



Management & Technology

Mergers and Acquisitions

Integration Guidelines for Executives

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Introduction

Mergers and Acquisitions (M&A), along with complementary divestment activity is part of business-as-usual for many companies striving to achieve growth and deliver synergistic benefits through integration with other entities.

SMS has supported our clients to successfully deliver many large M&A programmes and the resultant complex business and technology integration programmes. The SMS experience confirms that successful integrations are those that have a clear and aligned vision with strong executive buy-in, supported by a well co-ordinated programme of work that recognises the importance of:

- Planning and effectively managing day 1 of a merger as an event
- Effective integration governance and leadership
- Protection of business and retention of the merging entities customers
- Obtaining the right talent to deliver the programme, supported by an effective team culture
- Introducing effective management controls

Based on our diverse M&A experience, SMS has developed this booklet focusing on the integration aspects pre and post proposal and deal. It is intended to provide guidance to executives on key principles and phases of the integration programme.

This booklet is not intended to be a prescriptive guide. While different organisations may use different language and approaches, the principles defined in this booklet should be evident in all effective M&A integration programmes.

This guide is one in a series of booklets produced by SMS Management & Technology. For further information please visit the SMS website at www.smsmt.com

Extensive M&A delivery experience has confirmed a number of key considerations

1 Has day 1 of the merger been planned as an event and is there a single point of accountability for it?

2 Is there a single point of accountability for integration delivery and success?

3 Have the potential impacts on sales and customer service been understood and is it clear who is accountable to make decisions which will balance progress of the integration with continuity of market growth and customer service?

4 Are the integration management controls responsive, disciplined, and agile?

5 Is the strategic direction well defined and have the strategic issues been identified and resolved rapidly?

6 Has the 'to-be' business model been defined early and used to drive strategic decision making?

7 Has the integration outcome risk assessment been performed to identify hidden roadblocks such as regulatory influence and cultural changes?

8 Has the 'A-Team' been mobilised to ensure a successful integration?

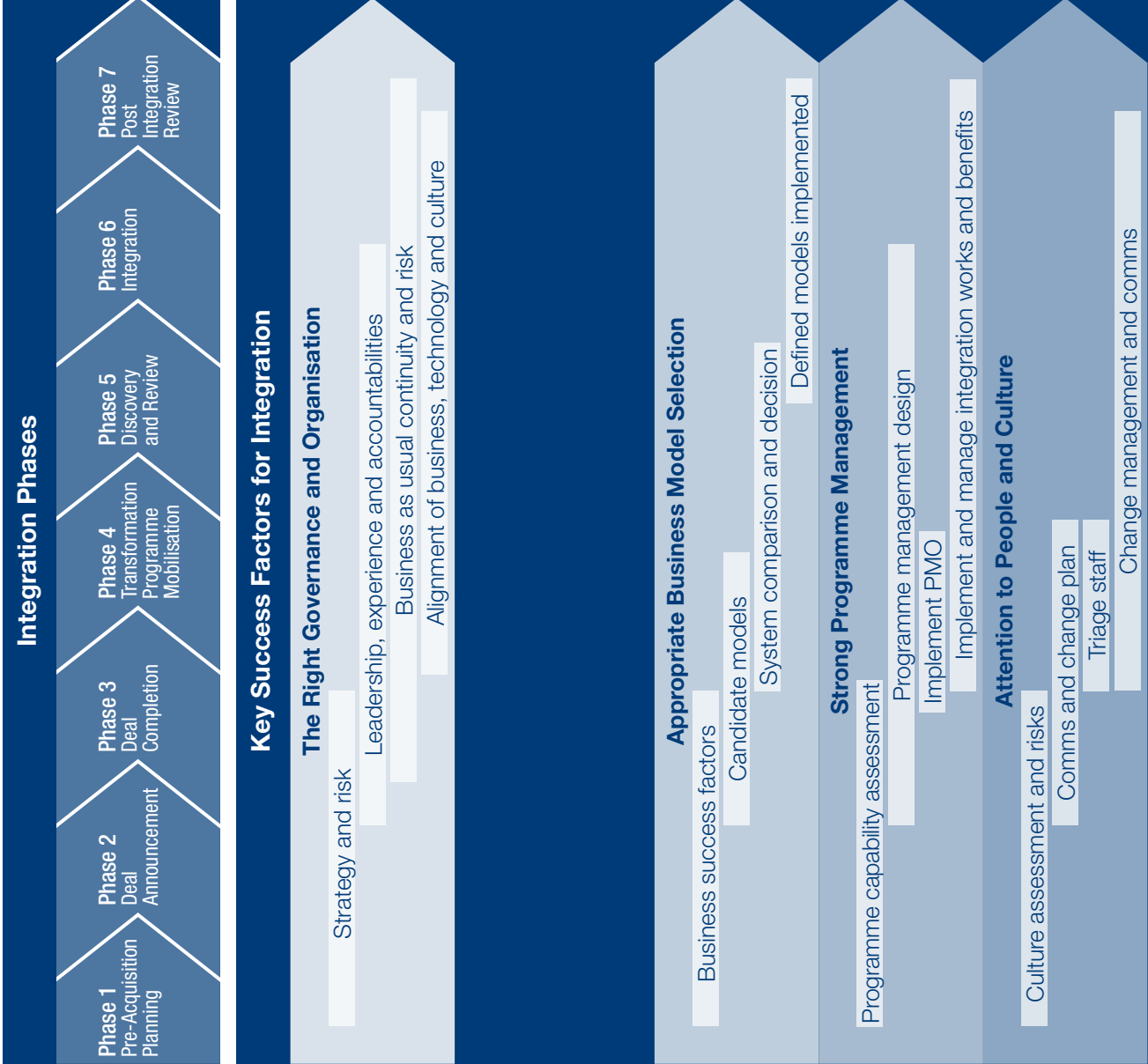
9 Is the integration programme considered a journey with change management and engagement as key success factors?

10 Has the integration complexity been fully understood?

11 Is there a focus on driving synergy benefits early in the life of the programme?

12 Is as much attention being applied to pragmatic cultural integration as it is to business and technology integration?

The integration lifecycle and key success factors must be considered



A typical integration programme follows a 7 step process with a defined outcome

Phase 1 - Pre-Acquisition Planning

- Strategic intent agreed
- Cultural assessment
- Business and technology assessment
- Integration risk assessment
- Integration and communications strategy outlined
- Day 1 event manager selected
- Day 1 event planning

Phase 2 - Deal Announcement

- Manage the day and event
- Acquirer integration team mobilised
- Planning tailored to deal with integration specifics begins
- Internal and external communications commence
- Assessment of strengths and weaknesses of function leaders

Phase 3 - Deal Completion

- Integration manager selected
- 30 day integration and communications plan invoked
- Integration strategy revisited on basis of final deal
- Functional leads in new entity defined

Phase 4 - Transformation Programme Mobilisation

- Integration governance structure established
- Programme Management Office established
- 100 day plan and communications plan developed
- Integration approach and plan agreed and articulated
- Communications and cultural action plan commenced

Phase 5 - Discovery and Review

- Integration readiness confirmed and project teams mobilised
- Business as usual management commences structural, financial, policy and process review
- 'To-be' business models defined
- Business and technology gaps quantified and qualified
- Interim organisational structure changes implemented

Phase 6 - Integration

- 'To-be' business models implemented
- Change programme implemented
- Evaluation and programme optimisation
- Monitoring and reporting
- Business and customer impact monitored and controlled

Phase 7 - Post Integration Review

- M&A strategy realisation review for input to company strategic planning
- Business unit reviews of revised operational effectiveness
- Explore options to drive incremental benefits
- Capture corporate M&A programme intellectual property and productivity tools

Across the integration lifecycle, success factors can be considered in 4 key groups

1 The right governance and organisation

Single point integration accountabilities

Aligned business and technology programmes

Pragmatic governance, not over-governed

Clear business as usual responsibilities

Integration progress regulated to protect business and customers

2 Appropriate business model selection

Option 1: Minimal integration – run stand-alone business models

Option 2: Build new business processes and migrate

Option 3: Best of Breed – individually select the better processes

Option 4: One suite of core processes with minor exceptions

3 Strong programme management

Implement an effective programme methodology

Ensure pragmatic controls are deployed

Focus on what is known and understood

Deliver 'quick wins' while managing risk

Adequately protect ongoing business

4 Attention to people and communication

Define and implement the new organisation

Select and triage staff

Address cultural differences

Communicate

1 The right governance and organisation

Single point integration accountabilities

- There must be a single point of accountability at the sponsorship level for the day 1 merger event and for the end-to-end integration programme
- An experienced technology integration lead, reporting to the end-to-end integration lead is critical

Aligned business and technology programmes

- Technology projects must be aligned to support the successful delivery of business outcomes
- This may result in matrix reporting lines to the business owner and technology integration lead. This will require an agreed way in which decisions will be made which trade off integration progress for business impact.

Pragmatic governance, not over-governed

- Governance must enable effective and rapid decision making at the appropriate level
- Escalation paths must be clear and well managed
- Avoid introducing too many control layers, and reporting for 'reporting' sake

Clear business as usual responsibilities

- Boundaries between business as usual activities and integration programme tasks must be clearly defined
- Ensure that there is sufficient focus on the existing business model while the 'to be' business model is defined and implemented. Don't drop the ball

2 Appropriate business model selection

Option 1: Minimal integration – run stand-alone business models

Advantages: Easy integration, minimal disruption to customers and staff, easier if a future divestment is an option

Disadvantages: Little or no synergies realised

Option 2: Build new business processes and migrate

Advantages: Avoids ownership issues, provides opportunity to optimise both sets of processes

Disadvantages: Lengthy, high cost and complex

Option 3: Best of Breed – individually select the processes

Advantages: Achieves the best business outcome

Disadvantages: Complicates and extends integration

Option 4: One suite of core processes with minor exceptions

Advantages: The target is generally known, highest synergies, shortest integration time

Disadvantages: Requires business change

3 Strong programme management

Implement an effective programme methodology

- Establish a common programme management methodology across all integration teams
- Include key review points to ensure alignment
- Gradually build the capability across the organisation

Ensure pragmatic controls are deployed

- Programme management controls must be appropriate, pragmatic, and add value
- Performance based measures should be defined
- Controls must efficiently satisfy audit requirements

Focus on what is known and understood

- Manage initial uncertainty in size and scope of work
- Progressively establish and define the required projects
- Review and cull business as usual projects to free key resources

Deliver 'quick wins' while managing risk

- Understand the risks and schedule aggressively – include provision for risk mitigation and contingency
- Ensure success criteria are met early to prevent an adverse downstream impact

4 Attention to people and communication

Define and implement the new organisation

- Appoint and empower key people quickly and efficiently
- Communicate the changes and ensure people remain aligned and positive

Select and triage staff

- Permanent – decide early and normalise conditions
- Integration – provide bonus on completion of objectives
- Exit – advise when and provide support

Address cultural differences

- Drive a one team model
- Remain focused on the future state
- Observe and act early on inappropriate behaviours

Communicate

- Progressively provide more detail
- Be realistic and provide transparent updates on the current situation and future plans
- Remember the individual and broader stakeholder groups

Technology integration activities by M&A phase

Specific technology activities have been mapped by integration phase –
Pre Deal Completion Activities

Phase 1
Pre-Acquisition
Planning

Phase 2
Deal
Announcement

Phase 3
Deal
Completion

Pre Deal Activities

- Actively engage with business stakeholders
- Involve IT early
- Audit systems and vendor contracts for risk/cost and impact on transition budget
- Assess systems for their ability to readily integrate
- Identify and target key talent
- Audit IT and business processes for potential synergies and prioritise according to business goals
- Carefully review legal, political and regulatory implications and risks
- Develop an integration approach and strategy for IT integration, risks, and issues

Outputs

- Due diligence checklist – Facilities, Network Infrastructure, Desktop, Servers and Mainframes, Help Desk, Apps and op systems, IT business processes, IT Budgets, key personnel list, projects in progress
- Draft integration strategy and approach aligned with business due diligence outcomes and plans
- Detailed list of immediate post deal technology changes to be made and a 30 day plan

Specific technology activities have been mapped by integration phase – Mobilisation Activities

Phase 4
Transformation
Programme Mobilisation

Mobilisation Activities

- Implement plan for the day 1 integration
- Establish the 'end-state' integration strategy (sequence of tasks; standardisation reflective of business goals)
- Establish programme / project management disciplines
- Establish intranet for communications
- Mobilise cross-integration teams and establish performance criteria
- Drive high level business sponsorship
- Maintain a key decisions document to capture all guiding decisions
- Establish a clear system decision criteria with business owners
- Establish the target architecture
- Define processes for completing target to source mapping
- Support the development of business models for target state
- Develop the integration structure
- Launch a communications road show

Outputs

- Completion of deliverables from 30 day plan
- 100 day technology plan and long term roadmap
- Key decisions document
- Target architecture and application map
- IT programme management plan
- Programme work breakdown structure
- Communications plan
- IT accountabilities for integration and business as usual

Specific technology activities have been mapped by integration phase – Discovery and Review Activities

Phase 5 Discovery and Review

Discovery and Review Activities

- Perform systems comparison using teams from technology and business
- Address gap closure in accordance with integration guiding principles and decisions
- Assist business leads to resolve business model issues and understand the change implications of business decisions
- Monitor key parameters of gap identification and closure rates
- Maintain continuous view of likely integration effort/cost based on gap closure decisions
- Review business as usual projects in progress and arrange closure or change to fit integration direction
- Hold a review with relevant regulatory authorities to assess any specific requirements or management implications
- Review and update the technology synergies model based on gap resolution and work assessments
- Train individuals and teams in the integration programme disciplines required for the next phase
- Resolve details with business on programme structure and mode of operation
- Maintain communication

Outputs

- Revised business case(s)
- Revised programme management plan
- Updated technology synergies model
- Database of gaps and closure decisions
- Technology management organisation and accountabilities for integration and business as usual
- Staff triage plan – release, retain for integration, retain long term

Specific technology activities have been mapped by integration phase – Integration Activities

Phase 6 Integration

Integration Activities

- Rapidly consolidate the back-end networks including:
 - > WAN/LAN
 - > Data centres and facilities
- Rapidly consolidate all back of house business systems (eg ERP)
- Carefully consolidate the customer facing systems and the introduction of an integration layer (eg EAI/SOA)
- Retrain and upskill IT staff to raise productivity and ensure retention
- Address risks continually:
 - > Culture and background differences
 - > Delivery weaknesses
 - > Regulatory changes/influences
 - > Business readiness
- Constantly review:
 - > Achievement against forecast on synergies
 - > Effectiveness of new organisation and appointed people
 - > Productivity of integration work



Outputs

- Integrated systems
- Revised IT business as usual budgets and management processes
- Training programmes

Specific technology activities have been mapped by integration phase –
Post Integration Review Activities

Phase 7 Post Integration Review

Post Integration Activities

- Complete an IT review and audit
- Establish a 'Sweeper' programme of work to address 'left-overs' not captured in the core integration programme
- Complete an update of strategic architecture and future roadmap inclusive of integrated entity
- Review IT process stability and people effectiveness to establish improvement programme
- Investigate more detailed opportunities for improvement based on future programmes of work

Outputs

- Revised strategic architecture
- Business process improvement programme of work
- 'Sweeper' project plan/execution

An overview of SMS Management & Technology

SMS Management & Technology (SMS) [ASX:SMX] is Australia's largest publicly listed business services firm providing Consulting, Resourcing and Technology Services. SMS employs over 1300 professionals and has offices in Sydney, Melbourne, Brisbane, Adelaide, Canberra, Singapore and London. SMS implements solutions and delivers business transformation services through consulting, people and technology.

SMS was founded in 1986 on the basis of three core values; add value, maintain unity and enhance reputation. More than twenty years on, these values remain central to our business.

Renowned for our innovative approach to solving complex business problems, we have an enviable reputation for delivering results. We adopt a pragmatic, vendor neutral approach to business engagements and work in partnership with our clients, forming strong and long-lasting relationships. By engaging SMS, our clients have access to a company that generously shares its knowledge, expertise and energy, with a single-minded focus on producing results.

SMS is a long standing provider of business services to Australian and selected international clients. SMS provides business performance improvement, technology alignment, organisational mobilisation and project delivery services that transform our clients' business.

An overview of SMS Consulting M&A services

Integration Management

Developing strategies and establishing achievable integration programmes is challenging. Delivering against them is often a bigger challenge faced by organisations.

Achieving the most from your integration strategy is about never losing sight of your end goal. Clear planning, effective leadership, diligent management, clear accountability and a single-minded focus on delivery excellence will see business performance goals through to reality.

SMS is renowned for delivery excellence and for turning ideas and strategies into deliverable outcomes. SMS's values and heritage stem from over twenty-one years of delivering on the promises that we make to our clients and for extending our high-performance culture to become a part of yours. Delivery excellence is a prerequisite for outstanding performance.

Our integration offerings include:

- > Integration governance
- > Technology integration leadership
- > Project and programme delivery services
- > Project and programme management offices
- > Integration change management
- > Integration communications

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