TRANSACTION SERVICES

Doing Deals in Tough Times

Best Practices of Leading M&A Teams

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Tough Times Ahead

Although 2007 was a record-setting year for global mergers and acquisitions (M&A), the current credit market suggests that conditions will become significantly more challenging for acquirers in the immediate future. Banks and other financial institutions have been particularly hard hit –analysts estimate that sub prime losses could reach $400 billion, and with their balance sheets in disarray, banks have not been eager to fund new transactions. *Investor's Business Daily* estimates that sponsor deal volume will fall 30 percent in 2008 and strategic deals will fall 10 percent. Because of these conditions, lenders are now imposing tougher hurdles on dealmakers and forcing them to better articulate and justify their future expected cash flows.

Of course, even in tough times companies will continue to make acquisitions. However, today's difficult financial environment will put added pressure on companies to succeed. Companies that are fortunate enough to finance their deals will understand that they have a smaller margin of error. Managers who are relying on new synergies will find themselves racing against the clock to prove that their value proposition is real and to satisfy the terms being enforced by lenders. In addition, the softer economic times will further challenge acquirers to capture new revenue synergies, which will place more importance on faster cost-reduction initiatives. Any deviations between actual results and the original forecasts will place added scrutiny on a transaction's economics.

What this means for acquirers is that achieving success in today's environment is both more important and more challenging. Since many companies have not historically been successful at creating value through M&A, corporate development teams need to quickly focus on how to improve their M&A approach.

The good news, however, is that there are still some companies that have proven how to continually succeed at M&A. Although only one-third of transactions create value, according to analysts many of these are represented by a concentrated set of companies. In other words, many "successful" transactions are executed by companies that achieve success on a regular basis (i.e., 75 percent of the time or more). Further, many of these companies share certain organizational characteristics—ranging from how they operate to how their teams are structured. These commonalities suggest there are a few specific measures an organization can adopt to greatly improve its results.

This study aims to take a closer look at these measures. It examines the most meaningful differences between the M&A teams that are consistently successful (referred to in this paper as "M&A Champions") and the rest of the market. Further, this study examines the unique operating characteristics that Champions believe have the greatest impact on their success. This research focuses on understanding the practical side of these characteristics, so that any company can quickly implement these leading practices and increase its success rates.

"There is no doubt the hurdles are tougher. Borrowers need to do more up-front work to justify their expected cash flows. We need more evidence that their assumptions are realistic. Even if a deal goes through, we are using tougher terms to manage our risk."

—Lender

Methodology

This study is based on input received from over 160 active companies across the United States and Europe—covering almost all major industry sectors. Companies were profiled based on their reported M&A track record and placed into two categories: (1) "M&A Champions" (i.e., companies that achieved their expected synergies more than 75 percent of the time); and (2) "Less Successful Companies" (i.e., teams that achieved their synergies 75 percent of the time or less).

After these two groups were formed (each representing about half of our respondent base), companies were asked to complete a detailed survey about their major organizational and operational characteristics. Based on these responses, specific attributes representing the most significant differences between both groups were highlighted and then further examined through detailed interview sessions, desk-based research and KPMG's own project experiences. In the end, this analysis revealed that five specific attributes not only seem to best differentiate M&A Champions from all other acquirers, but also have the greatest impact on M&A success.

This white paper is intended to give M&A executives a better understanding of how and why certain attributes can lead to success and to provide the information and tools to help them improve their own organizations.

Attribute 1: Using Due Diligence to Examine a Wider Range of Business Issues

One of the most significant differences between M&A Champions and their less-successful counterparts is how they conduct due diligence. Champions embody a more comprehensive approach—one that focuses on exploring a much wider range of business risks (with more resources) and places greater importance on quantifying future financial scenarios. In addition, Champions do a better job of using business unit managers and leveraging their managers' unique operational knowledge. Further, Champions are more effective at using data sources outside of the data room and their own organizations. This approach causes a deeper and more precise understanding of the major deal assumptions. That superior understanding results in more accurate valuations, more detailed integration budgets, and an earlier "buy-in" from all relevant stakeholder groups.

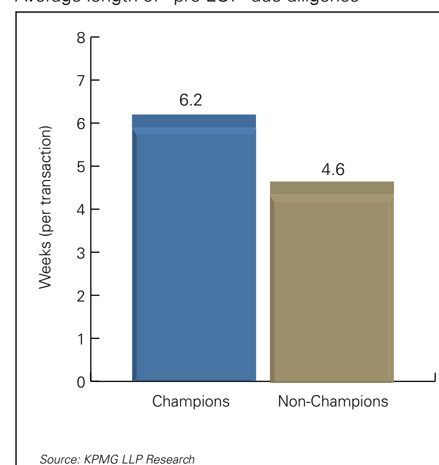
A Different Approach

Right from the start, it appears Champions dedicate significantly more resources toward their due diligence programs. According to our survey, Champions are likely to commit 33 percent more time to the due diligence process than less-successful teams. Further, Champions typically spend anywhere from 30 percent to 50 percent of their time and money analyzing "non-accounting" business issues, such as the accuracy of cost and revenue assumptions and expected synergies. Based on our experience, specific due diligence topics representing the greatest difference in approach include the achievability of "sales-force related" revenue synergies, carve-out cost structure, and up-front integration costs. As one Champion explained, "Due diligence cannot be a 'check the box' exercise. It needs to scrutinize, with enough evidence, the unique reasons why you are doing the deal and the costs associated with executing it."

"Going Outside"

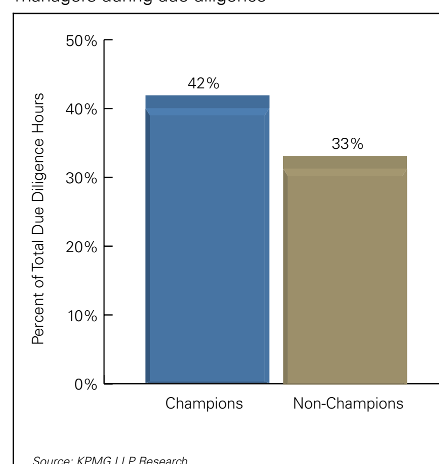
Based on how they approach due diligence, it is not surprising that Champions use information sources in a way that is starkly different from the way they are used by non-Champion acquirers. According to our study, more than 75 percent of Champions routinely perform interviews with company stakeholders beyond the target's executive management team as part of their standard due diligence process (compared to approximately one-half of non-Champions). Further, Champions conduct almost twice as many interviews with external subject-matter experts than other companies do. This type of due diligence is so crucial that 20 percent of the Champions perform "as many interviews as possible" with customers, suppliers, end users, business partners, and industry analysts. In fact, these Champions interview approximately 50 external sources per transaction – while still preserving the confidentiality of the pending transaction.

Average length of "pre-LOI" due diligence



Source: KPMG LLP Research

Contribution of internal "nonfinancial" managers during due diligence



Source: KPMG LLP Research

Champions believe that the information they receive from this process gives them a tremendous advantage over other bidders. As one Champion explained, "We have learned from past mistakes that, before we commit to a deal, we need to take a step back and leverage outside points of view as much as possible. We always speak with as many people as we can to give us a clear perspective beyond just the black-and-white numbers, and we make sure we have the answers we need to either move ahead or walk away."

Champions also mentioned that insights obtained through external interviews might even allow acquirers to share some of a transaction risk with the seller. "If management is certain that we will retain 90 percent of the customers but our interviews suggest it is more like 80 percent, we'll hold a portion of the deal and then pay if the higher percentage is met," one Champion explained. "We like the earn-out approach because it allows for the sharing of risk between the buyer and seller."

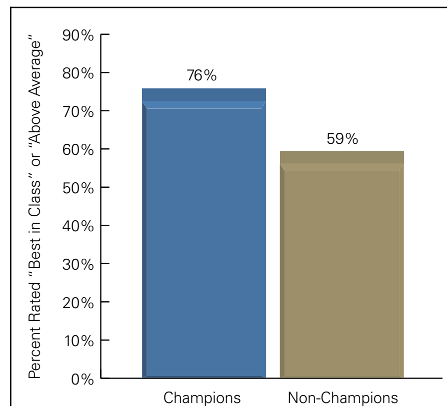
Using the Business Units

Champions also use their own people differently. Based on our experience, Champions are much more effective at using business unit representatives during due diligence. By carving out a more meaningful role for operational managers, Champions obtain better insights into the achievability of their forecasts and receive critical "buy-in" from the managers who will eventually be responsible for implementation.

For example, nearly 90 percent of Champions require a business unit manager to have a meaningful role in developing the synergy model. In almost 40 percent of these cases, the business manager led the model development effort. In the balance of cases, business unit managers owned a major model component. *In no reported circumstance did Champions exclude the operating managers from the due diligence process.* While non-Champions also use business unit leaders to develop synergy models, it happens less often and with greater reliance on outside financial advisers.

Based on our experience, the most successful companies also require their business unit managers to develop detailed integration budgets, which is another key differentiator between Champions and non-Champions. Nearly 20 percent of non-Champions reported they do not develop any type of integration budget during due diligence and 32 percent were unsure about integration budgeting in general. In most cases, if any estimates were made about integration costs, data was simply imported from previous transactions. In stark comparison, 90 percent of Champions said they start planning for integration during due diligence, and a further 46 percent said that *detailed* planning was integral to their success. In these cases, most Champions perform a detailed review of those functional requirements that will be most costly. In general, these areas tend to be IT-migration costs, people-related costs, and facilities closures, which in aggregate tend to account for almost two-thirds of the entire integration budget.

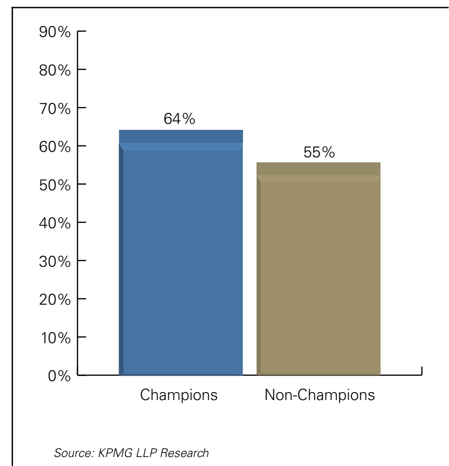
Companies with "above average" processes for performing commercial, operational, and execution due diligence



Source: KPMG LLP Research

In the end, Champions state that their due diligence methods enable them to develop more precise valuations and post-deal financial targets. They also believe they are equipped to eliminate unattractive deal opportunities *earlier* in the process – giving them a better success rate of closing the deals they want. Champion teams also manage to obtain the critical "buy-in" they need from business leaders who will be instrumental during implementation. Under all of these conditions, Champion teams believe they are more likely to achieve higher returns on their investment and better manage these investments over time.

Percentage of closed deals (all deals on which formal due diligence was performed)



Source: KPMG LLP Research

Champions interview an average of 50 external sources per transaction.

Attribute 2: Using Corporate Development Teams to Monitor Post-deal Results

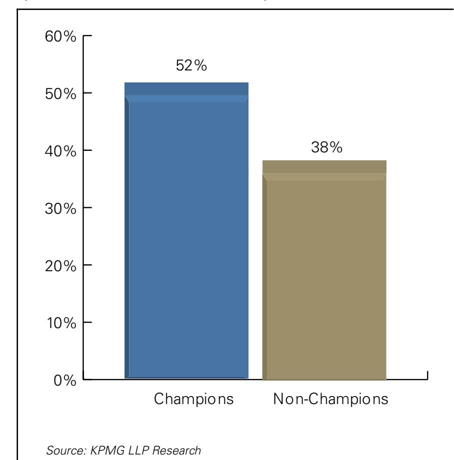
Another notable attribute of M&A Champions is the amount of time spent by their corporate development teams on downstream implementation activities. This happens by having M&A team members—the people who validated key assumptions within the original financial model—play a major role in tracking the progress of integration teams and the results of the newly acquired business.

According to our survey, 41 percent of Champions use corporate development team members in a formal post-close role; at non-Champion organizations, this number falls to less than 27 percent. Approximately 60 percent of Champions give their corporate development teams a major responsibility in getting the business ready for Day 1. This is twice the level of involvement reported by the least successful organizations. Champions also use corporate development teams to assist with major tracking activities, which include (1) identifying meaningful post-close financial targets that need to be monitored, (2) tracking the evolution of cost savings and benefits realized at major intervals, and (3) quantifying the impact of new resource allocation scenarios.

As one Champion said, "We always keep our M&A team involved in a post-close monitoring role. They can stay completely objective and provide a valuable point of reference during formal status checks. They are critical in helping our operating teams translate their progress into financial terms and thinking through resource allocation decisions."

In many cases, Champions use formal *postmortem reviews* as a way to monitor the overall economics of their recently completed acquisitions. According to our study, more than half of corporate development Champions "always" conduct formal postmortem reviews on individual transactions (compared with only 38 percent of non-Champions). In comparison, about one-third of the least successful companies rarely or never conduct postmortem reviews. Although Champions reported various opinions about when to conduct postmortem reviews, more than half completes reviews within 12 months following the date of close.

Percentage of teams that "always" conduct postmortem reviews on every transaction

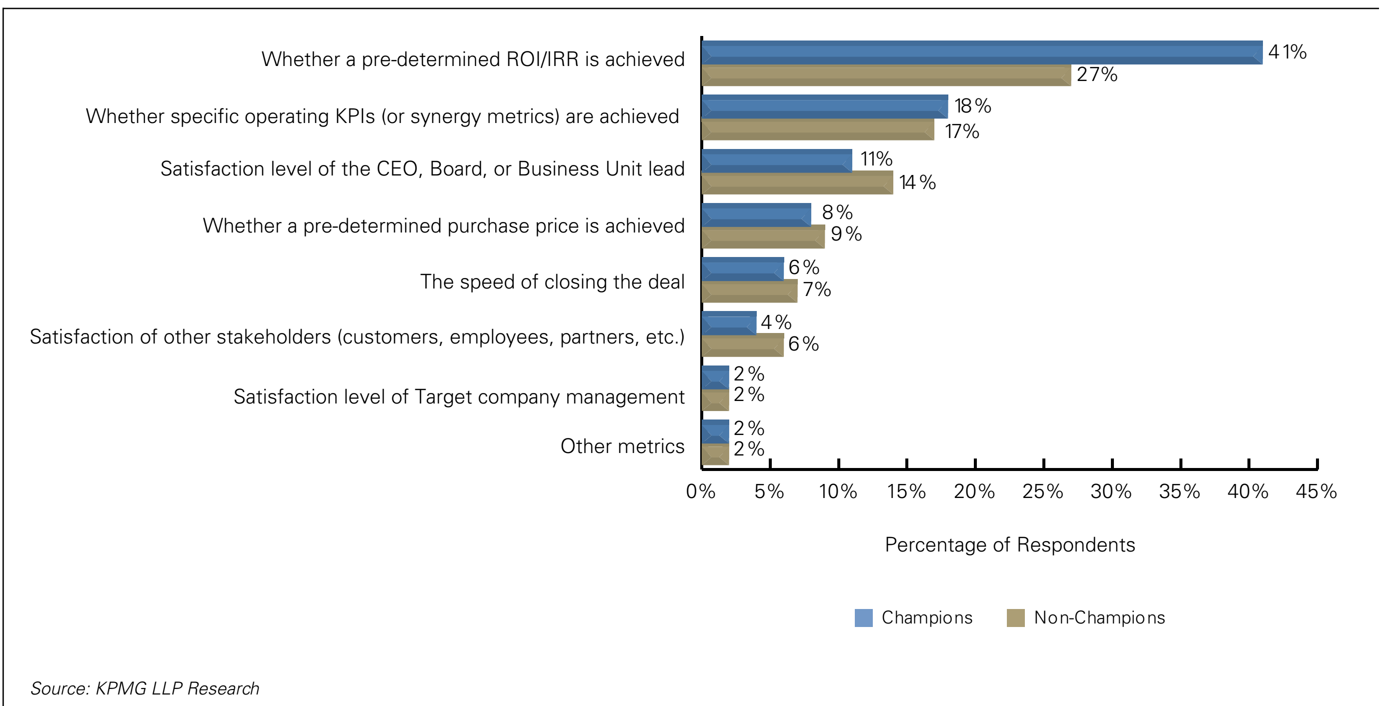


Source: KPMG LLP Research

Sixty percent of Champions give their corporate development teams a major responsibility in getting the business ready for Day One—which is twice the level of involvement reported by the least successful organizations.

According to one Champion, "Our M&A team does a postmortem to compare the full outcome to what was projected. This way, we are able to learn from past mistakes and don't repeat them in the future. We look at a lot of dynamics through all stages that can be handled in a lot of different ways. Postmortems are very effective as a way to exchange ideas on what could have been done better."

Q: On average, what specific metrics were used to measure the success of an individual transaction?



Source: KPMG LLP Research

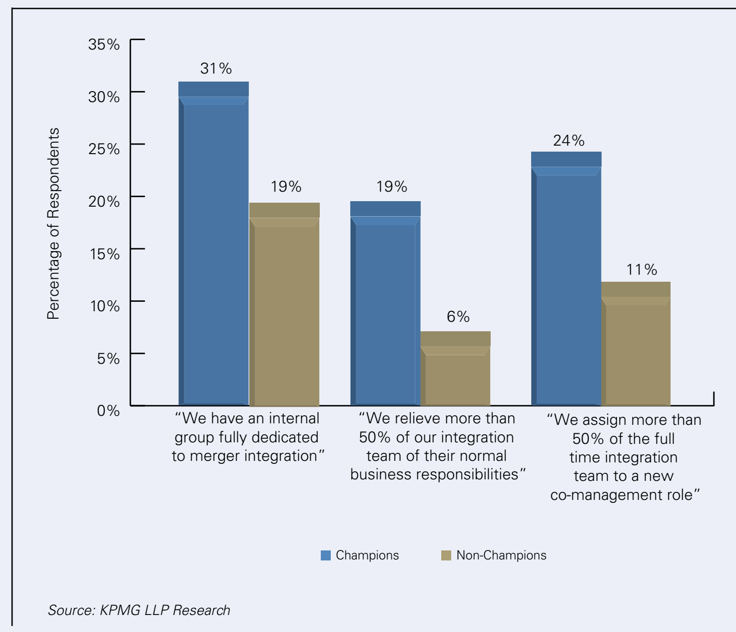
Nearly 55 percent of all Champions that conduct postmortems start these programs within the first 12 months after the deal closes.

Attribute 3: Dedicating the Right People to the Integration Team (with the Right Commitment)

Another key differentiator is the emphasis that Champions place on dedicating full-time resources to the integration effort. According to our study, more than 30 percent of Champion organizations had internal teams in place dedicated to merger integration. This compares to less than 20 percent of non-Champion companies. Interviews confirmed that almost all of the Champions' integration managers are fully dedicated to the integration effort. At the top-performing Champion companies, more than half of all integration team members (originating in other functional areas) were "relieved" of their regular business responsibilities—*three times the rate* at the less-successful companies. As one Champion noted, "We dedicate all necessary resources and carve people out of and away from their daily routines to the extent possible. We staff a team that knows they are in it for the duration and they are not distracted by their daily jobs."

M&A Champions are also more than twice as likely as their less-successful peers to have more than 50 percent of the full-time integration team members stay on and become part of the new management team for the integrated business. That continuation in personnel adds to a seamless knowledge base and gives the integration team a tremendous incentive for success.

Another differentiator is the number of resources that Champions dedicate to integration. Within their program management office (PMO) function, Champions seem to dedicate approximately three to four people to this effort, compared with non-Champions who commit slightly more than two people on average. Major differences in team size also exist in the areas of supply chain/ operations, research and product development, and sales and marketing—all areas critical to testing future cost and revenue assumptions.



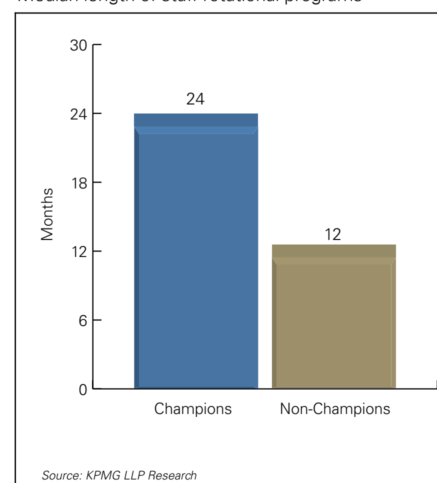
Source: KPMG LLP Research

Some Champions take another approach to guaranteeing the right level of commitment in the integration team. In those companies, integration managers and other key support functions are positioned as full-time roles within the company, with the expectation that the manager and his or her team will move from one deal to the next. In addition to the basic business skills, Champions stated that a seasoned integration manager embodies four critical qualities: (1) the ability to effect change in an environment resistant to change, (2) comfort with ambiguity, (3) a demonstrated ability to build relationships, and (4) advanced problem-solving skills.

Above all, those interviewed agreed with the Champion who stated that the integration manager is "always a high-talent individual within the organization who can make sure that the existing business is not disrupted, which is a difficult task."

According to Champions, once the full-time roles have been filled, the "supporting cast" of integration team members can be effective on a part-time basis. However, part-time team members need to be given appropriate support with their daily responsibilities and provided with a suitable incentive to "multi-task." The majority of executives interviewed indicated that the most popular incentive is career advancement. Other companies use financial incentives or internal recognition awards as a way to energize these professionals.

Median length of staff rotational programs



Source: KPMG LLP Research

Rotational Programs Can Help Build Important Skills

Champions are also more likely to commit to formal staff rotational programs, which are an effective way to build important deal-related skills. According to our survey, 25 percent of all Champions have a formal program in place that allows business unit managers to temporarily work as part of the corporate development team (compared with only 14 percent of non-Champions). In many of these programs, corporate development team members also have the opportunity to serve on one of the business unit teams.

Champions we interviewed said that these programs are an extremely effective way to build relevant skills and knowledge throughout the organization that can easily be leveraged for future transactions. They also cited benefits from having business unit managers share industry-specific knowledge with corporate development teams—along with insight into the company's culture and key organization relationships. In stark comparison, 60 percent of the least successful companies stated they do not believe that rotational programs offer any significant benefit. Champions committed 50 percent more resources to rotational programs with a 24-month time commitment, which is nearly twice that of their less-successful counterparts.

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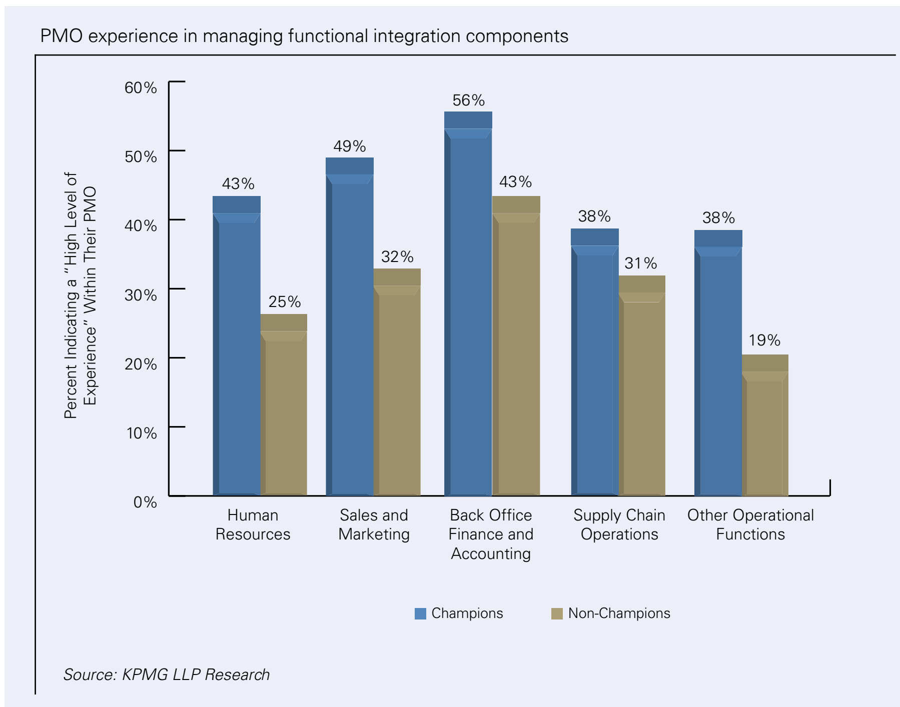
Attribute 4: Using a PMO to Manage Cross-Functional Interdependencies

Another attribute that differentiates M&A Champions from their peers is how they manage their post-merger integration process. According to our study, Champions put a much greater emphasis on "managing the interdependencies" that exist between their functional integration teams.

Champions recognize that synergies can be created only by imposing major changes on an organization's existing operating model. Further, they believe that a significant change to any function will have an effect on related functions throughout the organization. As one Champion said, "If you change something, no matter how isolated it may seem, there is likely to be a ripple effect throughout the organization." Champions understand that a ripple effect must be carefully managed to ensure that integration teams work in synchronization with each other and understand the real complexity of the initiatives that are about to be undertaken.

As one Champion described, "On a recent transaction, we were going after major cross-selling synergies, which on the surface seemed like something that only concerned the sales and marketing team. But after getting into the details, we saw a major impact on the supply chain, because now inventory needed to be managed differently. We then saw a back-office impact, because our call center needed to be set up differently and the order-to-cash process needed to change. Eventually, we needed to revise the way we reported our financial results—and make sure we had all the enabling technologies in place. If we started this process without understanding these ripple effects up front, our teams would have run into all sorts of problems down the road."

Non-Champions take a different approach. They treat integration planning as a purely functional exercise and do not take the necessary steps to have the right program management office in place. In these cases, the PMO often contains people who are either *less experienced* at managing cross-functional integration programs or *not influential enough* within the company to ensure collaboration. Based on our interviews, the experience levels of the integration managers appointed by non-Champion teams were approximately five to seven years lower than at comparable Champion organizations. Without an experienced, influential, and independent PMO, companies are likely to fall back on a "silo" approach and run the risk of encountering additional problems downstream.



The Champions we interviewed suggested some useful tools for promoting cross-functional collaboration. In fact, several project management software products were cited as being particularly effective. Companies also indicated that internally developed frameworks could help the process by providing structure, documentation, a means of communication, and accountability. As one Champion noted, "A couple of years ago, our PMO used a clipboard of 1,000 items. Moving people, closing down facilities, IT issues, and talking to customers all were weighted equally and were delegated to the relevant functional groups. We later realized that to be successful we needed to ensure we prioritized activities based on the deal's unique value drivers and that all teams worked off the same enterprise-wide road map."

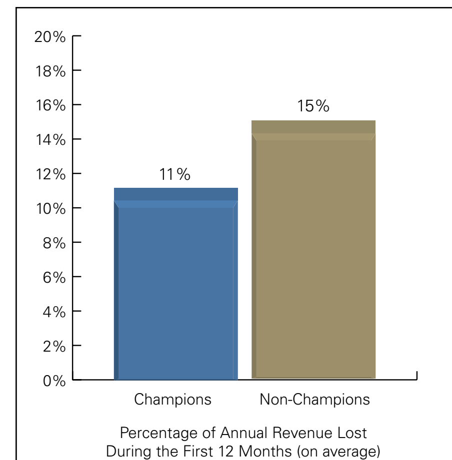
Attribute 5: Focus on "Stabilizing" the Organization Post-close

Another major difference between M&A Champions and less-successful companies is the emphasis placed on quickly stabilizing the merged entity. Champions recognize the impact a new acquisition can have on all stakeholders. They therefore dedicate more resources to preventing major business disruptions. In fact, 90 percent of all Champions consider "stabilizing the business" as one of their top three integration priorities. As a result, Champions seem able to take sufficient control over their newly acquired operations 33 percent faster than non-Champion teams can.

The consequences of not stabilizing the new business can be significant. According to the study, new acquirers that do not properly stabilize the combined enterprise are susceptible to losing nearly 15 percent of a target's annual revenue base during the first year. Employee loss also can be material. Respondents indicated that almost one-fifth of the workforce is at risk of leaving during the first year following the announcement of a merger.

According to Champions we interviewed, stabilizing the business depends on effectively "managing the change process." They mitigate the risks of change in two ways. First, understanding that some amount of disruption is inevitable, they incorporate the potential losses into their financial models. Second, they have a clear plan in place to mitigate disruptions over the first 100 days, based largely on three key guidelines: (1) make critical "direction-setting" decisions at the earliest possible moment, (2) set shorter interim targets and celebrate early wins, and (3) establish a program for communicating effectively to the various stakeholder groups.

Revenue lost due to integration challenges



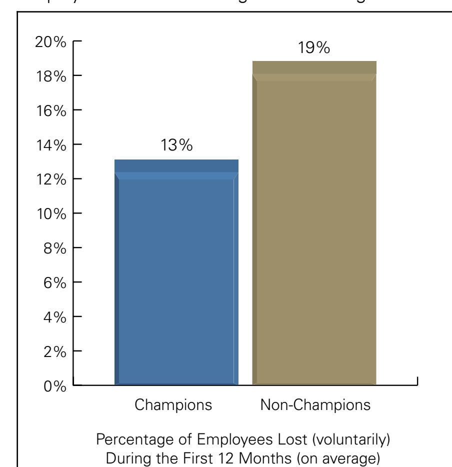
Source: KPMG LLP Research

Introduce Change Early

Champions realize that even though stakeholders will have mixed emotions about the newly announced acquisition, *everyone understands that change is inevitable*. While these changes may involve the most controversial issues related to products, customers, compensation, responsibilities, and reporting structure, among many other items, this early stage presents an opportunity for acquirers to set a new direction.

One Champion put it this way, "We push ourselves to make the tough decisions as early as possible. Decisions like which products stay and which ones go, who will be reporting to whom, which facilities will be shut down and which ones expanded. These are tough decisions, but making them early gives the people the clarity they need." According to another Champion, "It may be a tough pill to swallow, but once the organization knows where it's going and everyone is on the same page, the ultimate ride is smoother."

Employees lost due to integration challenges



Source: KPMG LLP Research

Celebrate Early and Often

Champions also do a better job of setting short-term and interim targets that are good indicators of progress and very simple to monitor. Champions are concerned that the longer the organization goes without a clear sense of the progress being made, the greater the risk people will lose faith that the integration is on track. In comparison, most non-Champions waited much longer to set interim milestones and targets.

Based on the study, non-Champions establish formal integration milestones approximately 30–40 days later than Champions do. Further, 30 percent of non-Champions cited that no formal milestones are typically set in advance—compared with less than 15 percent of Champion teams. As one M&A Champion offered, "Integration is like a marathon—not a sprint. People will not know that things are on track unless they are given regular signs of success." Another Champion stated, "We make sure people see success early—and we take time to celebrate. It makes a big difference."

Tailor Your Communications

Champions establish a program for communicating more frequently than non-Champion teams do, and in a manner that addresses the concerns of the various stakeholder groups. Based on our experience, more than 50 percent of Champions commonly establish a formal communications capability as part of their integration program, compared with less than 20 percent for non-Champions. Further, a majority of Champions noted the importance of tailoring messages to each stakeholder group; non-Champions did so less frequently.

According to one Champion team member, "Different people need to be assured of different value propositions. Customers care about getting the same level of service, business partners care about preserving their existing arrangements, and line employees care most about keeping their jobs while managers care about their new roles and responsibilities. We always craft the message carefully to each group we are trying to reach."

Ninety percent of all Champions consider "stabilizing the business" one of their top three integration priorities.

Incorporate Challenges into the Financial Model

While Champions use leading practices to stabilize their businesses as quickly as possible, they also recognize that some amount of disruption is inevitable. Instead of ignoring the fact that some portion of employees, customers, and revenue will be lost, they have a realistic understanding of what losses are likely to be incurred. By anticipating these costs, Champions are better prepared to deal with numerous scenarios and will likely wind up with more realistic projections and a coherent plan to address those scenarios.

"We look at past performance and changes that would affect customers to determine a reasonable attrition estimate," explained one Champion. "On our last transaction, we recognized we would likely see a customer attrition rate between 5 percent and 10 percent simply because we announced the deal. The key for us was to build these costs into our expectations." Another Champion added, "We always build employee churn of 10 percent into our cost expectations—and then we manage in order to beat this."

Champions seem able to obtain sufficient control over their newly acquired operations 33 percent faster than non-Champion teams do.

Putting It All Into Practice

With market pressure likely to intensify over the near to medium term, acquirers are bound to face a much tougher deal environment and feel even more pressure to succeed. However, this study demonstrates that by adopting a set of specific attributes within the organization, a corporate development team can greatly increase its chances of success. Many Champions believe that getting various specialists from the organization to *collaborate* throughout the entire deal life cycle is a critical factor for putting these principles into action.

According to one Champion: "The natural tendency is for different groups to handle different parts of the process in isolation—which leads to suboptimal results. Our strategy group used to focus only on sourcing deals, the corporate development team just executed the transaction, and the operational team managed the business. Now, by ensuring these teams work together throughout the process, we end up actually honoring the standards we've set for ourselves."

Champions cited a few specific "organizational levers" that can help promote the right level of collaboration between the corporate development team and other appropriate groups. Some of the levers most commonly cited were skill team composition, key performance indicators, compensation, and reporting structures:

- Many Champions are using *smaller corporate development teams* with *more deal experience* to force M&A professionals to reach out to the rest of the organization to get support on their transactions.
- Others are evaluating and compensating corporate development teams based on their *ability to achieve their synergy targets* over a designated period of time, rather than whether or not deals close.
- Some have changed their reporting structure and now require complementary teams throughout the company to report to *the same senior company executive*. These companies believe that by having one sponsor in control of all these groups, collaboration can be mandated and managed effectively.
- Finally, many Champions are requiring corporate development teams to *review and sign off* on post-deal status reports. In some cases, these team members are even required to approve new resource allocation requests to ensure alignment with the original financial model.

As one Champion said, "Many of our so-called 'best practices' are not particularly sophisticated—but by setting our teams up the right way, we ensure they are used on every single deal."

More than 90 percent of Champions require business unit "owners" of the acquisitions to "sign off" on any assumptions and projected business performance before the deal is completed.

In addition, Champions invest significantly more in *tools and training programs* to give their teams the capabilities they need. As an example, a majority of Champions incorporate standardized toolkits into their due diligence programs (compared with a much lower portion of non-Champions). Further, Champions annually invest more than twice as much in tools and training programs for their corporate development teams—approximately $64,000 per year versus $31,000 for non-Champions.

"We learned not to cut corners on giving our people the tools and training they need," said one Champion. "Having a strong base of tools and training methods also allows us to maintain consistency as people rotate in and out of the group."

Ultimately, the study demonstrates that successful companies have determined that certain operating practices correlate with increased success rates. These practices—which are building blocks of the five attributes covered in this paper—are relatively simple to understand and implement. But as the study reveals, many companies have not adopted them. There is still a stark difference in the way that M&A Champions and non-Champions perform M&A activities—and a correspondingly large difference in their success rates.

Management teams should commit to instilling these attributes in their organizations. They then need to evaluate whether or not they are set up properly with all of the right controls, standards, structure, and metrics to put these practices in action. A collaborative mindset also needs to be adopted. If they do these things, many companies will be able to join the ranks of the M&A Champions and greatly enhance their chances of achieving success.

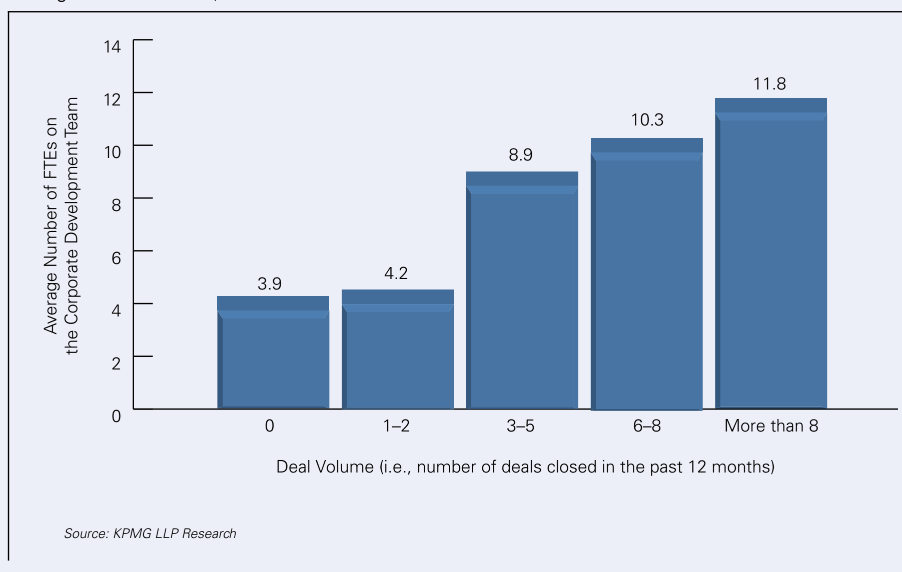
For a detailed analysis of the types of processes and approaches adopted by the Champions and their less-successful colleagues, please see the Appendix.

Appendix

KPMG's 2008 Corporate Development Study surveyed more than 160 companies, performed in-depth interviews, conducted desk-based research and leveraged our own project experiences to identify the most important organizational and operational attributes of successful dealmakers. This Appendix provides valuable details on how these Champion companies implement and incorporate certain characteristics that help make these attributes part of their corporate development teams and processes.

Team Structure

- The typical Champion corporate development team ranges in size from 2 to 8 members (25th and 75th percentile, respectively), with an average department size of 7 individuals.
- Although headcount appears to increase somewhat in proportion to greater deal flow (with those companies completing more than 12 deals a year averaging more than 10 full-time employees (FTEs), the overall size of these teams has declined over the past three years.
- Champions determine the optimal size of their corporate development teams based on their requirements for slower periods and rarely hire additional personnel in anticipation of a temporary increase in M&A activity. Instead, many choose to use business units or external advisers if they need additional support or particular skill sets on a deal.
- Champions are light on hierarchy and heavy on experience with a relatively high ratio of senior to junior staff. On average, the leading organizations have two or three staff levels and a ratio of approximately 1:2 FTEs from the most senior to the least experienced team members.



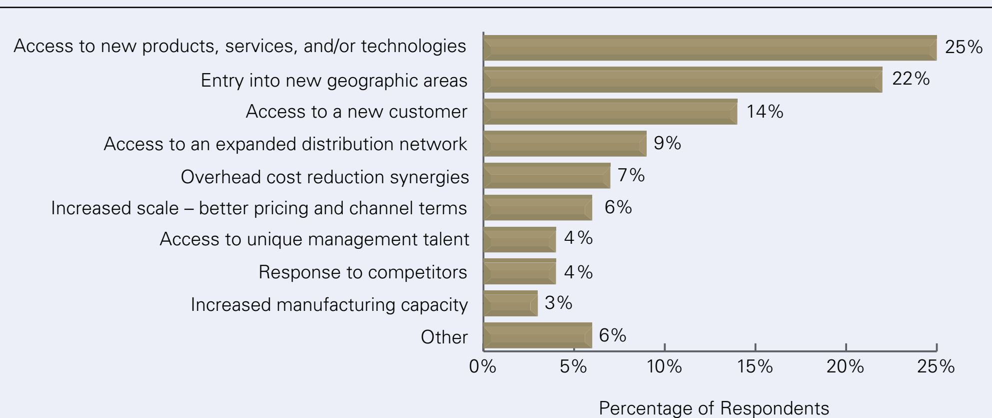
- The primary corporate development office is generally located at the parent's headquarters. Eleven percent of Champions (mostly those that are diversified or geographically dispersed) also maintain office locations at the business-unit level that report to the parent group.

Team Composition

- At Champion organizations, senior-level executives have an average of 19 years of post-college work experience; mid-level and junior professionals have an average of 13 and 9 years of experience, respectively.
- Almost 70 percent of all corporate development Champion team members, regardless of level, have earned a Masters degree. Team members frequently have experience in investment banking, consulting, corporate development, and operations; experienced-hire recruiting represents more than half the new-hire pool.
- Newly minted MBAs will often participate in a corporate development "rotational program" and ultimately assume operating line responsibilities.
- Almost two thirds of corporate development Champions perceive benefit from staff rotational programs. On average, 5 people participated in a rotational program over the past three years. These rotations last approximately 24 months (based on median scores).

Deal Rationale and Metrics

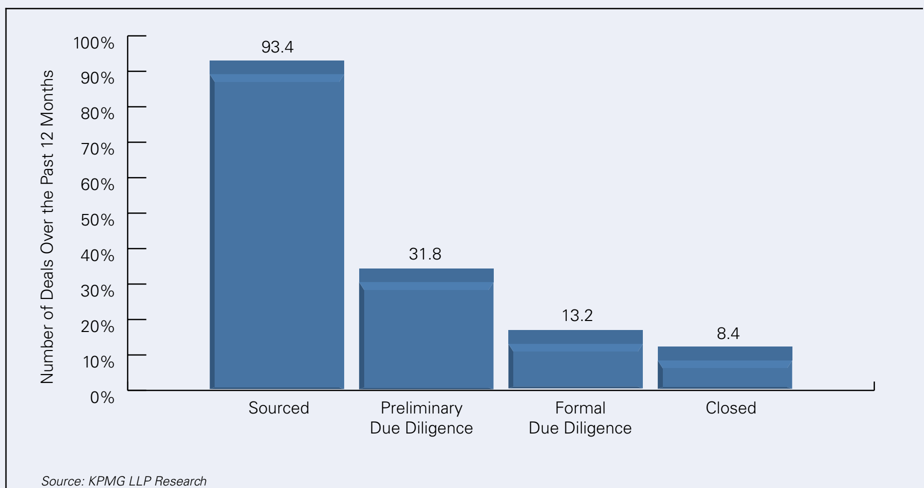
- The top three reasons Champions completed M&A transactions over the past 12 months were to gain access to new products, services, and/or technologies; to enter a new geographic area; and to gain access to new customers.
- Champions primarily measure their deal success against a predetermined transaction ROI/IRR (return on investment/internal rate of return) or whether specific operating key performance indicators or synergy metrics are met over a specific period of time.
- Other factors, including the "satisfaction" of the CEO, the purchase price, or the speed of closing, are not considered significant.

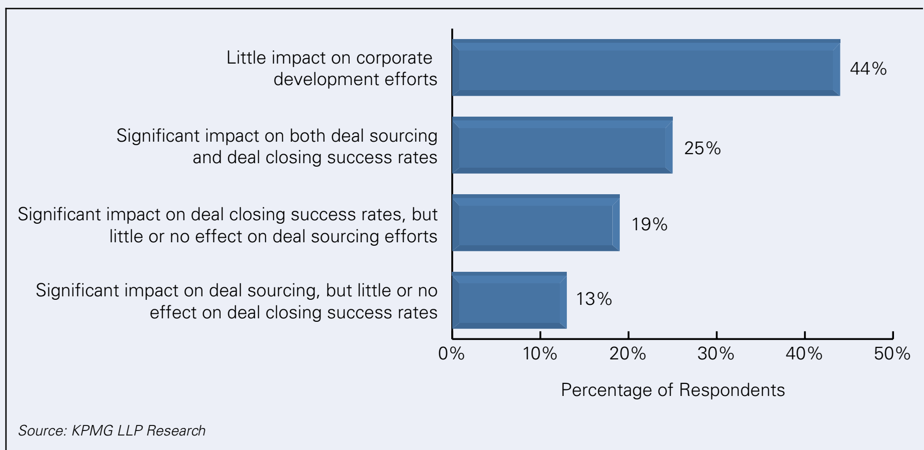


- Close to 40 percent of the least-successful companies in our study (those who were successful less than 25 percent of the time) view "whether or not the deal closes" as the most important measure of success, followed by 25 percent who look at "apparent satisfaction level of the CEO, board, or business unit lead."

Deal Sourcing and Execution

- Over the past 12 months, Champions were presented with and were able to close almost twice as many deals as the non-Champions.
- Champions spend close to 90 percent of their time focused on mergers, acquisitions, and divestitures as compared with the more broadly defined responsibilities of less-successful corporate development teams.
- The presence of private equity (PE) firms has had a mixed impact on Champion corporate development efforts, with 44 percent indicating little effect—but 25 percent reporting significant impact on both deal-sourcing and deal-closing success rates.
- Champions source one third of all deals through business unit channels. Outside investment bankers/brokers and the corporate development team together generate approximately 50 percent of deal opportunities.
- The majority of Champions consider outside business consultants and accounting advisers to be an important part of the team and use these resources on a regular basis, spending an average of $100,000 to $200,000 in fees per buy-side transaction to gain expertise with accounting, business consulting, legal, tax, and information technology issues.

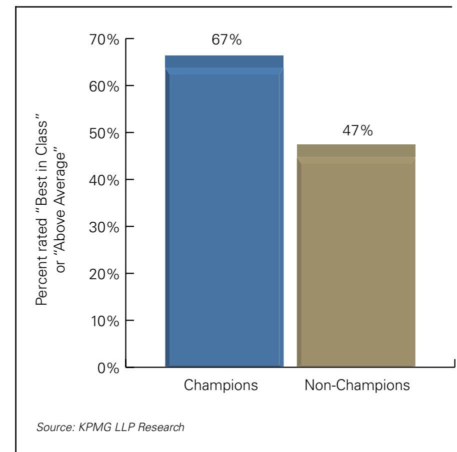




Compensation

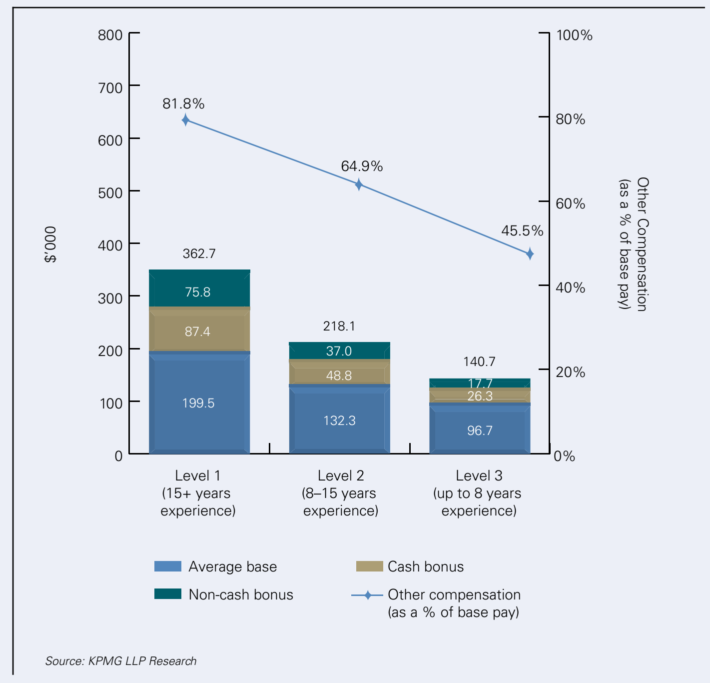
- Compensation at Champion organizations is most commonly calculated based on meeting defined goals, rather than on the number of deals completed. To avoid conflicts of interest, a corporate development team's composition usually is not tied to a certain deal target, the amount of capital funds deployed in a given year, or a predetermined benchmark on a particular deal.
- However, respondents frequently mentioned that it is very challenging to quantitatively measure the effectiveness of the corporate development team at the end of each year. Approximately 80 percent indicated that they have been or are reviewing their deal-making process, including activities and behavior. Of particular interest is how to fairly measure the success of the corporate development team.
- Champions indicated that they generally do not—and cannot—compete with the compensation levels of competitor industries such as investment banking, private equity, or venture capital. Compensation for corporate development team members, which includes salary and bonuses, averages approximately $360,000 for the more senior executives. On average, mid-level compensation averaged nearly $220,000 and compensation for junior team members averaged $140,000.
- Compensation has not significantly affected the ability of the Champions to attract top talent since they also offer a more entrepreneurial atmosphere and a better work/life balance.

Sophistication demonstrated in sourcing deals



Source: KPMG LLP Research

Compensation for Champions by level



Source: KPMG LLP Research

us.kpmg.com

For more information, please contact:

Americas

Chris Gottlieb
Principal, Transaction Services
+212-872-6794
cgottlieb@kpmg.com

Meredith McClements
Director, Transaction Services
+617-988-1193
mmcclements@kpmg.com

Europe

John Kelly
Principal, Transaction Services
+44-207-694-3528
John.Kelly@kpmg.co.uk

Asia Pacific

Thomas Stanley
Principal, Transaction Services
+86 (21) 2212 2888
thomas.stanley@kpmg.com.cn

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