Capturing synergies to deliver deal value

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At a glance

Value realized from an acquisition depends on how well the newly combined company identifies, manages, and executes on synergy opportunities.

Successful integrations follow a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum.

This Value Driver Lifecycle helps executives capture synergies and confidently communicate performance to their stakeholders.

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Introduction

The ultimate goal of any merger or acquisition is to create shareholder value. But in the rush of activity before, during, and after a transaction, it's common for companies to become distracted and lose sight of this goal.

Unfortunately, too many acquisitions fall short of the expectations set for them.[1] Even the most carefully developed synergy models built during the transaction's due diligence phase will often not translate into delivery of value during the integration.

The value realized in an acquisition depends in large part on how well the newly combined company identifies, manages, and executes on value creation and value capture opportunities.

Buyers can take specific steps to more successfully navigate the value capture process by following a well defined, disciplined, and transparent approach to creating value and tracking synergies. Critical to success is an approach that both shortens the time required to capture value and increases the overall size of the value actually realized.

This paper introduces the Value Driver Lifecycle which lays out key steps to delivering deal value. This framework has proved successful for many deal executives, helping them capture synergies and confidently communicate performance to their stakeholders.

[1] PwC's 2017 M&A Integration Survey Report

The value driver lifecycle

Rapidly launching integration efforts to capture deal value across the integration continuum, from initial synergy analysis during pre-announcement due diligence to tracking synergy achievements long after the deal closes, is a critical success factor. Figure 1 illustrates the Value Driver Lifecycle which follows a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum. It emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies.

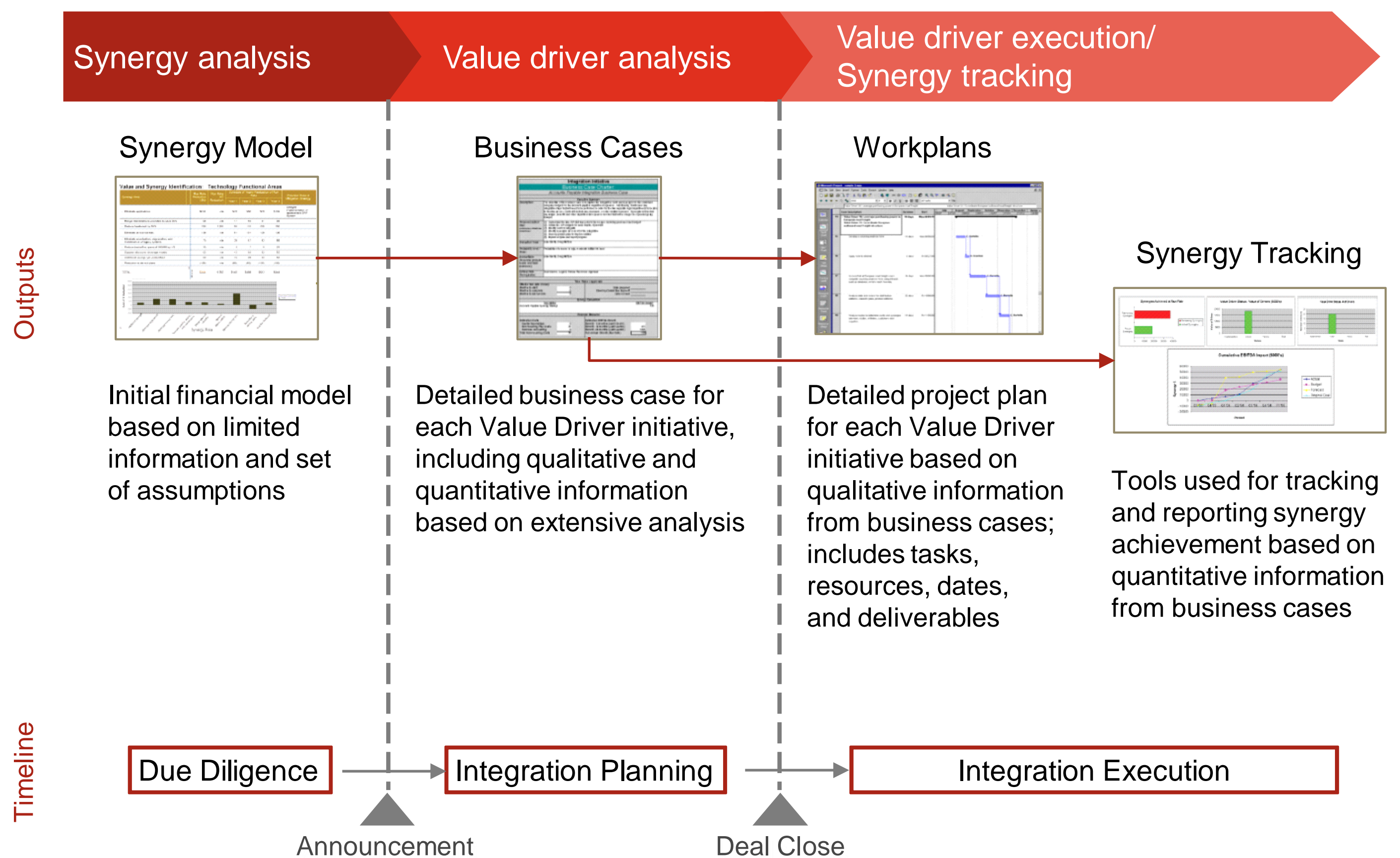

Figure 1. The PwC Value Driver Lifecycle follows a sequence of coordinated steps to identify, prioritize, execute, and track the drivers of value across the integration continuum.

Step 1: Synergy analysis

An initial synergy analysis is generally performed as part of the financial modeling that accompanies most acquisitions during the early stages of target company assessment, long before the deal is announced. Initial synergy analysis is often based on limited publicly available information and a set of very early performance assumptions. The analysis is typically prepared with assistance from either the deal's investment bankers or strategy consultants.

As the deal gets closer to becoming a reality and as additional information is gathered as part of the due diligence process—either from public sources or provided by the target company—assumptions get refined and the synergy analysis continues to evolve. The acquirer's executives typically begin to take ownership of the model at this stage, very often with continued support from financial consultants. The model remains a best-efforts document at this point because it is still based in large part on assumptions due to incomplete or insufficient information and limited access to target company personnel. The model is still just that—a model. It is not yet a planning document strong enough for action.

The synergies identified in the model are typically categorized into three common areas: revenue and market growth, cost reduction and efficiency leverage, and capital optimization.

Revenue and market growth. The deal strategy may anticipate synergies from entering into new markets, expanding to new geographies, or accessing new distribution channels. Other synergies may be realized by leveraging an expanded sales force to reach new customers. Still more could result from product innovation by combining each company's research and development efforts and using existing production platforms to deliver new products or services.

Cost reduction and efficiency leverage. Typically, opportunities for cost reduction can be found in the income statement, particularly in back-office functional areas like procurement, payroll, finance, human resources, and information technology. These synergies can result from permanent reductions in departmental operating costs (e.g. headcount reductions), better management of combined spend (e.g. policy alignment), or increased productivity from consolidated operations (e.g. economies of scale, better use of technology), among others.

Capital optimization. A company's balance sheet may also be a source of synergy opportunities. For example, "hard" assets like property, plant, and equipment can be rationalized through combination or closure. "Soft" asset synergies may be realized through better management of working capital, cost of capital, accounts receivable (e.g. collection periods, accounts receivable turnover), and optimizing debt-to-equity levels.

Step 2: Value driver analysis

For the acquiring company, deal announcement often coincides with greater access to target company personnel and the disclosure of information that was previously unavailable. Announcement also marks the point at which the acquirer should begin to take its synergy analysis to a new level of detail and action.

This next phase can be described as the Value Driver Analysis process. Value drivers are distinct initiatives for which individual business cases can be built and implemented to deliver quantifiable results.

A typical revenue generating value driver might involve cross-selling one company's product or service into the other company's established customer base within a particular business unit or geography. A typical cost saving value driver may involve consolidating two facilities within the same city, or leveraging the new organization's combined purchasing power to renegotiate a vendor contract. Whatever the initiative, it must be focused and concrete enough to support a business case sufficient to produce real, quantifiable results.

Once all the sources of value are identified, it is critically important to prioritize the value drivers and set the stage for execution. Experience shows that it is just not possible to realize every synergy in a merger or acquisition. There are simply too many competing priorities, with too little time and too few resources available to execute everything possible. The key is to focus on those value drivers that promise to deliver the most shareholder value—in short, the 20% of actions that deliver 80% of the economic value. These are the initiatives best aligned with the strategic rationale, present the highest probability of success over the desired time line, and that can be accurately quantified and tracked. Figure 2 illustrates how initiatives can be ranked and prioritized.

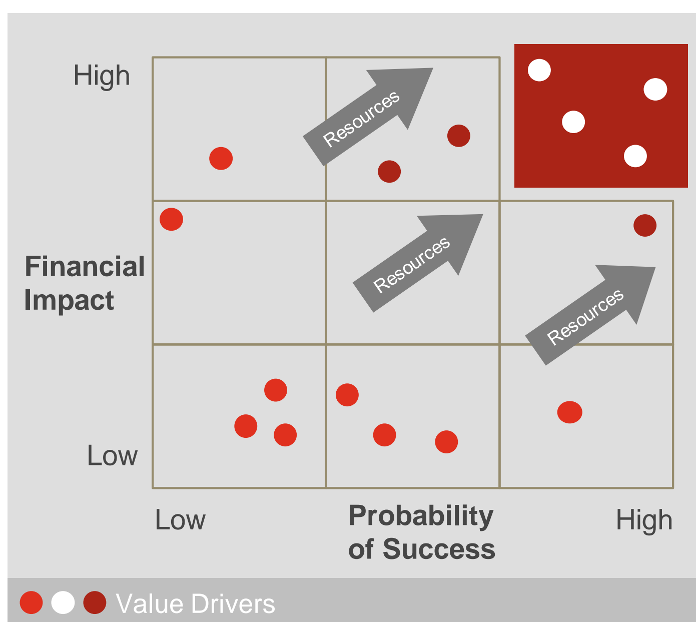

Figure 2. Initiatives are ranked according to financial impact and probability of success. Those with the highest financial impact and highest probability of success receive resource priority.

A company should plan its value driver priorities around those actions that fall into—or closest to—the upper right hand quadrant—those activities with the highest financial impact that have the greatest probability of success.

The success of each value driver often requires implementation of many tasks across functions and geographies. Once a company has identified and prioritized its value drivers, the next step is to develop business cases for each initiative based on the initiative's purpose, benefits, and qualitative and quantitative attributes. From there, detailed project plans are developed to execute the value drivers.

Developing business cases. The starting point for value driver business case development is the high-level synergy targets that were based on financial analysis performed at the corporate level. This is essentially a "top-down" set of synergy targets often allocated by corporate to each functional area.

Building value driver business cases, however, is a "bottom-up" approach to value driver planning and execution. It breaks down the synergies into their component parts, significantly expands on the financial analysis, and includes a detailed set of supporting, operations-related information that communicates specifically how each discrete value driver will be accomplished. The supporting qualitative information included in the business case becomes the basis for developing detailed project plans for execution. The quantitative information in the business case becomes the basis for metrics performance tracking.

Developing project plans. The qualitative information included in the value driver business cases serve as the starting point for value driver project plans. Each project plan must sufficiently detail task-level activity for each value driver. Task-level detail should include the resource assigned, date required for completion, critical-path prerequisites, and dependencies on other tasks or functions.

What makes up a value driver business case?

The components of a value driver business case are:

A *qualitative* description of the core elements of a value, including:

- Detailed description
- Key action steps
- Operating assumptions and interdependencies
- Impediments and risks
- Functional departments impacted

A *quantitative* assessment of the value driver's financial benefits, including:

- Financial analysis and impact
- Measurement metrics
- Timeframe

Step 3: Value driver execution and synergy tracking

If project plans are developed with sufficient detail, then value driver execution can be all about allocating people with the necessary skills to deliver against tasks in accordance with the timelines established. Since most value drivers are cross-functional, a program management framework should be set up to coordinate dependencies, resolve issues, and monitor and track progress. In addition, senior management should take a visible role in championing these goals to help promote consensus, commitment, and accountability. The table below summarizes the key success factors in value driver execution.

Key success factors in value driver execution

Value focus	Clear vision and strong leadership	Attention to stakeholders	Detailed planning	Disciplined program management
• Resources focused on priority initiatives that drive shareholder value • Measurable synergy targets, including growth, efficiency, and capital • Clear ownership and accountability for targets fostering a performance culture	• Strategy that is actionable, measurable, and communicated effectively • Commitment and active involvement of leadership • Dedicated resources with the bandwidth to execute	• Top priority given to customer facing processes • Early organizational realignment and training with a focus on retaining critical talent • Frequent two-way communication	• Creation of detailed plans to drive task ownership and execution • Involvement of people with the expertise to implement • Balancing synergy capture with ongoing operations	• Coordinating dependencies across the organization • Early identification and resolution of issues and risks • Ongoing tracking and reporting of value captured

The market will reward or punish shareholders of the combined company depending on how well company management succeeds at achieving stated deal objectives. So it is imperative that synergies get realized, deal value captured, and the resulting performance communicated to all those with a stake in the outcome.

To communicate effectively, the company must adequately track progress against synergy goals. If there is no tracking, there can be no reporting. It's as simple (and as complex) as that. Like the old adage says: If it doesn't get measured, it won't get managed.

Keeping track of synergy progress over the course of an integration helps keep employees focused on the right activities at the right times. While responsibility for delivering certain synergies may rest with specific business units and functions, a centralized process and set of tools for monitoring, tracking, and reporting synergies is essential to keep the combined company on task and delivering measurable results.

The basis for metrics performance tracking is developed in the value driver business cases. The information found there is used to set milestones and gauge progress over the course of the effort. Since company financial systems are often insufficient for this purpose, a separate tracking tool is usually needed. In a smaller transaction, a simple tracking tool (such as Excel) may be all that is required. In a larger transaction with large synergies and significant shareholder value at stake, a more rigorous process and set of tracking mechanisms may be needed.

Creating value as a result of an acquisition is just the start of an ongoing quest for value. Not only should every identified value driver and its related initiatives mesh with the company's overall business strategy, companies must remain vigilant to ensure that future actions and activities do not erode or cannibalize hard-won value.

Conclusion

Companies who follow a disciplined approach to delivering synergies are usually more successful with their deals than those who don't. A disciplined approach to capturing deal value helps achieve early wins, builds momentum, and instills confidence among stakeholders.

Adherence to the steps in the PwC Value Driver Lifecycle can be helpful in pinpointing and executing on clearly defined value driver initiatives, and guide executives along the path to a successful integration.

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