What Shape is Your Curve?

Curves are magnificent things. They form shapes that define the essence of attractiveness. Mergers have curves, too. Synergy curves. And they define the attractiveness of the deal.
Curves are magnificent things. Think of the Jaguar E-Type, the Sydney Opera House, or a Coca-Cola bottle, all icons of our time. Mergers have curves too. Synergy curves. They reveal the measure of attractiveness of the deal, either up front as part of a due diligence exercise or when evaluating the deal’s ultimate success.

A synergy curve shows the accumulation of synergies over time, and it tells a thousand stories. It is the result of months of preparation, planning, and implementation. Its shape is defined by the integration strategy, the speed at which synergies are delivered, and the implementation capabilities of the integration team and the broader organization. It stands as a testament to the quality of the CEO’s vision and execution and will be scrutinized by the board, shareholders, and markets. It ultimately defines the success or failure of a merger.

---

A synergy curve shows the accumulation of synergies over time and tells a thousand stories.

---

Plotting a curve helps clarify the deal’s strategic rationale, which is fundamental to maximizing synergy delivery; once completed, it can be used throughout the integration to benchmark, plan, and track the synergy delivery rate. So knowing the curve’s likely shape both helps validate the rationale behind the merger and acts as a vital indicator as the integration progresses.

In this paper, we bring together our experience and data from many mergers to describe the types of synergy curves for various integration strategies, and we highlight the typical time frames for delivering synergies at an overall level and at the level of individual functional work streams. Our experience-based examples provide a benchmark to compare integrations simply by asking the question: What shape is your curve?

---

The Window of Opportunity

In every merger, there is a window of opportunity when newly merged companies can best engage stakeholders to deliver synergies. During this time, there is a clear case for change, intense top management attention, and significant committed resources. All stakeholders—from suppliers and shareholders to employees and customers—are expecting change, and it is important not to disappoint them (see figure 1 on page 3). After this window closes, the outlook for delivering synergies is greatly diminished. A synergy curve, which represents the time element of delivery, can provide valuable support to CEOs and other top executives as they assess the merger’s synergy delivery.

---

Defining the Curve

Despite its importance, the curve is often plotted as an afterthought once the real work of defining the synergies has been done. In successful mergers, it is defined in the early stages and is used as a driving force for the integration.

---

1 For the purpose of this paper, the term merger is also used to mean acquisition.
There are two ways to define the curve: Some companies track synergies as run rate savings; others track the impact of earnings before interest and taxes (EBIT). The impact of EBIT is what will appear in the financial results of the business and is often a point of discussion because CFOs are more familiar with EBIT and use it for formal synergy reporting. However, we recommend the method based on run rate, which is an implementation-focused metric. The full value of the synergy benefit is recorded when it is delivered, giving CEOs a clear message about the pace and progress of synergy delivery.

Figure 2 on page 4 shows a typical synergy curve. Modeled by taking an average of the curves we developed for a variety of mergers, the y axis here represents the percentage of total synergies to be delivered. For individual mergers, the y axis represents monetary value. The x axis indicates the time elapsed from day one (the day the deal closes).

On day one, an acquiring company typically plans to reach 1 to 2 percent of its final run rate, for example through the normalization of supplier pricing differences identified in pre-close clean-room analysis. By day 100, 2 to 5 percent of the final run rate should be reached, by rationalizing overlapping support functions and headquarters buildings, for example. By the end of the second year, 92 to 97 percent of the full run rate can be reached by taking full advantage of the merger’s window of opportunity, leaving as little as possible to be delivered in year three, when the merger will seem like a distant memory.

---

2 Based on data from clients that have achieved their forecasts
3 Known outliers of the specific mergers have not been included.
How Does Your Curve Shape Up?

Synergy curves can be developed as early as the due diligence phase. Private equity buyers in particular put a lot of effort into defining the importance and timing of potential synergies during this early phase. Corporate buyers can also maximize the investment value by adopting this discipline.

As the deal progresses through announcement and toward close, the curve’s accuracy can be refined as more data is made available. Clean rooms, where an independent team stores and reviews confidential data from both sides, can dramatically improve the curve’s accuracy and ensure that execution of the synergy capture work streams can begin immediately after close. Another tool for refining the curve is a “synergy summit” where functional representatives from both sides can come together—even pre-close (and typically under legal supervision)—to brainstorm potential synergies and determine the delivery timeline.

These identified synergies are used to construct a partial synergy curve before day one and the complete picture after day one. A final curve takes shape as the synergies are tested through the development and sign-off of business cases in what A.T. Kearney calls the “acid test” process. Although no curve is the same, the A.T. Kearney Synergy Curve can be used to test synergy delivery plans, identify differences, and then refer back to the deal’s strategic rationale to decide whether the synergy delivery remains true.
Where Do Synergies Come From?

Synergies can be related to either revenue or cost. Revenue synergies come from expanding into new markets, exploiting new sales channels, and leveraging new products, innovations, and brands. Cost synergies come from rationalizing support functions, optimizing operations networks, and maximizing procurement leverage. Mergers typically generate both revenue and cost synergies, but the balance of the two can dramatically change the character of the merger, the integration strategy, and the ultimate shape of the synergy curve. Some companies refer to acquisitions as being offensive or defensive. An offensive merger focuses on growth and revenue; a defensive merger focuses on cost. In either case the integration approach and the shape of the curve must be appropriate to the merger.

When growth is the main goal of a merger, cutting costs immediately after day one is unwise. The synergy curve would look very different from a merger in which cost reduction is the primary rationale for the deal. It is also important to develop a coherent story for the financial markets, one where the deal rationale matches the synergy targets. The financial markets are typically more receptive to a cost synergy story because it is more within the control of the acquiring company and can be more easily evaluated. For example, plant closures or redundancy programs can easily be linked to a merger, but revenue synergies are less directly linked and often need to be played down to avoid raising anti-competition concerns.

In one recent example, overlapping geographies was the rationale for a merger. A strategy was developed to exploit all growth opportunities stemming from the merger while still achieving cost synergies. All synergies from sales opportunities were achieved by the end of year two. A clean room process identified customer overlaps and opportunities so that actions could be immediately taken on day one of the merger. Figure 3 shows the total synergy curve for this merger, along with the curve for revenue and cost synergies. The ramp-up

![Figure 3](https://example.com/figure3.png)

**One merger achieved all sales synergies by the end of the second year**

---

**Source:** A.T. Kearney analysis
of overall synergy delivery in this example is less aggressive than in the A.T. Kearney Synergy Curve shown in figure 2 for three reasons:

- Employee exits took more than six months from day one because of the required consultation processes with works councils and unions.
- A transformation program was already in place, and a decision was made to near-shore to a lower-cost country, which took longer to put in place.
- Some of the other activities that were not purely merger related depended on specific tools being in place, which also took longer.

Pulling the Synergy Levers

Cost and revenue synergies are delivered at varying speeds. With a rigorously planned program, savings are often achieved in a wave across procurement, operations, sales and marketing, general and administrative (G&A), and R&D (see figure 4).

The quickest wins are usually in procurement and G&A. Procurement, often the first to achieve full run rate, can provide immediate and consistent savings with price harmonization opportunities identified either in the clean room or immediately after close. A second, more important wave of procurement synergies can be delivered through volume leverage discussions with existing suppliers and supplier rationalization. Further synergies—and the final tranche—will come from a more complete strategic sourcing process, taking the combined business to a new group of potential suppliers and optimizing the way each category is procured.

G&A synergies can be identified across the board, but the new headquarters decision should be a priority for early savings.

Figure 4
Synergy savings often come in waves

<table>
<thead>
<tr>
<th>Category</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Procurement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis
In most situations sales synergies should be achieved quickly to win the best negotiating position with customers and demonstrate to them the benefits of the merger. These are created by cross-selling, aligning prices, and leveraging expanded offerings and go-to-market approaches.

A synergy curve stands as testament to the quality of the CEO’s vision and execution and will be scrutinized by the board, shareholders, and markets.

Operations synergies typically take longer to deliver and can involve a mix of short-term synergies driven by best-practice sharing and longer-term decisions that involve changes in manufacturing strategy or supply chain consolidation. Major synergies can also be captured by merging R&D functions. These often come later, after the innovation pipelines have been evaluated and harmonized, and technical capabilities have been fully assessed.

Figure 5 shows the individual synergy curves for the different synergy types that underpin the A.T. Kearney Synergy Curve.

Figure 5
The synergy curve will vary by category

Note: Operations includes manufacturing rationalization and supply chain. General and administrative includes corporate, office rationalization, and other. Procurement, R&D, and sales and marketing include revenue synergies and sales and marketing head count.

Source: A.T. Kearney analysis
Keeping Things Positive

Every merger will have negative synergies. It is the role of the merger team to identify these quickly, proactively manage them, and reduce them where possible. These “dis-synergies” can come from customers wanting to normalize trading terms and prices or not wanting to end up in a sole source situation, or they can come from increased IT costs, particularly in a carve-out situation.

If You Don’t Deliver Quickly, You Don’t Deliver at All

A merger with a sense of urgency, where synergies are delivered fast and furiously, is far more likely to reach its full potential. In fact, “urgency” is one of the eight key success factors that A.T. Kearney highlights to our merger integration clients. By plotting a synergy curve during the planning of the merger, senior executives can see the speed at which synergies could be delivered and, as the merger progresses, track the planned accumulation of synergies over time.

Used correctly, the synergy curve will be the fundamental tool for successful synergy delivery. A synergy curve might not have the iconic status of the Jaguar E-Type or the Sydney Opera House, but to the CEO, it will become the cornerstone of a successful merger.

Authors

Bob Haas, partner, New York
robert.haas@atkearney.com

Angus Hodgson, partner, London
angus.hodgson@atkearney.com

The authors wish to thank their colleague Amy Dullage for her valuable contributions to this paper.
A.T. Kearney is a global team of forward-thinking, collaborative partners that delivers immediate, meaningful results and long-term transformative advantage to clients. Since 1926, we have been trusted advisors on CEO-agenda issues to the world’s leading organizations across all major industries and sectors. A.T. Kearney’s offices are located in major business centers in 39 countries.

### Americas
- Atlanta
- Calgary
- Chicago
- Dallas
- Detroit
- Houston
- Mexico City
- New York
- San Francisco
- São Paulo
- Toronto
- Washington, D.C.

### Europe
- Amsterdam
- Berlin
- Brussels
- Bucharest
- Budapest
- Copenhagen
- Düsseldorf
- Frankfurt
- Helsinki
- Istanbul
- Kiev
- Lisbon
- Ljubljana
- London
- Madrid
- Milan
- Moscow
- Munich
- Oslo
- Paris
- Prague
- Rome
- Stockholm
- Stuttgart
- Vienna
- Warsaw
- Zurich

### Asia Pacific
- Bangkok
- Beijing
- Hong Kong
- Jakarta
- Kuala Lumpur
- Melbourne
- Mumbai
- New Delhi
- Seoul
- Singapore
- Sydney
- Tokyo
- Shanghai

### Middle East and Africa
- Abu Dhabi
- Dubai
- Johannesburg
- Manama
- Riyadh

For more information, permission to reprint or translate this work, and all other correspondence, please email: insight@atkearney.com.

A.T. Kearney Korea LLC is a separate and independent legal entity operating under the A.T. Kearney name in Korea.

© 2013, A.T. Kearney, Inc. All rights reserved.

The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.