Perspectives on merger integration
June 2010

Opening the aperture 3:

A McKinsey perspective on finding and prioritizing synergies

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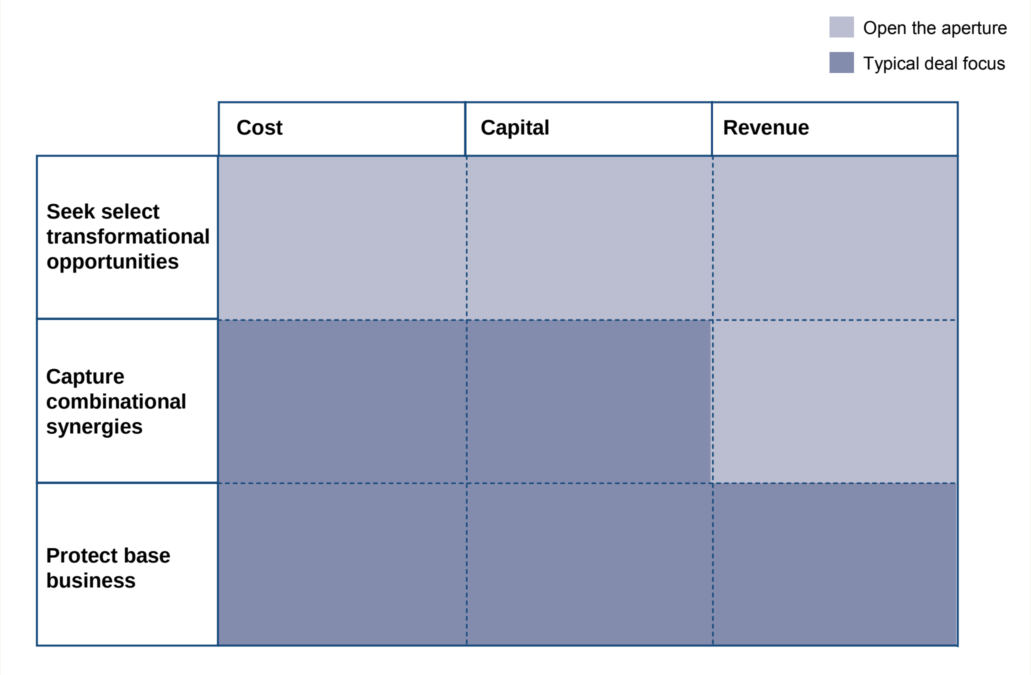
Best-practice companies explore the full range of opportunities to achieve maximum value from every merger. They take the broad view mapped in the McKinsey framework to identify, quantify, prioritize, and capture synergies and value.

Exhibit 1

McKinsey synergies framework



░ Open the aperture
▓ Typical deal focus

	Cost	Capital	Revenue
Seek select transformational opportunities	░	░	░
Capture combinational synergies	▓	▓	░
Protect base business	▓	▓	▓

But these companies also realize that opportunities to create value differ by deal type, and they tailor their search for synergies accordingly.

Six deal types and their opportunities to create value

McKinsey has identified six deal types. Each requires asking different questions to locate their most likely synergies:

- **Improve target company performance.** The buyer leverages their superior capabilities to improve the target's operations.
  - What superior capabilities does the buyer possess?
  - How can the buyer transfer these capabilities to the target?
- **Consolidate to remove excess industry capacity.** The combined company rationalizes commercialization to increase efficiency, prioritizes initiatives (e.g., R&D efforts), leverages economies of scale (e.g., back office consolidation), and cuts duplicative overhead.
  - Where is there excess overlap in the operating model?
- **Create market access for products.** The combined company uses its existing capabilities and capacity to sell through to new markets or geographies more effectively.
  - What market entry advantages does the buyer or the target have (e.g., channel access)?
  - How would additional resources affect sales?
- **Acquire capabilities or technologies quickly.** The buyer leverages the target's capabilities, gaining access to skills or technologies more quickly than it could in-house.
  - What skills or technologies does the target have?
  - How can the buyer leverage these capabilities?
- **Pick and develop winners early.** The buyer provides resources to promising targets.
  - What does the target need to succeed? What are the risks?
  - What capabilities does the buyer have that can help the target succeed?
- **Transform both buyer and target.** An industry-changing deal transforms the combined company into a superior company.
  - How much transformation is the buyer willing to undertake?
  - Which specific opportunities would create transformation?
  - What specific challenges could disrupt business during the transformation?

Unfortunately, many companies, and industries, look only to their traditional deal types, which they know how to pursue, and they leave money on the table as a result. Pharmaceutical companies, for example, typically merge for industry consolidation or quick acquisition of capabilities or technologies. Opening the aperture and exploring less traditional transformational deals could uncover additional opportunities to create value.

The highest-priority synergy opportunities by deal type

To encourage broader thinking, McKinsey has mapped synergy opportunities by deal type. The chart shows the most likely, and therefore highest-priority, synergies in each type of deal. Not surprisingly, opportunities in the combinational category of value creation are most common, but their focus extends well beyond cost.

Exhibit 2

Highest-priority synergies by deal type

■ Primary
▨ Secondary
□ Tertiary

Improve target company performance

	Cost	Capital	Revenue
Transformational	▨	▨	□
Combinational	■	■	■
Protect base	▨	□	▨

Synergy focus	Rationale / Key drivers
Combinational cost	▪ Leverage buyer's best practice and resources ▪ Streamline R&D due to pipeline overlap
Combinational capital	▪ Eliminate due to excess capacity (e.g., geography / customer overlap) and economies of scale
Combinational revenue	▪ Enter new markets / channels ▪ Leverage cross-selling of products ▪ Transfer sell-through best practices

Consolidate to remove excess industry capacity

	Cost	Capital	Revenue
Transformational	▨	▨	□
Combinational	■	■	□
Protect base	□	□	▨

Synergy focus	Rationale / Key drivers
Combinational cost	▪ Streamline due to economies of scale and pipeline overlap
Combinational capital	▪ Eliminate due to excess capacity and economies of scale

Create market access for products

	Cost	Capital	Revenue
Transformational	□	□	▨
Combinational	□	□	■
Protect base	▨	□	▨

Synergy focus	Rationale / Key drivers
Combinational revenue	▪ Enter new markets / channels ▪ Leverage cross-selling of products ▪ Transfer sell-through best practices

Acquire capabilities quickly

	Cost	Capital	Revenue
Transformational	▨	▨	▨
Combinational	■	▨	■
Protect base	▨	□	□

Synergy focus	Rationale / Key drivers
Combinational cost	▪ Leverage acquired skill / technology (e.g., R&D pipeline, sales force) increasing efficiency
Combinational revenue	▪ Increase effectiveness through acquired skill / technology

Pick and develop winners early

	Cost	Capital	Revenue
Transformational	□	□	▨
Combinational	□	□	■
Protect base	▨	▨	□

Synergy focus	Rationale / Key drivers
Combinational revenue	▪ Supply additional resources for development ▪ Provide access to existing markets / channels

Transform both buyer and target

	Cost	Capital	Revenue
Transformational	■	■	■
Combinational	□	□	□
Protect base	□	□	▨

Synergy focus	Rationale / Key drivers
Transformational cost	▪ Establish COE / shared services / O&O due to economies of scale
Transformational capital	▪ Implement new tracking systems (e.g., JIT inventory) ▪ Eliminate PP&E through use of O&O for select functions (e.g., R&D)
Transformational revenue	▪ Restructure sales force (in select geographies) given new portfolio ▪ Create COE due to economies of scale

Of course, any company contemplating a merger should explore all its synergy opportunities, but the mapping can provide a sound starting point for prioritization.

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As companies look to mergers for benefits beyond scale or cost reduction, they need to consider a broader range of opportunities – more types of deals and more sources of synergies. The McKinsey mapping can help them weigh and balance opportunities to create maximum value from a merger.