Deloitte.

Integration Report 2015
Putting the pieces together

Table of Contents

2 Executive Summary
4 Survey Findings
10 Our Take
16 Conclusion
17 Appendix
28 Contacts

Executive Summary

While the juggernaut of merger and acquisition activity persists—2014 was a strong year with more than 40,000 deals announced[1]—there is no shortage of studies indicating that mergers and acquisitions (M&A) are fraught with challenges and risks. Our 2014 M&A Trends Report[2] revealed expectations that the rapid pace of merger activity would continue. At the same time, that report underscored the persistent challenges in deriving value through the M&A process.

Because the stakes are huge—the aggregate value of the announced 2014 deals approached $3.5 trillion[3]—we began to dig deeper into the challenges and opportunities tied to merger integration. In a new survey on the post-merger phase, Deloitte Integration Report 2015, we asked more than 800 executives to help determine what drives successes, what foils deals, and what companies can do preemptively during the integration period to help increase the likelihood that their deals are the successful ones.

The survey on M&A integration revealed several key points:

- Almost 30 percent of respondents said that their integration fell short of success.
- When asked about synergies, almost 30 percent of respondents indicated that they exceeded synergy targets, while almost one in five (18 percent) said they fell short. An additional 10 percent weren't sure if they met their targets.
- Respondents concurred on the key drivers for successful integration: executive leadership support, involvement of management from both sides, development of a project plan that often included creating a dedicated integration team, and communications.
- Ensuring a smooth transition from beginning of the merger—the day the deal closed and the combined entity became operational—correlated very highly with overall success.

We asked **more than 800 executives** what drives successes, what foils deals, and what companies can do preemptively during the integration period to help increase the likelihood that their deals are the successful ones.

[1] "Deal Makers Notched Nearly $3.5 Trillion Worth in '14, Best in 7 Years," By Michael J. De La Merced, *The New York Times*, January 1, 2015
[2] Deloitte M&A Trends Report 2014, Deloitte LLP, June 2014, www.deloitte.com/us/ma/trends14
[3] "Deal Makers Notched Nearly $3.5 Trillion Worth in '14, Best in 7 Years," By Michael J. De La Merced, *The New York Times*, January 1, 2015

- The inability to deal with unexpected challenges was the primary factor that doomed combinations, with delays and lack of preparedness also being key reasons that some integrations failed.
- In the future, the majority of respondents said they would focus on a swifter and phased integration, better communication, and a more rigorous process to select an integration team. They also said they'd allocate more budget to the integration.

In the pages that follow, we take a look at what our respondents identified as the critical factors for success and what hindered success. We also suggest leading practices gleaned from our experience in dealing with thousands of deals so that you can create an approach to follow to increase the likelihood that your transaction is a winning one.

Tom McGee
Deputy Chief Executive Officer
Deloitte LLP

About the survey

From November 15 to December 18, 2014, a Deloitte survey conducted by OnResearch, a market research firm, polled 803 executives at U.S. companies that had either engaged in a merger or acquisition over the preceding 24 months or were planning one in the next 12 months, or both.

The executives hailed from companies of all sizes, split evenly between the public and private sector. Almost half, 46 percent, had annual revenue of at least $1 billion. Middle-market companies, those with between $100 million and $1 billion in revenue, accounted for 43 percent of total respondents. The rest were smaller businesses. More than 25 percent of respondents worked in the C-suite and an equal number in senior management. About half were middle managers.

The majority of respondents, 60 percent, were involved in domestic M&A transactions. Two of three involved privately held companies. Manufacturers accounted for the largest proportion of all deals (24 percent), though companies in the technology, telecom, media and entertainment sectors each accounted for at least 10 percent of all respondents. Retailers, energy and professional services firms also contributed to the survey.

The average cost of the transactions the respondents were a part of was close to $800 million, with almost one in five eclipsing the $1 billion threshold.

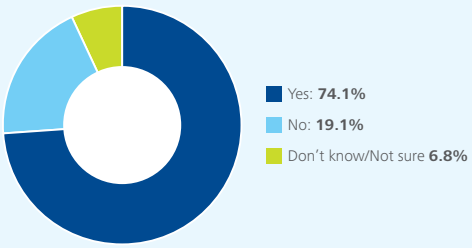
The survey results are included in the appendix; some percentages in the charts throughout this report may not add to 100 percent due to rounding, or for questions where survey participants had the option to choose multiple responses.

Survey findings

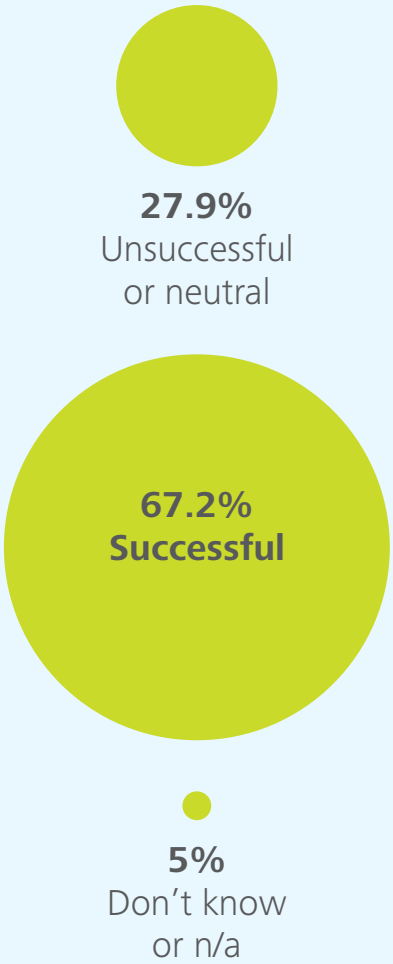
Almost three in four companies (74 percent) said they entered into a merger or acquisition with a formal integration strategy. Just about the exact same number of respondents believed that their strategy clearly aligned with the overall strategy and goals of the transaction. And three-quarters of respondents also said they carefully evaluated their transactions afterwards to see how they fared—whether they worked or didn't.

Almost one-third felt that the deals fell short of meeting expectations. An analysis of the key drivers of success and major challenges provided insight into what made deals succeed and what caused them to stumble.

Was there a formal integration strategy?



How successful do you feel the integration was or has been to date (if your company is still in the integration phase)?



Synergy and Value Capture

One of the key components for helping to determine the success of a transaction is measuring and achieving synergies, according to respondents.

When asked about synergies, 29 percent of respondents said that they exceeded the targets they had established before the transaction. 18 percent indicated that their transaction fell short of achieving their targets, and perhaps worse, 10 percent weren't even sure if they achieved their goals.

"The long-term value derived from a deal hinges mainly on realizing synergies with rare exceptions for competitive purposes," said Joel Schlachtenhaufen, principal, Deloitte Consulting LLP. "All of the elements of a fully integrated company can be in place, but if you haven't achieved the growth and cost synergies you set out to capture, you really haven't succeeded."

How long did it take to realize synergy targets?

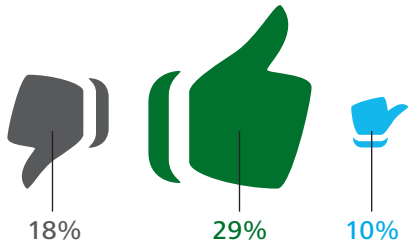
42.9%	6 months or less
30.8%	7 to 12 months
12.6%	13 to 24 months
2.7%	Longer than 24 months
11.1%	Don't know / Not sure

More than half, 52 percent, of the executives estimated that the total benefit from the synergies of the combination were less than half the total deal value. Among those who reported that their synergy target fell short, the estimate by how much they lagged expectations was about 15 percent. Conversely, respondents who said they exceeded anticipated synergy targets, said that they did so by, on average, almost 26 percent.

For an overwhelming number of respondents, almost nine in ten, the integration life-cycle extended no longer than two years. Typically, the need for external partners—who bring experience and can accelerate the value capture efforts and keep the combined company focused and accountable for results—can be greatest during the first three to six months. Then the company enters into the execution phase. About three-quarters of respondents who followed this path said they hit their synergy marks in a year and 43 percent did so in six months.

56 percent of respondents factored tax planning into synergy capture plans.

Almost one in five (18%) companies reported that their **synergy targets** fell short while 29% reported exceeding the initial targets. Meanwhile, 10% weren't sure if they achieved their targets



Readiness

A majority of survey respondents, 72 percent, said that they had a detailed execution plan in place that they put into action on the day that the transaction closed. However, almost one in five, 18 percent, of the M&A executives did not feel that their organization was prepared on the final day of the integration process.

Were there detailed execution plans in place that were put into action on the day the deal legally closed and the new organization became operational?

Yes: **72%** No: **18%**

Information Technology was cited as the functional area in most need of improvement in terms of integration skills and capabilities. Change management, human resources and communications, followed closely.

Next time around, the respondents said they'd focus resources most heavily on accelerating their integration pace; 15 percent ranked that as the most important area they'd focus on. Other critical areas that respondents honed in on included implementing a phased approach to integration, and communicating the strategy to employees, customers, and, to a lesser extent, suppliers, distributors, and other partners.

The majority of companies, 79 percent, said they took steps to internalize lessons learned from their integration experience. The No. 1 most popular lesson learned: re-evaluate integration processes and checklists. Other critical lessons-learned were to provide knowledge transfer training, retain and reward integration staff, and conduct integration audits.

M&A executives cited their top three focus areas for the next integration

15%
a faster pace of integration

14%
a phased approach

14%
a better communication strategy

Organization

Key organizational elements drove integration success according to survey respondents—having a smooth transition, realizing synergies, and meeting expectations and goals. On the flip side, unexpected challenges dominated as the chief reason why an integration failed; almost two-thirds of respondents cited these unforeseen difficulties as the leading factors that foiled a merger. Slow integration or delays in the process and a lack of preparedness— together cited by almost one-in-five respondents—also hindered transactions.

Respondents took the time to handwrite the reasons for success or failure in recent integrations

Most popular reason for success:

49%

Smooth transition

Most popular reason for failure:

63%

Difficult transition/unexpected challenges

Respondents identified several factors as critical in fostering successful integration: having executive leadership support, involving management from both the acquirer and target, and developing an appropriate plan that optimized the use of resources, budget, and timing.

Another key factor in success was assigning a dedicated integration team. A large majority of respondents, 82 percent, created such a team. And an overwhelming majority, 90 percent, said that merger team was pivotal to the successful integration.

Most of the integration teams consisted of more than 10 individuals (63 percent), had cross-functional representation (87 percent), though only 29 percent were dedicated full time to the team. Most companies, 72 percent of respondents, established an executive-lead steering committee; less than half, 46 percent, created an integration management or project management office. A vast majority, 85 percent, of the companies that created either (the steering committee or the IMO or PMO) reported that the creation of the bodies was valuable.

Top three factors cited for achieving successful integration

16% executive leadership support

15% involving management from both sides

14% developing an appropriate integration plan

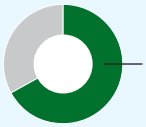
Operating Model

According to the survey, another factor in facilitating the success of a transaction involved redesigning not only an organizational model—addressing reporting structure and management hierarchy—but also an effective operating model, one that was set to address questions such as where will the company operate, what products will it sell, which customers and segments will it target, and what operations will be outsourced?

About two in three executives said their new organization redesign was effective and 40 percent said it was very effective. Those responses were stronger than the ones ranking the effectiveness of a redesigned operating model. Nearly two in three said their operational redesign was effective and 40 said it was very effective.

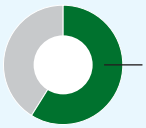
The most popular operating models adopted were insourcing and shared services. Direct sales was the most popular commercial model adopted, cited by 58 percent of those companies that said they adopted a new operating model. A majority of companies, 61 percent, said that they considered aligning or simplifying their legal entities in their integration plans.

How effective was the new organizational redesign?



67% effective

How effective was the new operating model redesign?



59% effective

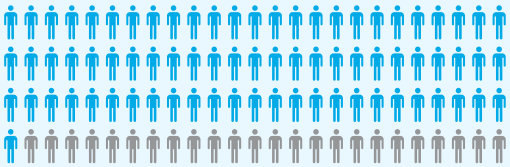
Communication and Culture

Transparent and consistent communication with employees was cited by respondents as one of the top five factors driving a successful integration.

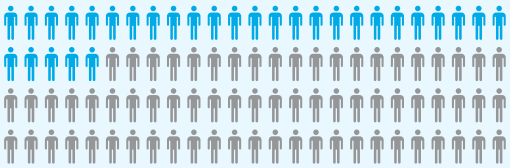
The majority of the executives, 76 percent, said that the alignment of cultures between the two companies was important to the overall success of the integration. And only 30 percent said the alignment of cultures was not effective. Most companies, 61 percent, skirted that potential minefield by ensuring that communications to employees of both combining companies was timely and transparent. More than half, 53 percent, of respondents said that their companies took matters to the next level by interviewing employees from both of the combining companies to determine their needs and concerns.

Company-wide email was the favorite way to communicate the deal, cited by 50 percent of respondents. Other methods included live "town hall" meetings led by the CEO, press release, and managers informing direct reports. Of all those communication forms, the town hall meeting was perceived to be the most effective.

Overall, a majority of respondents, 68 percent, had an employee communications strategy during the integration process. Among those, some 79 percent, said their strategy was effective.



76% said that cultural alignment is **important**



30% said cultural alignment was **not effective**

Most popular communication technique

50%
said company-wide email communications

Most effective communication technique

36%
said live "town hall" meeting led by the CEO

Our Take

Once a transaction closes and a combination has been forged, companies have a critical window of time to get the most out of the merger or acquisition. Being ready at that juncture, at the close, provides a great platform for integration success. In all, there are five focus areas for companies to consider.

Synergy—Maximizing value capture

Successful mergers should start with a clear understanding of the synergies they aspire to capture. Cost reductions typically are a factor, but cost reductions alone shouldn't be confused with synergies—which are motivated by a vision of how the combined company will be able to increase revenues and gain market share at a more rapid clip than either company could alone. The goal of capturing synergies is to create value—improve operating margins, enhance the balance sheet, and provide shareholder value.

Yet, almost 18 percent of survey respondents reported that their merger fell short of their initial synergy targets, and perhaps worse, 10 percent weren't sure if they achieved their goals. We have seen several steps that companies have taken to successfully integrate acquisitions and mine synergies.

First, for a quick source of value, a way to immediately begin mining synergies is for companies to focus on Selling, General and Administrative (SG&A) expenses. This might entail the tough task of eliminating duplicative jobs. Next, companies can turn to procurement, both for direct and indirect spending. Comparing supply contracts and negotiating new prices is low-hanging fruit relative to rationalizing infrastructure (such as consolidating plants). Finally, longer term, companies can focus on growth synergies and the supply chain.

Three steps can help smooth the process:

- **Planning.** Speed, of course is critical, but shouldn't be the predominant driver. Many companies tend to focus on short-term financial synergies rather than take a holistic view. By reducing scope, they often overlook hidden synergies and fail to create high-performing supply chains.
- **Preparation.** During due diligence, companies overlook business and operational compatibility. Operational synergies are not synchronized with the customer/market needs of the combined entities—requiring supply chain rework or savings erosion.
- **Execution.** Many companies drastically underestimate the complexity, resources, communication, and management focus needed to successfully integrate and realize expected synergies.

Overall, companies can get ahead of the curve and accelerate integration and capture synergies. One clear advantage we have seen is in companies that have established a detailed integration plan in advance of the merger closing. That might seem impossible especially since mergers of firms that compete in the same markets might not want to share confidential information about their business practices—or might face antitrust restrictions that prohibit sharing such information. This can make it difficult or impossible to develop integration plans until regulatory approval has been secured.

Creating a "clean team" can help companies clear that hurdle. Clean teams are comprised of employees from both organizations who share confidential information. They are usually small and are lifted from their daily duties to set pro-forma integration plans in place so they can be acted upon once the merger closes.

- A big chunk of planned synergy savings and integration costs often depends on well-executed IT systems integration. Our experience working with many IT integrations demonstrates the value of following a standardized, repeatable approach to post-merger systems integration. Even within a structured integration model, companies can and must tailor the integration to the goals of the deal—such as revenue synergies.

- Some, though, want to create an IT environment that introduces new leading-edge IT systems. These transformative integrations require more customization and learning than a typical integration. The way to proceed here is to first get a full inventory of IT assets before developing blueprints. And then develop a flexible integration framework that includes contingencies.

Readiness—Preparation for post-merger success

One of the main reasons M&A transactions fail is poor preparation for the critical post-merger period. Negotiators place big efforts into closing the transaction —the all-important "win" in complex negotiations—but training for bumps after the deal helps determine whether integration teams truly have the proper gear for bad weather.

Negotiators place big efforts into closing the transaction—the all-important "win" in complex negotiations—but training for bumps after the deal determines whether integration teams truly have the proper gear for bad weather.

In post-merger scenarios, the parties bring different operational, cultural and organizational differences that managers must be prepared to affront. To make sure teams are ready for potential storms, here are some goals that should form part of merger readiness plans:

- Survey employees across departments in the newly merged organization on change readiness and share the data in clear, easy-to-consume formats.
- Be ready to provide mentoring, coaching, and training to team members with leadership potential, regardless of their previous roles, to demonstrate a culture of open-mindedness and employee support.
- As employees, treat every interaction with management as a one-shot deal. There will be gaps in information. Use your best judgment, institutional experience and other cues from the organization to inform your choices. Document your decisions.

Due diligence: pathways to readiness

Our general assumption is that firms making acquisitions conduct thorough due diligence prior to closing a merger deal. This process includes understanding how the target company is valued as well as figuring out how business results are measured. An effective due diligence program will likely catch most—hopefully all—legal and regulatory requirements applicable to the newly merged entity. But nonetheless, there still might be surprises, expenses, or liabilities that were not uncovered or overlooked during due diligence. This is of particular importance to firms looking at targets beyond their industries that have reporting, disclosure, or licensing requirements that differ from their own companies.

On the human capital side, HR M&A teams can gear up for smoother integration if they coach new HR representatives on rules and procedures required for the new entity and prepare them to keep vigilant watch for the unexpected surprises mentioned above. Consider the myriad functions of HR teams—payroll, compensation, benefits, and recruitment, to name a few. Prevailing legal practices in previously independent organizations may be inappropriate or perhaps unlawful in a newly merged entity, underscoring the need for due diligence among HR teams.

No detail too small: leveraging knowledge across calendars and procedures

Another action that companies should take to facilitate readiness is adhering to common calendars. Rudimentary as it may sound, having calendars in sync following a merger will aid PMI by allowing teams to work in concert and avoid inefficiencies.

From Day One, leaders should also be out talking to people at all levels in order to learn the day-to-day operations of the business. This can help them decide which actions are working and which ones need to be retooled. Leaders must learn as much as they possibly can about their new organizations, having candid conversations with employees at all levels.

After having devoted significant time and resources to negotiating the deal, it's easy to overlook the procedures that keep a business running once the merger is complete. But these are precisely the types of details that need to be attended to. In an integration period, managers must have mechanisms in place that support the functions of the business and the human capital responsible for carrying out those functions.

Companies also must assess the readiness of the IT function. By fully evaluating the new IT environment that will emerge in the PMI period, the new entity can make adjustments to systems and teams for this crucial function.

Our experience also shows that merged companies can stumble on risks arising from mismatched organizational structures and processes.

Integration Organization—strategy, preparation, and program structure

On the surface, integration organization might not appear to be a difficult endeavor when it comes to mergers and acquisitions. Almost three-in-four respondents said they have a formal integration strategy and even more assigned a special team to lead the process.

But some companies still struggle with organizational issues. One issue can be that the strategy and preparation phases aren't as robust as the company initially thought it was. In part that could stem back to the due diligence process, particularly in buying start-ups or carve-outs, as data to validate and project performance often are unavailable due to missing operational history.

Sometimes, merging companies might overlook the complexity of post-merger integration issues and not be as prepared to handle the merger as they planned. Realizing tax advantages, for example, may be less complex than realizing cross-selling synergy across the entire value chain. Other issues often overlooked in the planning phase include important steps such as employee training, aligning of incentives and involving line management in decision making.

Our experience also shows that merged companies can stumble on risks arising from mismatched organizational structures and processes. Structural incompatibility may arise from companies that have conflicting degrees of centralized decision making. Core processes can diverge in market orientations in regards to products, customers and sales regions.

People risks represent another category of potential hurdle and exist at all levels, not just the factory floor or worker level. We've seen strong resistance throughout organizations including senior management—probably because the newly merged company won't retain two marketing chiefs, or heads of human resources, etc.

Finally, there are project risks that include not having a formal project organization. Most companies lack the internal resources to run a smooth post-merger integration—which require specific skills.

We see a pattern of success with companies that prepared for mergers by readying management and setting up a post-integration leadership team consisting of cross-functional members. Clear leadership that takes strong responsibility for the post-merger integration process can give fairly-priced mergers every chance of success.

Steps to improve success

- Determine the soundness of financial data. Is the budget and timeframe sufficient to complete the execution of integration (such as the IT systems)?
- Map out synergy goals. Determine the scope of the synergy targets and can they be delivered without disrupting day-to-day business.
- Ensure the integration plan is thorough. Does the plan embrace employee training, harmonizing incentives and other often overlooked yet important aspects?
- Analyze corporate structures. Is there a defined decision making process and who is in charge?
- Mesh core processes. Ensure that market development, order processing, production of goods and outsourcing protocols don't diverge or conflict.
- Create a management team. Determine who is in charge and name names. If adequate integration skills aren't available internally, engage external experts with the requisite experience and skills.

Operating Model—designing the right structure

Operating models can have a tremendous impact on performance and competitiveness, so it's important to get it right, especially when combining disparate companies through a merger.

One of the critical issues is in defining what an operating model is because they often are confused with business models. Business models boil down to "how do we make money?" while operating models describe how the business model will be implemented. Operating models answer critical questions—Where will the company operate? What products will it sell? Which customers and segment will it target? What operations will be outsourced?

Operating models are aligned with detailed tactical capabilities (processes, systems and organization structure) but also answer the broader questions and without delving into granular, day-to-day details.

Businesses face a dichotomy if they need to forge an operating model after combining two companies. They can restructure because of a major event (such as a merger) to avoid the pitfalls that can hinder performance. Or they can restructure in hope of improving overall performance. These require different approaches.

With an event-driven acquisition, time is of the essence in establishing an operating model. Companies need to act swiftly and make some immediate decisions, even if they are not perfect—sitting idle is a mistake. Any adjustments can be made over time. Control of the operating model tends to be top-down and directive. Communication can be delivered directly to those impacted and doesn't need to be broadly disseminated.

The following steps can help in building an operating model:

- Create a small, elite team of experienced people to drive operating model design. Larger groups will slow the process of creating results.
- Document the model with rigor. Create clear and well-articulated directives.
- Embrace imperfection. Think of the design process as an iterative one which can take between six months or a year to develop fully.
- Don't ignore customers. Contact all buyers and clients, even if they're not directly impacted by the merger.

With performance-driven events, companies can act on their own terms and be more deliberate and thoughtful. They can carefully analyze the situation, weigh costs and tradeoffs, pilot a variety of options, and build consensus. Here are some steps companies can take to establish a performance-driven operating model:

- Take a more holistic view and consider outside alliances and partnerships.
- Communicate far and wide. Get everyone in organization able to understand and articulate how the model works.
- Formally document the operating model before initiating its design.
- Reach out to customers and gather their input into developing a model.

The adoption of an ERP system to serve in the post-merger scenario provides a good example of the importance of figuring out the steps in a performance-driven operating model. The Integration team first needs to put a plan in place to launch the system, then execute against that plan. If the ERP system is not meeting organizational needs, the team needs to recast the plan. As timeframes can be tight and there's no room for surprises, companies might consider bringing in consultants to facilitate that the plan will work.

There are specific considerations for creating operating models in mergers with companies in emerging markets. Those might include focusing on product development, for one, in localizing products or tailoring products to a customer base that is less affluent and/or less sophisticated. Another facet might include addressing product supply—infrastructure bottlenecks and supply chain logistics in new markets—as well as distribution, customer education, and market access issues.

With performance-driven events, companies can act on their own terms and be more deliberate and thoughtful.

Communication & Culture—It's all about the people

Frequently in mergers and acquisitions, rumors can begin to supplant the facts. At the acquisition target, specifics are scarce—employees may fear big changes to company culture. Among customers, doubts may surface about familiar products and the teams that produce them: "Will they take on new identities after the match?" Shareholders, vendors and other stakeholders wonder: "Will I receive the same level of service?"

As companies merge forces, clear communication can increase the value of the transaction. When managers clearly define the rationale behind the union, are transparent with teams throughout the integration period and anticipate uncertainties their customers are likely to raise, the narrative is much more likely to be positive.

One of the key actions in a post-merger scenario is a well-rehearsed communications plan. And to ensure that the plan is complete: reaching both internal and external stakeholders.

Starting on Day One, and continuing throughout the weeks and months that follow the deal, companies can log early victories with employees, customers, suppliers and other stakeholders by following the rules in a comprehensive communications playbook.

As an introduction, managers need to tackle the needs of their human capital in the post-merger period. Early and consistent communication to team members should make it clear they were chosen because of their value to the organization. Our experience tells us that managers must share a vision for the goals of the transaction as well as the future of the organization. And naturally, management must include clear expectations of the contributions from everyone on the team.

As tasks are assigned and the day-to-day responsibilities in the post-merger period become clear, some of the most difficult work begins: Perhaps now more than any other period is when communications planning is put to the test as management works to reduce anxieties and win over skeptics.

Doubts can surface about the future of the organization and the fate of the people who are charged with keeping the parts moving. Managers have to address tough questions, such as concerns about reductions in force. But they should also look for opportunities in the post-merger period to communicate wins and recognize teams who've made achievements, no matter how small. All of these actions serve to help maintain visibility and build trust in this vulnerable period.

The playbook on communications will not be complete if it does not address customers and other stakeholders who are vital to the success of post-merger integration.

To reassure customers, stem flight and build stronger relationships with stakeholders in the integration phase, communications actions should include the following:

- Identify the audiences that will be affected by the merger, and understand their expectations for good service in spite of the upheaval can surface during a merger process.
- Make a list of must-have communications objectives, to include the metrics that will indicate success of the plan.
- Assign a dedicated team to oversee communications to customers.
- Disseminate the message through channels that are most likely to reach the audience.
- Conduct regular evaluation of the communications plan.
- Don't forget to reach all audiences—external and internal. Focusing on one group alone is missing a big opportunity with another.

When managers clearly define the rationale behind the union, are transparent with teams throughout the integration period and anticipate uncertainties their customers are likely to raise, the narrative is much more likely to be positive.

Conclusion

Some mergers fall short of delivering anticipated benefits, while others may fail spectacularly. But with an understanding of the leading practices for success, companies can navigate the organizational, cultural and operational issues that emerge in the post-merger phase in order achieve the goals of the transaction.

In the upcoming months, we will begin surveying executives to gauge their expectations for merger and acquisition activity. Look for those results and analysis in our next M&A Trends report. After its recent torrid pace, it's possible that the appetite for deals could abate, but a variety of factors—low interest rates, strong cash balances, the desire to enter new markets or product lines, the quest to save costs, among them—likely won't halt M&A activity.

While looking for targets, companies need to evaluate what has made past deals work and what has caused almost one-third of recent deals to fall short of meeting expectations. An analysis of the drivers of deal success shows that having a focused strategy, utilizing the best due diligence techniques and then executing a well-planned integration can help companies maximize transaction value. Companies can succeed if they capture value through synergies, integrate the organizations smoothly, create unified operating models, and communicate effectively both internally and externally.

"It's a strong challenge to get all of those elements done correctly," said Tom McGee. "But it's far from insurmountable—and effective integration planning and thoughtful execution led by a knowledgeable team are key to M&A deal success."

Appendix

Note: some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

Acknowledgment
We would like to thank all survey respondents and interviewees for their time and the insights they shared for this report, *Deloitte Integration Report 2015*.

Survey responses

What were the total approximate annual revenues of your company in 2013?

Less than $100 million
12.7%

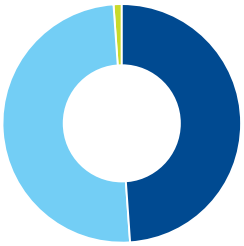
$100 million to less than $500 million
24.7%

$500 million to less than $1 billion
16.9%

$1 billion to less than $5 billion
22.8%

$5 billion or more
22.9%

Is your company public or privately-held?



Public company: **48.9%**

Privately-held: **49.9%**

Other (please specify:): **1.1%**

What was the primary industry of this company?

Alternative energy
1.0%

Construction
4.5%

Financial Services–Asset Management/Private Equity
2.0%

Financial Services–Banking & Securities
5.7%

Financial Services–Insurance
3.0%

Financial Services–Other
1.7%

Health Care Providers & Plans
6.1%

Life Sciences
3.7%

Manufacturing–Aerospace & Defense
2.5%

Manufacturing–Automotive
2.1%

Manufacturing–Consumer Products
8.5%

Manufacturing–Process & Industrial Products
6.1%

Manufacturing–Other
4.7%

Media & Entertainment
2.7%

Energy–Oil & Gas
2.4%

Energy–Power & Utilities
1.5%

Professional Services
8.1%

Real Estate
2.4%

Resources & Mining
0.4%

Retail & Distribution
6.4%

Technology
11.2%

Telecommunications
3.1%

Travel, Hospitality & Leisure
3.1%

Other
7.1%

What type of company was acquired or did your company merge with?

a U.S. multinational
22.8%

a foreign multinational
10.1%

a U.S. domestic company
59.5%

a U.S. subsidiary of a foreign company
1.7%

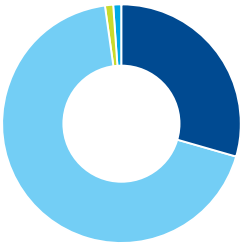
a subsidiary located outside of the U.S. owned by a U.S. Company
1.9%

a subsidiary located outside of the U.S. owned by a foreign company
1.5%

Other (please specify:)
1.0%

Don't know/Not sure
1.5%

Was this company publicly or privately owned?



Publicly owned: **29.1%**

Privately owned: **67.5%**

Other (please specify:): **1.3%**

Don't know/Not sure: **2.1%**

How much did the most recent merger or acquisition you were involved in cost? That is, how much was the deal worth?

Less than $1 million
8.8%

$1 million to $99.9 million
29.9%

$100 million to $249.9 million
16.9%

$250 million to $499.9 million
10.7%

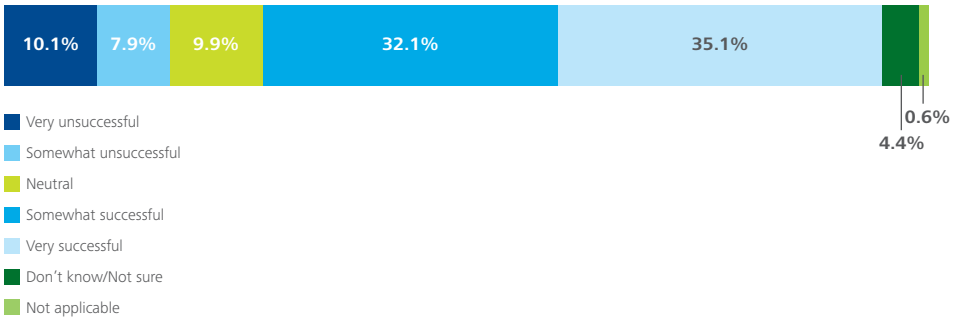
$500 million to $999.9 million
12.0%

$1 billion to $5 billion
10.7%

More than $5 billion
5.9%

Don't know/Not sure
5.1%

How successful do you feel the integration was or has been to date (if your company is still in the integration phase)?

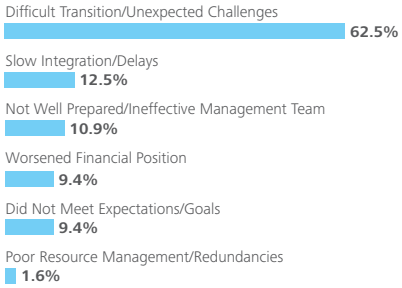


In thinking about the factors that are most important in terms of achieving a successful integration, from among the factors listed below, please rank your top three in order of importance.

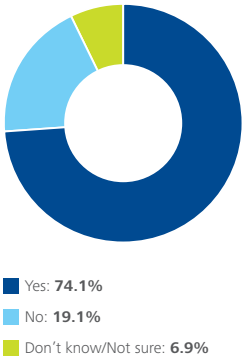
	Most important	Second most important	Third most important
Having executive leadership support	16.3%	10.8%	6.6%
Involving management from both sides (the acquirer and acquiree)	14.6%	15.1%	13.8%
Developing an appropriate project plan, optimizing the use of resources, budget and timing	13.8%	11.5%	15.1%
Assigning a dedicated integration team	12.6%	14.4%	10.5%
Communicating transparently and consistently with employees	10.2%	14.8%	14.8%
Achieving or exceeding synergy targets	9.7%	8.0%	5.7%
Assessing and addressing the cultural fit between the two organizations	9.1%	8.8%	12.6%
Allocating an adequate budget for the integration	5.4%	7.8%	9.1%
Establishing a governance structure with a Steering committee and/or IMO (Integration Management Office)	4.2%	6.0%	6.4%
Hiring an external firm to assist with integration	3.9%	2.4%	4.0%
Other (please specify:)	0.2%	0.0%	0.1%

If successful, why do you feel this way?

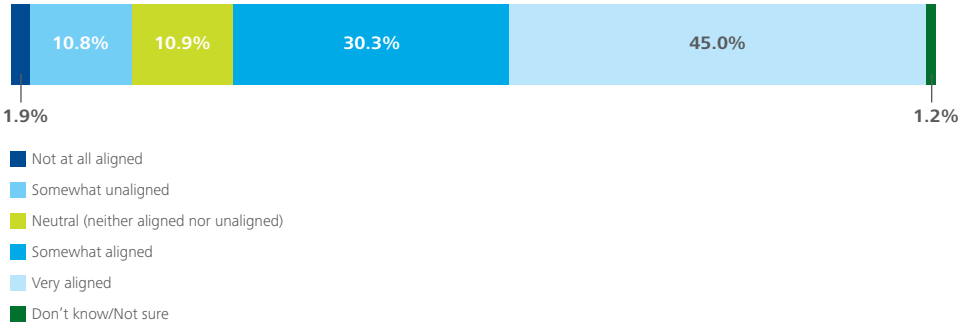
If not successful, why do you feel this way?



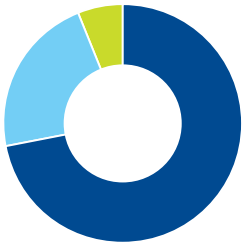
Was there a formal integration strategy?



How clearly was the integration strategy aligned with the overall strategy and goals of the deal?

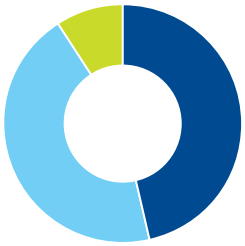


Was an executive-led Steering Committee established to lead the integration process?



- Yes: **71.9%**
- No: **21.7%**
- Don't know/Not sure: **6.5%**

Was an IMO (Integration Management Office) or PMO (Project Management Office) established?

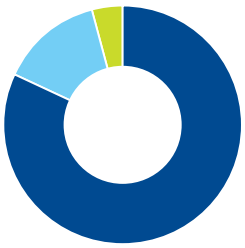


- Yes: **46.2%**
- No: **44.3%**
- Don't know/Not sure: **9.5%**

How valuable was the IMO or PMO to the overall success of the integration?

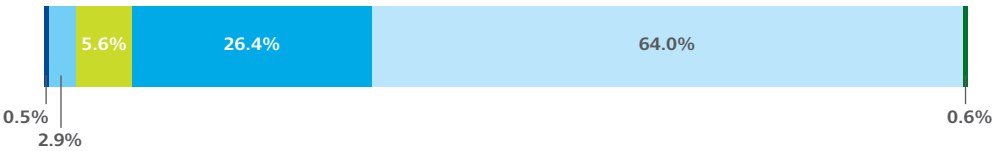
- Not at all valuable
- Somewhat not valuable
- Neutral (neither valuable nor not valuable)
- Somewhat valuable
- Very valuable
- Don't know/Not sure

Was an integration team assigned to lead the integration process?



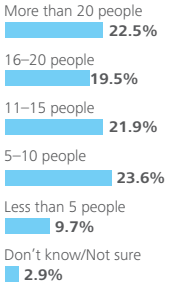
- Yes: **81.9%**
- No: **13.7%**
- Don't know/Not sure: **4.4%**

How valuable was the integration team to the overall success of the integration?

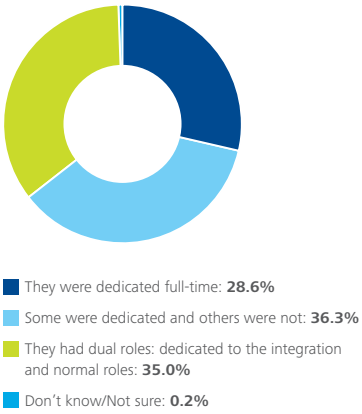


- Not at all valuable
- Somewhat not valuable
- Neutral (neither valuable nor not valuable)
- Somewhat valuable
- Very valuable
- Don't know/Not sure

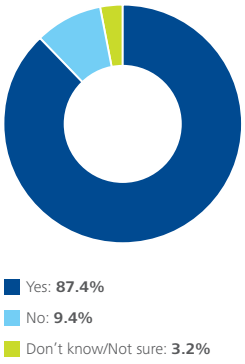
Please indicate the size of your integration team.



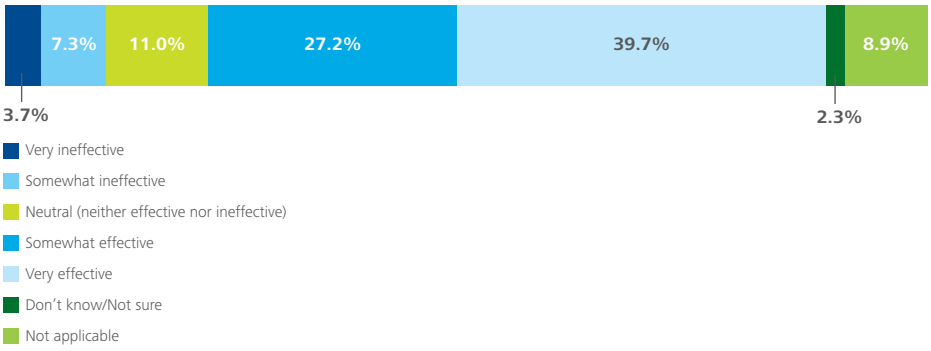
Were the people on the integration team dedicated to the integration process or were they also required to continue their normal organizational roles?



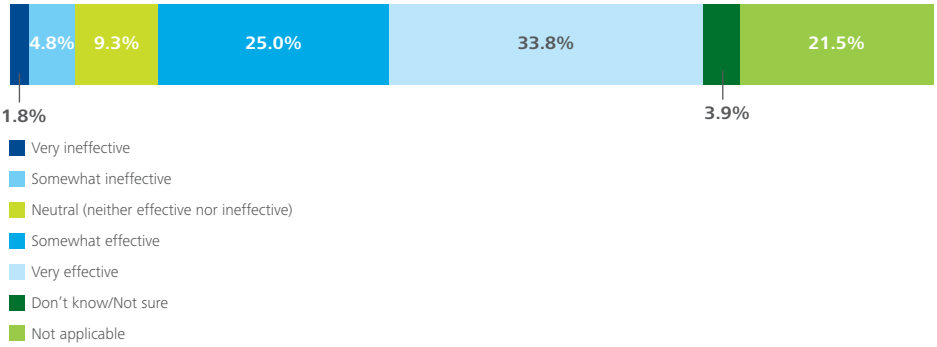
Did this integration team include cross-functional representation?



How effective was the new organizational redesign?



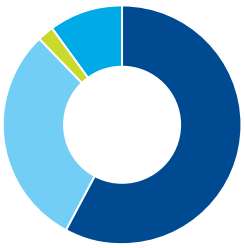
If the integration strategy involved a redesign of the combined company's operating model, how effective was this operating model redesign with the main goals of the deal?



Thinking again of the redesign of the combined company's operating model, for each of the following functions, which operating model was adopted?

	Insourcing	Outsourcing	Shared services	Other (please specify:)	Don't know/Not sure	No change
Finance/Accounting	**40.9%**	**9.1%**	**31.8%**	**0.0%**	**1.4%**	**16.6%**
Human Resources	**40.4%**	**13.0%**	**29.3%**	**0.0%**	**1.0%**	**16.3%**
Information Technology (IT)	**35.8%**	**16.1%**	**31.7%**	**0.0%**	**1.5%**	**14.9%**
Legal	**28.8%**	**23.6%**	**27.4%**	**0.0%**	**3.3%**	**17.0%**
Manufacturing	**32.0%**	**15.8%**	**24.3%**	**0.0%**	**4.6%**	**23.3%**
Sales and Marketing	**38.5%**	**13.5%**	**28.6%**	**0.0%**	**2.2%**	**17.1%**
Tax	**33.9%**	**16.3%**	**27.6%**	**0.0%**	**4.1%**	**18.2%**
Operations/Supply Chain	**35.1%**	**13.4%**	**32.5%**	**0.0%**	**2.1%**	**17.0%**

Which go-to-market or commercial operating model was adopted?



- Direct sales: **57.7%**
- Distributors: **30.5%**
- Other (please specify:): **2.2%**
- Don't know/Not sure: **9.6%**

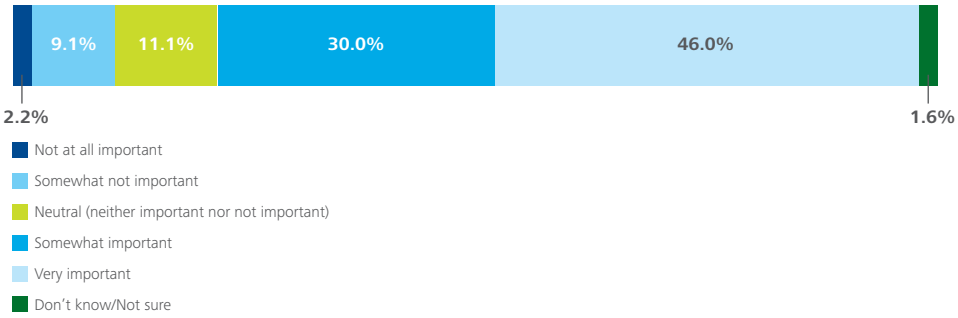
Did you consider legal entity alignment or simplification in your integration plan?

- Yes: **61.4%**
- No: **23.4%**
- Don't know/Not sure: **15.2%**

Did you factor tax planning into your synergy capture plans?

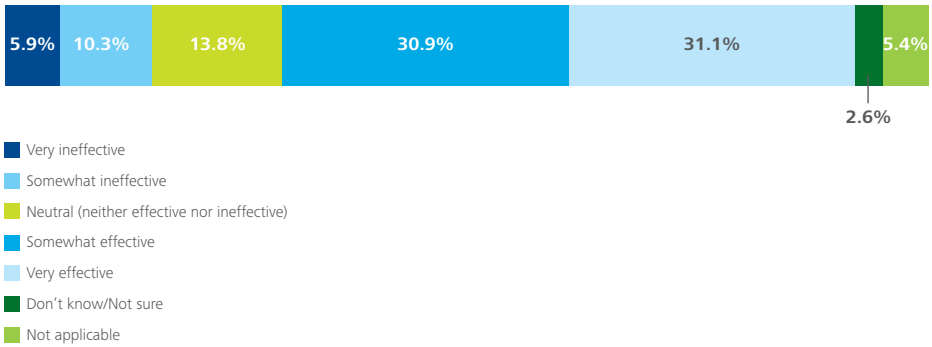
- Yes: **55.6%**
- No: **29.9%**
- Don't know/Not sure: **14.5%**

How important was the alignment of cultures between the two companies to the overall success of the integration?



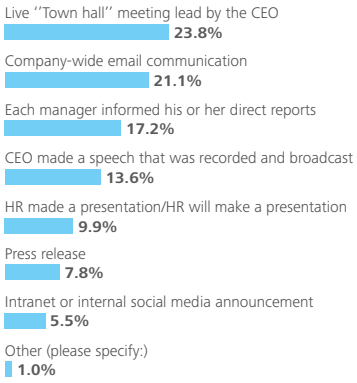
How was the alignment of cultures managed? (please select all that apply)

How effective was the alignment of cultures?

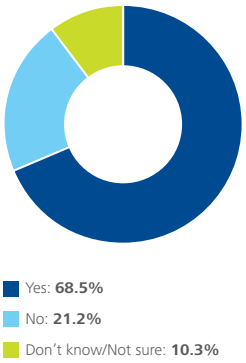


How was the deal announced to employees? (please select all that apply)

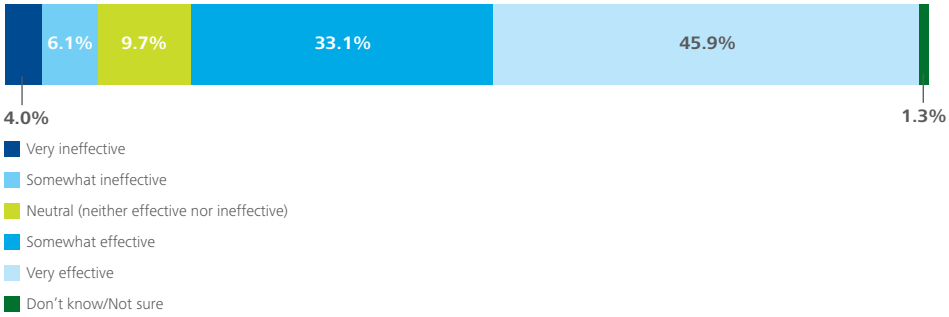
Which of the following do you feel was the most effective employee communications vehicle for the announcement of the deal?



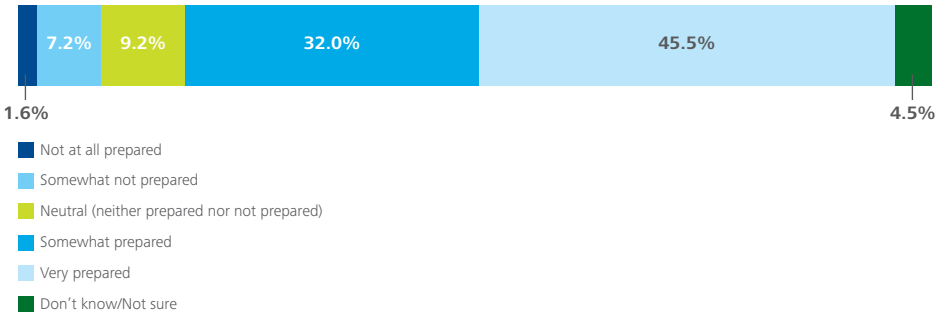
During the integration process, was there an employee communications strategy?



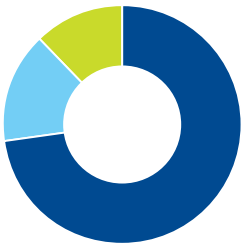
How effective was the employee communications strategy during the integration process?



How prepared do you feel your organization was on the final day of the integration phase?

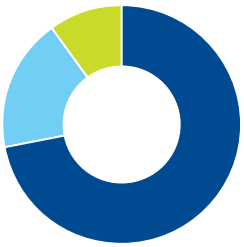


Was the success of the deal evaluated after integration?



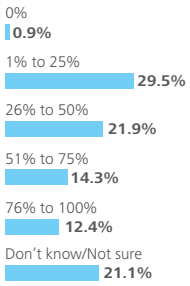
Yes: **72.9%**
No: **15.3%**
Don't know/Not sure: **11.8%**

Were there detailed execution plans in place that were put into action on the day the deal legally closed and the new organization became operational?

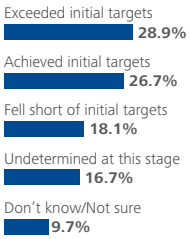


Yes: **72.0%**
No: **18.4%**
Don't know/Not sure: **9.6%**

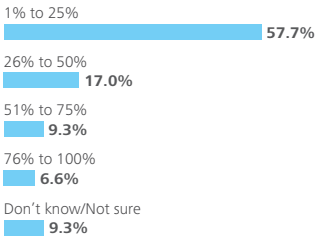
As a proportion of the total deal value, what do you estimate was the total benefit from synergies?



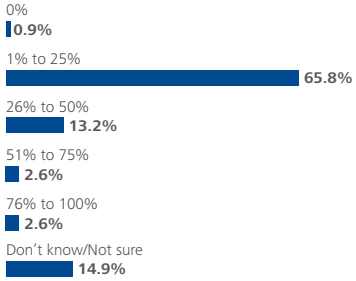
Were the initial synergy targets achieved, exceeded or did they fall short?



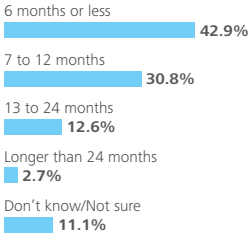
By what % were the initial synergy targets exceeded?



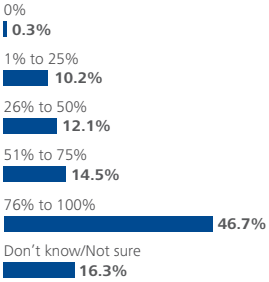
By what % did they fall short of the initial synergy targets?



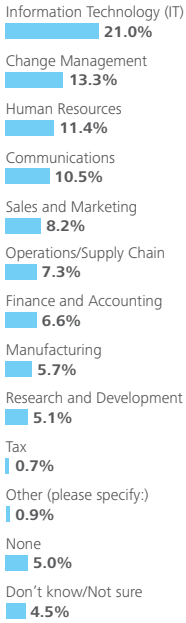
How long did it take to realize these synergy targets?



What % of key staff from both organizations was retained following the integration process?



In which functional area do you see the biggest need for improvement in terms of integration skills/capabilities in the future?



Which steps did your company take to internalize the lessons learned from the integration experience?

Assuming you were to do another deal in the future, please rank, in order of importance, the three areas you would focus more on the next time.

	Most important	Second most important	Third most important
A faster pace of integration	**14.6%**	**5.7%**	**6.3%**
A phased approach to integration	**13.8%**	**13.6%**	**8.9%**
Better communication strategy with employees	**13.6%**	**14.6%**	**11.2%**
More rigorous selection of the right integration manager/team	**11.1%**	**7.4%**	**9.5%**
Larger budget for integration	**10.9%**	**11.1%**	**7.0%**
Better change management program	**10.2%**	**14.0%**	**13.0%**
Better communication strategy with customers	**6.7%**	**9.3%**	**7.0%**
More focus on cultural fit or better cultural alignment	**5.1%**	**6.0%**	**11.7%**
More planning ahead of the deal's announcement	**5.0%**	**5.5%**	**9.3%**
More planning for the "go live" date—the day the deal closed and the new organization became operational	**4.1%**	**5.1%**	**6.0%**
Better communications strategy with suppliers/distributors/partners	**3.4%**	**5.7%**	**6.9%**
Other (please specify:)	**1.6%**	**0.1%**	**0.3%**

Contacts

Tom McGee
Deputy Chief Executive Officer
Deloitte LLP
tmcgee@deloitte.com

Trevear Thomas
Principal
Deloitte Consulting LLP
trethomas@deloitte.com

Russell Thomson
Partner
Deloitte & Touche LLP
rthomson@deloitte.com

Follow us on Twitter
@DeloitteMnA
@_Tom_McGee

Access the full report:
www.deloitte.com/us/ma/integration15

Subscribe to receive M&A thought leadership:
www.deloitte.com/us/masubscribe

Deloitte
M&A Institute

As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright © 2015 Deloitte Development LLC. All rights reserved. Member of Deloitte Touche Tohmatsu Limited