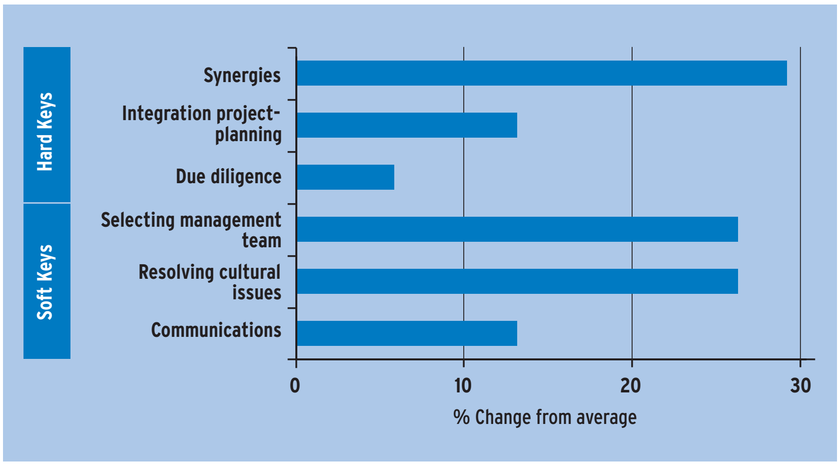

Figure 2. Activities for deal success
Source: KPMG

commercially astute advisor with industry experience to review the deal as proposed. This is a major way of combating 'deal fever' and sometimes doubtful decision-making.

Finally, for many advisors: due diligence can sometimes be nothing more than a box-ticking exercise from a due diligence checklist. Whilst important, this in no way covers the ground necessary and ignores many business functions completely.

A good example is human resource management issues embracing cultural issues (both corporate and geographical), which – as Figure 2 illustrates – is a key issue. Rarely do we see advisors looking at 'culture fit', which is strange given its massive importance. There are tools that can be used to assess this, for example in areas such as 'team chemistry'. Other good examples would be complaints and quality management issues – ignored by most checklists.

Post-completion planning – the bit that everyone forgets

Of course the acquisition process is highly charged and extremely challenging. Not surprisingly, a satisfactory conclusion with the deal done is often seen as an end in itself. Management is both relieved and exhausted and often too apathetic to manage the integration process.

However, once the deal is signed the really hard work begins: that of making the returns from the new acquisition in order to justify the price paid. In the excitement this is often either overlooked completely in planning – or too little emphasis is given to this critical issue. Accordingly due diligence should shape and play a major role in post-completion planning.

Ignore this at your peril.

Vendor due diligence

Vendor due diligence (VDD) is the term for any due diligence which is commissioned by the vendor in preparation for the sale of the business. It is a relatively new phenomenon but increasingly important.

The key to integration is advance planning. Pre-deal due diligence is the ideal platform on which to build a successful post-completion plan

Our advice to vendors is to 'groom' the business for disposal alongside a vendor due diligence programme. Grooming is not to be confused with mere 'window-dressing', which can always be seen through. Proper grooming is quite different – it is a full process of planning and preparation for the sale and is highly recommended.

Actions for grooming may include (but not exhaustively so):

- The creation of a 'data room' for all documents and information;
- Marketing activity;
- Mentoring second-tier management;
- Maintaining records including board meeting minutes;
- A business improvement programme;
- Raising finance by different methods so that valuation is not compromised.

Good vendor due diligence is worth every penny. It suggests that:

- The seller has provided all the information that a buyer could want and therefore access to management and customers can be reduced;
- The seller gets all the bad news out of the way up front so discovery of problems later is not used as an excuse to chisel the price down.

Planning ahead by as much as two years or more is suggested for good grooming and vendor due diligence.

Acquisition only?

Due diligence is the term traditionally associated with acquisition and sometimes mergers. Exactly the same process is, can and should be applied to a whole range of other transactions, for example:

- Strategic alliances;
- Service level agreements and collaborations;
- Joint ventures;
- Divestment of a division or part of a business;
- Management buy-out (MBO);
- Management buy-in (MBI);
- Financial restructuring.

Conclusion

Due diligence is not simply a checking process. Nor is it there just to provide ammunition for negotiations. Whilst it does both of these it should also be used to plan the longer-term – including post-completion activities.

The academic research in this area shows quite clearly that more than half of all mergers and acquisitions fail to deliver on expectations. Other research shows that in the majority of cases this is because the acquisition is not properly integrated.

However good the strategy, however good the choice of target and however good the negotiations of the sale and purchase agreement, poor post-deal integration will seriously increase the probability of a poor deal or even failure.

The key to integration is advance planning. Pre-deal due diligence is the ideal platform on which to build a successful post-completion plan.

So we strongly advise the use of an independent advisor with industry experience to guide you through the process and become part of your team temporarily. It could save you a lot of heartache and money. ■

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