

Smoothing postmerger **integration**

It takes less time than you think for a clean team to make valuable contributions to the integration of businesses.

**Nicolas J. Albizzatti,
Scott A. Christofferson, and
Diane L. Sias**

In any merger, acquisition, or joint venture, the sooner managers integrate their companies the faster they capture the expected synergies. So in the hectic days and weeks after a deal is announced, CFOs face a daunting list of responsibilities, such as managing the deal's financial aspects, justifying the strategy to investors, negotiating with regulatory authorities, and ensuring compliance with the regulations that come into force once a deal is announced. And CFOs must manage all this while essentially flying blind, without access to legally restricted data.

In our experience, establishing a clean team to support integration efforts before a deal closes can help speed up the completion of critical tasks and improve the chances of capturing the merger's synergies. Working under confidentiality agreements, such a team has unrestricted access to data from each of the companies involved—data legally off limits to the companies' employees until the deal closes. After compiling and analyzing this information, the team can quickly deliver aggregated findings that help decision makers plan the structure and operations of the merged entity even before the deal has closed.

Given such virtues, it's surprising that executives don't set up integration clean teams more frequently. Many CFOs tell us

they worry that there won't be enough time for a clean team to accomplish anything before a deal closes. Some of them express concern that sharing confidential data will expose their companies to undue risk should the deal fall through—or that the impact of the clean team won't justify the expense of assembling it.

Such misplaced concerns often lead to costly delays. We believe that a well-structured clean team almost always makes it possible to capture a merger's value more quickly and can reduce the risk of failure. Such teams address myriad issues that are well within the limits of the regulations—and can help to resolve them well within the period between the announcement and the close of a deal.

Indeed, we find that managers consistently underestimate how much time may be involved at this stage, which for the 455 largest mergers in 2004 lasted an average of nearly three months (Exhibit 1).¹ That is plenty of time for a clean team not only to conduct analyses and make decisions that expedite postclosing integration but also to prepare the merged company to be fully operational from day one. Thus the team's work helps capture more of the merger's synergies before competitors have a chance to react.

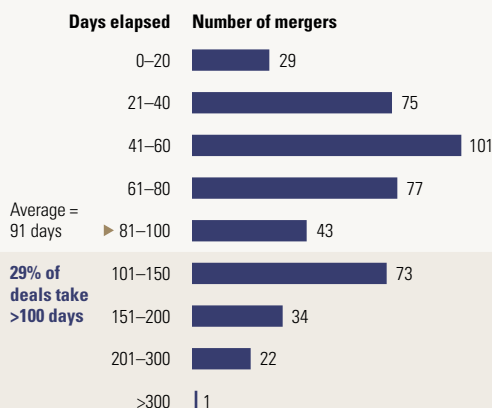
Moreover, clean teams can add value to merger integration efforts in incremental chunks—at first, quite small ones. Executives who anticipate having as little as a month between the announcement and the close of a merger should be able to assemble the most basic kind of clean team, which undertakes the critical work of gathering and harmonizing data and can serve as the foundation for a more elaborate team if time permits. And with a small team in place, the parties to a deal can avoid

¹The top 455 mergers, by transaction value, announced in 2004, excluding withdrawn, pending, rumored, and intended deals as well as deals announced and closed on the same day.

EXHIBIT I

A time-consuming process

Mergers and days elapsed between merger announcement and effective completion date¹



¹Top 455 mergers by transaction value announced from Jan 19 to Dec 31, 2004; excludes withdrawn, pending, rumored, and intended deals; excludes deals in which deal announcement and closure occurred on same day.

Source: Thomson

having to play an expensive catch-up game after it closes.

Three types of integration clean teams

In theory, clean teams can handle a broad range of pre-integration analyses and planning if sensitive, proprietary, or legally restricted data would otherwise inhibit collaboration until after the close. In practice, what these teams do varies considerably, depending on time constraints, the level of public information typically available in an industry, and any preexisting relationships between the companies. When time is as short as one or two months, a smaller and more targeted clean team—sometimes comprising only a few third-party advisers who limit themselves to gathering and organizing data—is preferable. If the period between the announcement and the close is longer,

it's useful to have a larger clean team that takes a more active role in facilitating, and even designing and planning, the integration of the merging companies. And while all clean teams operate under the same assumptions of confidentiality (see sidebar, "Clean-team management: The rules of the game," on page 6), different models provide for the flexibility needed to meet the demands of individual situations.

Library clean teams

When the time between the announcement and the close of a deal is expected to be short, the most basic type of clean team, serving a library function, may well be beneficial. Such a team can be deployed quickly and meet its objectives in a matter of weeks. Its primary work—gathering and harmonizing data—is almost certain to be useful in preparing businesses to integrate. In addition, its records will help to give regulators precise answers to questions about divestitures or grandfathered products and services. In 2003, some 40 percent of US deals involved second-stage requests from regulators for information, and nearly 4 percent ultimately faced a legal challenge, so many deals are delayed considerably beyond the target closing date. Given such scrutiny, the ability to avoid risky and expensive guesswork is attractive. Furthermore, once the library team has completed its initial task, it can add analyses and functions that help it evolve into new roles as time permits.

A successful library clean team should be able to do three things. First, the team and the decision makers ought to determine which data will be needed to integrate the companies once the transaction has closed. The data will vary, depending on the synergies expected from the merger. The team should also be able to gather and harmonize the data—organizing the

information into accessible formats so it can be compared and aggregated easily. Finally, the team should be able to brief the decision makers after the close about what the data mean and to point out problems in harmonizing the data between companies.

In general, it is relatively easy to decide which data are needed to make decisions. Harmonizing the data—a bigger challenge—has the side benefit of bringing into stark relief any differences in the way the two businesses define and use them. The key is to get started; a library clean team's efforts can easily be pushed further if time permits.

One packaged-goods company, which was pursuing a hostile takeover of a competitor, began working even before it was clear that the takeover would go through. The company created an informal clean team during the time between announcing its intentions and reaching the legal threshold of ownership for compulsory acquisition. This team was charged with deciding what technology would be used to validate the company's outside-in synergy estimates and with creating a series of data templates for the target company to complete immediately after the close. As a result, the same data in the same format would be readily available from both companies.

The informal team of the acquiring company then populated the templates with its own data and created detailed glossaries so that it would be very clear what data the team was seeking. Once it became obvious that the acquisition was inevitable, shortly before the close, managers from the acquired company joined the effort in a formal clean team. Thus, the integration managers understood their real targets, without any need for a time-consuming and error-prone manual reconciliation of

financial-reporting and synergy-tracking systems. It took less than two weeks to gather the data and only a month after the close to validate the deal's synergies.

Facilitator clean teams

If executives expect at least six weeks to elapse between the announcement and the close of a deal, the merging companies should consider expanding the team's role from librarian to facilitator. A facilitator clean team's work goes a couple of critical steps beyond that of a library clean team. Once the data have been gathered and harmonized, the facilitator team and the merging parties reach an agreement about the specific analyses, assumptions, and decision-making rules needed to determine how the expected synergies will be captured. The team then supports both companies as they develop recommendations and draft action plans.

Before a deal's close, the team can typically divulge only high-level information, such as the value and timing of anticipated synergies or the total number of displaced employees from each company. After the closing, the team reviews its work with the new management, which can either implement the recommendations immediately or modify them. A facilitator clean team typically doesn't include staff from either company, so if the transaction falls through no valued employee must be displaced.

Consider a merger between two IT hardware manufacturers, where three months elapsed between the announcement and the close. The clean team was small, with only five members, all third-party advisers. Its task was focused: to review the merged companies' supply base, so that when the transaction closed the executives and staff of the newly consolidated purchasing function would be able to

review the team's recommendations and supporting analysis and begin negotiations almost immediately.

By the time the deal closed, the clean team not only had analyzed the prices and terms of the current contracts (as well as the supply market dynamics) for the most important commodities but had also recommended specific tactics for purchasing them. In addition, it provided a detailed, consolidated spending database reconciling differences in the data definitions of the two companies; validated opportunities to save money by combining their purchasing volumes, using price arbitrage, and cutting the total cost of ownership; and drafted detailed plans (including the negotiating strategy) for each key commodity. In the end, the team's support enabled the companies to accelerate their integration effort by at least two months, so they could move more quickly to capture cost-saving synergies that executives valued at \$400 million a year.

Designer-planner clean teams

Designer-planner clean teams are the hardest for CFOs to deploy: they require the most resources, the largest budget, and the greatest number of people from both organizations. Such teams therefore also involve some risk if deals don't go through. While they can complete their work successfully in only two to three months (if companies feel comfortable about the risks), we have seen them take as long as six. Despite the investment and the risks, they can capture more of a merger's synergies more quickly after the close than can the other kinds of clean teams.

At this level, the team starts the real work of planning the integration of two companies—for example, by valuing assets and modeling scenarios to support

negotiations with regulators as well as analyzing budgets and financial plans to confirm and further develop the merger's synergy and growth targets. Its other roles include reviewing the companies' business plans to identify key short-term issues that must be resolved urgently after the merger wins regulatory approval, auditing the terms of suppliers and customers to identify the source and scale of opportunities or problems, and developing postmerger strategies in sensitive areas such as pricing and channels.

A designer-planner clean team set up by two financial institutions was developed over the six months between the announcement and the close. It eventually expanded to include a total of 600 staff members from both organizations—most of the people who would staff the combined business unit after the merger. To meet the goal of hitting the unit's full synergy run rate a mere five months after the close, the team built an information system that not only allowed the two institutions' communications and support systems to interact as soon as the deal closed but also let executives transfer assets to their new home quickly. In addition, the team made all systems infrastructure and applications choices and supported the process for selecting the merged unit's leadership.

When management decides to establish a designer-planner clean team, it is critical to provide for the right kind of interaction between the clean team, on the one hand, and the integration team, the line manager accountable for execution, or both, on the other. This approach ensures that line managers don't hesitate before executing recommendations or delay the integration effort by studying them, which would reduce or even eliminate the value of the whole investment in the

EXHIBIT 2

When to enlist an integration clean team

Factor	Clean team adds value		Comment
Expected time to close	Sooner	Later	No value in launching a clean team if close is imminent
Importance of data-related synergies to merger aspirations	Low	High	Synergies in areas such as purchasing and sales cannot be planned without access to confidential information
Level of confidential information	Low	High	If the industry has much publicly available information, clean teams may deliver less value
Current relationship between the companies	Distant	Close	If joint ventures or promotions are in place, information may already be available to both parties
Level of geographic overlap of businesses	Low	High	Distinct geographies reduce likelihood that clean teams are needed
Level of product overlap of businesses	Low	High	Where there is no product overlap, sharing information is a commercial decision
Expectation of deal being approved by regulators and shareholders	Moderate	High	If approval is certain, clean teams may not be necessary; if the deal is at serious risk, companies may prefer to wait altogether
Need for delivery of synergies immediately after close	Low	High	Synergies in certain areas (eg, purchasing) must be addressed aggressively right after close; clean teams can accelerate process

clean team. In a recent merger in the chemical sector, a clean team was set up to segment customers by profitability. Biweekly interactions between the clean team and the integration team ensured the proper alignment, focus, and direction.

Deciding to use a clean team

Of course, in some situations the use of integration clean teams doesn't make sense. If the value of projected synergies from a merger is small, for example, the clean team's effort may not be worth the expense. A company may also have good business reasons for not sharing its sensitive information too openly—for example, when sharing technical specifics such as patents, R&D project portfolios, formulas, or oil exploration locations would create too much of a risk to its business if a deal were

to fall through. And clean teams are just impractical when the closing is imminent, in auction situations, and in most hostile takeovers, among other occasions.

The trick for executives heading up a merger is to balance the costs and risks of establishing a clean team, including the cost of outside advisers and the risk of including employees, against the risk of delaying integration planning until the deal closes and the cost of delaying the day when synergies can be captured. In such cases, it may help to analyze some of the basic opportunities and risks (Exhibit 2). Overall, though, companies may have more time to set up a clean team and may gain more in eventual synergies than most of them realize. Not surprisingly, however, managers often resist a CFO's efforts

to support these teams. Such managers claim that they need all of their time and resources just to manage the company's current workforce and don't have the management bandwidth, the people, or the budget to staff a clean team. Their resistance may be well intended, but it can cost a company dearly during the integration process.

First, without the answers a clean team can provide, the uncertainties (and hence the risk to ongoing business) will continue long past the final closure of the transaction. Second, while it is true that management must review the clean team's output and that some staff members will get involved in providing data and in undertaking analyses, this work will have to be done eventually anyway; delaying

it merely makes the peak workload after the close even worse. And the budget for a clean team is generally immaterial compared with the overall cost of getting the deal done and of the integration effort—a cost that can be as high as two times the value of the expected synergies. Finally, clean teams can have the added benefit of allowing the partners in a future merger to work together in an unbiased way that creates the trust necessary for success going forward. **MoF**

Nicolas Albizzatti (Nicolas_Albizzatti@McKinsey.com) is a consultant in McKinsey's Atlanta office, **Scott Christofferson** (Scott_Christofferson@McKinsey.com) is a consultant in the Washington, DC, office, and **Diane Sias** (Diane_Sias@McKinsey.com) is a partner in the New Jersey office. Copyright © 2005 McKinsey & Company. All rights reserved.