Synergy Realisation: Maximising Value in Post-Merger Integration

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While there are many reasons for a merger or acquisition, often the success of a transaction is determined by the ability of the parties to identify, plan for, and ultimately realise the synergies that originally motivated the deal. Synergy realisation is a critical component of post-merger integration (PMI), as it directly impacts the investment case and value creation potential of the combined entity.

In this article, we leverage A&M's years of experience in delivering integration programmes and synergy realisation plans and explore the key steps and best practices for maximising value in PMI.

1. DEVELOPING A SYNERGY REALISATION PLAN

Synergies in a post-merger integration can come in many forms, including cost savings, revenue enhancements, improved operational efficiencies, and strategic advantages that result from the combination of two companies' resources, capabilities, and market positions.
Once potential synergies have been identified, the first step is to develop a detailed synergy realisation plan that outlines the specific actions, timelines, and resources required to achieve the desired outcomes. This plan should be aligned with – and part of – the overall integration plan, which may contain other non-synergy related measures, for example "Day 1" activities, relocations, communications etc.
A synergy realisation plan would typically include the following elements:

- Clear objectives: Defining the specific synergy targets and desired outcomes, such as cost savings, revenue enhancements, or operational improvements.
- Prioritisation: Prioritising initiatives based on their potential impact, feasibility, and alignment with the organisation's strategic goals.
- Action plans: Developing detailed action plans for each initiative, including the required resources, milestones, and timelines.
- Ownership and accountability: Assigning responsibility for each initiative to a dedicated team or individual, who will be accountable for its successful implementation.
- Monitoring and reporting: Establishing a process for tracking progress, reporting on achievements, and adjusting plans as needed.

2. MONITORING AND TRACKING SYNERGY ACHIEVEMENT

Ongoing monitoring and tracking of synergy achievements are essential to ensure that the realisation plan is executed effectively and that the required outcomes are being achieved. As part of this process, A&M typically expects following steps are followed:

1. **Establishing key performance indicators (KPIs)**: Defining a set of relevant KPIs that can be used to measure progress towards synergy targets. These may include financial metrics (e.g., cost savings, revenue growth), operational metrics (e.g., productivity improvements, process efficiencies), or strategic metrics (e.g., market share gains, innovation capabilities), which should all feed into and be complementary to broader integration programme metrics.

   It is important to have a clear plan outlining how each metric will be produced, including the data source, any data manipulation required, scope, frequency, and format of presentation. Each metric should have an accountable owner and all those responsible for producing the metric should be clearly identified.

2. **Data collection, analysis, and baselining**: Collecting data on the defined KPIs, completing any data manipulation required, analysing trends, and comparing actual performance against the targets set in the realisation plan. This should include developing a robust financial and headcount baseline, which is crucial in a post-merger integration setting to evaluate success and track the effectiveness of synergy initiatives.

   In our experience, a robust baseline not only highlights changes in performance indicators but also demonstrates why these changes occurred, giving credit where it is due or identifying areas needing improvement. The baseline data should be revisited and adjusted periodically to reflect changing business environments, industry dynamics, or strategic shifts, thus acting as a living document vital for refining the KPIs and enhancing synergy realisation. In essence, a robust baseline forms the bedrock of a data-driven PMI process, enabling transparency, boosting stakeholder confidence, and aiding in informed decision-making.

3. **Embedding into Business as Usual**: Embedding the synergy plan into Business as Usual (BAU) budgets and targets with the help of the Finance function. By incorporating the synergy-related goals into daily business operations and budgeting processes, organisations not only secure commitment to these objectives at all levels but also facilitate their measurement and tracking as a part of routine management reviews.

   This alignment ensures that the synergy realisation is not perceived as an isolated project but as an integral part of the broader strategic and operational roadmap of the newly merged entity. It also minimises the risk of 'synergy fatigue' that can occur if these initiatives are viewed as separate from normal operations. By tying synergy targets to departmental budgets and individual performance metrics, it provides an impetus for everyone in the organisation to contribute towards synergy achievement, fostering a culture of collaboration and joint ownership. Furthermore, this seamless integration of synergy plans with BAU budgets and targets supports the transparent communication of progress, thereby maintaining stakeholder confidence throughout the integration process.

4. **Reporting and communication**: Regularly reporting on the progress of synergy realisation to senior management, integration teams, and other relevant stakeholders. Transparent communication helps maintain momentum and alignment throughout the integration process. It is important that benefits and costs-to-achieve can be reported beyond standard reporting so that stakeholders can see the impact of synergy realisation. Agree in advance with your stakeholders how and when they would like to receive this data, for example via an online dashboard, Excel file, email etc.

   A&M's approach to driving change via leadership demonstrates that it is critically important to establish a culture of open communication and transparency when reporting on synergy progress. This includes creating an environment where any issues or potential missed targets can be flagged early, without fear of blame or negative consequences. This will allow for timely course correction and ultimately increase the likelihood of achieving the desired outcomes of the integration process.

   Strong financial governance is also key to ensure that synergies are reported on a consistent basis in line with the "rules of the road" that have been agreed upfront, to provide timely insight into the actual / forecast benefits and to prove synergies have been delivered.

5. **Course correction**: Based on the performance data and stakeholder feedback, it is crucialto adjust the realisation and action plans as needed to address potential issues and ensure that the target benefits are achieved. To accomplish this, it is helpful to identify lead indicators that can predict whether the desired outcomes will be achieved. These lead indicators act as early warning signals and enable the implementation team to take corrective action before it is too late. For example, if the goal is to achieve office savings in a particular quarter, it may be necessary to issue a service notice several months prior to that to allow sufficient time for necessary changes to be made. By identifying and tracking lead indicators, the implementation team can stay ahead of potential issues and ensure that the project stays on track to achieve the required benefits.

3. BALANCING SHORT-TERM AND LONG-TERM GOALS

In the pursuit of synergy realisation, it is crucial to strike a balance between short-term and long-term goals. While short-term objectives are important to demonstrate early wins and maintain momentum, long-term goals are essential for sustaining the combined entity's growth and competitive advantage. Here are some strategies to achieve this balance:

- Prioritise quick wins: Identify and execute initiatives that can yield immediate results, such as cost reductions or process improvements, to build credibility and gain stakeholder buy-in.

- Maintain a long-term view: Ensure the synergy realisation plan incorporates long-term strategic goals, such as market expansion, product development, and talent management, whilst also retaining focus on a nearer-term and achievable timeframe such as 12-18 months.

- Allocate resources effectively: Allocate resources, including time, money, and personnel, in a manner that supports both short-term objectives and long-term strategic priorities.

- Monitor progress: Regularly assess the progress of both short-term and long-term goals to ensure they remain aligned and mutually supportive.

4. MANAGING RISKS AND OVERCOMING CHALLENGES

Synergy realisation is not without risks and challenges, and effective management of these factors is essential for success. Some common risks and challenges associated with synergy realisation include:

- Leadership risks: The role of leadership in the integration process is pivotal. Decisive and committed leaders, when appointed early, are able to set the tone, take accountability, lead by example, and drive the process. Delaying such appointments or the selection of non-supportive leaders can breed confusion, divided loyalties, and decreased effectiveness. Moreover, such decisions may risk unwanted attrition. A&M believes it isit is crucial to swiftly identify and empower leaders supportive of the integration and collaboration. These strong leaders can mitigate other risks and underpin the success of the whole integration programme.

- Integration risks: Merging two organisations can be complex, and unforeseen issues may arise in areas such as technology, operations, or culture. The due diligence process plays an important part here, but even with the most thorough up-front research things are likely to change. A&M's approach to mitigate this considers thinking through 'what-if' scenarios, developing contingency plans, and maintaining open communication throughout the process.

- Execution risks: Execution presents the most common type of challenge in synergy realisation. Obstacles such as resource constraints, resistance to change, or regulatory hurdles can often stymie progress. To mitigate these risks, A&M believes it is critical to clearly define roles and responsibilities, establish a strong governance structure, and continuously evaluate whether adequate resources and support are in place. Deploy change and stakeholder management frameworks to overcome resistance to change and fatigue.

- Financial risks: Synergy realisation may involve financial risks, such as increased costs or reduced revenues. To manage financial risks, A&M typically expects to see evidence of robust financial models and projections, closely monitor financial performance, and adjust plans as needed to maintain alignment with financial targets.

- Human capital risks: Integration journeys are typically multi-year programmes, and the process will often create uncertainty and anxiety among employees, potentially leading to reduced morale, productivity, and retention. To address this, communicate openly with employees. Emphasise the rationale for the merger and the benefits of synergies, including the future vision and values of the combined organisation. Engage and support employees throughout the process and invest in talent development and retention initiatives.

CONCLUSION

Synergy realisation is a critical aspect of post-merger integration that directly impacts value creation. A&M's experience in successfully delivering synergies and maximising value in post-merger situations highlights several best practices, including developing a synergy realisation plan; monitoring progress; balancing short-term and long-term goals; and managing risks and challenges. As a result, organisations have a much greater ability to maximise the value derived from M&A transactions and ensure the long-term success of the combined entity.

For more information or if you have any questions about your next synergy realisation, please contact our team of experts.

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