The realization of strategic and synergistic goals defined by management during due diligence and valuation, is what essentially determines the final success of an acquisition. A standardized and well-defined M&A Integration Methodology is critical achieving these goals.

M&A Integration

A Proven Methodology

springboard

Springboard Business Tools

Table of Contents

I. Overview

The realization of strategic and synergistic goals defined by management during due diligence and valuation, is what essentially determines the final success of an acquisition. A standardized and well-defined M&A Integration Methodology is critical achieving these goals. Properly executed, the combination of the two companies will yield a new enterprise that delivers robust, innovative solutions relevant across the industry. Leveraging the best of its predecessors, it will deliver more compelling solutions for clients, better customer support for clients, more rewarding careers for employees, and more attractive returns for shareholders. This document summarizes a refined integration approach, based on best practices within several different industries, as well as a wide range of deal sizes. While the methodology is very disciplined and structured, it is also flexible enough to easily customize and scale for each specific deal.

The Integration Methodology is divided into three phases:

1) Integration Framework Definition

Integration Framework Definition should begin as soon as possible after detailed Due Diligence is underway. The objectives of this phase are to clearly and effectively structure the integration teams and special purpose teams, and to determine the leaders and members, as well as outline the hierarchy and the roles and responsibilities for the integration teams.

2) Integration Planning

Once the Framework is defined and in place, Integration Planning should begin, continuing through Day 1 (closing of the deal). It is important to begin Integration Planning as early as possible, so that the transition from Due Diligence to Integration is seamless and effective. The timing is also very important in ensuring that all merger objectives are planned for and realized. Each company continues to operate independently during this phase, making its own business decisions in a manner that protects its own interests.   Information exchange is guided by the legal principle that neither company should empower the other to become a more effective competitor should the transaction not close.

Note: The extent of Integration Planning is dependent on time between the beginning of Due Diligence and Day 1, resources dedicated to integration, the size/complexity of the deal, etc. The general goal should be to minimally plan for through Day 30 before the deal closes. After Day 1, execution begins and extended planning continues.

3) Integration Execution

Once the deal has closed, Integration Execution begins. At this time, the legal and business interests of the combining companies merge. Issues of independent decision-making and control that exist during the planning phase disappear, and the new organization is free to begin implementing the plans made in the prior phase of activity.   Some of these plans, such as those

pertaining to finance and HRIS systems, are typically executed on or near Day One after the transaction closes. Others, such as those pertaining to product and technology integration, have longer horizons because the proprietary information needed for these efforts should only be shared after the companies become one.

The three phases are described in more detail in Section V.

II. Benefits of a Standardized Integration Methodology

A standardized and well-defined integration methodology provides clear direction in ultimately meeting all merger objectives. This methodology structures the management and information in a way that gives clear visibility to all areas of the integration. The high-level benefits of this methodology are:

- Integration Quality
    - o Supports logical identification and management of tasks and milestones
    - o Provides transparency into all integration areas for identification of issues and risks, as well as cross-functional dependencies
    - o Increases overall quality of integration through proactive management and structured reporting
    - o Ensures that integration requirements are addressed in a systematic manner, and that scarce resources are properly focused to achieve overall integration priorities

- Financial & Strategic Goals
    - o Provides tracking of integration budget and ensures that it is properly managed
    - o Allows synergy targets to be proactively addressed by functional leaders and closely managed by the integration team, increasing likelihood of meeting goals
    - o Supports methodical management and attainment of strategic goals set forth by executive leadership

- Communication / Executive Reporting
    - o Gives complete visibility into all functional areas of integration, allowing early identification and management of issues and risks, cross-functional dependencies and critical decision points
    - o Enables prompt and clear communication to Executive Steering Committee on potential roadblocks to meeting strategic or synergy goals
    - o Facilitates escalation and prompt assessment and conclusions on critical decision points

- Schedule / Planning
    - Results in more efficient project flow, by giving more priority and focus to integration activities
    - Supports timely awareness and proactive mitigation of schedule / timeline risks

- People / Culture
    - Helps to manage associate expectations of both the acquiring and acquired organizations
    - Encourages focus on the people and cultures of both organizations, and ultimately a "combined organization" tone
    - Encourages inclusion from both companies for both integration planning and execution

- Information Sharing
    - Gives guidance in properly documenting and sharing the "right" information between the two organizations, to ensure an optimally combined business
    - Steps the functional teams through transitioning from Due Diligence and assessing what additional information is needed to successfully integrate the businesses
    - Gives structure to timely reporting of material findings and any issues or risks

III. Critical Success Factors

Below are elements critical to the success of any integration. These items need special attention in the beginning stages, to ensure that the best resources for the integration are allocated and that the right tone is set for the integration, as teams begin developing.

- <u>Strong executive sponsorship</u> and frequent access to the Executive Sponsor and Executive Steering Committee by the Integration Leader

- <u>Identification of an Integration Leader in the early stages</u> of Due Diligence, so that he/she can understand the strategy and material findings early on and start on the Integration Structure Definition as early as possible

- <u>Adequate resources</u> for the workstream teams to achieve the expected goals and timeline; Dedicated time for the Workstream Leaders and team members must be thoroughly assessed early on to determine % time of dedication needed at each stage

- <u>Clear roles and responsibilities</u> defined for the integration in order to assure accountability, ownership, and quality

- Timely, fact-based decisions at all levels

- A thorough understanding of the merger strategy by the Integration Leader and Workstream Leaders

- A well-defined transition from Due Diligence to Integration Planning - Appointment of an Integration Leader that has been involved in Due Diligence is ideal

- A clear and thorough understanding by the Executive Steering Committee and the Integration Leader, of potential integration risks and assumptions defined during Due Diligence

- Knowledge of core business functions and future business requirements by all integration team members

- Significant involvement of target-company personnel on the integration teams at all levels and all stages, and total collaboration between organizations on all integration activities

- Executive/leadership support of the disciplined process and the acquisition strategy

- Communication and "lead by example" on the value and respect of all employees in both organizations
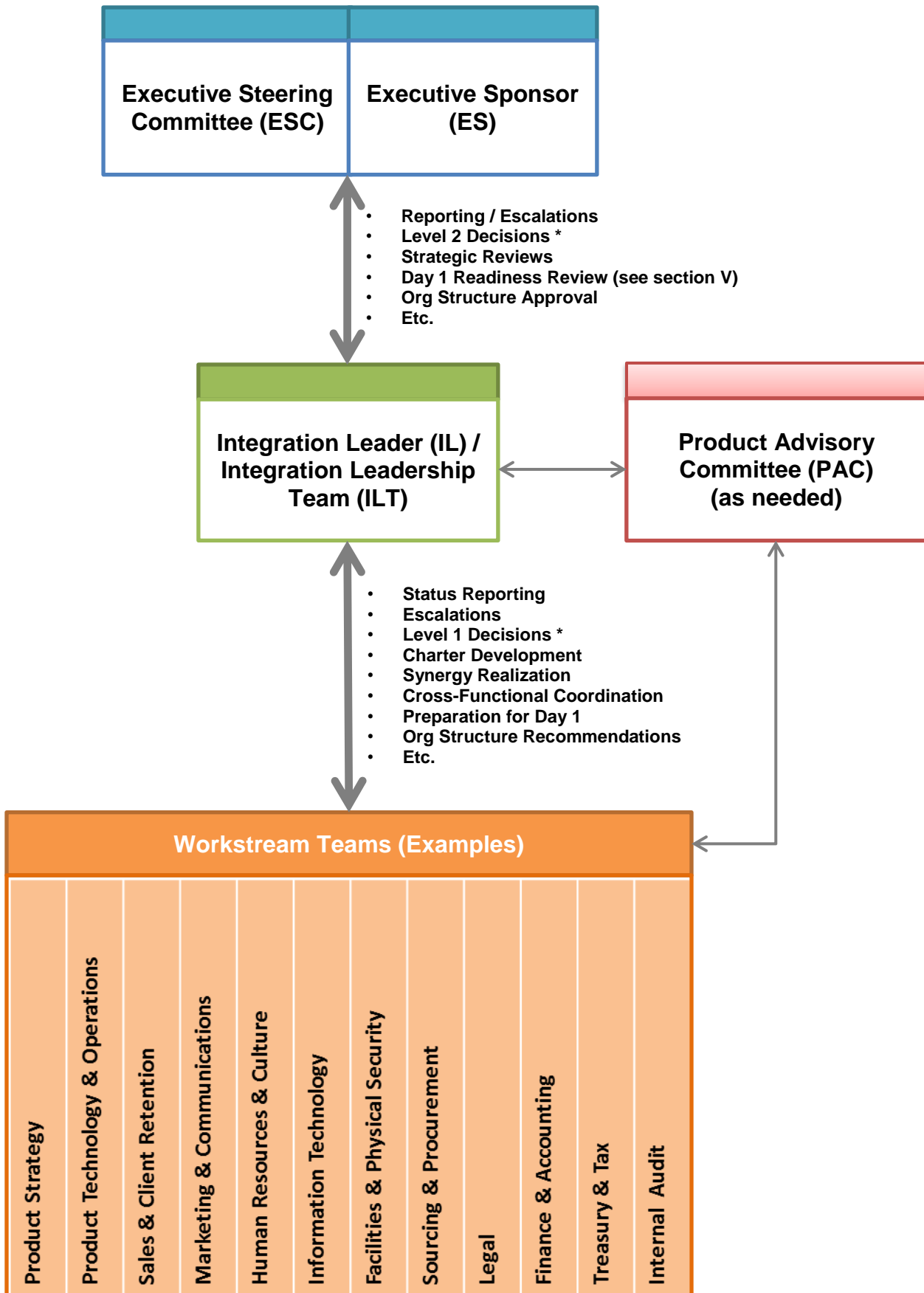
IV. Integration Framework Definition – Team Structuring

1) Structure Overview

Probably the most complex and critical part of the Integration Framework Definition phase is the structuring of the teams and the hierarchy and process for approvals and decisions. The below diagram illustrates the team portion of the Integration Framework and the high-level flow.

The remainder of this section details the roles, responsibilities and skill sets of the different components of the team. Some typical functional workstream teams are also described below.

The remaining pieces of the Integration Methodology are discussed in Section V.

Executive Steering Committee (ESC)	Executive Sponsor (ES)

- Reporting / Escalations
- Level 2 Decisions *
- Strategic Reviews
- Day 1 Readiness Review (see section V)
- Org Structure Approval
- Etc.

Integration Leader (IL) / Integration Leadership Team (ILT)

Product Advisory Committee (PAC) (as needed)

- Status Reporting
- Escalations
- Level 1 Decisions *
- Charter Development
- Synergy Realization
- Cross-Functional Coordination
- Preparation for Day 1
- Org Structure Recommendations
- Etc.

Workstream Teams (Examples)

- Product Strategy
- Product Technology & Operations
- Sales & Client Retention
- Marketing & Communications
- Human Resources & Culture
- Information Technology
- Facilities & Physical Security
- Sourcing & Procurement
- Legal
- Finance & Accounting
- Treasury & Tax
- Internal Audit

*Note: Criteria for Level 1 and Level 2 decisions should be defined during Framework Definition, to outline which types of decisions can be made by the ILT and Workstreams vs. the ESC / ES. Typically, only critical decisions like Organizational Structure, closing of facilities, etc. are escalated to the ESC / ES.

2) Roles and Responsibilities

Executive Steering Committee (ESC)

- Typically made up of company / divisional senior executives and includes the Executive Sponsor; Generally includes executive representation from legal, finance IT and operations

- The level of involvement and committee membership varies depending on the size, strategy and complexity of the transaction

- Provides overall governance to the integration process

- Defines strategic intent for combined organization and identifies business imperatives driving the integration

- Approves integration approach, strategy, benefits, synergy targets, expenditures and overall scope

- Makes key business decisions in a group committee environment

Executive Sponsor (ES)

- Typically the GM of the division sponsoring the transaction, but could be another divisional executive

- Provides executive level ownership of the project, owns development of common vision and strategy for the combined organization and identification of business imperatives

- Communicates priorities to the Integration Leader and provides support necessary to ensure success

- Manages communication with senior corporate executives and the corporate Board of Directors

- Maintains ultimate integration authority and responsibility, while leveraging the Integration Leader for decision-making and day-to-day integration management

- Has a thorough understanding of the company's overall corporate vision and strategy, as well as the strategy for the acquisition

Product Advisory Committee (PAC)

- This committee may be needed for product-based deals and/or product intensive companies

- Typically executive and senior management representation from product strategy and product technology areas

- COO, CIO and/or CTO are also frequently part of this committee

- Provides executive level guidance for product strategy and technology, to ensure proper fit and coordination with overall business and acquisition strategy/budget

- Makes executive level decisions related to product integrations, offerings, retirements, sun-setting, maintenance/support models, etc.

Integration Leader

- Typically a Senior Manager or above in the division sponsoring the transaction

- Should become involved during the due diligence phase and understand the strategic intent and overall goals driving the acquisition

- Is typically fully dedicated to the integration through the first 100 days post-closing (minimally)

- Works closely with the Executive Sponsor (in many cases daily)

- Is the liaison between ES, ESC and PAC, and the workstream teams - Disseminates communications from each to the workstream teams, and keeps each briefed on the status of the integration progress

- Is responsible for leading the day-to-day activities of the Integration Leadership Team (ILT), such as overall integration planning and management, risk mitigation and escalation, and timely resolution of risks/issues, cross-functional and cross-divisional coordination, organizational structure design, project resources, scope, communications, reporting, etc.

- Tracks and manages overall actual integration execution, operating and capital expenses, as well as synergy target realization, against budget/model, reporting any variances or risks to each to ES/ESC

Project Manager

- The Project Manager works closely with the Integration Leader and assists with the day-to-day operations of the ILT

- Is typically fully dedicated to the integration through the first 100 days post-closing (minimally)

- Assists workstream teams in developing and updating Integration Workplans, and helps each team to manage progress of milestones and tasks

- Assists workstream teams in developing timely status reports and other deliverables to the ILT

- Maintains the integration risks/issues and cross-functional dependency log, and works with appropriate teams to resolve each item

- Owns administrative tasks, such as maintaining distribution lists, master calendar of workstream team meetings / team schedule, contact list, development of presentation materials, coordination and planning of workshops, etc.

- Maintains integration team's document management database

- Understands the strategic intent and overall goals driving the acquisition, has strong project management skills and understands the stakeholder population

Integration Leadership team (ILT)

- Consists of the Integration Leader, Project Manager, functional workstream team leaders, as appropriate, and outside integration consultants/advisors, as required

- Functional workstream team leader's appointment to the team should be based on factors such as acquisition focus / strategy / structure, potential areas of risk (HR, Legal, etc.), etc.

- Typically also includes one or more representatives from the target company organization

- Becomes involved with due diligence efforts, to ensure smooth transition

- Coordinates with ES and ESC and leads Integration Framework design

- Assists workstream teams in making Workstream-Level (Level 1) decisions, as well as formulating recommendations for Executive-Level (Level 2) decisions

- Ensures cross-functional dependencies among the workstreams are understood and coordinated

Functional Workstream Leaders

- Each workstream typically should include two co-leads, one from the acquiring and one from the target organization

- Ultimately owns the development and successful execution of all workstream team deliverables, including Status Reports, Charters and Workplans

- Determines needed resources, builds and manages the workstream team

- Contributes specific functional expertise and knowledge

- Coordinates with other workstream team Leaders on cross-functional items, as required

- Communicates workstream team's status to ILT on a regular basis

- Accountable for delivering specific workstream synergy goal results defined during due diligence and communicating progress and issues/risks to the ILT

- Understands the stakeholder population, and the strategic intent and overall goals driving the acquisition

Functional Workstream Team Members

- Teams should be structured and developed, based on factors such as the industry/market, the specific deal focus/structure, and the acquirer's and target's current organizations

- Should include representatives from both the acquiring and target organizations

- Contributes functional, industry and company expertise

- Utilizes data gathered during due diligence and identifies additional data needed to build an effective plan

- Develops team Charter, including scope, goals and objectives (by phase), issues/risks, cross-functional dependencies and team members

- Compares and identifies differences between the two organizations (organizational structures, processes, etc.), to determine which pieces need to be integrated and develops a tactical plan to accomplish

- Prepares a detailed integration workplan which considers:

    - Workstream team's recommended integration approach (after evaluating options)

    - Cost/benefit analysis

    - Risk identification and mitigation strategies

    - Day One goals, including interim milestones

    - Phased goals (Day 1-30, Day 30-90, Day 90-180 and Day 180+.), including interim milestones

    - Resources allocated to plan and to execution of the integration actions

- Tracks and manages individual workstream's integration workplan, operating and capital expenses, as well as synergy target realization, against budget/model, reporting any variances or risks to each to ILT

- Identifies additional potential synergy opportunities and communicates to the ILT

- Prepares and gets approval for all Day 1 items within workstream's scope (communications, org changes, etc.)

- Makes recommendations on organizational structure specific to Workstream's functional area, as well as recommended mapping of associates and HR lists for interim retention and redundancy

3) *Some Typical Functional Workstreams*

The team framework, particularly the structure of the functional workstreams, is dependent on several factors, such as type of business, organizational structure, size of acquisition, the focus and strategy of the acquisition (i.e. product integration, new product, strategic uplift, synergies), etc. There are typically between six and twelve workstreams, as some of the workstreams may be combined into one with subteams (i.e. Treasury may be a subteam of Finance) or may not be applicable. The Integration Framework Definition process focuses on analyzing the particular deal, in order to most effectively design the team structure.

Below are some common functional workstreams with high-level descriptions, but keep in mind it is critical to determine which workstreams your business needs and how they should be structured.

Product Strategy

The Product Strategy Workstream defines a high-level product direction for the combined organization that will achieve industry leadership. Responsibilities include:

- Validating the overall product direction and developing a high-level product roadmap

- Defining feature and functionality requirements and desired timeline for implementation in order to accomplish goals (i.e., market leadership within 12 months)

- Determining how the target's releases impact acquirer's desired future features and functionality

- Developing plans to offer combined products

- Defining strategies for legacy clients and those currently in the process of being implemented

- Managing the product message in the market place

Product Technology & Operations

The Technology & Operations Workstream designs a go-forward Technology and Operations organization that is able to support the development requirements as outlined by the Product Strategy Workstream and the client delivery requirements outlined by the Product Strategy and Sales Workstreams. Additionally, they

need to ensure the retention of key talent required to preserve intellectual capital. Responsibilities include:

- Developing recommended organization structures and strategies for Client Services, Customer Service and Product Development organizations; Identifying key resources required to support existing products (including Client Services, Customer Service and Product Development organizations)

- Securing existing acquirer and target software documentation

- Completing software documentation where deficiencies are identified

- Developing a high-level product development plan based on the Product Strategy Workstream team's defined features and functionality; Addressing expectation gaps, as appropriate

- Assessing the capabilities of the target development organization to achieve the desired product plan

- Identifying key resources in the Customer Services organization to execute the Client Contact Plan

Sales

The Sales Workstream works in conjunction with the Client Retention Workstream (can be combined into one team) to mitigate the risk of client and prospect defection and develops a world-class sales organization by combining the best practices of both the acquirer and the target. Responsibilities include:

- Ensuring contract and approval processes are implemented and applied to both organizations

- Identifying best practices and implementing a common sales management process

- Reviewing the target pipeline to ensure consistency to acquirer's standards, and, if necessary, recommend steps to reconcile between the two

- Integrating the target and acquirer sales teams consistent with management's desired structure

- Executing the client and prospect contact plan developed by the Client Retention Workstream:
    - Identifying and mitigating defection of key prospects
    - Identifying a mitigating defection of key sales personnel

- Developing cross-selling strategies for complimentary products

Client Retention
* Can be combined with the Sales Workstream.

The Client Retention Workstream develops a comprehensive strategy for mitigating the risk of client and prospect defection. Responsibilities include:

- Developing a segmentation analysis of the target organization's clients and prospects; prioritizing most "growable" and most valuable clients and prospects (Tiers 1 – 3)

- Developing a contact plan for each client and prospect segmentation, including key messages for each; determining communication media and frequency (e.g., Tier 1 should be a telephone call or personal visit, while Tier 3 may be initially notified by email.)

- Defining retention goals for each client and prospect segment (e.g., 100% retention of all Tier 1 Prospects with a greater than 50-percent probability of closing, etc.)

- Identifying key resources (e.g., Sales and Customer Service) based on segmentation analysis (which includes assigned resources) and communicating to Sales and Product Technology & Operations teams, as appropriate

- Identifying overlapping clients and prospects, and determining who from acquirer and/or target should make the initial contact.

- Involving the Sales Workstream team and Customer Support personnel in reviewing the draft of the contact plan in order to obtain input into the overall process

- Planning a sales meeting with all sales associates to outline strategic objectives

- Developing an Early Warning System to monitor risk of client defection

- Developing monitoring reports associated with Client Contact Plan execution and commencing reporting to executive management

Marketing & Communications

The Marketing & Communications Workstream proactively manages messaging around the transaction by developing a series of frequent and consistent messages for the acquirer's and the target's legacy customers, clients currently going through implementation, prospects, employees and external stakeholders (i.e. vendors, partners, etc.). Responsibilities include:

- Developing and maintaining an impactful communications campaign including Day One messages and post Day-One messages.

- Developing sales collateral

- Developing training materials and toolkits

- Obtaining inputs from the Culture Workstream team in order to more effectively tailor internal messaging

- Preparing FAQs

- Updating internal and external Web presence

- Assessing effectiveness of internal and external messaging and revising if necessary

- Developing combined organization's marketing and brand strategy

Human Resources / People Retention

The Human Resources Workstream is charged with developing a key employee retention plan as well as aligning the pay and benefit structures between acquirer and the target. Responsibilities include:

- Working with functional areas to identify key employees of both organizations

- Developing and executing a retention plan to retain key employees

- Involving target organization personnel early in the integration process to provide input to the key messages (interdependency: Culture Workstream team)

- Working with Marketing and Communications Workstream, addressing "me" FAQs no later than Day One (e.g., benefit plan strategy, reporting structure, overall integration approach, timing of any contemplated reductions in force, transition plans for those not remaining long-term with the organization, etc.)

- Maintaining an internal communication campaign for acquirer and target through the transition process

- Ensuring alignment of pay and job classification between both organization's employees

- Ensuring alignment of benefits (insurance and retirement) between both organization's employees

- Working with functional areas to identify employees who will be transitioned and those who will be severed

- Developing and executing a transition and severance plan

- Defining a formal intellectual property capture plan

- Developing and executing a plan for ongoing monitoring of employee retention and employee satisfaction

Culture
* Can be combined with the Human Resources Workstream.

The Culture Workstream is essential on transactions to understand differences, leverage commonality and ensure a smooth transition of the target company into aquirer's culture. Responsibilities include:

- Determining lessons learned from prior transactions

- Interviewing select target personnel to gain a better understanding of the target's culture

- Developing an understanding of the unique attributes of each company and identifying best practices and attributes to implement

- Providing input to the Communications Workstream

Information Technology

The Information Technology Workstream will assess existing systems (hardware and software) of the combined organization as well as related policies and procedures, and develop a go forward strategy to support the organizations business strategies. Due to the volume of activities of the Information Technology Workstream, acquirer may consider dividing this team into smaller, more manageable sub-teams. Responsibilities of the Information Technology Workstream team include:

- Linking email systems

- Arranging interim connectivity

- Completing network connection between key facilities

- Developing a ERP integration plan

- Communicating data center protocols (i.e., processing, storage, back-up, maintenance, disaster recovery)

- Defining PC hardware and software platform for future purchases

- Identifying and assessing user applications for both organizations and determining (1) surviving applications for the target's organization and (2) associated support requirements

- Reading and analyzing contracts for software licensing, desktop, call center, specialty applications, etc. and proposing a rationalized integration strategy into acquirer's master agreements (including remedying any deficiencies)

- Identifying the target's registered domains and associated expiration dates

- Assessing the current hardware and assessing the ability to support aquirer's processing requirements

- Evaluating human resource access services/software (plus tie-ins) and proposing an integration solution to acquirer's core HR package

- Evaluating finance and accounting software and proposing an integration solution to acquirer's core finance package

- Determining the best integration strategy as it relates to infrastructure management and oversight

- Evaluating and proposing solutions for internal knowledge sharing

- Evaluating and proposing solutions for network, file and print server support for the target

Facilities and Physical Security

The Facilities Workstream will coordinate the physical consolidation of the combined organization's operating locations. Responsibilities include:

- Cataloguing all real property, including square footage and lease terms

- Changing office signage

- Preparing preliminary office consolidation plan

- Preparing relocation timetable for key functions

- Assessing telecommunications (long distance and local lines) and proposing an integration solution for the target

- Determining mail processing and distribution plan for Day One

- Determining and planning for Physical Security needs at target's facilities

- Determining go-forward real estate and facilities needs and preparing preliminary office consolidation plan

- Preparing estimates of cost savings and associated one-time costs

- Developing synergy plans and determining timing of synergy realization for Real Estate / Facilities (closing and consolidation of office locations)

Sourcing & Procurement

The Procurement Workstream will assess the future contract and commitments of acquirer and the target, and leverage the purchasing power of the combined organization. Responsibilities include:

- Assessing significant purchasing contracts and commitments

- Identifying and quantifying any potential synergies

- Communicating the purchasing process to the target's employees

Legal

The Legal Workstream defines the legal entity structure for the combined organization and ensures all legal and compliance issues are addressed in a consistent manner between acquirer and the target. Responsibilities include:

- Defining appropriate Day One procedures

- Providing standard terms and conditions to the target and working with Executive Sponsor, negotiating terms and conditions

- Assessing and rationalizing the legal department responsibilities of the target and determine the appropriate integration strategy

- Assessing and rationalizing the compliance department responsibilities and functions of the target and determining the appropriate integration strategy

- Determining the protocols for legal matters within the combined organization for the following areas:

    o Litigation

    o Regulatory issues

    o Contract review

    o Contract maintenance

    o Trademarks

    o Licensing

    o Other (governance, employment law, etc.)

Finance

The Finance Workstream prepares timely management reports that enable management to make relevant business decisions and evaluate financial performance. Responsibilities include:

- Prepare financial model for combined organization including projected synergies, revenue uplift, new products, etc.

- Preparing monthly management reports and associated financial and trend analysis

- Providing adequate insight into the target's financial performance in order to proactively address potential issues

- Preparing budgets and forecasts for the combined organization

- Valuation of target company

Accounting

The Accounting Workstream implements consistent reporting standards and policies. Responsibilities of the Accounting Workstream team include:

- Ensuring consistent financial statement presentation and classification, facilitating consolidated reporting

- Applying consistent accounting policies from Day One forward

- Developing closing procedures sufficient to ensure quality and consistency of reported results

- Completing required regulatory filings (Form 8-K, UK statutory audit, etc.) on timely basis

Treasury

The Treasury Workstream manages and safeguards the financial assets of the combined organization. Responsibilities include:

- Identifying new lockboxes

- Preparing instructions to sweep all target's cash accounts into acquirer's concentration account on Day One and going forward

- Establishing ZBA disbursements and payroll accounts for the target within acquirer's cash account structure

- Revising signature cards and providing to banks

- Revising remittance instruction letters prepared for the target's clients

- Providing target with instructions for funding ZBAs (when making disbursements and funding payroll)

- Preparing a go forward strategy to ensure the combined organization has the financial assets necessary to execute against its operating plan

Tax

The Tax Workstream will ensure compliance with all taxing authorities. Responsibilities include:

- Assessing the status of all returns (federal, state, foreign, payroll tax, sales and use, franchise, property, and other taxes) and resources required to complete all open returns

- Determining which party will complete the stub period return

- Evaluating the tax implications of the target's legal entity structure

- Determining if any changes in tax planning strategies are needed as a result of the transaction.

Internal Audit

The Internal Audit Workstream will combine auditing processes and ensure audit compliance. Responsibilities include:

- Comparing and contrasting acquirer's and the target's policies and procedures and identifying those that need to be addressed by Day One

- Standardizing critical policies and procedures between acquirer and the target

- Assessing the target's existing control environment and determining potential issues or deficiencies associates with SOX compliance and associated mitigation strategies

- Assessing the feasibility of integrating the target into acquirer's existing control environment, including costs associated with the transition, anticipated timeline, resources required and costs associated with maintaining a separate environment.

Synergy Management and Realization

Each Workstream team is responsible for the capture of synergies identified with each transaction, related to their functional area. Typically, key synergies include the consolidation of offices and the rationalization of personnel. However, each specific transaction must be evaluated to determine the key value drivers and related synergies. For example, for manufacturing companies, a large percentage of synergies may come from consolidation of sourcing with vendors and/or evaluation of alternative parts for products.

In this section are some tips on the most common and complex area for synergies, *organizational structure/personnel rationalization*. The overall ownership and coordination of this should lie with the HR Workstream, however, each Workstream should be responsible for evaluating the organization in their functional area, determining the future personnel needs and making recommendations on structure and how the positions are filled.
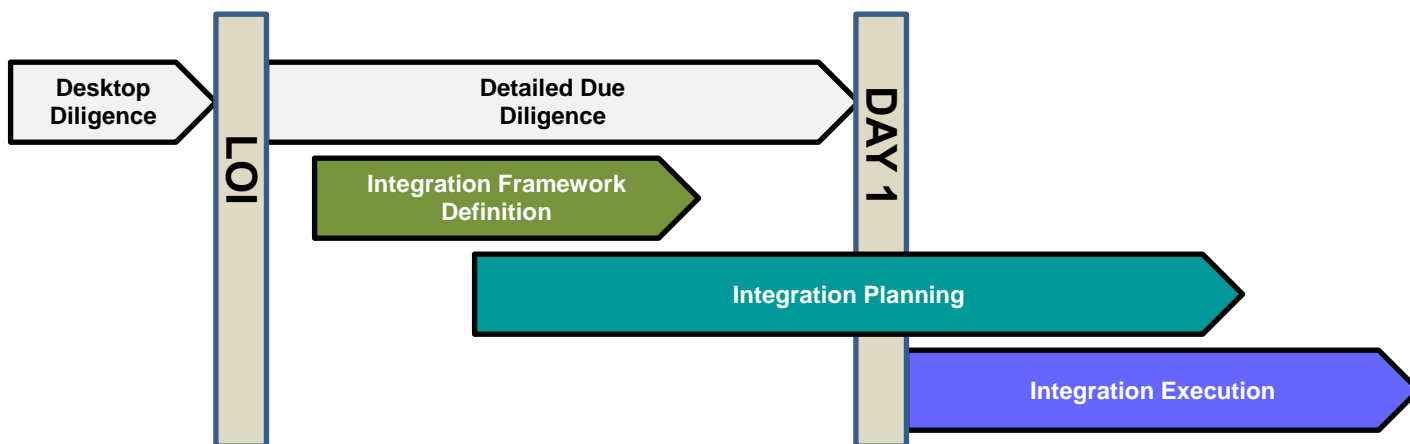
The high-level steps that need to occur are:

- Assessment of current organizational structures (both organizations)

- Defining optimal organizational structure for the combined organization - This is often a good opportunity for the acquiring organization to make internal organizational improvements, as well

- Definition of a Day One interim organizational structure, so that each new employee will know where he/she fits into their new company

- Determining whether the Day One interim organizational structure will create any potential cultural issues and make plans to address/mitigate

- Developing of the Day 1 communication for the interim organization, as well as the upcoming action announcement – This should be as clear and open as possible, in giving a timeframe and setting expectations

- Identifying if/where the first 2-3 levels of the target's management fits into the new organization

- Determining go-forward personnel requirements, based on redundancy, product roadmaps, long-term locations/relocation restrictions, etc.

- Recalculating and validating synergy numbers identifies during Due Diligence

- Finalize where each person fits into the organization and which employees will be released from each organization and when - Determine timing of synergy realization and associated one-time costs (severance, retention, etc.)

V. Integration Process

The below diagram illustrates the general timing of the three phases of the Integration Methodology and outlines the major milestones for each phase. The following sections further detail the tasks of these major milestones.

Desktop Diligence	LOI	Detailed Due Diligence	DAY 1	
		Integration Framework Definition		
		Integration Planning		
				Integration Execution

Phase I (green column)

* A) Appoint Executive Sponsor & Assemble Executive Steering Committee (ESC)

* B) Identify Integration Leader (IL) & Assemble Integration Leadership Team (ILT)

* C) Determine need for Product Advisory Committee (PAC)

* D) Identify Functional Workstream Leaders for each Workstream and assemble teams

E) Develop Reporting / Escalation Plan, Level 1 & 2 Decision Criteria and Meeting Cadence

F) Develop Transition Plan for moving from Due Diligence to Integration

G) Finalize Integration Framework and get ESC approval

H) Develop Integration Planning Kick-off materials and plan for session

Phase II (teal column)

A) Hold Integration Planning Kick-off / Orientation Workshop

B) Workstream Charters Developed and Approved

C) Begin ESC, ILT and Workstream cadence

D) Phase I & II Workplans Developed and Approved

E) Hold Cross-Functional Dependency Workshop(s)

F) Finalize Day 1 Actions, Interim Org Structure and Communications

G) Hold Day 1 Readiness Review with ILT and ESC

H) Execute all Day 1 Actions (Phase I)

Phase III (blue column)

A) Execute Day 1-30 Actions (Phase II)

B) Finalize and Implement new Organizational Structure

C) Develop Phase III, IV & V Workplans and get Approval, then Execute

D) Phased Transition to Business as usual

* See Section IV for Team Structuring Details

Integration Structure Definition

A. Appoint Executive Sponsor (ES) and Assemble Executive Steering Committee (ESC)

Owner: Company Executive(s) (typically CEO and/or COO)

Definition: The ES is typically the GM of the division sponsoring the transaction, but could be another divisional executive. This person provides executive level ownership of the integration, owns development of common vision and strategy for the combined organization and identification of business imperatives. The company CEO and or COO typically appoints this person.

The ESC is typically made up of company / divisional senior executives and includes the Executive Sponsor. Other executives appointed generally includes representatives from HR, sales, legal, finance and IT, but the level of involvement and committee membership varies depending on the size, strategy and complexity of the transaction. This committee provides overall governance to the integration process.

B. Identify Integration Leader (IL) & Assemble Integration Leadership Team (ILT)

Owner: Executive Sponsor

Approvals: ESC

Definition: The IL is typically a Senior Manager or above in the division sponsoring the transaction and is the liaison between Executive Steering Committee, Executive Sponsor and Product Advisory Committee, and the workstream teams. This person is ultimately responsible for managing all aspects of the integration and reports to the Executive Sponsor.

The ILT Consists of the Integration Leader, Project Manager, functional workstream team leaders, as appropriate, and outside integration consultants/advisors, as required. Functional workstream team leader's appointment to the team should be based on factors such as acquisition focus / strategy / structure, potential areas of risk (HR, Legal, etc.), etc. It is the team that helps make Level 1 decision, as needed, and helps to formulate recommendations for Level 2 decisions.

C. Determine need for Product Advisory Committee (PAC)

Owner: Integration Leader

Approvals: Executive Sponsor

Definition: A PAC may or may not be needed, depending on the businesses, the industry and type of acquisition. Very product-intensive companies or acquisitions that are dependent on product strategies will most likely need a PAC.

D. Identify Functional Workstream Leaders & assemble teams

Owner: Integration Leader

Approvals: ESC

Definition: Each workstream typically should include two co-leads, one from the acquiring and one from the target organization. These are typically managers or above in their functional area. These leaders ultimately own the development and successful execution of all workstream team deliverables, including Status Reports, Charters and Workplans.

E. Develop Reporting / Escalation Plan, Level 1 & 2 Decision Criteria and Meeting Cadence

Owner: Integration Leader

Approvals: ESC

Definition: The IL is responsible for defining how progress reporting to ESC will be handled, as well as regular communication with the ES. He/she will also need to define how risks and issues will be escalated to the ESC/ES and how the feedback loop to the workstreams will happen.

Secondly, the criteria for Level 1 and Level 2 decisions need to be defined, to outline what types of decisions can be made at the workstream / ILT level and which ones need to be escalated to the ESC/ES.

F. Develop Transition Plan for moving from Due Diligence to Integration

Owner: Integration Leader

Definition: If the IL was also the Due Diligence Leader, this is not as critical. If not, it is critical that the IL work with the Due Diligence Leader on a transition plan to ensure that all material findings, potential risks, etc. are documented and communicated to the IL. The DDL will need to be available through closing of the deal, to ensure proper support.

G. Finalize Integration Framework

Owner: Integration Leader

Approvals: ESC

Definition: The IL is responsible for tweaking and finalizing, documenting and communicating the integration framework, which includes all the other components in this section.

H. Develop Integration Planning Kick-off materials and plan for session

Owner: Integration Leader

Definition: With the help of the Project Manager, the IL is responsible for planning the kick-off workshop for integration planning with all workstreams. The purpose of the kick-off is to give an overview of the acquisition, the acquisition strategy, align the teams on their scopes and goals, to give an overview of the tools (integration workplans, charter document, issues/risks tracker, etc.) and to have break-outs by workstream to have the charters developed. This workshop could take up to 2 days, but can normally be done in one.

Integration Planning

A. Hold Integration Planning Kick-off / Orientation Workshop

Owner: Integration Leader

Definition: See H in previous section.

B. Workstream Charters Developed and Approved

Owner: Functional Workstream Leaders

Approvals: Integration Leader & ESC

Definition: Workstream charters should be completed during or shortly after the kick-off workshop, and approved within a few days. Some may need to be re-worked after IL / ESC review.

C. Begin ESC, ILT and Workstream cadence

Owner: Integration Leader, Integration Leader, Functional Workstream Leaders (respectively)

Approvals: Integration Leader & ESC

Definition: Meeting cadence should be established for the ESC, ILT and each workstream during or shortly after the kick-off workshop. This varies by company, by deal size/type and by phase/stage of integration planning and execution, but general guidelines during integration planning are once a week or bi-weekly for the ESC, weekly for the ILT and twice a week for workstreams. In determining this, "E" in the previous section should be considered, so that material findings can be escalated between meetings, if needed (or emergency meetings called).

D. Phase I & II WorkPlans Developed and Approved

Owner: Functional Workstream Leaders

Approvals: ILT

Definition: Phase I & II workplans (Day 1 and Day 2-30) should be developed and approved immediately after charters are finalized and approved. This is, of course, an iterative process and the workplans are living documents, but getting the first two workplan phases as solidified as early as possible is crucial to success. There are many dependencies in the early stages (i.e. organizational changes, communications, etc.), so no time should be wasted in getting them started. For the core functions, many / most of the workplan entries will come from the appropriate Integration Playbook.

E. Hold Cross-Functional Dependency Workshop(s)

Owners: Functional Workstream Leaders / Integration Leader

Definition: As necessary, cross-functional workshop(s) should be held to discuss any cross-functional dependencies on Phase I & II workplans, to decide timing, owners of each action, etc. The first workshop should happen immediately after workplans have

been reviewed by the ILT and are considered 80% finalized. The workplans will most have to be tweaked after the workshop(s), so close coordination is required.

F. Finalize Day 1 Actions, Interim Organizational Structure and Day1 Communications / Packages

Owners: Functional Workstream Leaders / Integration Leadership Team

Approvals: IL

Definition: All actions that need to be executed *on Day 1* (Phase I workplans) need to be finalized at the detail-level in the workplans. This usually only includes a handful of things, like Interim Org Structure, communications (see Communications Plan), any town hall meetings, employee "welcome" packages, etc. Some/all of what is implemented for Org Structure may be permanent, but not many changes have to be implemented immediately.   For example, you may only opt to announce who the CEO of the combined company is and what role the former CEO of the other company is, and indicate that other changes will come in the next 30 days.

G. Hold Day 1 Readiness Review with ILT and ESC

Owners: Functional Workstream Leaders / Integration Leader

Approvals: ESC

Definition: This is a formal session, sometimes lasting up to half a day, to review all Day 1 (Phase I) actions with the ESC. Nothing reviewed with them should be a surprise, as material / Level 2 decisions should have already been escalated to the ESC. However, many times there may be details that need to be worked out, such as exact timing of communications to employees of each company, the press releases, etc.

H. Execute all Day 1 Actions (Phase I)

Owners: Functional Workstream Leaders / Integration Leader

Definition: Execution of all Day 1 actions on Day 1. This is a coordinated and combined effort of all workstreams, the ILT and ESC.

Integration Execution
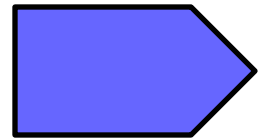
A. Execute all Phase II actions (Day 2-30 actions)

Owner: Functional Workstream Leaders / Integration Leader

Definition: After Day 1 fanfare is over, the execution of Phase II workplans (Day 2-30) should begin. It is important that these plans are finalized and approved before Day 1, so the execution can happen starting Day 2.

B. Finalize and Implement Final Org Structure

Owner: Functional Workstream Leaders / Integration Leadership Team

Approvals: ESC

Definition: Recommended organizational structures and recommendations on which roles are redundant for each function, should come from each corresponding workstream. These recommendations must be approved by the ESC before being implemented. The executive level organizational structure recommendation should come from the ILT, but most decisions usually happen during regular ESC meetings. The timing of implementation depends on many factors, but generally, the new organization should be completely in place within 60 – 90 days of closing. Open and honest communication to employees about potential redundancies / lay-offs, changes in structure, etc. is critical in maintaining employee moral.

C. Develop Phase III, IV & V actions and get approval, then execute (Day 30-90, 90-180 & 180+ actions)

Owner: Functional Workstream Leaders / Integration Leader

Approvals: ILT

Definition: Development and approvals of Phase III, IV and V workplans should start immediately after Day 1, in parallel with the execution of Phase II workplans.   For the core functions, many / most of the workplan entries will come from the appropriate Integration Playbook. Execution of each should start at appropriate time intervals.

D. Phased Transition to Business as Usual

Owners: Functional Workstream Leaders / Integration Leader

Definition: Transition of each major task to Business as Usual should be part of all workstream workplans. It is important that this transition for each major area of integration, for every workstream, be considered part of the integration workplan, to ensure smooth transition to Business as usual. Some pieces may move to BAU within the first 30 days, while some may take much, much longer. This has to be closely managed.