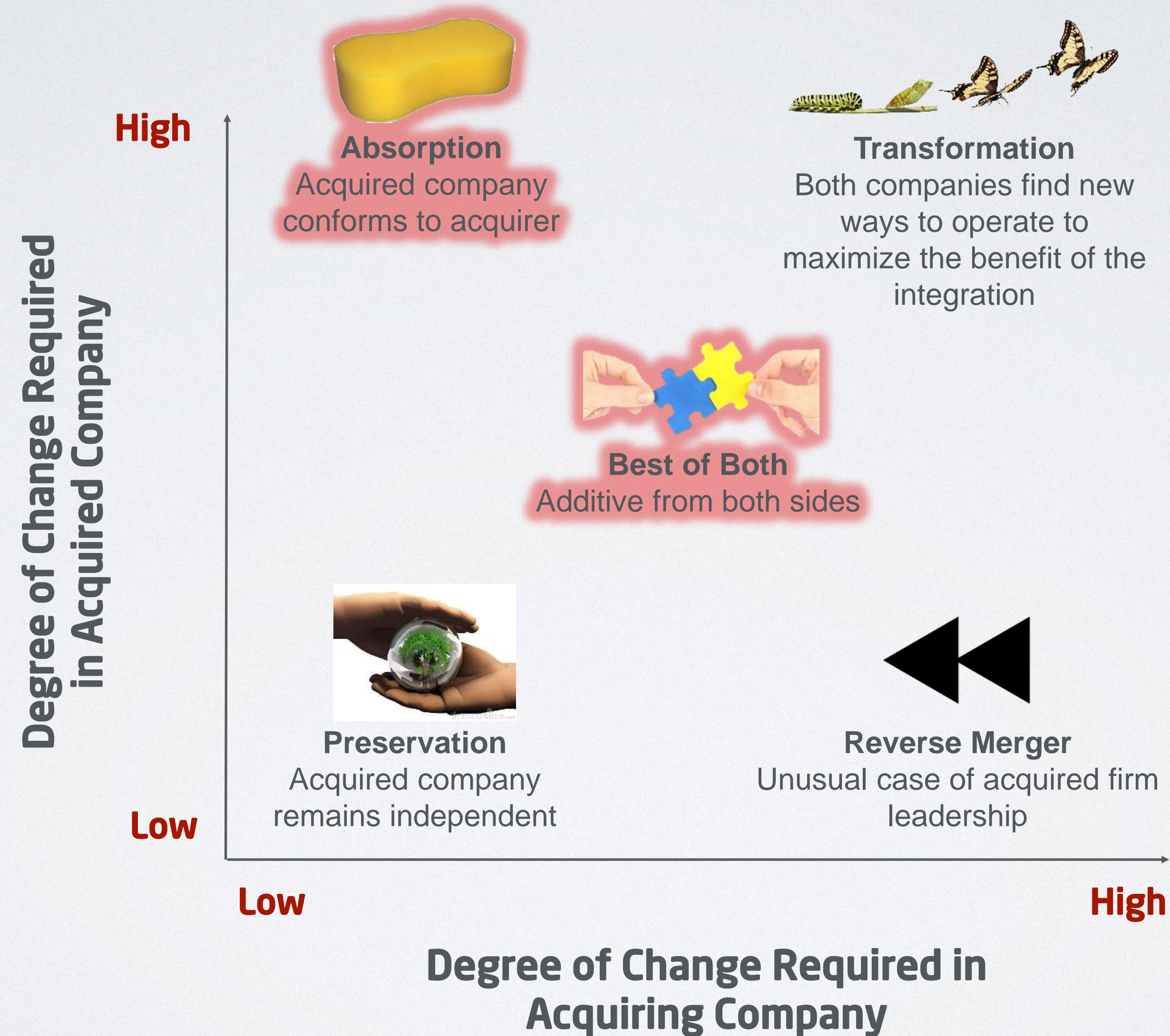




# Case Study



# Degree of integration





# Background

- a) Large **multi-national** acquired a product focussed business:
  - All about the product
  - **Fragmented** and working in silos
  - **Underfunded**, losing market share
- b) Different strategies
- c) Different cultures
- d) Different ways of working
- e) Took **8 months** to get to transition planning
- f) Implemented over **6 months - 1 year**
- g) Transition included a significant change of job location
- h) Running the business in conjunction with design work



# Purpose & Intent

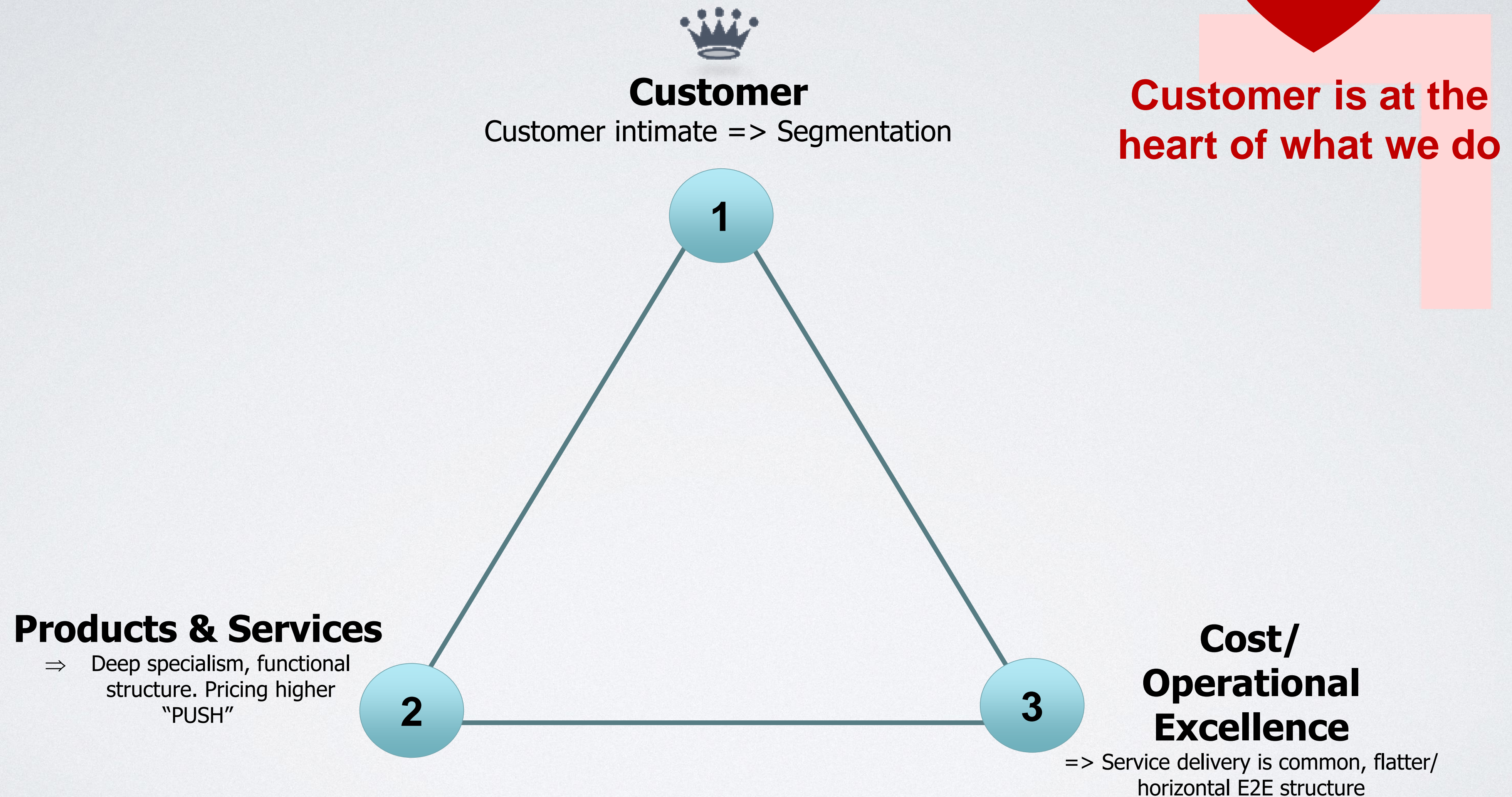
## Nutrition Company A exists...

- To help mums/parents help raise healthy babies for the first 1000 days (conception – 2 years) through the provision of the best possible services, advice, and innovative and nutritional products & solutions.
- To help deliver long term prosperity to customers/consumers (includes mums, parents and babies) and stakeholders, whilst leading the delivery of the Health and Wellness strategy of the organization.
- To differentiate through scientific expertise and credibility, and the passion, adaptability, loyalty of our people, taking advantage of the large scale of the larger organization.





# Gravitational Pull



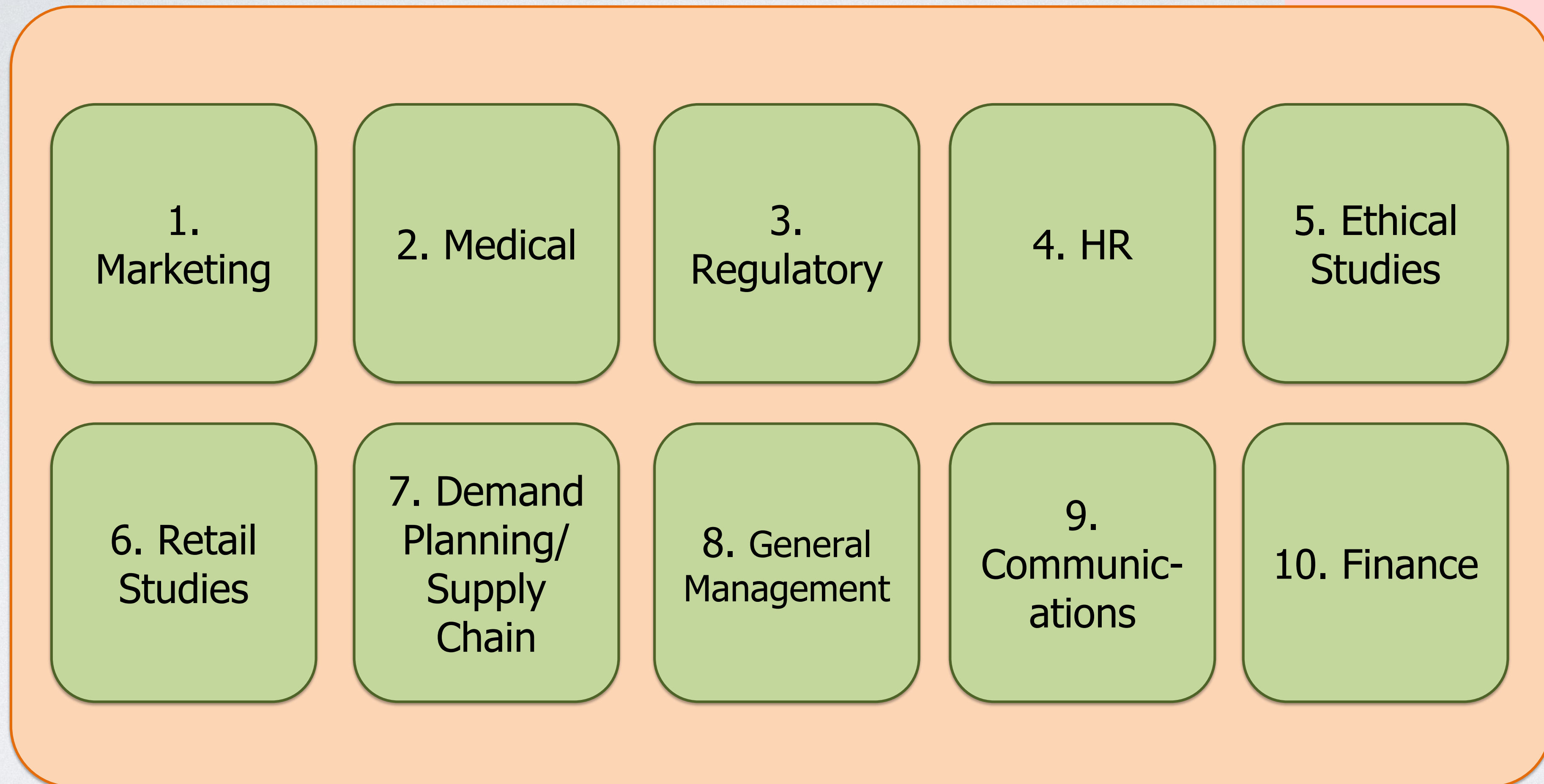


# Design Criteria

#	The New Design Design Must ...
1	Keep customer at the centre of all decisions through insights, products & services
2	Facilitate a winning culture of teamwork & fun
3	Develop a highly cooperative, networked structure
4	Strive to improve market share to deliver profitable business through a clearly differentiated brand
5	Create clarity of roles & responsibilities
6	Facilitate fast decision-making through alignment & empowerment
7	Create the opportunity for strong leaders to emerge
8	Always evaluate & review to improve
9	Utilise the scale and expertise of the broader organisation where appropriate

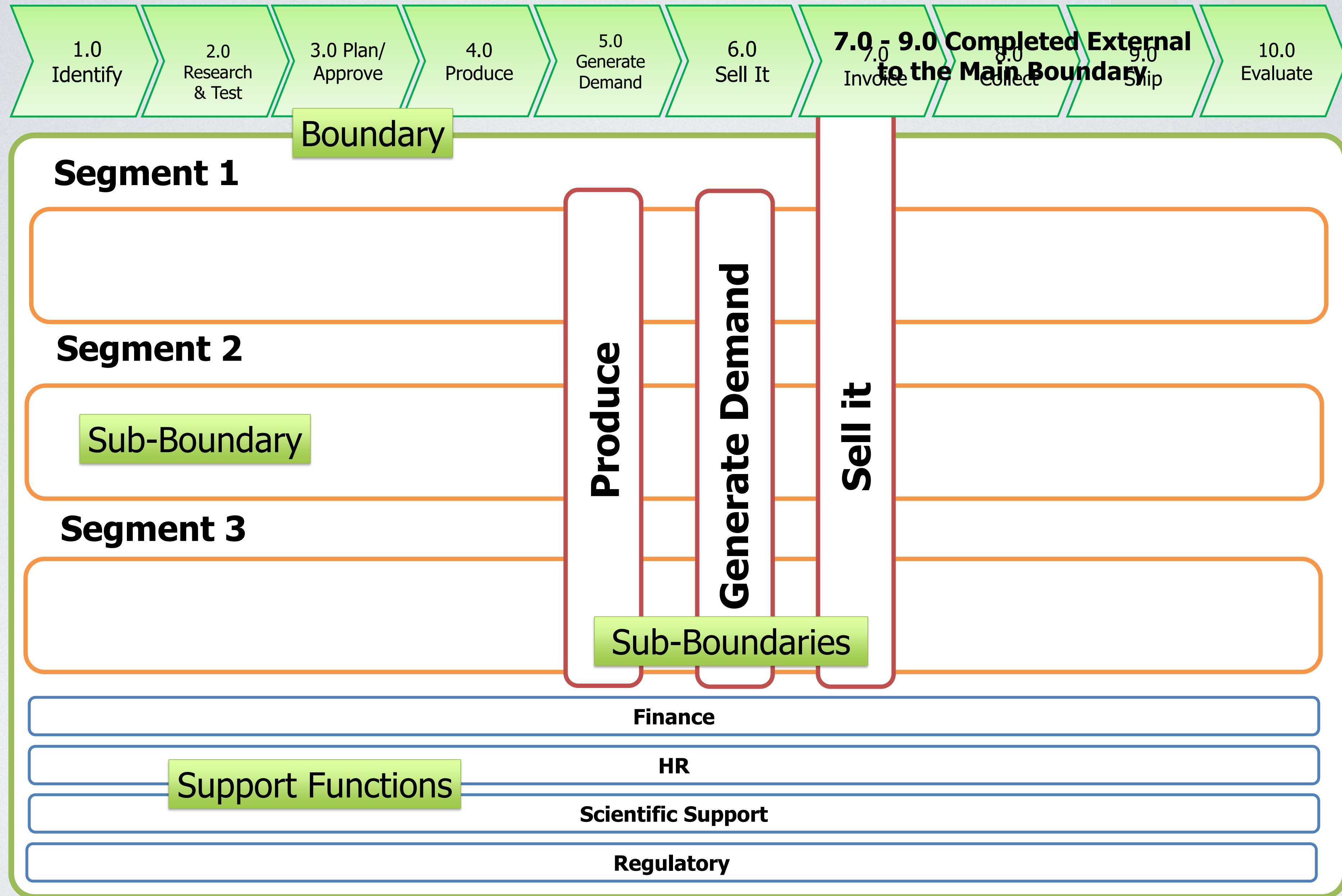


# Current State of the acquired Business



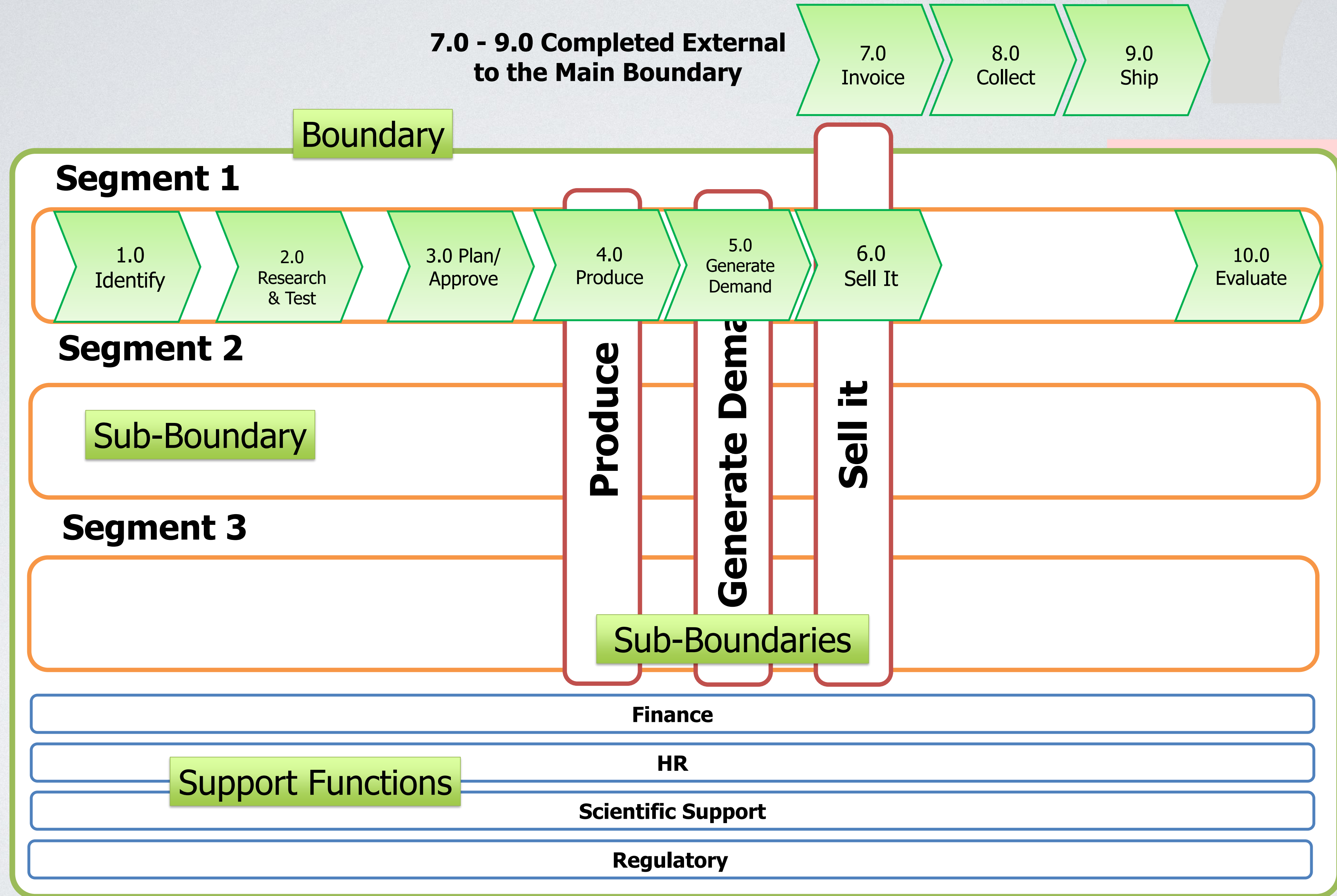


# Integrated Infant Nutrition Business





# Integrated Infant Nutrition Business





# Management Mechanism within customer segments (S)

#	Name	Purpose	Method	Type	Who's Involved	f
1	MBS	3 year strategic plan	Meeting + Reports process	ST	Led by segment lead Generate demand Support Functions	Every 3 years
2	ICP	18 month strategic plan	Process	ST, PL	"	Quarterly
3	OMP	Yearly operational plan	Process	PL, DM	"	Yearly
4	Quarterly Segment Meeting	Quarterly review of progress of OMP	Process (Meetings)	PS, DM	"	Quarterly
5	MBP	Monthly review of OMP	Process (Meetings)	PS, DM	Finance, CCSD, Seg leads, demand planning, 1 <sup>st</sup> choice	Monthly
6	I & R	Monthly review of I & R projects	Process (Meetings)	DM, IS	LT, Seg lead + teams	Monthly
7	PE	Align KPI's across roles	Process	AF, PL	ALL	6 month
8	Approval Process	Governance	Process	GV	Reg, Med, Marketing, Legal, Careline, Digital	Daily



# Glue Within Segments

MBS, ICP  
Role → Segment Lead  
Generate Demand  
Relevant Supporting functions  
Reports  
ALL

Lead; Segment Lead  
ALL

Segment Leads

Lead by : SL + Teams

Selected Functions as  
appropriate

Functions as  
accountable for  
strands

Finance  
Supply Chain  
CCSD  
Marking

Led by segment leads



IS

AF, GV

PL, DM

ST, PL, DM, GV

PS, AF, DM, GV

Reports

Meeting/Report

Reports

Role  
Segment  
Lead  
Report  
MTG

Process

OMP  
Cycle Plan  
Project Teams  
Cycle Meetings  
MBP

Reports  
Meeting

Quarterly Review  
Quarterly Segment Meeting



# Learning and **Wisdoms**

## **From Case Study**

- a) Remember that people are expecting change to happen – people own what they create.
- b) Start by gaining a deep understanding of both companies (using the OTM Applied Star Model)
- c) Collaboratively develop Strategic Intent (End of Due Diligence and planning)
- d) Define the non-negotiables (Integration planning)
- e) Plan for attrition
- f) Take an org design holistic approach to integration planning and implementation
- g) Take a visibly collaborative approach to conducting the integration work and/or designing the 'new' company



# Learning and **Wisdoms**

## **From M&A Work**

- a) Get involved upstream – due diligence Phase.
- b) Gain a robust, holistic understanding of both company's operating models from the outside-in (Fit Predictor) in due diligence phase as prerequisite to deciding integration strategy.
- c) Decide integration strategy early Phase 2.
- d) Adopt an Organization Design framework and approach; Sponsors fully understand trade-offs of fragmented, sub-optimized option vs design.
- e) All traditional M&A integration activities fall under umbrella “alignment efforts” including governance and reporting.
- f) Integration is key to ensure fit and alignment with strategic intents and synergy capture.
- g) Put in place robust “Design Governance.” (OTM ©)



# Questions




# Upcoming OTM **Events** 2016 Q3 & Q4


What	Format	Who	When, where
STS RoundTable 2016 Conference	Conference	OTM team	6-9 September, San Francisco
Driving Change Conference	Conference sponsored by OTM, incl. panel debate, one to one meetings	Mark LaScola and OTM team	20 September, London
EODF Masterclass 2	Capability Building	Mark LaScola	9 September, Utrecht
EODF16 Conference	Conference with OTM as Gold Sponsor	OTM Team	14-15 October, Barcelona
EODF UK London Meeting	Meeting with case study	Jilly Atherton NNL and Simon Davies OTM	1 December, London
Webinar	<b>Ideas please!</b>	David Howlett	<b>TBC</b> October, online
Executive Briefing	2 hour breakfast briefing	OTM team	<b>TBC</b> San Francisco, San Diego, New York, Chicago, London, Manchester - late autumn
Further whitepapers, newsletters & webinars	Various - <b>ideas welcome!</b>	OTM Team	Monthly
<b>Visit <a href="http://ON-THE-MARK.COM">ON-THE-MARK.COM</a> for more info and register</b>			



# Open **Positions** at OTM

Position	Job Description Link
Senior Consultant	<a href="http://www.on-the-mark.com/careers">www.on-the-mark.com/careers</a>



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- ┐ A perfect balance between the excitement of independence and the security of a team.
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# Thank you

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