

The intelligent clean room: Re-invigorating an old process to speed up value creation in M&A transactions

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Imagine the business benefits to U.S. companies if you could lawfully jump start the merger integration process and begin to capture the value of a deal before it closed. The time delays required by regulatory and governmental reviews could work to your advantage. Synergies could be identified, systems evaluated for integration, work plans and implementation timetables developed. In short, you could begin to maximize the value that made the deal attractive in the first place.

The Accenture Intelligent Clean Room approach enables you not only to reduce the time to implement merger changes but also mitigate common business risks, such as slow decision making, delayed business strategies, defections by key customers and employees, and poor morale.

Equally important, the Accenture Intelligent Clean Room methodology can mitigate against the clear financial costs of delays. For an acquirer expecting to reap US\$500 million in yearly cost savings from a deal, a one-month delay reduces the net present value of the deal by more than US\$40 million (assuming a 10 percent cost of capital). While acquirers should take some level of delay into consideration when determining an acquisition price, many do not or if they do, they often underestimate the length of time to close. To make up for lost value when the deal is finally consummated, the company begins the entire integration process in a rush, resulting in poor post-merger integration.

Nothing suggests that delays will go away. The average time between announcement and closing for the largest deals is 10 months, according to Accenture analysis, and the trend is getting worse. Anthem's acquisition of health insurance rival Wellpoint took 13 months to complete. Greater regulatory and governmental scrutiny—especially on cross-border deals and for semi-regulated industries—will be the norm, suggesting a new reality of increasing delays.

The "intelligent" clean room concept

So what can companies do? The typical clean room does nothing to speed implementation timing, nor does it reduce risks associated with deal delays. It is almost exclusively used as a repository of raw data, a library used by acquirers to gather due diligence information. Often the clean room is

merely a way for a company that is for sale (especially in an auction) to reduce the interruptions required to gather data for multiple bidders. At best, traditional clean rooms lead to better bids and more accurate deal valuations. At worst, they actually hide many of the true obstacles to synergy capture.

But by thinking about the clean room in a new way, it is possible to take advantage of the time before closing to create real, measurable value. Rather than limit the clean room to a simple collection of raw data, think of it instead as a *mechanism for capturing value*. That's the essence of Accenture's "Intelligent Clean Room". It is used to begin actual post-merger integration planning as well as reduce the risks of a collapsed deal—all carefully within the requirements of the Hart-Scott-Rodino Act of 1976, which spells out antitrust regulations.

Instead of due diligence experts, such as accountants, sifting through data, an intelligent clean room is staffed with independent third-party experts who conduct the same analysis that would be required if the deal had already closed. In other words, they begin to plan for the post-merger integration.

To ensure complete separation between the two companies for legal and business reasons, the intelligent clean room is a physical, secure location, sealed off from either company's business activities. It is restricted to authorized individuals who have access to data from the merging companies in a manner that fully complies with the law. Typically, these authorized personnel are not from either of the merging entities but from a third party, such as consultancies, investment banks, law firms or accounting firms. All information flow into and out of the intelligent clean room, especially data requests, is scrupulously reviewed by lawyers expert in the Hart-Scott-Rodino legislation and regulatory

requirements. Until the merger is officially closed, both companies continue to act independently and as competitors.

One of the benefits of using third-party experts in an intelligent clean room is that any actual or perceived risk of anticompetitive behavior is eliminated. Typical legal prohibitions, which differ somewhat by country, are designed to keep companies from making business decisions together, especially those that affect pricing and customers.

But the law does not forbid parties from engaging in many aspects of integration planning. Even without a clean room, many companies share non-competitive data, such as how their organizations are structured and how they conduct basic business processes. Many even begin one-sided integration planning, which usually takes the form of the acquirer beginning pre-merger planning. Even when performed well, however, such planning is limited because little real data are available.

Intelligent clean room analysts, on the other hand, have access to much better data and can therefore conduct better planning because they do not work for either company. As long as the people—and the process—remain scrupulously independent, they can gather data that would otherwise not often be shared with competitors for business reasons (such as cost data). The situation is similar to a survey firm hired by an industry association. Companies often provide confidential data—on salaries, costs, manufacturing capacity and the like—to an outside survey firm on the conditions that it be held in strict confidence and that the information be summarized so that it cannot be linked to the company providing it. Similarly, the companies involved in a merger provide data to intelligent clean room analysts, who use the information to begin merger planning.

An intelligent clean room in action

A major telecommunication company's merger provides a case in point. The deal created the largest wireless player in North America, with 46 million customers and revenue of US\$32 billion. Intense regulatory scrutiny was expected. However, with a US\$40 billion cash deal at risk and at least eight months of elapsed time between deal announcement and targeted closing, the acquiring company also was anxious to keep merger planning progressing.

Executives realized that independent "clean teams," in addition to integration teams, were needed to help drive the timely delivery of benefits that the combined company could produce after the transaction closed. Not wanting to endanger the deal, the acquiring company hired an independent third party to handle each company's sensitive competitive data.

An early view to targeting synergies in the merging organizations' IT and supply chain in particular can help the deal sink or swim. A company's supply chain is in many cases the most significant source of cost synergies, accounting for 30 to 50 percent of the savings achieved. Issues of quality, inventory turns, supply disruption and order fill rates are particularly important to identify early rather than later in the merger process.

To reduce the risk that any sensitive information would leak beyond the confines of the physical room, a highly secure environment was created. Every precaution was taken to ensure that data and analysis were shared only among authorized personnel within the Intelligent Clean Room. Security procedures included these requirements:

- Neither merging employees were allowed into the room for any reason.
- Only named individuals, with prior written approval, were allowed access.
- Security guards were posted around the clock.

- Access cards monitored movement in and around the room.
- Multiple layers of security prevented unauthorized access to sensitive data.
- Clean room members were not allowed to bring anything into or out of the room. Bags and personal belongings were checked in lockers before entering the room.
- All clean room team members had to pass a test demonstrating their understanding of clean room guidelines as well as U.S. antitrust requirements.

For the next six months, the team analyzed key aspects of the combined companies' business, modeled them against value capture objectives and assigned priorities. The process covered areas ranging from retail distribution to billing processes to advertising effectiveness. When the deal closed eight months later, the Intelligent Clean Room team delivered the plans, priorities and timetables that would allow the combined company to begin day one with a running start.

Conclusion

Once the deal is approved and closed, merger integration can start immediately. If the deal falls through or is not approved, the intelligent clean room is simply closed. All data are destroyed or returned to the respective companies, depending on what confidentiality processes were established. The companies are then assured that they did not give an actual or potential competitor any strategic information.

In short, the Intelligent Clean Room process gives both companies in a merger or acquisition the best of both worlds. They minimize the risk of a broken deal by keeping critical data under strict control. When a deal is closed, however, they can capture enormous value with a smoother integration process, fewer lost customers and accelerated cost savings.

About the authors

Andy Zimmerman is the Accenture managing director for Communications & High Tech Management Consulting & Integrated Markets and managing director for the Communications Industry.

Prior to joining Accenture, Andy Zimmerman was Chief Executive Officer of Predictive Systems, a network and security consulting and information services company headquartered in New York City. Prior to Predictive Systems, Andy Zimmerman was the chief operating officer of idealab! New York. Before idealab!, Andy Zimmerman was the Global Leader of PricewaterhouseCoopers' E-Business Consulting Practice.

Publishing credits include co-authorship of the Electronic Access Study, one of the most comprehensive studies of consumer demand for interactive services to the home, and the New York New Media Industry Survey in 1995, the first in-depth study of the new media industry and its impact on New York's economy, which received widespread coverage including the New York Times, L.A. Times, and CNN Headlines News.

Andy Zimmerman received a B.A. from Haverford College in three years and was subsequently awarded a Thomas J. Watson post-graduate Fellowship during which he travelled and studied with circuses in Western Europe and the Soviet Union. He received an M.S. from New York University under a work/study program with Coopers and Lybrand and is a certified public accountant.

Kristin Ficery is an Accenture partner focused on corporate strategy and mergers and acquisitions, particularly merger integration. She re-joined Accenture in January 2001, bringing 15 years of management and business process consulting experience. Prior to re-joining Accenture, Kristin was Director of Strategy Consulting for iXL and was a Manager in Accenture's Strategic Services group where she focused on developing viable new business models for Fortune 500 clients and led the development of a key eCommerce offering. She also worked for Booz-Allen & Hamilton and Accenture's Systems Integration group. Kristin received an M.B.A. from The Wharton School and a B.S. from Vanderbilt University, summa cum laude.

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