

Perspectives on merger integration
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Opening the aperture 2:

A practical guide to capturing synergies and creating value in mergers





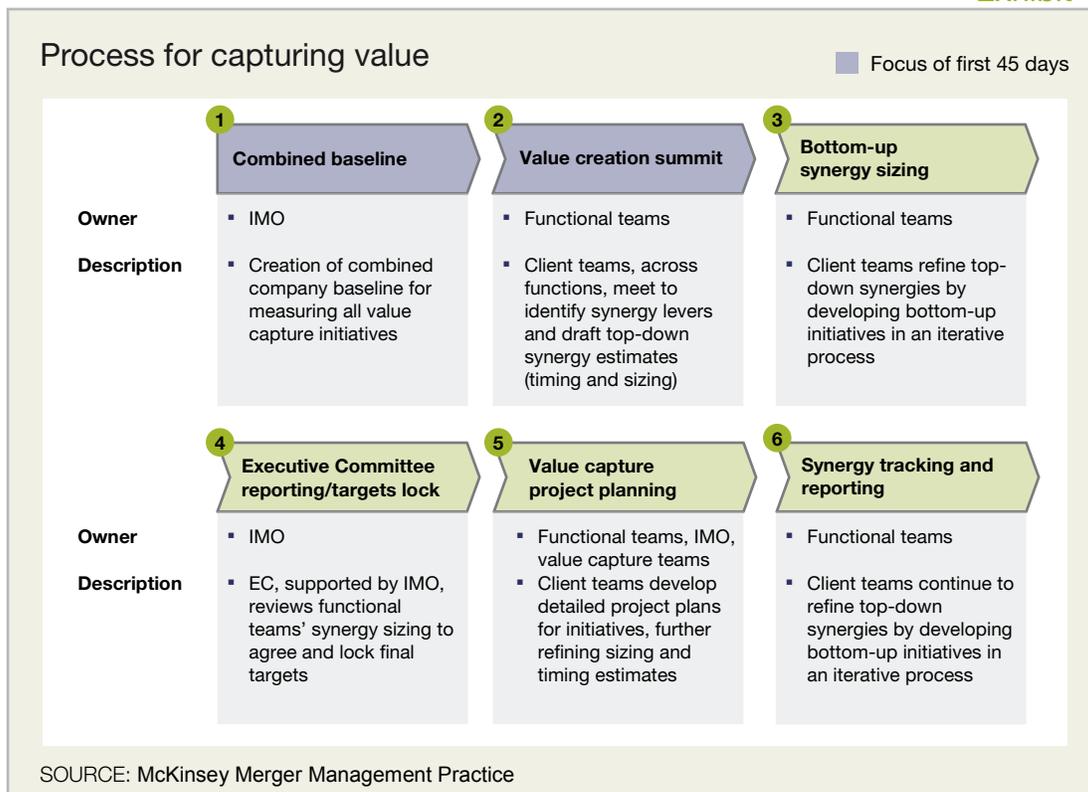
Opening the aperture 2: A practical guide to capturing synergies and creating value in mergers

By Oliver Engert, Eileen Kelly, & Rob Rosiello

Most companies contemplate mergers with great ambitions, but their vision quickly narrows to cost. Best-practice companies, on the other hand, keep their eye on the big picture and apply the thinking mapped in the McKinsey framework to identify, quantify, and capture synergies. Using this approach effectively requires following a disciplined, systematic process.

This process involves six steps for capturing value, from creating a combined company baseline to defining rigorous mechanisms for tracking and reporting synergies captured. This process starts as soon as the deal is announced to ensure that the new company begins to realize value on day #1.

Exhibit 1



The first two steps, typically the first 45 days, are critical but often get short shrift. This is the time for leadership to define the vision needed for integration to succeed. Even the financial exercise of step #1 represents an opportunity to set the tone of the merger by urging candor and constructive challenges.

1. Combined baseline

This step develops an overview of operating expenses, revenue, and the balance sheet for the combined company before factoring any synergies into the picture. The overview lays the foundation for identifying opportunities to create value, assigning them to appropriate owners, and planning ways to execute and then track and report results. Many CEOs and even more CFOs tell us they wish they had taken the time to develop a more robust baseline. As one CFO reflected, “If you don’t have a robust baseline, it’s like building a skyscraper on quicksand.”

Creating the baseline is often time-consuming, as getting information on the target company and allocating expenses to the right function or organization can be difficult – and politically charged as competition for budget can be fierce. But the effort pays off because integration proceeds with a clear, shared sense of the financial landscape.

2. Value creation summit

The summit is an equally critical step in the process. It helps keep the aperture open, encouraging people to put aside initial perspectives from due diligence, to apply a rigorous synergy framework, and to look beyond traditional sources to achieve maximum value. The summit provides a forum for the collaboration and creative thinking needed to generate rich ideas for synergies that promise to create real value, especially ideas that can lead to breakthrough performance. The summit brings together the acquirer’s integration leadership, the leaders and content experts of the functional teams, and McKinsey industry, integration, and functional experts to think top-down about potential synergies.

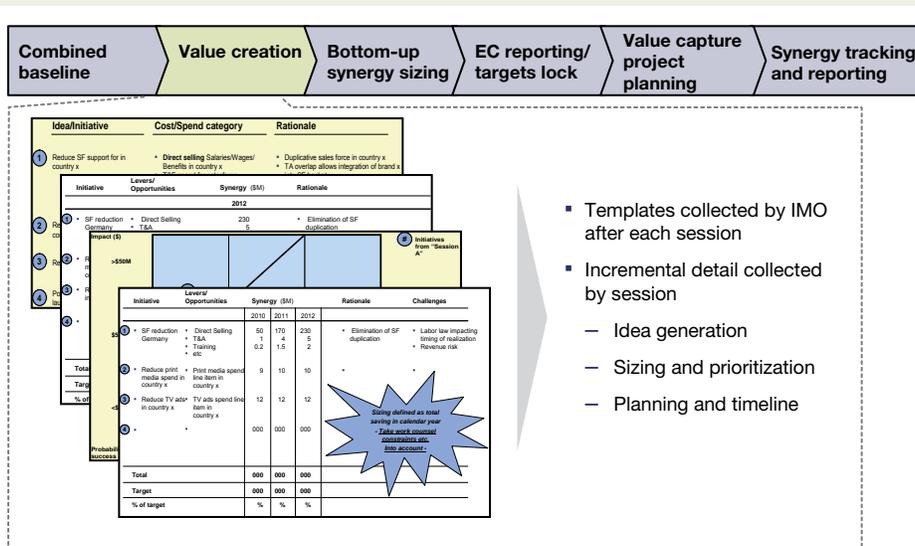
The summit generates:

- A prioritized list of opportunities that reflects their relative size
- A list of value creation opportunities that looks beyond cost to consider capital and revenue opportunities
- A high-level implementation plan that maps the timing of capturing synergies, including three or four milestones.

The Integration Management Office (IMO) provides templates for these deliverables to ensure consistent efforts across functional teams. This consistency is important to sizing synergies, setting priorities, balancing efforts, and tracking progress.

Exhibit 2

IMO templates

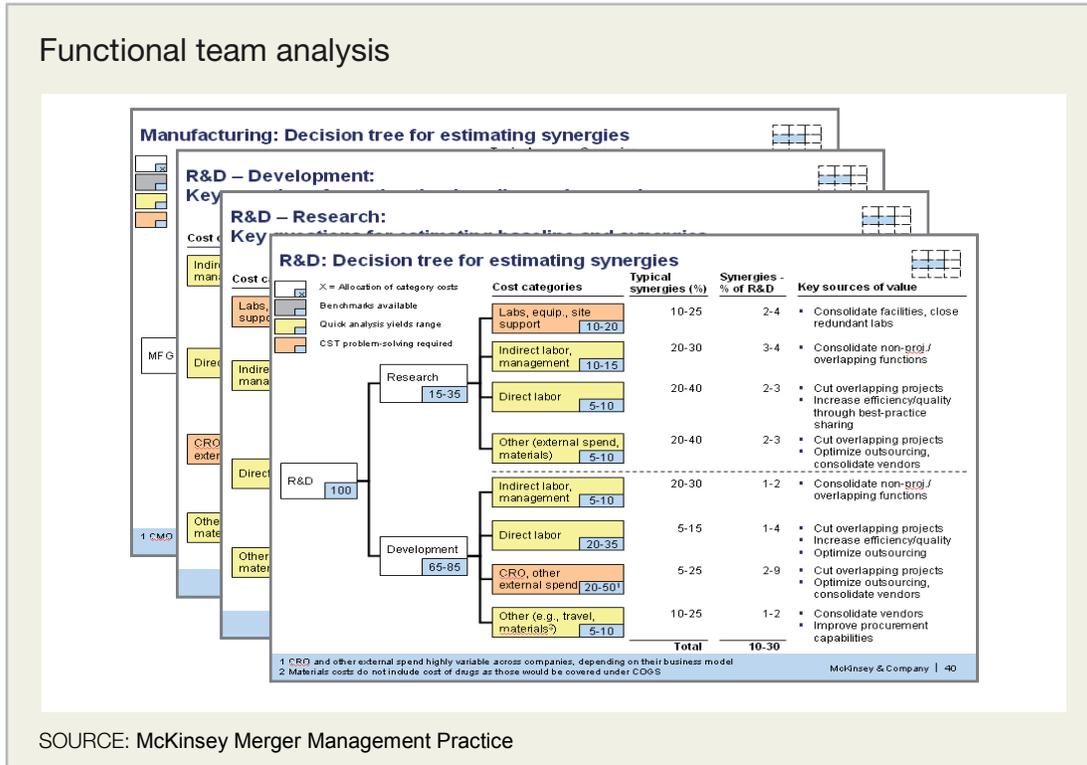


- Templates collected by IMO after each session
- Incremental detail collected by session
 - Idea generation
 - Sizing and prioritization
 - Planning and timeline

3. Bottom-up synergy sizing

The functional teams take the synergies identified as high priorities during the summit and further refine them by thinking bottom-up. The teams detail the components of the synergies established by the top-down thinking of the summit and determine the component-level synergy potential.

Exhibit 3



Looking more deeply into synergies yields richer, more specific insights, especially important interdependencies to explore and the time likely needed to realize each opportunity. Companies often underestimate the time and resources needed to capture an opportunity. This step helps them avoid that pitfall.

4. Executive Committee reporting/targets lock

The Executive Committee and IMO leadership regroup to review the output of the first three steps and set final synergy targets. This marks an important point in integration planning, as the focus now shifts from what value to capture to how and when to capture it. Leadership should take the integration pulse and launch any actions needed to sustain momentum and ensure accountability.

5. Value capture project planning

Under the direction of the IMO, the functional teams define initiatives to achieve synergy targets. The IMO plays a central role in aligning team priorities and resolving cross-team dependency issues, as well as developing cross-functional, value-capture teams for the most significant opportunities. The IMO also creates a dashboard to help senior management monitor integration performance.

The most critical component of value capture project planning is establishing ownership of the targets and plans. Passing the targets and plans down to the line isn't enough. Each business unit leader must help drive the planning process forward, including assuming responsibility for targets and plans.

6. Synergy tracking and reporting

After deal close, rigorous tracking at the team and executive levels keeps initiatives on track and locates new sources of value. At this point team members often get distracted by the demands of their “day jobs,” but systematic and timely review of progress against goals remains essential to ensuring full realization of the potential value of the deal.



As economic recovery looms and companies look to mergers as a way to benefit from the upturn, they need to understand their options. The McKinsey process can help them weigh and balance opportunities to realize value from a merger.