Post-Merger Integration in Software

BCG has extensive experience in software and supporting Post-Merger Integrations

Number of client assignments by topic and region over the past 10 years

	Americas	EMEA	Asia-Pacific
Operations	58	33	5
Marketing and Sales	90	42	21
People and Organization	32	26	13
Corporate Development	73	95	21
Strategy	80	47	23

Growth-oriented complex technology integrations

BCG has extensive integration experience

Integration is one of the largest topics for BCG, representing **greater ~10+% of our annual revenues**

Helped clients integrate **more than 550 mergers** and acquisitions in the last five years. Most are multinational or global
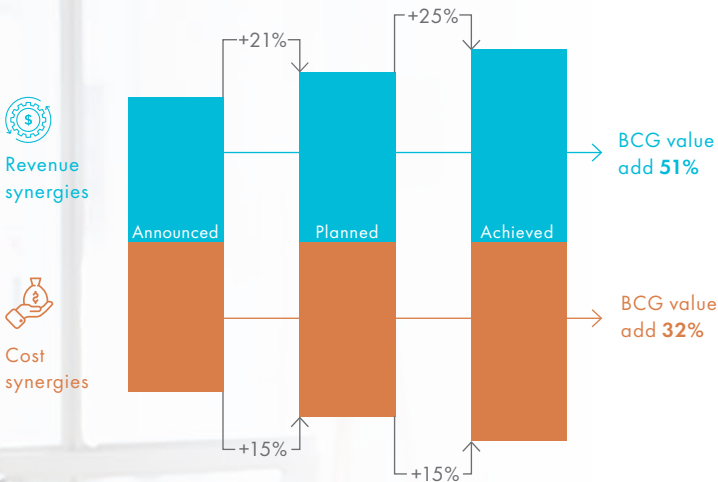
Supported deals with cumulative value of **more than $3 trillion**

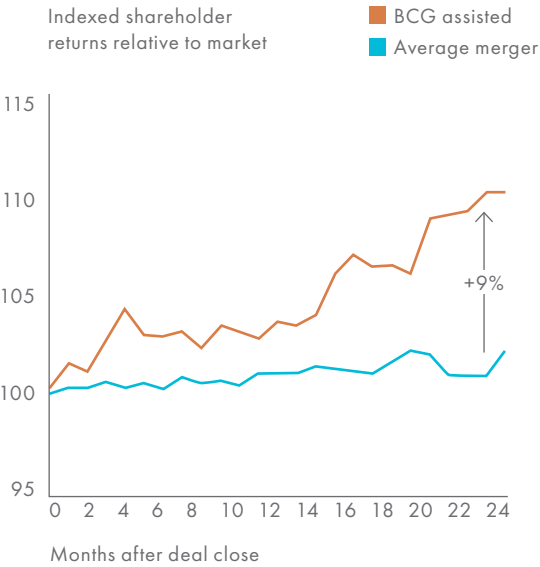Accumulated **more than 8 million hours** of experience supporting PMIs

BCG-supported integrations systematically over-deliver on synergies

Creating 9%+ more shareholder value

Revenue synergies

Cost synergies

+21%

+25%

Announced

Planned

Achieved

BCG value add **51%**

BCG value add **32%**

+15%

+15%

Indexed shareholder returns relative to market

■ BCG assisted
■ Average merger

115

110

105

100

95

0 2 4 6 8 10 12 14 16 18 20 22 24

Months after deal close

+9%

10 imperatives

for success in Post-Merger Integrations (PMIs) in software

1
Define first principles—the objectives and philosophy of the merger—and design the PMI to reflect them

2
Manage the PMI in **iterative sprints** and empower leaders to make decisions with a **bias for action**

3
Organize **cross-functional teams** to mirror the value drivers of the merger—and staff them with the best people

4
Focus integration planning on ensuring **speed of integration and synergy capture** post Day 1

5
Enable the sales force to begin **cross-selling** on Day 1

6
Align product roadmaps early and communicate to customers to reduce uncertainty about products' futures

7
Identify the **cultural differences** between the two companies and actions needed to adopt the buyer's culture

8
Track morale through pulse checks and take corrective change management actions

9
Manage talent carefully—use segmented approach for talent retention and focus on high-risk areas (e.g. developers)

10
Plan for business continuity on Day 1 by having a clear view on what is changing and pressure-testing plans

The BCG difference in Software integrations

Transformed new company

Accelerated growth

Value creation

Execution certainty

New purpose, vision and strategy
New operating model
Culture design and implementation
Equity story

Integration objectives

"One company" customer experience
Growth opportunities identified and captured
Product and service roadmap alignment

Shared integration vision and strategy
Day 1 business continuity
Faster progress towards end state while protecting business momentum
(Over)delivery on cost synergies
Key talent retention and engagement

Deep knowledge of software industry and target end markets
Strategy and intellectual creativity are our DNA
Proprietary, practical culture and change management toolkit
Proprietary, data-driven TSR toolkit to ground investor strategy
Proven, best practice benchmarks and models for high-performing software and SaaS companies

Deep functional experts on the ground in critical areas (GTM, Engineering, Development, IT, etc.)
Strong experience in global delivery models (offshoring and nearshoring)
Able to act with 'one face' to customers from Day 1
Differentiated approach for different integration models
Faster time-to-revenue synergies

What BCG brings

Agile, value-focused, battle-tested PMI approach and tools
Agile IMO
Independence, focus, and pace
Executive perspective
Collaborative style to orchestrate cross-functional efforts

BCG survey identified
critical value drivers for software integrations

Q: Rank the top three reasons why you felt the deal was successful

Reason	Ranked #1	Ranked #2	Ranked #3
Defined a clear culture and way of working	20	12	4
Allowed for joint development of new features on existing products to best meet customer needs	9	16	3
Provided access to new markets/customer segments	7	12	6
Shortened time-to-market for new products, reduced speed of innovation	10	8	4
Strong change management and communication	12	6	1
The company was able to cross-sell the product offerings of the original companies	9	3	6
Allowed for joint development of new integrated products/solutions to best meet customer needs	9	3	3
Successfully delivered on cost synergies	6	6	3
Significantly improved market share and bargaining position in key markets	3	7	3
Financial performance of the combined company outperformed the market	4	7	1
Provided access to key talent that is important for our performance	6	3	2
Developed a clear operating model and org design	4	3	3

Shown as percentage of respondents (%)
- Ranked #1
- Ranked #2
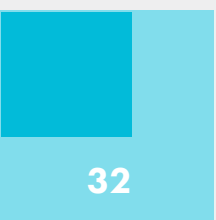- Ranked #3

Culture

Revenue growth

Product alignment

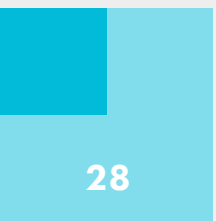# Four areas that could have gone better in integrations

Q: In your view, what could have been done differently to make the integration more successful?
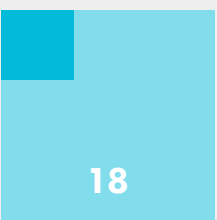
Percentage of respondents (%)

32

Collaborative approach to develop new organization's policies, such as HR and retention policies

- Both...should be familiar with each others' policies and work on a common way to make a match of both companies policies

18

Improve overall integration planning and execution

- The effective planning of integration should have been clear during the initial phase to avoid delay in the entire process of integration

28

Prioritize customer experience

- Focus should be on target customers—providing them best service and experience will help the company grow

13
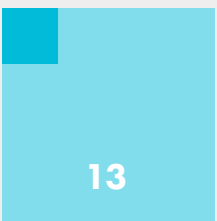
Implement change management that unified the two companies

- To make the integration process smoother, companies must adapt to the new employees' behavior and their respective demands

Key risks to consider for Software integration

Talent retention, especially for software developers

Revenue dip after deal close due to uncertainty of products

Setting the right ambitions for value creation

Culture not aligned

Not prepared for Day 1 and beyond

Our approach for successful software integrations

Align product portfolios

Define new roadmap and optimize overlapping platforms and products

Align shared platform components and develop go-forward development methodologies

Align packaging and pricing strategies

Accelerate the go-to-market alignment

Ensure no risk of disruption to customers—with focus on overlap

Maximize revenue synergy potential

- Fast enablement of cross-selling
- Medium and long-term opportunities

Capture cost synergies quickly

Consolidate corporate functions, systems, offices (excluding sales and product development)

Leverage increased bargaining power with vendors

Redefine the operating model, org design, and talent management

Vision, medium-term aspirations, strategy, and operating model

Create a deliberate company culture

Operate as a unified company: shared purpose, values, and desired behaviors

Establish value-oriented integration planning and execution

Make Day 1 a 'non-event' and provide execution certainty

Develop rigorous integration plans for Day 30, Day 100, Year 1, etc.

Product development integration planning

starts pre-close to accelerate synergy realization

Close	Close + 3 months	Close + 6 months

Initial hypotheses based on current portfolio and publicly available information

Portfolio rationalization

Plan to optimize identified overlaps in existing products to maximize revenue opportunity and cut costs

Roadmap integration

Including new joint product development opportunities, consistent with combined strategy and R&D opex envelope

Development methodology

Migrate to common approach for product development

Rollout new methodology approach, if needed

Product management

Outline product management structure for go-forward organization and identify leadership

Shared platform components

Evaluate the benefits of shared platform components vs. unique applications to balance flexibility and economies of scale

Policy alignment

Plan to share technology across both legacy orgs and converge on common open source policy

Integrated go-to-market approach should encourage sales forces to cross-sell immediately post-close

Example of software client

Identify high-level sales organization	→	Overlay sales forces on Day 1	→	Align incentives	→	Prepare for cross-selling	→	Train sales forces on new products

Identify high-level sales organization

Define end state sales model

Design and staff sales leadership

Align pricing policies

Overlay sales forces on Day 1

Align existing sales forces into Day 1 org structure

Define responsibilities and expectations for sales forces

Prepare systems to enable selling (e.g. data available)

Align incentives

For any new sale, compensate both sales reps involved

Consider unintended consequences of the structure established

Prepare for cross-selling

Identify similar products from both companies to create "bundles"

Develop collateral marketing materials

Establish lead generation office to validate leads and facilitate cross-sell

Train sales forces on new products

Before Day 1, conduct global sales kick-off

Train sales force on other company's products

Outline updated incentive structure

Foster teaming and attention to expanded portfolio while protecting business continuity

BCG experience leveraged to develop ambitious SG&A cost synergy plans

Inputs into SG&A cost synergy planning

Cost synergies typically realized in SG&A functions

BCG benchmarks

Synergy Database

Excellence in Support Functions

Custom analyses

Scale curve in company/sector

Granular baselining to size overlaps

Note: Savings estimates median; Data based on recent PMIs; Ranges of savings can be found in the database Source: Synergy Database, BCG experience

Percentage of Target Co. cost baseline

28	HR
50	Strategy and corporate development
37	Finance
20	Legal
18	Facilities
13	Sales and marketing
24	IT
4	Indirect procurement (%) of combined purchase $
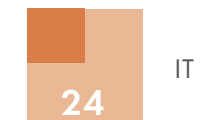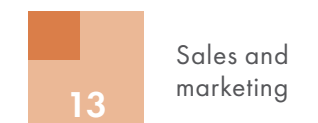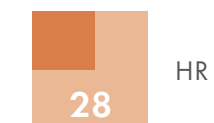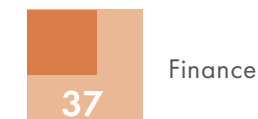
Org design: Use cascaded design process for senior layers

Cascaded design process

- CEO — Wave 1
- Layer 2 — Wave 2
- Layer 3 — Wave 3
- Layer 4 — Wave 4
- Layer 5 and below
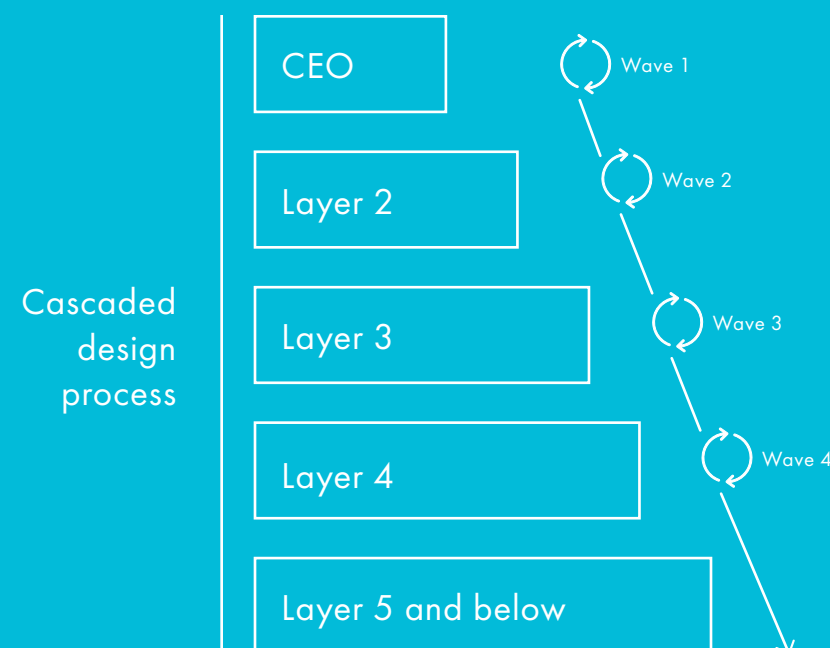
Rationale

Results in high quality of design decisions

Conducted by people closest to the work at each step in cascade

Structured workshop process to ensure high quality of design and holistic review of how the work in the organization is done

Encourages superior ownership and engagement

Managers given an opportunity to design their organization as they see best based on their mandates

Promotes values of openness and trust

Enables the organization by building org redesign capabilities across the cascade steps

Ensures horizontal alignment

Managers at each step of cascade align on how their individual designs will fit together

🎭 **Before defining the go-forward culture, need to understand the differences between legacy company cultures** → with the objective of defining go forward culture through careful change management to minimize disruptions

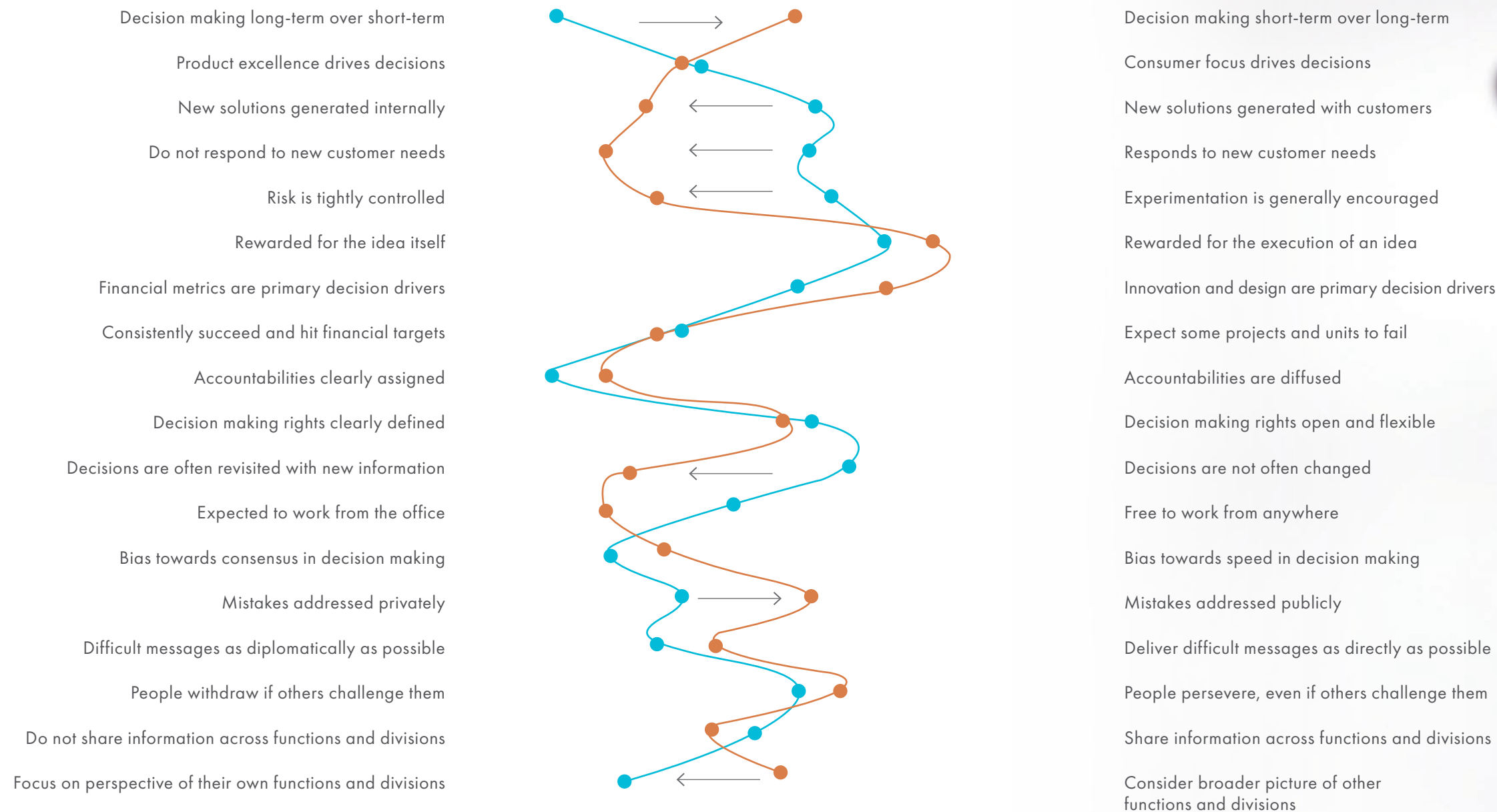**Client example**: perceived similarities and differences of 700+ survey respondents

Legacy	Go-forward
Decision making long-term over short-term	Decision making short-term over long-term
Product excellence drives decisions	Consumer focus drives decisions
New solutions generated internally	New solutions generated with customers
Do not respond to new customer needs	Responds to new customer needs
Risk is tightly controlled	Experimentation is generally encouraged
Rewarded for the idea itself	Rewarded for the execution of an idea
Financial metrics are primary decision drivers	Innovation and design are primary decision drivers
Consistently succeed and hit financial targets	Expect some projects and units to fail
Accountabilities clearly assigned	Accountabilities are diffused
Decision making rights clearly defined	Decision making rights open and flexible
Decisions are often revisited with new information	Decisions are not often changed
Expected to work from the office	Free to work from anywhere
Bias towards consensus in decision making	Bias towards speed in decision making
Mistakes addressed privately	Mistakes addressed publicly
Difficult messages as diplomatically as possible	Deliver difficult messages as directly as possible
People withdraw if others challenge them	People persevere, even if others challenge them
Do not share information across functions and divisions	Share information across functions and divisions
Focus on perspective of their own functions and divisions	Consider broader picture of other functions and divisions

Illustrative example ● Target current average   ● Buyer current average

Typical integration team structure creates central IMO and integration teams

Steering committee (SC)
- Set integration principles and direction
- Review and preference design recommendations
- Decide on best path forward to resolve issues
- Sign off progress against plans and targets

Special issue teams
- Support IMO/SC on specific non-functional or cross-functional integration issues
- Evaluate and recommend strategies to SC/IMO regarding internal and external issues impacting deal closure or other risks

Vision
Equity story
Operating model

Platform teams
- Provide specialist support to integration teams
- Define policies and processes related to core integration activities; e.g.

HR selection, retention, and severance
Baseline, synergy and one-time cost
Communications plan
Culture integration and change management

Integration management office (IMO)
- Coordinate overall integration process
- Review and challenge team output and targets
- Sets agendas for SC attention/decisions

Integration planning teams

Revenue synergies
- Opportunity maps based on product portfolio and market/customer analysis
- Prioritization of combined value propositions
- Near term enablement workarounds and execution support mechanisms

Sales
- Re-alignment of account coverage model—especially overlapping accts.
- Harmonization of lead-to-cash/sales ops processes
- De-risking customer experience
- Cross-selling activation

Engineering/technology
- Product portfolio alignment/rationalization
- Technology/IP sharing
- Joint new product development
- Development methodology alignment

Support functions
- Consolidation of HR, legal, finance, and IT orgs
- Brand/marketing programs
- IT infrastructure and applications
- Processes and policies
- Real estate footprint consolidation

Key agile principles applied in software integrations

State of the art toolkit enables rigorous tracking and execution

1 Cross-functional (multi-disciplinary) teams of ~8 people

Lean teams focused on delivering maximum value

2 Working against discrete problems with shared goals and metrics

Compressed timeline leads to completion 30-50% faster

3 Iterative sprints

Sprint based workflows combined with bias to action

4 Frequent feedback and learning

Make decisions quickly based on available data, open to iteration

5 Single leader who is empowered to make decisions

Leaders with decision-focused mindset

BCG Post-Merger Integration toolkit helps successful integration

Includes battle-tested processes, tools, templates and software to pressure test and mitigate risks

Post-Merger Integration Toolkit

KEY BY BCG

Roadmapping tool

Supports proactive setting and tracking of workplans and identification of roadblocks

Synergy Database

Synergy database

Tracks synergy data from hundreds of PMI projects with live, proprietary benchmarking

SYNERGYBUILDER BY BCG™

Synergybuilder by BCG™

Supports BCG's proven finance baselining, synergy target setting and planning methodology

OrgBuilder

OrgBuilder

Helps manage complex organization design and change efforts during PMI

Culture survey

Culture survey

Analyzes cultural differences and helps defining target culture in line with NewCo strategy and undertaking change management
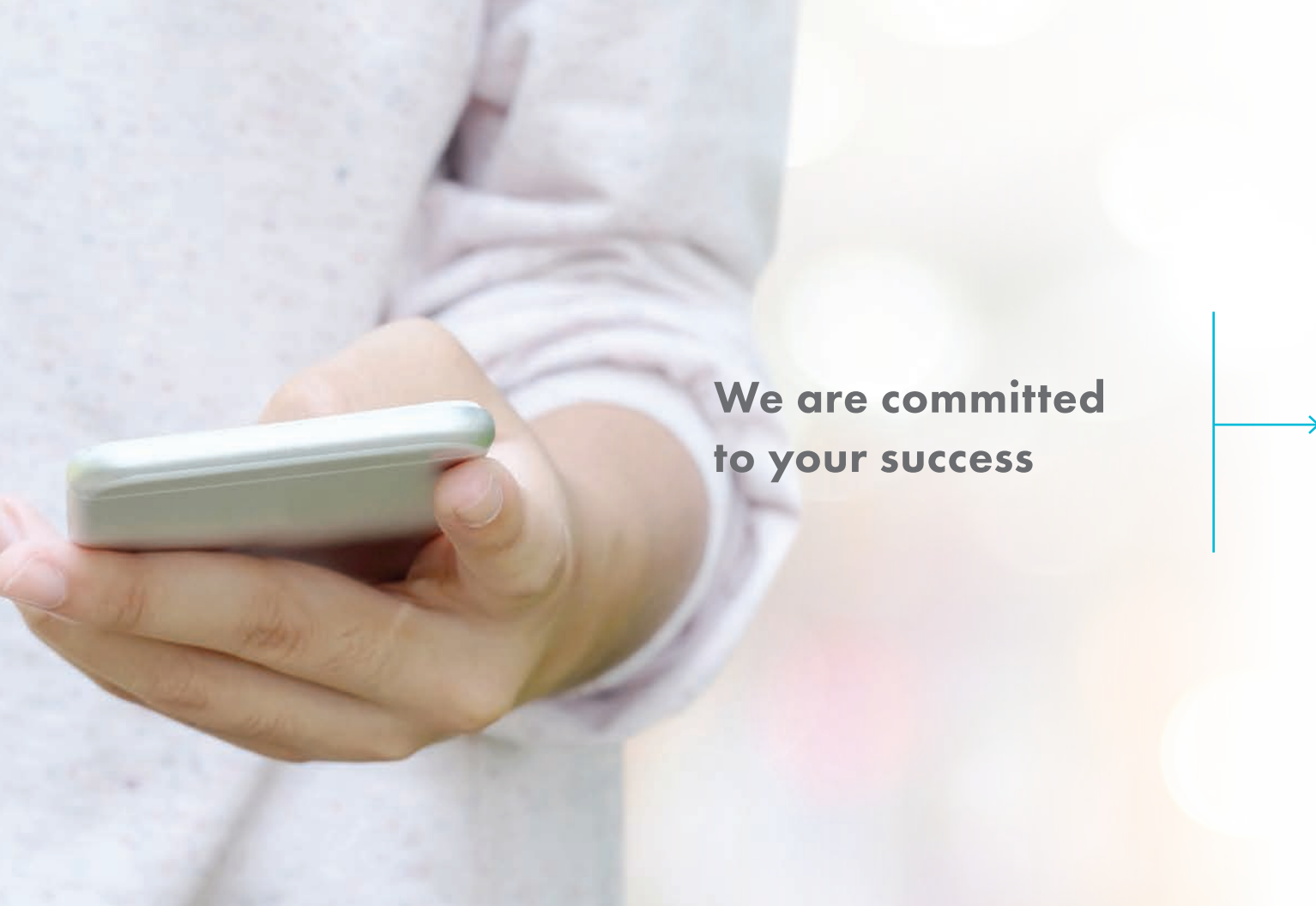
TUNED BY BCG

Tuned by BCG

Diagnoses an organization's sentiment around the progress of culture integration and change management
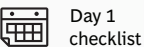
Day 1 checklist

Day 1 checklist

Provides Day 1 priority checklists by function

We are committed to your success

Highly collaborative approach

We consistently hear from clients that BCG's key differentiator is how we partner with you through the work, enable your ownership, and ultimately ensure execution and delivery of results

Serving as a thought partner

We serve as a 'sparring partner' for integration issues and beyond, helping to ensure implications for the integration across the whole business are part of the executive dialogue

Focusing on high-value work, while sweating the small stuff

We focus on the areas with the most value at stake, deploying analytical power to the deepest levels to ensure successful execution with no detail or risk ignored. Serving as a thought partner

Flexible resourcing to meet your needs

We take a transparent, collaborative, and open approach to resourcing. We view the BCG team and your team as 'one team'. We revisit resource levels constantly and mutually agree to any changes on a scheduled (typically bi-weekly) or ad hoc basis

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BCG experts in Software Post-Merger Integrations

Derek Kennedy
Senior Partner and Managing Director
San Francisco
Kennedy.Derek@bcg.com

Global leader for Technology sector

Daniel Friedman
Senior Partner and Managing Director
Los Angeles
Friedman.Daniel@bcg.com

Leads BCG's Post-Merger Integration practice in North America

Roger Premo
Partner and Managing Director
Boston
Premo.Roger@bcg.com

Global leader for software and SaaS topics

Max Hong
Partner and Managing Director
San Francisco
Hong.Max@bcg.com

Experience in due diligence in private equity for M&A in software industry

Antonio Varas
Partner and Managing Director
San Francisco
Varas.Antonio@bcg.com

Member of Technology practice and global lead for Post-Merger Integration in Technology industry

Lianne Pot
Partner and Managing Director
Los Angeles
Pot.Lianne@bcg.com

Core member of Post-Merger Integration Practice with Technology expertise