



MERGERS and ACQUISITIONS

Due Diligence:
Service Analysis



Mergers typically fail to meet pre-merger expectations;

- 70 percent of mergers fail to achieve their anticipated value
(Weekly Corporate Growth Report)
- 48 percent of mergers underperform in their industry after three years
(Mercer Management Consulting)
- 61 percent of acquisitions “buyers destroyed their own shareholders wealth”
(Business Week)

Main Reasons for Non-performance of Mergers and Acquisitions:

- Failure to satisfactorily integrate differing IT technologies
- Inability to merge the cultures of the two businesses
- Bad idea to begin with (executives ego!)
- Business shock during the merger (restructuring)
- Demoralisation of workforce
- Loss of management in the acquired businesses
- **Poorly conducted due diligence process**

Due Diligence Process;

- Sustainability of the business
- Competition
- Financials
- Infrastructure
- Technology
- Business Fit
- Sales & Marketing
- **Service Analysis (e.g. the business processes)**

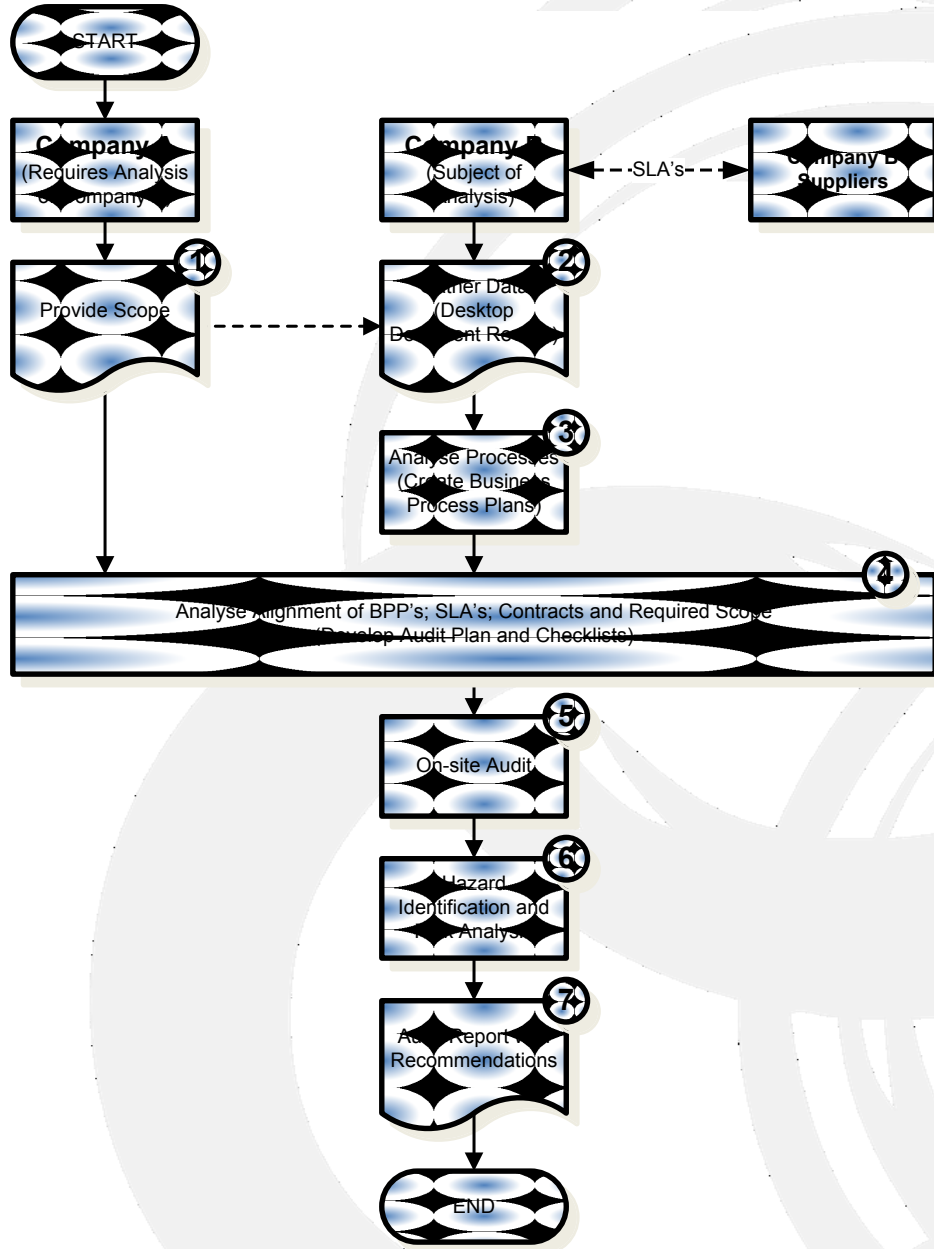
The Service (Process) Analysis

- Focus on those business processes which deliver the services to the customer
- Use a quality management system framework to apply the service (business process) analysis
- The process approach is a key principle of the ISO 9001:2008 quality management system standard

Objectives of the Service Analysis are to:

- Systematically define and analyse the services required by the customer (verify service menus, service levels required and achieved)
- Confirm roles and responsibilities (reviewing existing structures)
- Measure and analyse key capabilities (resources)
- Verify levels of management & staff competence
- Review and assess effectiveness of resources (human, infrastructure & environment)
- Identification of risks

Mergers & Acquisitions: The Service Analysis



Mergers & Acquisitions: The Service Analysis

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Scope:

- Services required (verify service menus, levels required and achieved)

Objectives:

- Achieve merger expectations

2

Gather Data:

- Contracts
- SLA's
- Operational Reports
- Available Documentation (strategies; structures; and processes)

Mergers & Acquisitions: The Service Analysis

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Analyse Processes:

- Define functions and processes

Business Process Plan Example: Administrator						
No	Key Business Process - functionality	Input	Output	Key Performance Measure	Responsible	Verified
1.	Document Administration					
1.1	Document Administration	Receipt of any document	Sorted, scanned, indexed document handed over	Elapsed time from receipt of document to its hand over	Mail Room Supervisor	Claims Manager
2.	Membership & Credit Control					
2.1	New Membership Registration - Private - Government	Registration Form	Processed Registration	Elapsed time from receipt of registration form (by Document Administration) to activation of membership	Membership Manager	Credit Control & Operations Manager

- 5 On-site Audit:**
- Verify actual processes and service levels
 - Review competence of management and staff

- 6 Risk Analysis:**
- Hazard identification
 - Hazard analysis (severity; likelihood)
 - Risk mitigation

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Audit Report:

- Gaps & risks
- **Conclusions & Recommendations:**
 - Processes not present
 - Processes present (service levels reached or not?)
 - Staff resources (capable and competent)

Conclusions

- 1. Mergers generally fail to meet pre-merger expectations**
- 2. Due diligence process can be improved significantly by a Service Analysis**
- 3. The Service Analysis addresses:**
 - Verification of services and levels
 - Quantifies the risks
 - Verifies resources
 - Recommendations

THE END

THANK YOU