

2nd-wave post-merger integration

Cost and performance improvement opportunities are often not fully realized during initial post-merger integration efforts. Many of our clients have initiated “second-wave” efforts, 1-3 years after a merger or acquisition has closed, to unlock those additional benefits and reduce costs by up to 20 percent in the areas examined.

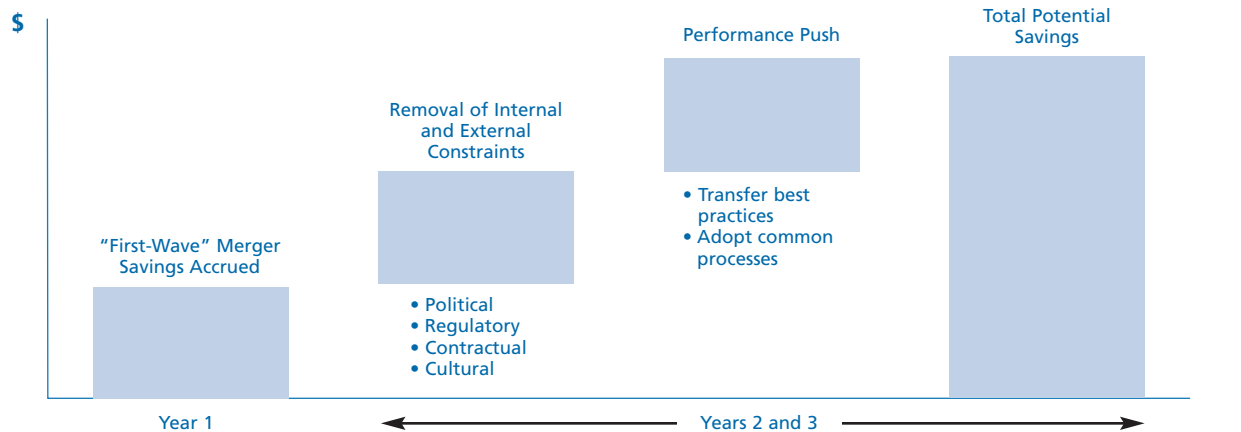
Our clients have found that these "second wave" benefits come from two primary sources:

- *The reduction in internal (e.g., contractual, cultural) and external (e.g., political, regulatory) barriers to further integration*—After the initial integration efforts and oversight have subsided, management is often able to more effectively address these barriers to more fully integrate the companies and capture more savings
- *Increased knowledge of the partner companies*—New savings and improvement opportunities typically surface as executives get to know each other’s predecessor companies better, discover exceptionally well performing areas/practices to transplant and gain greater appreciation for the strengths and weaknesses of management team members

The following pages describes Oliver Wyman’s perspectives on reaping the benefits from "second wave" post-merger integration and outlines the level and types of savings that management can expect.

Cost and performance improvement opportunities are often not fully realized during initial integration efforts, calling for a “second-wave” effort.

“Second-Wave” savings opportunities



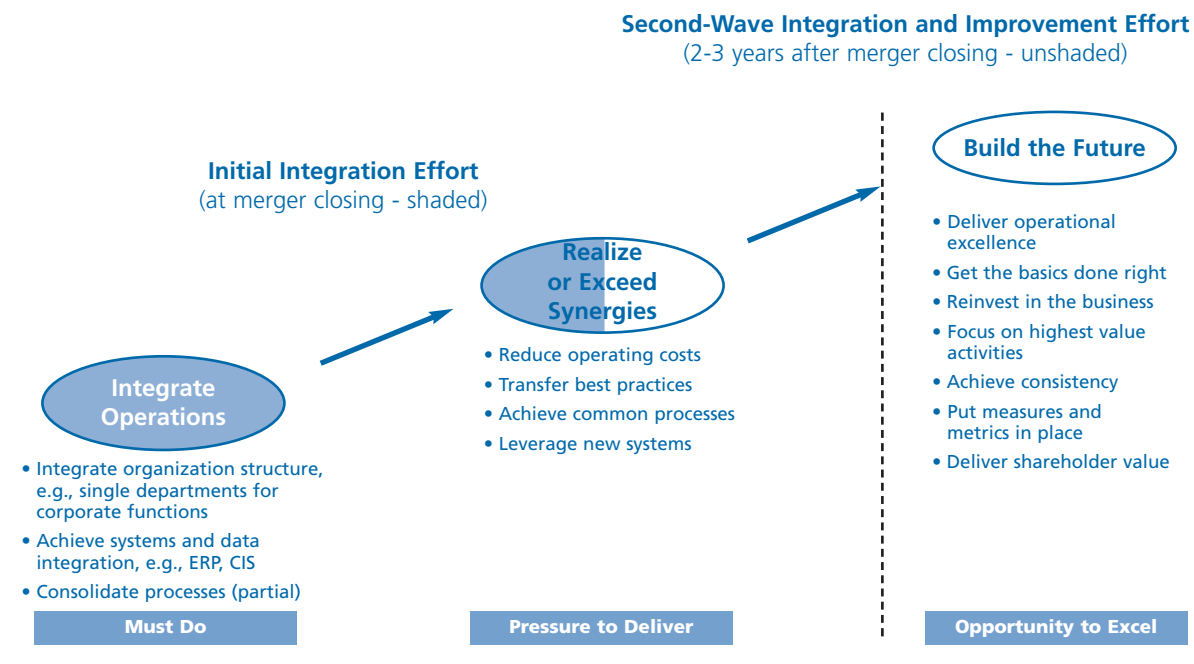
External and internal constraints (e.g., political, regulatory) make it difficult to integrate fully and capture most savings prior to and shortly after merger closes, for example:

- Consolidating support staff and back office functions
- Vacating facilities; buying out leases or selling
- Streamlining organization structure (often post-merger positions are created for “additional” managers)

New savings and improvement opportunities typically also surface in the first 2-3 years following a merger or acquisition:

- Executives and managers get to know each other’s predecessor companies better and discover:
 - Additional operating, performance, or cost issues to address
 - Exceptionally well-performing areas and best practices to transplant
 - The strengths and weaknesses of management team members, and reorganization opportunities
- New performance and cost challenges arise

In addition to driving further cost and process improvements, companies can position the business for future growth.



Conducting a “second-wave” effort has allowed our clients to reduce costs in a range of areas examined, achieving 5-20% savings (based on the relative cost position of the areas examined).

Post-merger event	Potential savings categories				
	Personnel	Supply Chain	Facilities	IT	A&G Overhead
Political and regulatory pressures reduced or are eliminated	√ • Consolidate HQ and back office functions • Consolidate call centers		√ • Close or consolidate buildings (corporate, customer service)		
Contracts and leases expire		√ • Optimize procurement and vendor management • Optimize size and mix of fleet	√ • Close or consolidate buildings (e.g., field service centers)	√ • Eliminate duplicative licenses	
Best practices and well-performing geographies emerge	√ • Improve productivity • Streamline processes	√ • Adopt best material and construction standards		√ • Adopt best operational systems	√ • Re-examine services provided (and their value)
High- or poor-performing managers emerge	√	√	√	√	√

Oliver Wyman

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Energy/Utilities Practice

Our dedicated consultants have significant experience in the energy/utilities sector. Previous clients include more than 75 electric and natural gas utilities in North America and Europe, as well as a range of unregulated service providers to energy companies and utilities.

Practice areas include:

Corporate strategy

M&A (targeting, synergy analysis, and post-merger integration)

Performance improvement

- Wholesale and Delivery
- Supply chain
- Support services
- Working capital
- Marketing
- Organization and staffing
- In-Market Experimentation

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