Executing Successful Transactions: Key Considerations for Buyers

According to Harvard Business Review research, 70-90% of M&A deals fail. Poor planning and execution at all stages of the deal (the deal zone, transaction zone, and post-close zone) contribute significantly to this high failure rate. Further, Protiviti research has shown that the most common mistakes an organization can make during a transaction include improper planning, poor due diligence, lack of information security, inflated expectations, lack of focus during the integration process, transparency issues and poor communication, to only name a few. A robust integration plan addresses these key risk areas and offers dealmakers the greatest opportunity for success. Below, we discuss best practices that will improve the chances of a successful transaction, from setting the pre-deal stage with the right participants to managing post-close activities.

1. Connect Across the Deal Lifecycle

"Is it safe to buy?" and "What does it take to integrate?" are often asked as two separate questions in M&A deals, separated by time. But due diligence and integration should not be viewed as separate components of the deal. While asset quality and synergy dynamics are key components of executing due diligence activities before a transaction takes place, integrating the two organizations is equally important, as integration is where the promise of the deal is fulfilled. Thus, "What does it take to integrate?" is a question that should be asked as part of the due diligence process, not after.

To answer the question, organizations need to have deep operational expertise on deck from the moment they consider the deal. The lead integrator should be part of the due diligence team to ensure integration efforts are taken into account when evaluating a target and to support a seamless handoff between deal teams. Moreover, the actual cost to integrate at the operational level may have a material impact on deal valuation as synergies and optimized value may be more challenging to capture when integration is slow or incomplete. Even when the transaction is such that the target is viewed as a "standalone" not to be integrated, we have seen many cases where plans change in the first 100 days, with organizations realizing they would have benefited from a more comprehensive approach to due diligence, including the cost of possible integration, up front.

A key question deal sponsors should be asking themselves when analyzing a target is not only *"Are there synergies to be realized?"* but *"Are the synergies operational and realistic?"* Are they broken down to a level that is meaningful, measurable and assignable? In deal terms, for synergies to be synergies, they must be able to be identified, captured and realized. Further, synergies should be identified at the operational level so they can be captured and subsequently realized on the P&L statement. Applying broad percentages (growth/cost synergies) or an "across the board" approach to synergies is simply asking for trouble and putting the execution team in a tough spot from an identification and delivery perspective. Applying broad percentages may be necessary in the early stages of the deal lifecycle; however, these percentages should be allocated at the operational level prior to the closing of the deal to ensure they can be captured and realized through the P&L in a timely manner. The costs to implement synergies at that level are often overlooked, but they can have significant impact on the evaluation efforts.

Lastly, successful transactions have great "handoffs" across all stages of the deal lifecycle. Progressing through the deal life cycle can be challenging enough; however, where transactions often get sideways is in the breakdown of handoffs from one team to another – in more severe cases there is no formal handoff across stages at all. As we discuss in more detail further in the paper, it is imperative to ensure that the team selecting a target (deal zone) is coordinating with the team that is closing the transaction (transaction zone) and both of these teams are aligned with the integration team (post-close zone). Having the appropriate timely conversations, comprehensive sharing of data and alignment around deal rationale and thesis is imperative to a deal achieving its maximum value. The earlier in the deal lifecycle the post-close team (or leader) is involved, the greater the probability of avoiding traditional post-close pitfalls. Leading practice is to have the post-close leader involved and entrenched from due diligence forward.

There are three specific "zones" across the transaction lifecycle:

- **The Deal Zone:** This is usually led and driven by corporate development with the focus on identifying and landing a deal.
- **The Transaction Zone:** The efforts in this zone are driven by the general counsel's office with a focus on closing the transaction.
- **The Post-Close Zone:** Activities are driven by the integration/divestiture leader and are focused on either carving out part of the organization or integrating the acquired entity, in some cases neither.

Each of these "zones" has its respective role in the transaction lifecycle; however, when treated as mutually exclusive zones, the success rate of a transaction decreases significantly.

2. Connect All Activities to Deal Rationale

Are your final destination (target operating model) and interim states aligned with the business case for the deal? Research indicates that nearly 75% of all acquisitions are unsuccessful in creating value, citing lack of clarity in the integration process and poor communication as some of the reasons. When executing on a transaction, resources are usually inherently strained as key personnel try to successfully execute their day jobs while also being pulled in different directions to help support a pending or approved transaction. With competing priorities, it is imperative that an organization does not lose sight of why it is executing the deal in the first place. Organizational leaders need to know where the organization is headed day in and day out with clear lines of communication to key stakeholders. Leading practice is to have defined interim and final destinations, which will help guide daily activities and ensure that the team is charging and climbing the right hill and effectively prioritizing activities as they arise. The most successful transactions are executed by organizations that can distill their end game in clear and digestible terms that can be embraced across the whole organization. Regardless of the size of the transaction, it is imperative that a clear path to the next 30, 60 and 90 days is defined, socialized and communicated within, at the very least, the leadership levels of the organization.

> *"Integration/divestiture planning starts the moment you decide to buy or sell a business unit. If you have no plan for the target, you are going to pay the wrong price and you will fail at integrating."*
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> **David Haufler**, Managing Director, Protiviti

Are all the *"program activities" advancing your business rationale?* This is the question that should be consistently asked as your organization executes the transaction lifecycle. When a transaction is contemplated and subsequently announced there is excitement and a flurry of activity that gets kicked off in the organization. Unfortunately, much of this activity is creating more churn than value. We often see actions being taken "in anticipation" of what might be needed rather than through a deliberate well-thought-out process that identifies the critical path activities necessary for a successful transaction. As we mentioned above, having clear destinations for the organization is imperative to ensure all program activities are advancing the business rationale for the deal. Leading practice is to execute transaction readiness sessions with senior leaders to establish the destination for the organization and then distill that down to the functional and divisional levels. For instance, what does the enterprise's interim and final destinations mean to finance, accounting, legal, IT, marketing, product, supply chain, manufacturing? Companies completing successful transactions take practical steps to ensure that the vision for the transaction is operational across all customer- and non-customer-facing operations.

Alignment of mindset. A recent Mergermarket survey indicated that 70% of respondents identified a lack of compatibility among management teams and 30% identified a cultural mismatch as key factors leading to deal failure. Combining cultures is never "one and done"; it requires effort over a sustained period of time. Creating a "burning platform" for change is not always a bad thing. We have found that many organizations have been successful in utilizing both the burning platform approach and the destination-setting approach to align mindsets around a critical path to close and the 100 days post-close.

One size does not fit all when it comes to dealing with human capital and cultural dynamics. Leading practice is to execute a change management working session that not only aligns goals and objectives of various parts of the organization but also assesses the impact of the changes on people, processes, systems and the culture of the organization.

Having the right tool set and know-how is critical: Successful organizations have been able to turn high-performing cultures into valuable assets by paying close attention to the elements above. While not a measurable asset on the balance sheet, a strong culture can be the bedrock of any organization and the difference between a successful and less successful transaction.

3. Move Quickly Through Change

Speed is critical to a successful integration. Once a deal is announced, not only excitement but fear, insecurity and, in some cases, panic may set in within different parts of the organization. Working through business planning as quickly as possible (without compromising quality) will help reduce the uncertainty following the announcement of a transaction. Leading practice indicates it is important to quickly put in place "synergy sponsors" in key areas of the business to work alongside "change champions" for different parts of the organization. Getting ahead of the change curve is imperative, and the most successful transactions are those that make changes deliberately and swiftly upon closing of a transaction. Failing transactions are often marked by paralysis and "deal fatigue," which set in when a deal is announced but change comes in drips and drabs. To avoid this, organizations want to ensure that when the transaction closes, they have their key resources in place that can execute their 100-day plans swiftly and decisively. To ensure this is the case, some of the most successful transactions employ "transaction readiness" tools focused on change to ensure the right people, processes and systems are in place to swiftly execute short-term and long-term plans. As outlined the section above, it is critical that the plans being executed are aligned with the deal rationale and key activities are limited to those that are advancing the deal vision and are accretive to the business.

4. Encapsulate and Enhance the Customer Experience

The transaction should be a "non-event" for the organization's customers. Protecting the customer experience should be one of the top priorities as the transaction closes and the organization moves through post-close activities. Some of the most successful transactions "encapsulate" their customer experience to ensure continued strong satisfaction and no disruption to the organization's revenue stream; the only exception, of course, is if the deal rationale is to reshape and improve the customer experience; otherwise, any impact of the transaction should be absorbed internally, with the customers buffered from the transaction impact – the experience for the customer base and its interaction with the organization should not change.

In cases where an organization is utilizing a transaction to enhance their customer experience, it must first understand the key drivers of a successful customer experience. Understanding the key drivers of the customers' experience is critical to a successful transaction and should be defined and safeguarded as the transaction progresses through close. Leading practice is to set up and execute a "transaction readiness" review with a focus on defining and/or confirming the experience drivers to ensure they are protected from any shock or disruption that may be caused by the transaction. Further, many successful transactions have also utilized customer-centric tools to help them define, preserve and/or optimize customer experience drivers — for example, the creation of customer journey maps to enable the entire organization to better understand customer needs and expectations, pain points and "moments of truth." Other successful organizations go one step further and treat the customer journey map as a portfolio of opportunities to not only preserve but, in some cases, transform the customer experience. In this case, the costs/benefits of each identified pain point, challenge and opportunity need to be evaluated.

5. Communicate, Communicate, Communicate

According to Protiviti research, positive organizational change provides high return on investment, ranging from 10-20% in cost to the organization, but contributing 50% of the benefits. The opposite is also true: Failure to actively support the people side of change (a fairly small investment) can lead to deployment delays, budget overruns, business disruption post go-live and insufficient user adoption.

Communication is perhaps the most important component of change. As we mentioned above, uncertainty and fear set in when a transaction is announced but effective communication is lacking and the rumor mill fills the vacuum. During the first 60-to-100 days window, organizations cannot overcommunicate. Specific, direct and transparent messages to targeted audiences are most effective. According to recent Mercer Transatlantic Study, cited by the Institute for Mergers, Acquisitions and Alliances (IMAA), 75% of dealmakers felt that communication and corporate harmonization are the most important factors for deal integrations. According to the same study, the top change CEOs would have implemented if they could redo a merger was communication with employees.

"Communication is critical to a successful transaction. The best approach is to get everyone on the same page and communicate openly. Uncertainty can cause real issues during integration."

Ryan Reents, Associate Director, Protiviti

A successful communication strategy distills complex transaction details into specific easily digestible messages for targeted audiences leveraging different technologies and mediums. Regardless of the medium, the message should always remain consistent and effective across the organization. One of the leading and arguably the most successful practices to achieve this is to internally "brand" the transaction into elements that are germane to the organization or industry. In one example, a client branded the transaction using a race car metaphor, depicting progress through the integration as shifting into different gears. Gear 1 represented the early stages and contained the most changes, while Gear 5 represented the combined organization having overcome most hurdles and running at full throttle again. Bottom line: Communications needs to be frequent, consistent and digestible.

The need for consistency cannot be overstated. Staying on message is the best way to build trust and to achieve overall buy-in to changes resulting from the transaction. Of course, conditions on the ground may change, thus changing what needs to be communicated. In this case, transparency is the best policy. If a hard message must be delivered, deliver it; your associates and other stakeholders will trust and respect you for doing so. Skirting an issue or glossing over a challenge will just breed mistrust and potentially drive division within the organization at various levels.

Finally, repetition is another critical success factor. In line with the "branding" approach described above, repetition of key message(s) is imperative as the organization moves through the post-close transaction lifecycle. Leveraging multiple mediums, from electronic messages and portals to murals to verbal communication, will help keep the message fresh and relevant.

6. Set the Right Governance

We often get asked the question *"What does our governance need to look like to successfully close a transaction?"* Organizations that are serial acquirers, defined as having five or more transactions a year, may want to consider setting up a formalized function within the organization dedicated to executing transactions. On the other hand, if the organization executes less than five transactions a year, an informal structure with defined rules of engagement for key players in the organization to execute in the event of a transaction may be sufficient.

In either case, it is important to have enough structure, with handoff processes defined, to ensure the transaction doesn't get caught between "zones," as we defined them earlier in this document, and to ensure any governance is not overburdensome and is "fit for purpose" for the organization.

While coordination between zones is imperative, having the post-close leader engaged early and throughout the process is imperative and significantly increases an organization's probability of executing a successful integration/divestiture post-close. Leading governance practice engages the post-close leader at every tollgate prior to close to ensure post-close implications are considered as the deal works its way to close and it does not become a deal that is simply "thrown over the wall."

About Protiviti's Transaction Services Practice

Companies around the world are seeking a competitive advantage through transactions, but many fail to deliver on their expected value. This failure is often the result of poor due diligence, inadequate operational preparation and execution, or the inability of management to fully appreciate the effort involved in the transaction. Each of these challenges is preventable with proper insight and resources.

Protiviti's transaction services helps organizations evaluate transactions to ensure they are entered into with a full understanding of the opportunities and risks. Once a transaction is in motion, Protiviti helps companies move forward quickly, reducing business disruption to day-to-day operations, while implementing the changes that allow the expected value to be realized.

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