



*Positioning for deal success*

**Effective execution across the transaction cycle**

Towers Watson has the experience, knowledge and expertise to help your organisation achieve its deal objectives, no matter the nature of the deal, where it's taking place, over what time frame and within what sector.

# Capitalising on the promise of the deal

## The benefits of experience

Economic cycles certainly affect the nature and timing of corporate transactions, but rarely their essential purpose. In both tough and flush times, organisations look to an acquisition, merger, divestiture or spin-off to expand market share or competitive strength, cut their losses on unprofitable or nonstrategic businesses or otherwise reorganise for efficiency and growth.

While recessionary periods may bring a slowdown in transaction volume, they can also be a surprisingly successful period for merger and acquisition (M&A) activity. This has, in fact, proved to be the case for many of the deals completed even in the worst of the financial crisis (see facing sidebar).

What does this mean for the next few years? Quite simply, that successful transactions can take place in any economic cycle if they're undertaken for the right reasons and supported by the right planning and implementation.

We believe there are three criteria fundamental to deal success:

**Strategic rationale:** Having a clear, shared and well-articulated business basis for the transaction that holds through market cycles.

**Focused due diligence:** Evaluating all of the obvious and not-so-obvious financial risks and benefits of a proposed transaction with requisite speed and appropriate caution.

**Effective execution:** Putting full organisational muscle behind the execution process – and beginning planning very early in the transaction cycle.

These are the building blocks that frame successful transactions, regardless of economic climate, type of deal or geographic scope. While cross-border deals bring added complexities that call for specialised knowledge and expertise, the same principles that drive success in a domestic deal come into play in global transactions as well.

Since deals will always be a potentially attractive path to renewal and growth, particularly in industries where consolidation may be one of the only choices for survival, it's more essential than ever that companies become experts at "cracking the deal code." That means moving faster and more effectively to deliver on both strategic purpose and financial promises without assuming undue risk.

## Spotlight on research: Deals deliver financial value

Towers Watson's Deal Performance Monitor, conducted with the UK's Cass Business School, analyses the financial performance of global deals (\$100 million or greater) completed each quarter that meet specific criteria. The longitudinal study began in 2005 to provide a quantitative analysis of worldwide M&A deal results. The initial phase compared the first full year of the 2004 merger wave against prior merger cycles using public data from a number of sources, including the MSCI World Index, and showed that on average deals in that wave, in contrast to prior cycles, improved financial performance for the acquirer.

Recent data continue to bear out the fact that today's deals are more likely to create than destroy financial value. In 2009, for example, examining the full year of performance from deal close to end of year, buyers continued to outperform the market, as measured against the MSCI World Index.

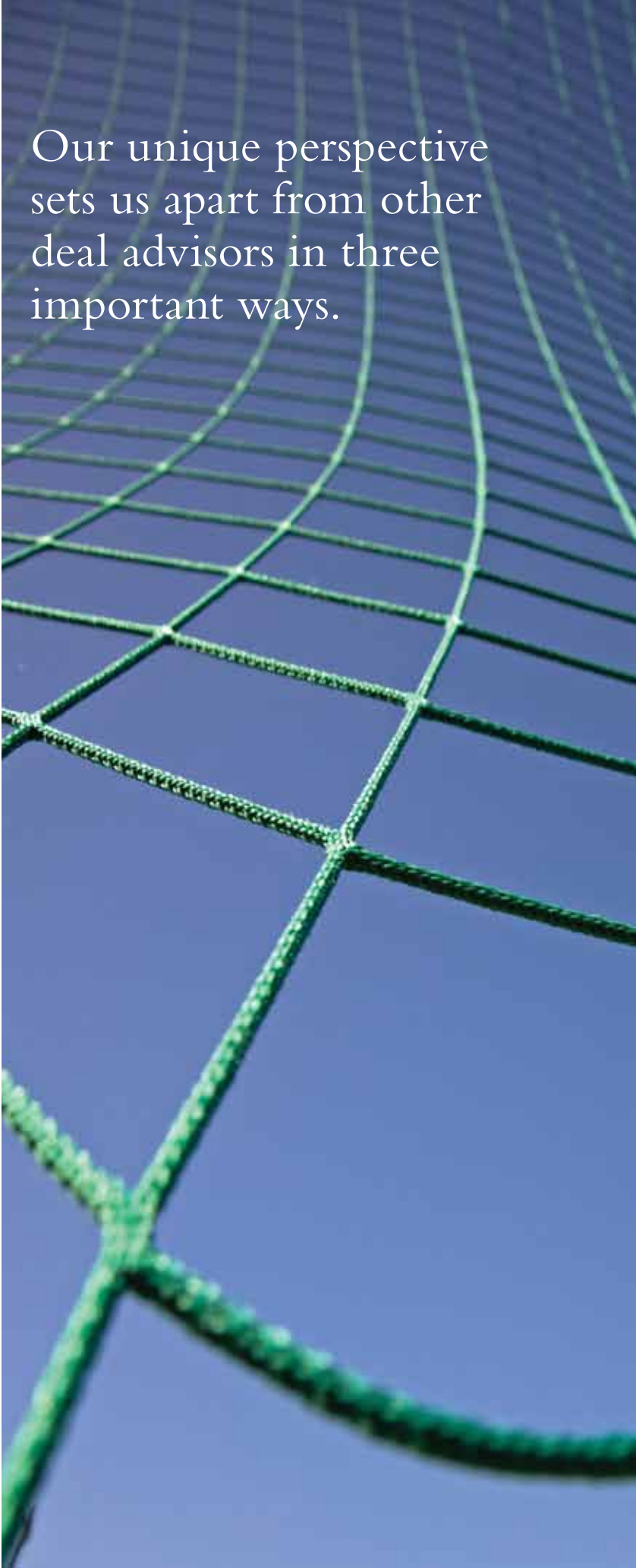
Whatever the state of the global economy over the next few years, it's a sure bet business risks will continue to increase, along with pressures to demonstrate the financial value from a deal.

Towers Watson has the experience, knowledge and expertise to help your organisation achieve its deal objectives, no matter the nature of the deal, where it's taking place, over what time frame or within what sector.

Our global team has worked on hundreds of transactions across industry sectors and geographic borders, participating in every phase from target evaluation, through due diligence, to post-deal integration.

This breadth of experience, coupled with our extensive knowledge of the employee mindset and human resource and benefit issues, gives us a strong foundation to help you make the right decisions for your workforce. Our practical experience also means we know how to shape solutions to reflect specialised industry and cultural distinctions and nuances. While we understand that each deal is as unique as the organisations entering into it, we also know how to apply a time-tested set of processes and tools to bring clarity, efficiency and order to what often feels like a chaotic process, regardless of the particulars of the situation.

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Our unique perspective sets us apart from other deal advisors in three important ways.

## Intelligence

by which we certainly mean intellect, but also, and more importantly, information and data.

We conduct research on a broad range of organisational programmes, processes and behaviours to understand what it takes to create and sustain a productive, high-performing work environment and how to apply that knowledge in a deal situation. We bring these data to bear in both large and small ways to evaluate and mitigate the effects of change on employees, corporate culture, leadership style, communication and a host of related issues.

For instance, when a U.S.-based food and beverage company made an acquisition that gave it, virtually overnight, a significant presence in 15 countries, we drew on our extensive database of country-specific HR, compensation and benefit regulations and design approaches to create a rapid fact base for decision making. We also brought in local teams in all affected countries to recommend ways to harmonise local practices appropriately within a global structure that hadn't existed before.

**Knowing what questions to ask.**

**Building on a firm technical foundation.**

**Finding the right information and data.**

**Seeing patterns and making connections.**

# Insight

by which we mean *how* we apply our intelligence to your company's unique situation.

Think of this as the ability to draw relevant conclusions – those yielding practical solutions – from our comprehensive market knowledge. It is also where our collaborative partnership becomes essential. We marry our intelligence gathering, experience and technical expertise with your own unparalleled knowledge of your organisation and the goals for the transaction. From that joint sharing of knowledge and testing of ideas and approaches comes the path forward.

For instance, if the strategic purpose of a deal is to acquire specialised talent – say, a high-powered R&D team renowned for innovation – what are the risks of failing to retain that team post-deal, and what actions will mitigate that risk and dramatically increase your chances of meeting the goal? Our knowledge of what drives employee behaviour in a period of transition and turmoil, and how to address the impact of change on people, can spell the difference between success and failure in a situation like this. Or suppose the goal of a deal is to enter a new market as the low-cost producer. How will the target's current labour cost structure affect that, and what are the implications of significant changes to the cost structure in terms of sourcing, retaining and motivating talent? In thinking about the people implications of a transaction, it's critical to consider not only how behaviour affects performance, but also how possible changes in the cost of people programmes could affect business operations and financial decisions.

**Understanding.**

**Inspiration. Collaboration.**

**Clarity. Answers.**

# Impact

by which we mean the business impact for your organisation, and the impact on the people, processes, systems and culture of the organisations involved in the transaction.

The key point here is that the right deal outcome from a business perspective rests to a surprisingly large degree on managing the impact on the people and processes inside both affected organisations from the day the deal is announced through close and well beyond.

We bring more than 75 years of experience in this area, along with a precise focus on people, now widely accepted as a make-or-break aspect of most transactions. And, as noted, we define the people implications comprehensively and holistically, from the leadership teams deeply involved in the process, to the key talent critical to retain and engage, to the employee population as a whole.

**A tangible result.**

**Transformation.**

**Often an evolution.**

**Sometimes a revolution.**



## The significant seven: The keys to deal success

Through our work on a range of corporate transactions, we have identified seven areas that materially affect the success of a deal. They come into play across every stage in the M&A life cycle to greater or lesser degrees, but they are areas that cannot be ignored or given short shrift in any stage. Experience shows these are essential elements in the success of a transaction.

- 1. Leadership.** During periods of organisational transition and disruption, employees look first to leaders for guidance, motivation and focus. Towers Watson research shows that leadership becomes the most important driver of employee engagement at such times. **We'll help you determine the skills required of leadership, align views and styles of the leadership teams involved in the deal, and support consistent messaging and communication.** Our global team has special expertise in designing leadership staffing, selection, compensation and retention programmes.
- 2. Culture.** Whatever the nature of your transaction, it's essential to align cultures and values and ensure company leaders rally around a common mission and vision. **We'll work with you first to identify the requisite culture based on your strategic imperatives. Then, together, we'll build and sustain a corporate culture that reinforces your new strategy and rewards desired behaviours across the workforce.** We'll also help develop change management and communication strategies for the transition and align those activities with other integration work streams for as seamless a transformation as possible.
- 3. Communication.** Clear and compelling communication is critical during any corporate transition. **We'll help you create a communication and messaging framework that supports employee engagement and maintains a focus on driving business performance. And we'll help you prepare the right communication strategy, materials and processes – from the pre-deal stage through integration – to address all organisational stakeholders.**
- 4. Talent.** Creating a talent management plan that projects the number, mix, skills and cost of employees needed to meet business objectives is a key component of any M&A. Rationalising the merged workforce to achieve required cost savings while retaining and engaging the right mix of leaders, managers and employees is something of a balancing act. **We'll help you get the right people, with the right skills, into the right roles for both the short and long term.**
- 5. Compensation.** Harmonising the compensation strategy and programmes to drive employee attraction, retention and engagement at the right cost is core to success. **We'll work with you to conduct side-by-side analyses of compensation programmes from both entities to understand liabilities and integration challenges and create appropriate salary structures and a career framework.** Using our proprietary global compensation databases, we can benchmark your programmes against competitive norms and best practices to recommend the right total rewards strategy.
- 6. Benefits.** In this arena, as with compensation, we can help you analyse retirement, workplace, work/life, time-off and perquisite programmes from both organisations to understand the liabilities, compliance risks and integration challenges. Again, we look to our proprietary global databases to benchmark programmes against competitive norms and best practices to recommend the right benefit levels and structure. Our focus is on **balancing employee attraction, retention and engagement needs against cost and risk factors to identify the appropriate programme and policies for the new organisation.**
- 7. HR service delivery.** Throughout the integration process, ensuring seamless HR service delivery, with minimal disruptions, can positively impact workforce engagement and productivity. **We'll help you define and design the future structure of your HR service delivery model. And we'll assess, select and integrate HR technology systems to support the needs of the new organisation.**

# Getting practical:

## How we work with you through the life cycle of an M&A deal

Our approach is consultative, not prescriptive. We listen, we learn, we challenge, we discuss and together we identify the right approach and tactics, whether you are a first-time buyer or serial acquirer.

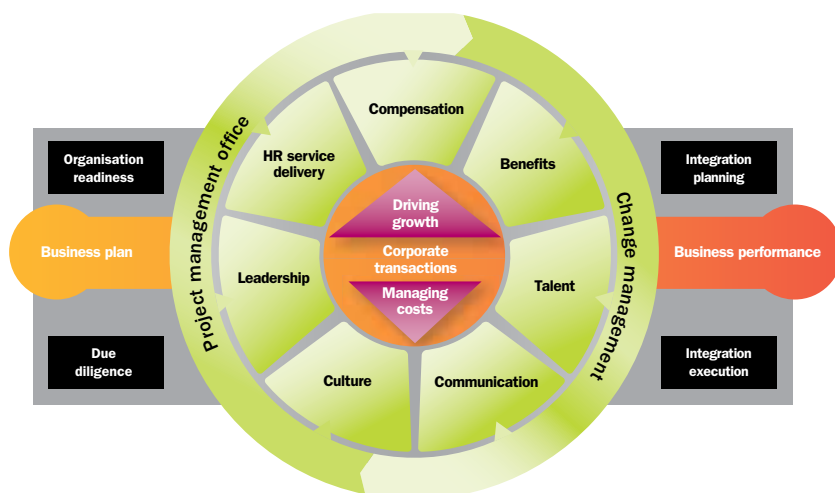
We are guided throughout by your needs, resources and time constraints. That means you get only what you need – a full evaluation of benefit liabilities, a cultural fit assessment, a key talent retention programme, a pair of hands for project management or full end-to-end support – only when you need it. And that holds true regardless of whether you're embarking on a small, domestic acquisition or spin-off or considering a merger with a competitor of roughly equivalent size – or any combination in between.

As our M&A framework illustrates, we ground our work in an understanding of the four stages of a transaction and the decisions and actions required in each stage. But equally important, we understand how those decisions and actions ripple through and influence decisions at subsequent stages, and we rely on seven areas of critical value (see "The Significant Seven: The Keys to Deal Success," page 6) to identify, address and manage those ripple effects and implications in ways that ensure the best overall outcomes.

### Stage 1: Organisational readiness

*Are there any deal breakers or red flags? Has your organisation defined the competencies required to deliver on its business strategy? Will you have the talent and skills ready and in place when the right opportunity arrives?*

We help clients prepare for a transaction from both an external and internal perspective. Externally, we work with your transaction team and other advisors as appropriate to evaluate a target's fitness in terms of its workforce and culture. We compare leadership style, talent management programmes, cultural and communication style, HR and related workplace programmes and practices, and a host of other factors to identify areas of commonality and difference that will impact integration.



Internally, we help you understand what will be required of your internal teams, particularly your HR function, including the specific capabilities needed to integrate two organisations effectively. As needed, we can also provide training for HR and other functional professionals to ensure that your people have the right knowledge and skills to rise to the challenge of an M&A. Being 'deal ready' makes all the difference, as our research shows that the earlier HR are involved in a deal, the more successful that deal tends to be.

In a 2009 survey of HR executives, of those who considered their M&A deal was very successful, 81% were involved at integration implementation stage compared with 61% who considered their deal was less successful. Similar figures revealed that of HR executives involved in integration planning, 74% considered their deal was very successful where 54% felt these less successful.

Where HR executives were involved in due diligence work, 60% considered their deal to be more successful than the 38% who were not involved in the deal.



## Financial due diligence: Forewarned is forearmed

Effective due diligence is a cornerstone of sound deal management and typically covers a range of key areas, from finance and operations to culture to technology. In the financial arena, we focus on uncovering sources of “big” numbers (liabilities, net debts, failing sources of income) and what those mean for the deal immediately and over time. Among the key areas we probe:

### Executive contractual issues:

What’s triggered by the deal?

- Contractual change-of-control agreements
- Accelerated stock agreements
- Accelerated pension agreements
- Lifetime medical promises
- Additional severance agreements
- Other perks

### Retirement and related plans:

What is the financial impact of unfunded, underfunded or under-reserved plans?

- Defined benefit plans
- Cash balance plans
- Termination or severance plans
- Postemployment medical plans
- Other postemployment benefit plans and programs

### Cost structure:

Is the target producing products and services competitively? How does its cost structure compare to acquirers?

- Total cost of employment vs. market (employment production costs vs. the “norm”)
- Executive and managerial total compensation costs vs. market vs. buyer

### Integration strategy and costs:

...if target is to be integrated

- Cost of benefit platforms now and if integrated
- Reduction in force costs and legal restrictions
- Retention and severance costs

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## Stage 2: Due diligence

Do you have a clear and comprehensive understanding of the transaction's full costs for your organisation – including total costs of the target's pension, health care, retiree medical and related reward programmes? Have you considered the capabilities you could be acquiring from the target company's talent pool? How well do you think the cultures would align?

Once just an implementation afterthought, corporate benefit programmes – pension plans in particular – now demand a thorough assessment of financial liabilities. More than one proposed M&A has been called off in recent years after due diligence exposed unforeseen pension liabilities.

At its core, due diligence is the connective tissue that helps affirm or refute key assumptions and information gathered in the target evaluation phase informs deal negotiations and also lays the groundwork for the specifics of integration.

We identify a deal's people-related costs and give your transaction team quantitative and qualitative input that directly affects target pricing. Our assessment captures and validates inherited or 'triggered' people-related costs, including financials related to integration activities, so you have a solid base of financial information for downstream integration planning. While the primary focus is on core reward components – particularly benefits and compensation – our due diligence extends to other areas as well, including leadership selection and development, and the creation of a corporate culture that will support the new organisation and technology systems. Accurately assessing the cost impact of cross-border deals before the fact is especially critical for protecting and enhancing shareholder value.

When a global specialty pharmaceutical company purchased the pharmaceutical unit of a consumer products company, we had a small window to evaluate all the HR-related liabilities the buyer was taking on, as well as identify disparate global programmes, different HR organisational models and the implications of a limited HR delivery structure in key parts of the world. Through our comprehensive due diligence work, which helped us begin integration planning almost immediately, the buyer met its goal of having payroll and benefit administration up and running within three months of the deal announcement.

Our insurance industry expertise also positions us to bring a unique dual perspective to transactions for both life and health and property & casualty insurers. We have the technical knowledge and tools to evaluate the business and financial aspects of the proposed deal – valuing a target's book of business, reserves and other critical financial factors to ensure that the deal makes sense financially and strategically – as well as the experience on the operational and cultural sides to oversee successful implementation should the deal go forward.

For example, when a private equity firm acquired a specialty insurance producer, we used a combination of interviews, quantitative analysis and on-site due diligence to provide a comprehensive analysis of the liabilities and profitability of the target company's warranty insurance book as well as the additional noninsurance value of the producer. In another situation, we moved the buyer and seller of a closed block of life and annuity business beyond an impasse on the price, assisting in the negotiation and designing a solution that addressed the buyer's concerns about the mortality assumptions used.



“Successful change is both a rational and emotional process. It includes understanding employee needs, desires and fears, and then factoring those insights into your own business objectives, needs and unique situation.”



## Spotlight on research: Managing people through a transition

As part of Towers Watson’s commitment to understanding employee behaviour and its impact on performance, we conduct a biennial study of the global workforce to identify the drivers of attraction, retention and engagement, and evaluate attitudes about the workplace and key programmes and processes. In our 2010 study, we looked specifically at the subset of employees in North America, Europe and Asia Pacific whose companies had been through a merger or acquisition during the preceding year.

Broadly, we found fascinating similarities and differences in views about a deal’s impact on employees, all of which help shed light on effective ways to engage employees in the change process in different parts of the world. Among our key findings:

- M&A activity loosens the ties between employees and the organisation virtually everywhere in the world. Employees touched by a transaction are more likely than others to consider or actively seek other employment options.
- North American employees were most negative about the experience – less engaged and more frustrated by workplace conditions than peers not affected by a deal.
- In Asia Pacific, the situation was quite different, with those touched by an M&A more positive than their peers in the region on a range of organisational issues. This likely reflects the region’s growth focus, with the rationale for deals more about expanding business than supporting industry consolidation or retrenchment.
- European employees occupied a middle ground – remaining as engaged as other employees and more confident than others that they could meet key needs in the workplace – but also more open to new job offers and more frustrated than peers who didn’t experience significant corporate change.

This study, and others we conduct, underscore the importance of understanding how change affects people and, in turn, how people’s behaviour in the face of change can affect organisational performance and the speed or efficiency with which an organisation achieves its transaction goals. For more information on our Global Workforce Study and other relevant research, visit: [www.towerswatson.com/research/](http://www.towerswatson.com/research/)

## Stage 3: Integration planning

What are your internal capabilities to manage integration? Have you committed sufficient full-time resources to the effort? Where do you anticipate the greatest 'pain points' and are plans in place to handle those? What risks do you face in loss of key talent or rising employee disengagement?

Once the deal has closed, the hardest work begins. Depending on how much change it brings for individuals across the organisation, it tends to usher in a period of intense highs and lows that can cut into productivity and raise anxiety. People will likely have new managers, different colleagues, new tasks and, often, different pay and benefit programmes. Keeping operations running smoothly takes planning, time, resources and focus.

Building on the due diligence findings, we'll help you assess your current people programmes and develop detailed integration plans across all seven areas of critical value. We emphasize prioritising activities for getting to Day One and the first 100 days following deal close, and equip HR and other functions for this pivotal period and beyond.

For instance, when a diversified consumer products company acquired a billion-dollar brand that roughly doubled its size, we helped develop a detailed organisational blueprint for integration, which included a new approach for leadership decision making and shared set of programme priorities, and designed a comprehensive talent strategy to retain resources critical to the business's long-term financial viability.



### Inside the insurance industry: specialised expertise

Towers Watson has extensive experience guiding many of the world's leading life and property & casualty insurers through complex merger, acquisition, sale and restructuring transactions. Our insurance consulting business, which specialises in transactions for the industry, draws on our deep industry knowledge and quantitative expertise, with a focus on valuation, understanding capital requirements, due diligence and restructuring options. We collaborate seamlessly with other M&A advisors – including bankers, lawyers, accountants and tax experts – analysing every aspect of a transaction to provide essential data, insights and perspective for decision making and execution.

For more information on our insurance M&A consulting offering, please contact your Towers Watson consultant or visit us at:

**[www.towerswatson.com/services/Insurance-Industry-M\\_and\\_A-Consulting](http://www.towerswatson.com/services/Insurance-Industry-M_and_A-Consulting)**.



## Inside private equity: Meeting new challenges and mastering opportunities

The private equity (PE) environment looks very different today than it did in prior decades. The ‘invest and flip’ model of acquisition has all but disappeared – perhaps for good – replaced with a return to PE’s actual roots of long-term value investing. PE acquirers need to be more ‘hands on’ than ever before, presenting them with new challenges – and tremendous opportunities – in fully realising the long-term value of their acquisitions.

While capturing hidden cost synergies that produce a quick return on investment certainly remains important, such savings alone are not likely to generate a sufficient or desired long-term return. Sustaining growth over time depends on a more comprehensive focus on the organisation and workforce, ensuring alignment between the business strategy for growth and the people, roles, skills, processes and rewards required to ensure the workforce can deliver on that strategy consistently and efficiently.

Based on our extensive experience in both the risk and reward sides of an M&A transaction, we’ve designed a range of services tailored to the unique needs of PE funds and other serial acquirers. Our services cover all stages of the acquisition – from due diligence through integration execution – and focus on delivering returns to investors. Our approach – building on the ‘significant seven’ critical areas of value outlined on page 6 – enables our clients to reduce costs and leverage human capital to execute their vision and achieve the returns they need.


For more information on our private equity solutions, contact us at [www.towerswatson.com/contact/](http://www.towerswatson.com/contact/)

## Stage 4: Integration execution

Are you prepared for the people and culture challenges that accompany an M&A? Have senior leaders articulated the 'new' or evolving mission and vision, and made it clear and meaningful to employees? Is there a compelling definition of the new employee value proposition that will serve as the umbrella for programmatic changes and ongoing communications?

Successful change is both a rational and emotional process. It includes understanding employee needs, desires and fears, and then factoring those insights into your own business objectives, needs and unique situation.

Towers Watson's proprietary tools and techniques address the full range of change management challenges: change integration consulting, team building, conflict resolution, training design and development, employee engagement surveys, leadership development, personal and group communication development, systems analysis and process re-engineering. We also use scorecards and metrics such as retention risks and costs, to ensure key milestones are hit.



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## Trying it all together:

### Project and change management offices

Our project and change management expertise rounds out our approach to successful transactions, regardless of whether you're looking for an end-to-end approach or just occasional, discrete project support. We will establish processes and programmes that assimilate change management principles into each step of the integration plan as well as implementation of that plan.

A project management office will maintain the overall set of objectives and coordinate day-to-day

work streams with an eye toward sustainable change, long-term growth and shareholder value. Strategic oversight of the project and change management offices is provided by a joint Towers Watson–client committee. Our experienced M&A consultants provide strategic advice throughout the process, helping you to anticipate rough patches and develop plans to smooth them out.

## Spotlight on research: HR readiness and M&A success

Towers Watson research shows that the earlier the HR function gets involved in a deal, the better the prospects for successful integration throughout the organisation. When people are engaged in the right activities, individual and company performance almost always improves. From a workforce standpoint, 'fully ready' companies – where HR understands how to provide expertise and leadership to manage change, integrate different cultures, achieve staff synergies, retain key talent, maintain employee performance, and evaluate compensation and benefit programmes appropriately – are significantly more likely than others in their industry to deliver above-average shareholder return.

We have a standardised M&A Readiness Training Kit designed to help you get your HR team M&A-ready. Using this kit in combination with our Integration Planning Workshop gives you a 'just in time' prepared team and set of tools to manage your next deal efficiently and effectively.



**Our 14,000 associates in 35 countries work together to deliver the perspectives that give your organisation a clear path forward.**

**Asia Pacific**

Australia, Greater China, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam

**Europe/Middle East**

Austria, Belgium, France, Germany, Ireland, Italy, Netherlands, Portugal, Russia, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom

**Latin America**

Argentina, Brazil, Chile, Colombia, Mexico, Uruguay

**North America**

Bermuda, Canada, United States

## About Towers Watson

Towers Watson is a leading global professional services company that helps organisations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

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