FTI CONSULTING™

WARGAMING FOR M&A INTEGRATION LEADERS

Confronting the realities of M&A Integration in the modern age

In an era of disruption and uncertainty, developing and executing on M&A planning, execution and integration requires new strategic approaches. Business Wargaming is one such approach, significantly increasing overall M&A effectiveness by providing valuable foresights, stress-testing strategy and maximizing the potential for successful integration.

Nitin Kumar, CMC, CM&AA, CDDP

WHY WARGAME?

M&A INSIGHTS
HUMAN CAPITAL

TECHNOLOGY SECTOR

Results are based on surveying several business, M&A integration, corporate development and functional leaders in the technology sector.

Ability to align cultures was cited as the highest measure of success for HR M&A

- 3%
- 34% — Culture alignment
- 26% — Employee engagement
- 24% — Employee retention
- 13% — Executive retention
- Other
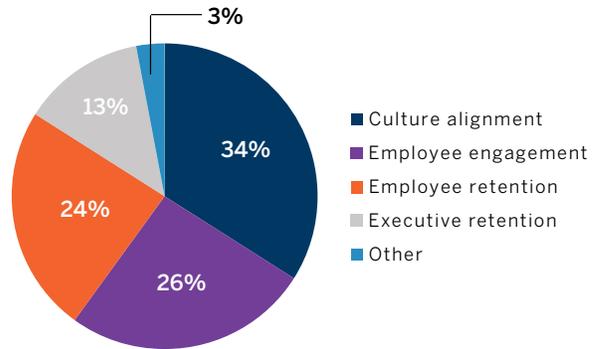
Critical employee retention
appears to be the biggest challenge during HR M&A integration

38% of companies' critical employees separated faster than non-critical employees soon after the M&A

42% of said retention bonuses were not effective in Silicon Valley

Acqui-hire deals **did not result** in the expected transaction value

38% respondents were involved in an acqui-hire transaction over the last 12 months

77% did not believe that the net present value of acqui-hire > organic hiring

61% of HR Executives would not execute acqui-hire transactions again

FTI CONSULTING

EXPERTS WITH IMPACT™

WHY WARGAME?

M&A INSIGHTS
INTEGRATION OPTIMIZATION

HR leaders felt that their ability to influence deal issues was lowest during target screening and highest during integration planning

Influence of HR

	Target Screening	Purchase Agreement	Synergies	Integration Planning	Integration Execution
Rarely	66%	22%	26%	24%	33%
Never	10%	32%	17%	2%	16%
Always	24%	46%	57%	74%	51%

Deal Continuum

■ Always ■ Never ■ Rarely
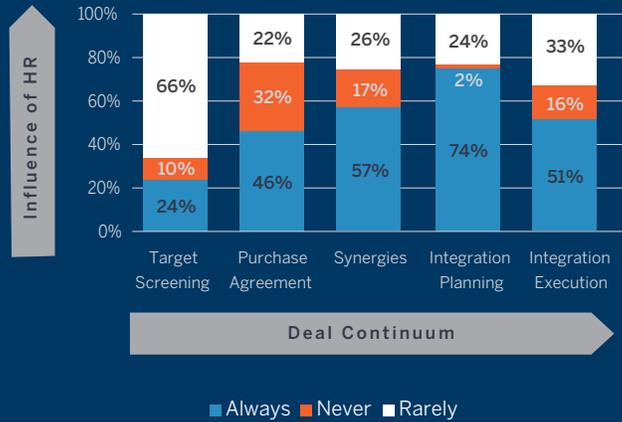
66% of companies reported that they did not have a specific approach to assessing and integrating culture in a deal. Reasons included:

- Lack of leadership support to invest enough in culture during an M&A
- Light culture due diligence often glossing over integration risks
- Lack of internal resources to assess or manage culture

81% felt de-risking pensions was the biggest risk area during due diligence while, executive compensation was rated lowest

Improving change management practices was cited as the biggest opportunity during HR M&A integration

39%	25%	24%	12%
Improve Change Management Practices	Leadership Selection	Enhanced HR due diligence rigor	Misc. Factors[1]

[1] Micellaneous factors include: headcount, budget, bandwidth, accountability, process, people strategy, etc.

FTI CONSULTING

EXPERTS WITH IMPACT™

3

M&A INSIGHTS
OPTIMIZE M&A STRATEGY

Results are based on surveying several business, M&A integration, corporate development and functional leaders in the technology sector

Deal Type	Definitions of Failure	Failure Rates	Root Causes
Consolidations	Poor shareholder returns and inability to earn back capital in three years	47%	Weak core business, large target size, overly optimistic, slow integration
Adjacencies	Low revenues, cash and profitability	80%	Lack of vision, lack of alignment, slow integration
Technology Tuck-ins	Inability to earn back capital in three years	60%	Poor strategy
Acqui-hires	Would not buy again, flight of talent	85%	Poor planning, poor communication, slow integration
New Business Models	Poor cash flow relative to peers, inability to scale business	75%	Slow or no integration, overestimated ability to execute

Functional M&A integration techniques do not scale across all types of deals

M&As driven by business model transition (e.g., SaaS, IoT, VR) have been more expensive to execute and do not yield the planned synergies

**80%** found it harder to track, measure and report value realized from tech tuck-ins

84% did not believe traditional functional methods work for integrating new business models

47% felt a need to migrate from traditional M&A integration approaches

66% of M&A integration leaders will not execute another acqui-hire transaction

FTI CONSULTING

EXPERTS WITH IMPACT™

M&A INTEGRATION
RISK OPTIMIZATION

Serial acquirers had the highest rate of failure with acqui-hires and new business model acquisitions

3x higher turnover in sales function

4x more discussion on disruptive deals in the boardroom in the last two years

33% higher success rate of consolidation mergers

59% have >5 business models impacting deals in their pipeline

10 indicators of integration failure were identified, with ineffective management structure being the most cited indicator

A	B	C	D	E	F	G	H	I	J
18%	17%	12%	11%	11%	8%	8%	7%	5%	3%

A Ineffective management structure and vague reporting relationships
B One size fits all integration approach (i.e., run the playbook)
C Flight of talent
D Unclear messaging on combined company
E Conflicts in sales force
F Higheropex
G Increase in temp labor
H Increased workload on customer service
I Product conflicts
J Miscellaneous factors[1]
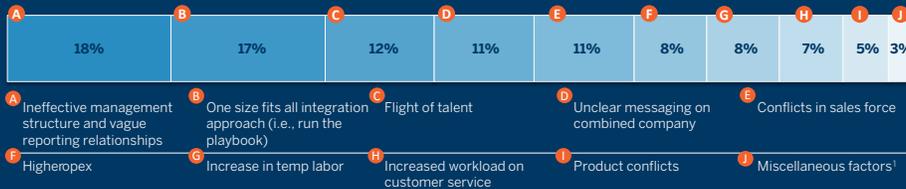
[1] Micellaneous factors include: acquisition premium, inadequate integration leadership, inability to make decisions

FTI CONSULTING

EXPERTS WITH IMPACT™

5

CONTENTS

INTRODUCTION
HOPE IS NOT A STRATEGY

> *One thing a person cannot do, no matter how rigorous his analysis or heroic his imagination, is to draw up a list of things that would never occur to him."*
>
> *-Thomas Schelling*

A well-worn expression in military circles famously observed by Prussian Field Marshall Helmut Von Moltke, and one supported by its absolute truth, is that "no battle plan survives contact with the enemy."

Knowing this, Moltke had forces under his command participate in Wargaming, simulating operational and counter-moves on the field of battle in order to surface both unanticipated strengths and weaknesses, but above all, to subject existing assumptions to the uncertainties of fast-evolving, complex situations.

Business Wargaming is an adaptation of this rigorous simulation, but unlike the centuries-old events staged in Prussia, enterprise-level Wargames are a relatively recent development. However, their implementation is growing rapidly, given the extraordinary levels of uncertainty and disruption in the technology industry today. In other words, it is driven by the recognition that it is a competitive advantage to be able to develop a strategy and execution plan in an environment defined by unknowns.

Acquisition volumes in both 2016 and 2017 have been at record levels, and as disruptive technologies continue to emerge quickly, we can only expect this trend to continue as the race for assets and capabilities intensifies.

Simultaneously, never have the set of uncertainties dominating the political, economic and regulatory spheres, the investment community (and the growing cohort of activist shareholders), technology obsolescence and shifting business models—not to mention basic customer preferences—been greater.

In this context, it seems naïve to argue that conventional linear strategies are an optimal way to craft an M&A process, nor will they produce results when it comes to the key driver of fully realizing M&A value: integration.

Business Wargamers can experience firsthand the multiple and cascading pressures from frantic traditional competitors, emerging non-traditional competitors, disruptive technologies, changes in the geo-political landscape and a furious race to acquire digital assets. Acquiring companies can face pre-emptive strikes from competitors on the very targets they had identified as a key pillar of their own strategies.

The acquisition itself represents only the very first salvo of battle: once an asset is acquired, executing on all the factors that determine just how smooth and successful an integration will be, in many ways, defines the ultimate transaction value far more than the acquisition price.

Higher multiples increase integration pressures and creation of value, and we see evidence of fewer opportunities to achieve conventional back office synergies. This is especially true with smaller digital assets, where the value drivers are centered around products, customers and revenue growth.

For anyone still on the fence, I will argue that the evidence is clear that the time has come for M&A integration leaders to adopt Business Wargaming techniques and practices into their execution strategies for creating value.

Integration leaders need to consider the value of exposing existing strategies—and the assumptions that underpin them—to the fluid, difficult, and fast-evolving environments that any modern enterprise operates in. Doing so means an integration strategy development process with reduced risks due to uncertainties.

In the following pages, I will outline the case for developing new, non-linear processes that create M&A value from strategies focused on M&A integration. A key driver of this value—and foundational to testing and refining these strategies—is Business Wargaming, which develops a framework for strategy through execution based on key criteria, enabling optimal integration and value creation outcomes.

CHAPTER 1
CHALLENGES WITH CONVENTIONAL M&A INTEGRATION

Traditional M&A integration does not typically factor in the impact on deal value due to external factors like competitor moves, customer behavior, in-house personalities and other macro-economic forces.

M&A integration creates a highly complex environment with many moving parts: picking the right targets with the best strategic fit, paying the right price and integrating the asset are all essential for creating lasting shareholder value. Typically, a lot of time is spent ascertaining strategic fit through the execution of synergies, with limited importance placed on moves or counter-moves by customers, competitors and employees.

A classic example is Microsoft's acquisition of the Nokia handset business. The core thesis was sound at the time. The then leading choice in enterprise phones, Blackberry, was stagnating; Windows Mobile could integrate seamlessly into the Microsoft enterprise ecosystem, such as Office, Exchange and Sharepoint, and acquiring a handset asset could propel them into a leadership position in the enterprise. The weakness: the widely assumed, and unchallenged, dogma that iOS and Android would remain consumer phones and would never penetrate the enterprise space. The assumption was simply wrong for both iOS and Android, which rapidly penetrated enterprises at a rate Microsoft could not match, and fundamentally derailed the value of the deal. Had these scenarios been Wargamed ahead of time, life might have been different in Seattle… and in Espoo.

M&A integration leaders need to anticipate and manage competitor responses or counter-moves to their M&A strategy or integration, such as price drops, enticing customers, PR campaigns, product changes and counter acquisitions. Developing long-term integration strategies and sound execution tactics in an era of uncertainty requires sophisticated planning. But planning can only be as sophisticated as the process that guides it, and traditional linear thinking is inherently limited. Wargaming, on the other hand, painfully exposes truth to convention.

" The most common issue with M&A integration is that our assumptions around the dynamic market landscape are not stress tested enough for competitor responses."

-SVP, Corp Dev & Integration of a Silicon Valley Hardware Company

Table 1: Benefits and barriers of Wargaming

Benefits		
Assess risks in a dynamic environment	• Prepare for unanticipated internal and external events • Reduce risk by developing proactive mitigation plans and alternate options	
Capture interaction with business, market, users and third parties	• Develop teamwork and collaboration across functions and locations • Understand possible competitor (re)actions • Uncover issues that result from interactions under unknown scenarios	
Improved performance	• Participants see how their decisions can affect the performance of others and the organization as a whole • Enhance strategic planning and execution skills within a changing and uncertain environment	
Change management	• Executive buy-in for future strategic plans and key decisions • Facilitate learning of important business concepts, principles and thought processes • Accelerate training through immersion • Secure buy-in and socialization through improving adoption and cutting down on change management cycles	
Strategic awareness	• Enable foresight into future scenarios holistically, helping build a proactive strategy and improved reactive strategy • Crystallize the financial implications of business unit decisions and exceptions by linking them to financial performance and the need to deliver customer value propositions	

Barriers		
Mental filters	• People tend to force the world into their existing mental frames, weak signals that don't fit are typically distorted or ignored • People like to interpret variables they can feel and control, rather than every existing factor	
Overconfidence	• Demonstrated tendency to be too certain also makes people tend to believe that the current view they hold is correct, and so are the decisions made in that light	
Adverse opinions	• It is more difficult to detect disconfirming evidence than to confirm evidence, so the mind is more likely to accept than reject an idea	
Dislike for ambiguity	• People dislike ambiguity, particularly in organizations in which leaders are expected to have ready answers to everything	
Group think	• Employees typically take comfort in belonging to the majority and seeing the world in the same way • There is a tendency to go along with existing norms, rather than use an individual mind to counter the group's thinking	

Companies often have M&A teams focus on the integration process, underpinned by the belief that if basic blocking and tackling is masterfully handled, value will follow. On the strategy side, robust searching and screening guided by superior pre-defined criteria is no longer enough. Valuations have been trending up,

currency moves due to geopolitical changes provide sudden buying and selling opportunities, and competitor moves re-value entire categories, and happen faster than ever before.

To continue to use Microsoft as a case study, note that the acquisition of LinkedIn left many competitors surprised and returning to the strategic drawing board; there is no doubt the conversation around the water cooler (and in the boardroom) at Salesforce the next day was particularly focused.

Conventional integration strategy is typically developed by following simple steps based on prior experiences, historic data, industry dynamics and key assumptions projected into the future. This approach only accounts for known business scenarios, can only respond to these knowns, and further brings with it historic biases. If imminent variability and uncertainty are not factored into the M&A integration process, the strategy becomes inflexible given the velocity of business today.

A new approach would need to extend the conventional M&A integration in a manner that factors in actions by employees, customers, shareholders, analysts, competitors, new technologies and regulations. Wargaming—by inserting uncertainty and variability based on a set of immediately relevant factors—creates value during M&A integration, if it is embedded in the process alongside the due diligence phase.

Both M&A strategy and integration decisions have huge internal and external impact on organizations. For example, launching an exciting product through a newly acquired channel at the right price might reach more customers and drive sales, but could have difficulty integrating into existing business processes and technology, driving up costs significantly and having a negative impact on profitability. Competitor counter-moves that strive to capture market share could further stress the ability to execute.

An example that I have seen over and over again is pricing—a critical lever in creating M&A revenue synergy. Key questions to stress test are seemingly simple, but they must be asked, and somehow rarely are. What is the right price? How do we time price changes? Should we increase pricing, or should we decrease pricing and seek to drive volume? How will customers and competitors react?

I have worked with a specific technology company that reduced prices to drive up volumes and keep competitors out, which worked extremely well—in the short term. Their competitors took the opportunity to reposition their brands as premium offerings, and over time gained higher market share, at higher margins, with top tier customers.

Wargaming creates a perfect window of opportunity for the M&A integration leaders to look past some of these limitations, align with the changing business environment and prepare optimally to anticipate and address uncertainties.

For a company seeking to understand, say, the risks to a product launch via newly-acquired channels, multiple options and outcomes can be tested through a Wargame-styled use of existing channels, alternate channels, pricing variability, exploring partnerships and incentivizing customers. The implications of each move, counter-moves by competitors, risks and opportunities can be better anticipated, and understood. There are critical decisions underpinning each of these actions, driving a range of possible outcomes. Traditional strategy processes during M&As limit the visibility into uncertainties and alternatives based on moves and counter moves, or even factor personality related surprises, during M&A integration.

Figure 1: Ingredients of a holistic M&A integration strategy and execution plan
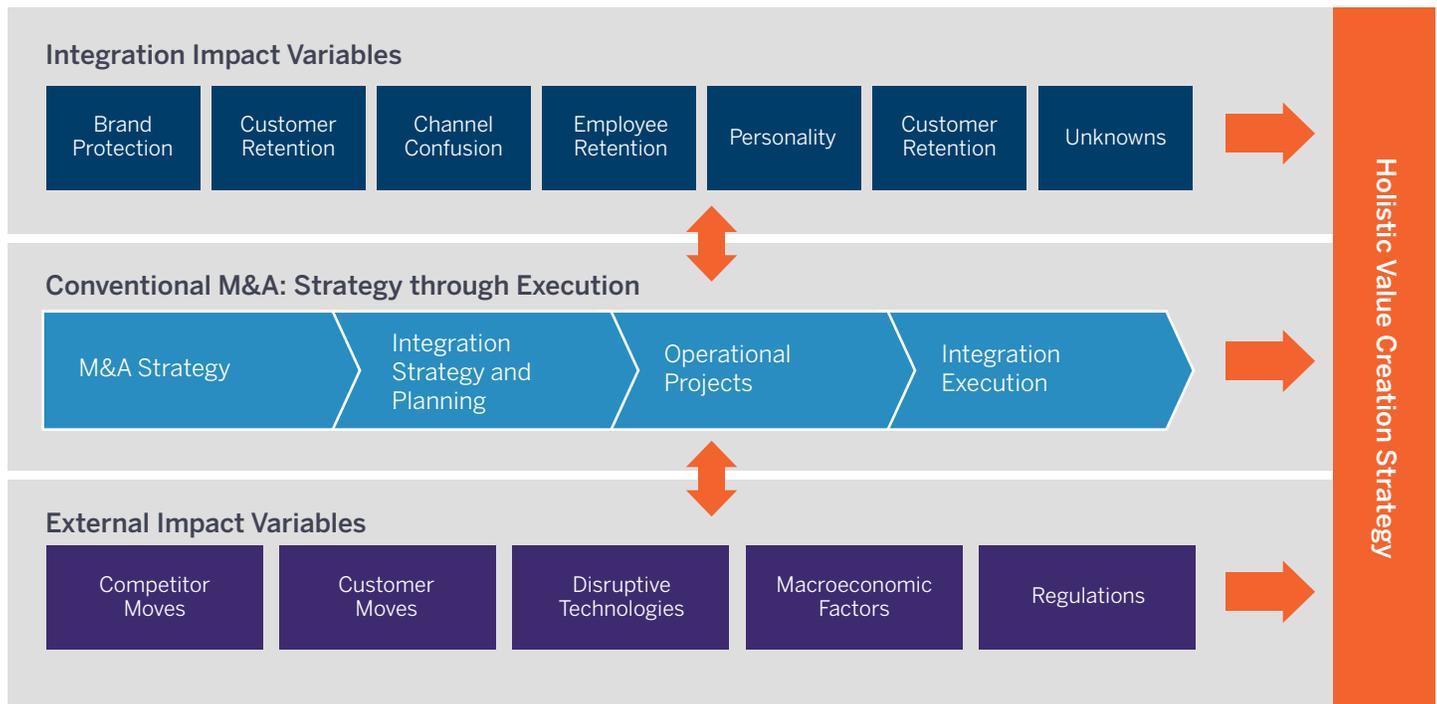
> ## "A lot of times, M&A integration efforts are slowed or derailed due to personalities involved on either side; planning and factoring these sorts of issues into M&A integration could protect a lot of value."
>
> *– M&A Integration Leader at a Software Company*

Integration impact variables, and certainly those with high potential towards value of the deal, need to be considered in strategy development and execution.

For example, I was contacted by a company where it was assumed after an acquisition that 90% of the engineering team would stay on, because the company had retention bonuses in place. The presumption was, of course, that this desired outcome was purely a function of dollars offered, and it was wrong. When this assumption did not play out, many integration challenges surfaced and ultimately derailed the value of the entire transaction to irrecoverable levels.

There are no uncritical loyalties in business, however, and so a Business Wargamer might have asked—early on —what if the core team doesn't stay?

CHAPTER 2
DESIGN CONSIDERATIONS FOR WARGAMES

Wargames can help enable foresight into future scenarios to build a proactive strategy and improve existing reactive strategies.

A Wargame is best suited to deal with a moderate level of uncertainty. Extremely high levels of macro uncertainty, like the impact of nanotechnology on the design of next generation products, will understandably make it hard for any strategist to plot a range of defined outcomes.

Wargames are best used under conditions where two or three results seem viable alongside each strategic option. In these scenarios, analysis tends to be complex, while yielding limited results. Wargames bring forth the range of options available to executives for strategic decision making and execution tactics.

Figure 2: Deploy Wargames where there are unknowns and a degree of uncertainty
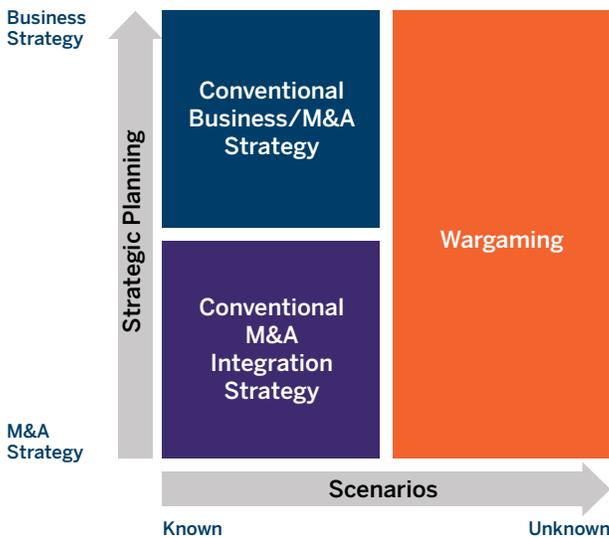
Figure 3: Ideal scenarios for Wargaming
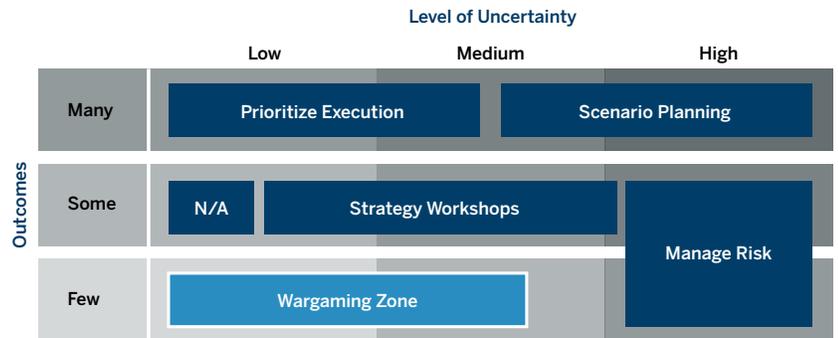
The narrower the options and uncertainty, the more successful the Wargame is, since we know the game and must play to win it.

If the degree of uncertainty is too high and the options are several or, even, infinite, we must first engage in scenario planning to define the game. These situations are not suited to deploy winning Wargames.

WARGAMING FOR M&A INTEGRATION LEADERS

The area in between the two spectrums of uncertainty would entail strategy workshops to plot the trajectory of moves and to narrow the options from several choices to a group of finite choices. You now know what the game is, but still must define where to play it. This would still be out of reach from the Wargaming sweet spot.

Once the decision to deploy Wargaming is made, the next decision is to determine the kind of Wargame to deploy.

Figure 4: The wargaming interaction model and development playbook
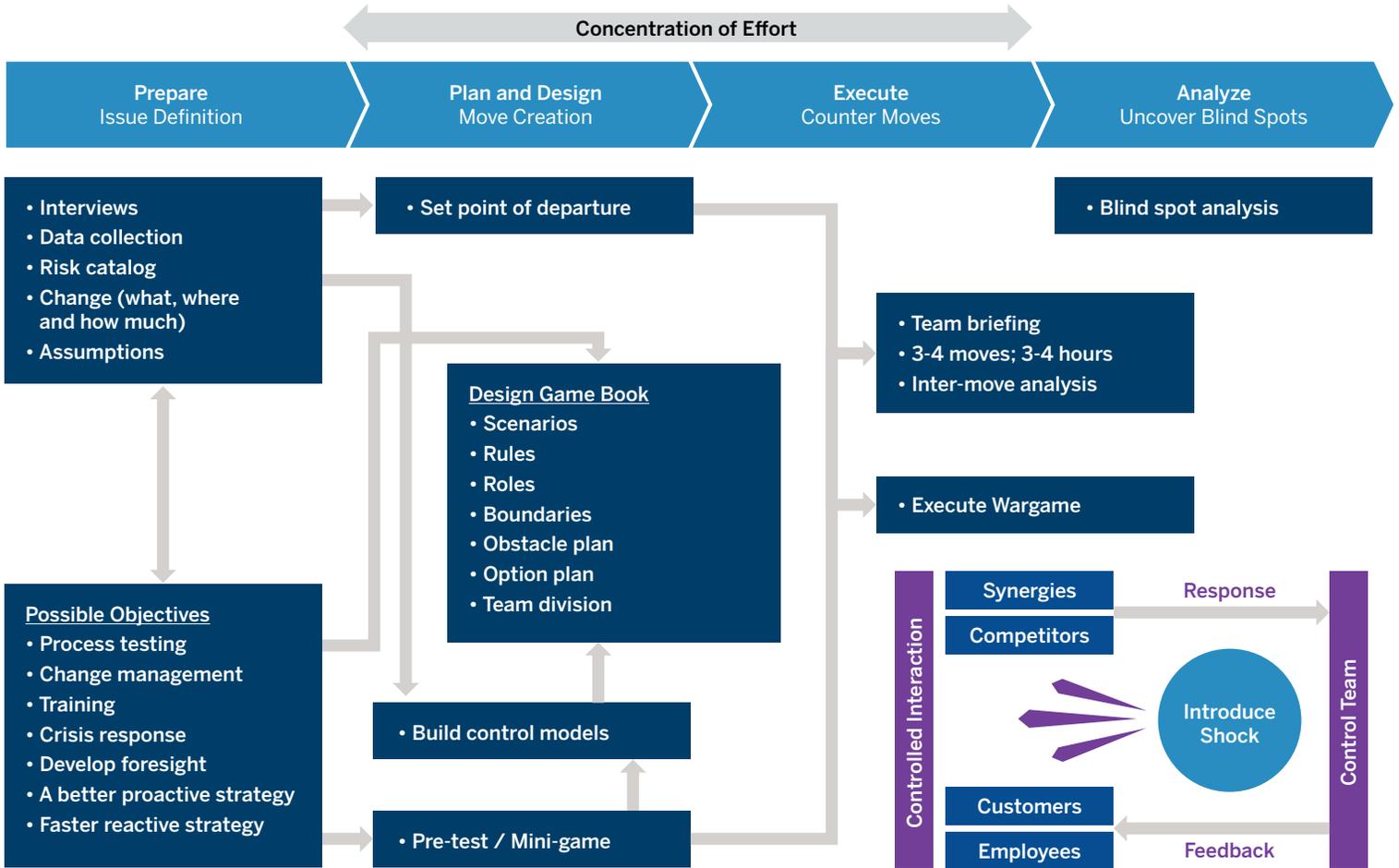
CHAPTER 3
TYPES OF WARGAMES

Wargames are dimensioned by types and level; deploying the right Wargame in the right scenario is a critical success factor. The quadrant on page 17 addresses these examples.

Wargame Types

PATH (P)
Path Wargames consider all the merging organizations' resources and focus on a long term roadmap (3-5 years) along all possible dimensions. The focus is not on any one issue, but on a broad range of business implications based on M&A strategy and integration decisions. Individual issues may not be represented in isolation.

This simulation considers macroeconomic factors like the political, economic and technological impacts on the integration. This assessment will involve several roles and teams such as regulators, research and development teams, businesses, multiple competitors, strategic partners, vendors, and so on. Focus is on the economic logic of the industry, the dynamics within the industry, any possible technology breakthroughs and cost management through operational excellence. Selecting and stress testing the right procurement process and validating if it truly adds synergy would be an example of a path Wargame. The comprehensive strategy of an organization based on M&A strategy, valuation or integration is an example of a Path Wargame.

GRAND STRATEGY (GS)
The Grand Strategy Wargame focuses on the possible outcome(s) of the overall M&A strategy, due diligence, valuation and integration planning. The timeframe is usually considered the end of the integration effort and any moves by key players help uncover unknowns. Ranges of multi-dimensional and cross functional outcomes are considered, and competitor moves are usually a vital success factor in this sort of Wargame.

LANDSCAPE (L)
Landscape Wargames are designed to consider changes in the operating landscape, such as industry consolidations, competitor M&A, emerging business models, serial M&A activity or a new regulatory change. These Wargames also help integration teams prepare for various outcomes, launch and integrate new and improved products, replace and retire end-of-life products and decide how much effort should ultimately be invested. These Wargames are geared towards adapting to the new business landscape.

TEST (T)

This Wargame tests an already developed strategy against surprises and uncertainties stemming from competitor responses, business changes and unplanned moves from customers, channel partners, government, regulators and vendors bringing in breakthrough products and technologies. The Test Wargame is often the most popular, because the timeline of decisions in most companies is more suited to building a strategy at a product, business unit or regional level, and then testing it upfront. A good example of this Wargame is testing the implications of a new change due to a single integration decision that impacts the business.

Wargame Levels

In addition to picking the right situation, it is also important to determine the right level for the game. While working with M&A leaders, exercises can be conducted at four increasing intensity levels.

LEVEL I

Level I is the simplest level of Wargame and usually involves tackling one scenario based on a specific situation or decision. This level is usually undertaken when there is a significant level of change being introduced and multiple outcomes are possible. A typical example of a Level I Wargame would be a new process or change to an existing process that has multiple potential results affecting more than one group of stakeholders.

LEVEL II

Often designed to serve as a "consciousness raiser", Level II helps participants understand key issues and concerns related to their own organization and capabilities. The Wargame is customized to reflect an organization's specific strengths, technology landscape, business model alignment and competitors, and involves multiple sessions across a couple of days. An example of a Level II Wargame would be selecting Enterprise Resource Planning (ERP) packages from one of two vendors, a decision that will have a widespread technological impact on internal and external stakeholders.

LEVEL III

Level III is more intensive and aimed at helping to develop and/or evaluate strategies to deal with a multitude of issues occurring in tandem. It involves the preparation of a significant amount of background material and extensive customization to reflect the real personnel, skills, products, competitors, vendors and uncontrollable factors as much as possible. Level III Wargames could easily last a few weeks and encompass multiple moves. For example, a decision to pick one target over another in single or multiple geographic locations has a significant impact on supply chains, tax rates, hard costs, employee locations, products, customer segments, competitive landscape and geography specific regulations, all of which need to be considered.

LEVEL IV

The most intensive level of M&A Wargaming is Level IV, which often involves two or more separate sessions, each two to four days in duration. This level is usually designed to help conduct a very detailed evaluation of the integration strategy's impact on the organizational strategies and supporting operational level tactical plans before a company makes a final commitment to implement them. It is commonly used in large scale, complex

and multi-geographical deals, and can be used extensively under divestiture or carve-out scenarios and played in the Path Wargame configuration.

Based on the company and integration needs, a framework can be used to help M&A leaders pick the right type and level of Wargaming. Various scenarios can be mapped onto this framework to determine the level of effort and depth required. A sample illustration is depicted in the figure below. While every situation may not precisely fit, approximations with tweaks are often effective. These frameworks are also dependent on the industry, organization size, industry dynamics and the current state of the business.

Figure 5: Examples of Wargaming types and levels
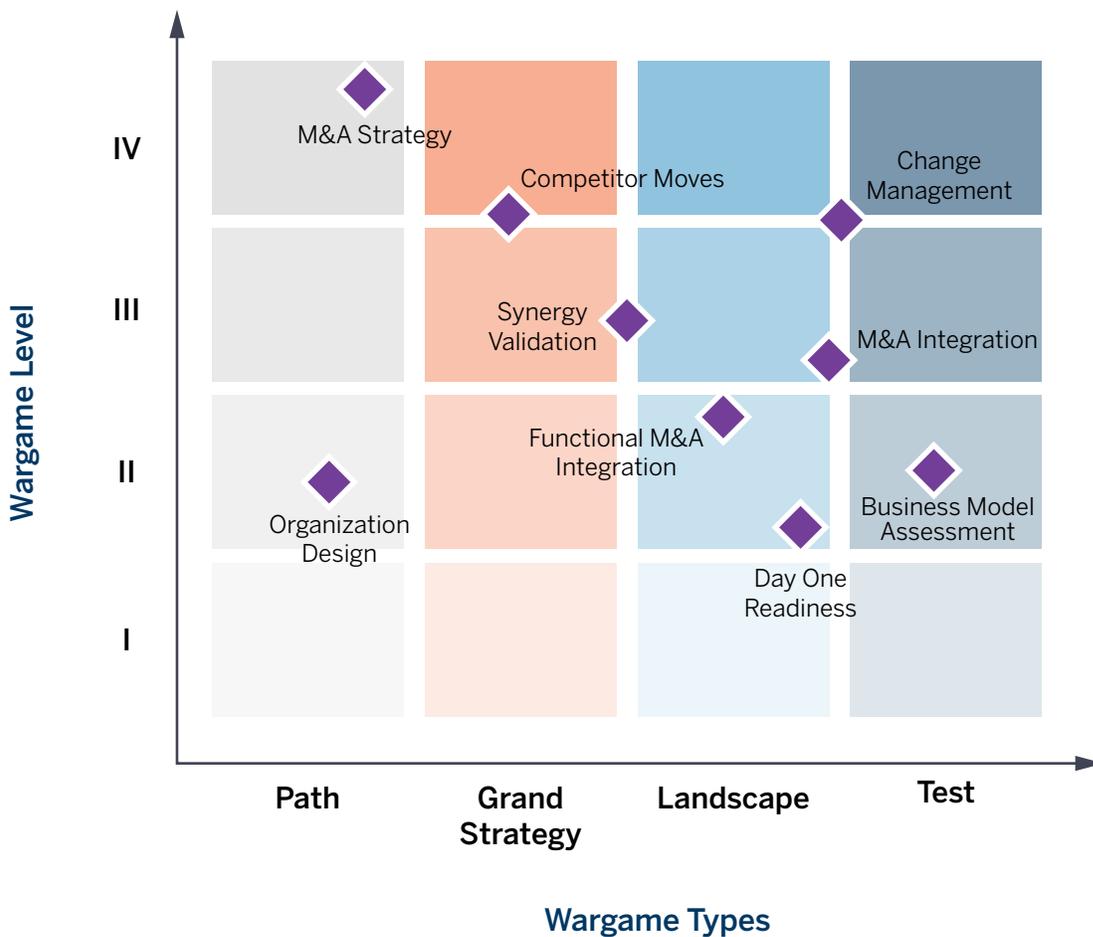
CHAPTER 4
POTENTIAL M&A INTEGRATION WARGAMING SCENARIOS

Wargames can be deployed to develop better foresight across several areas of M&A integration: creating, capturing and protecting value.

Wargaming can be used as a key M&A integration capability enhancement tool by M&A leaders in multiple scenarios, as it enables foresight into external and internal actions and reactions to the strategy from the industry, market and/or internal organizational units. Depending on the maturity of the integration, an appropriate Wargame type and level can be chosen and conducted as described in the previous chapter, whether the company is initiating a formal integration for the first time, conducting an outcome assessment exercise or evaluating the current integration strategy based on a specific situation.

The following are some of the sample scenarios where Wargaming could be efficiently used to enable foresight. These scenarios can significantly impact the business on an individual basis or as a combination.

LANDSCAPE EVALUATION
In today's world, acquisition volumes are high and companies are racing to gain access to new and unique capabilities, customers and emerging technologies. The target universe is limited, forcing higher valuations and competition among acquirers. Most companies want to build a grand strategy for M&A to understand how the ecosystem around them will evolve and respond. For example, what is the implication to Salesforce of Microsoft acquiring LinkedIn? How should Salesforce respond? Where will Microsoft and Oracle make their next acquisition? What is the integration strategy and execution approach underpinning each acquisition?

DEVELOP FORESIGHT
M&A integration situations create flux due to the dynamic and complex business environment. Developing foresight is not easy when every decision has multiple outcomes, risks and opportunities. Wargaming can help bring clear buying possibilities and integration strategies to the fore. Competitor reactions to the deal, value paid and possible value created are all critical inputs to integration teams, who must now execute testing several scenarios against anticipated issues.

M&A INTEGRATION GOVERNANCE
Selecting the right governance model for integration is critical in order to maximize deal value. In the old world, M&A integration leaders used a single model which comprised of leaders and executives from the two companies and constituted a steering committee. The composition of the steering committee was largely based on where the most influential executives were located and the deal sponsor largely made the decision. Today, governance models need to tightly align with the nature of the deal, and there are a variety of models

to choose from: centralized, decentralized, top down (management-centric), bottom up (customer-centric) and others. Wargaming helps integration governance pick the right model for the right type of deal in order to maximize decision making, speed of execution, drive accountability and to ensure maximum shareholder value.

INTEGRATION MANAGEMENT

Managing the integration requires a dedicated Integration Management Office (IMO). If one compares the governance to, say, air traffic control, the IMO is tasked with actually flying the plane—safe takeoff and landing is critical for protecting and creating value. Management needs to understand the implications of having functional versus cross-functional IMOs and its impact on synergies and value. In addition, there are several configurations for IMO deployment, and their posture can vary depending on the deal size, complexity and metrics. IMOs can assume a "drive and deliver" posture or a "lead and influence" posture to create value. Wargaming can ensure the IMO has the right level of leeway to deliver optimal results.

DAY ONE PLANNING AND EXECUTION

Transitioning into day one with no surprises, in a smooth manner, is crucial—many variables and moving parts have to be managed in conjunction with several risks and interdependencies. Poor execution, uncertainty and surprises can lead to issues around brand image, customer retention, channel conflicts, employee anxiety, productivity dips, service disruption and flight of talent. Wargaming can help proactively anticipate these issues and decision impact, while mitigating risks; it can also simplify change buy-in from executives and employees and inform organization design, go-to-market strategies and other initiatives.

SYNERGIES

The synergies that were modeled during due diligence need to ultimately be validated and realized. There are many business and execution risks to be anticipated and managed, and many times there are unanticipated issues creating bottlenecks that either leave synergies unrealized or delay time to realized shareholder value. Categorizing synergies and understanding the risks to the execution are important, and simulating the key value drivers around cost and revenue synergies along with associated dependencies is a key role for Wargames.

THE "HOW MUCH" DECISIONS

Several situations arise when executives think about how much time, energy, resources, efforts and money are necessary to make the integration successful. Special situations or integration patterns that have never been undertaken before have no precedent or experience to inform decision makers. Integrating too quickly and too heavily can have consequences, and so can integrating very slowly and in a limited way. It is advised that M&A integration teams conduct small-scale war games to arrive at the right range and figure out "how much."

CUSTOMER IMPACT

Customers are the heart and soul of any M&A, and impacting customers negatively can destroy deal value. Wargaming not only helps protect value through well-informed reactive strategies, but can also proactively resolve key customer-facing issues such as brand alignment, channels, key customer segments, products and momentum acceleration by better aligning pricing and incentives. It helps companies understand potential competitor moves, customer reactions, product launches and time to value.

HUMAN CAPITAL IMPACT

Wargaming helps inform organizational design, proactively address employee morale, and anticipate risk factors towards flight of key personnel. It is also a tool to gain buy-in from employees and engage them in the M&A integration effort, compelling them to understand problems and solve them. It is typically used in situations where change management is required, or choices are made about systems selection, operational policies and pricing. Additionally, the personality factor can never be ignored during M&A integration, such as decision making, leadership styles, communication styles and their impact on the integration roadmap and deal value.

CHAPTER 5
EXECUTION OF M&A WARGAMES

It's time to play!

The practical execution of an M&A Wargame depends on the complexity of issues to be addressed, the level at which it is conducted, and the number of stakeholders involved. The figure below depicts a generic framework which could be used to conduct a four-phase Wargame:

Figure 6: Steps to Wargame execution

Prepare Issue Definition	Plan and Design Move Creation	Execute Counter Moves	Analyze Uncover Blind Spots	Act Implement Roadmap
• Define existing and anticipated issues • Assess existing strategy and key variables • Industry analysis, customer issues, disruptive tech impact, emerging business models, competitor posture, etc. • Internal and external stakeholder analysis • Wargame design team formation	• Ensure executive alignment • Profile personalities, obstacles, styles, etc. • Socialize materials, educate teams, develop rules and assign roles with participants • Design high-level moves • Prepare and modify decision frameworks	• One to five person teams with at least three strategic moves • Move 1 - discuss issues, execute moves and counter-moves, table potential challenges, stress test all assumptions • Moves 2 and 3 - more counter-moves, suggestions to address challenges from Move 1 • Focus on inconsistencies, unanticipated issues and blind spots of the strategy	• Conduct "What-If" analysis on various scenarios • Extend to test limits and thresholds of key variables • Prioritize suggestions, discuss next steps and design the implementation roadmap • Develop key risks, opportunities, assumptions and develop tactical plans • Consolidate outputs from all sessions and strategic moves	• Develop action items, owners, initiatives, KPIs and measurements • Establish milestones and build implementation plans • Implement alternate plans and pivot criteria when unanticipated events occur • Track, monitor, measure and report as a part of normal business operations

M&A Wargames typically have four or more teams: the home team, the control team, competitors and employees.

An important aspect of successfully conducting a Wargame is to identify a control team, which plays a key role in designing the Wargame by selecting the right type and level. This team can be from within the organization, or consist of consultants who have extensive experience conducting Wargames and are viewed as neutral coordinators. This team focuses on keeping the game on track, introducing uncertainties, changing the game dynamics and representing any entities that have not received adequate representation such as the regulators, customers or government officials.

WARGAMING FOR M&A INTEGRATION LEADERS

The control team coordinates with the teams separately to plan various moves and counter-moves, keeping teams and discussions in isolation to avoid decisions being influenced prior to the actual Wargame. The execution is an iterative process and can be planned across one to five sessions based on the complexity and levels. It is important that debriefs are conducted and factored into the game for subsequent sessions so that outcomes accurately represent incremental learning from rounds.

Each round comprises at least one strategic move; normally Wargames are designed for at least three strategic moves across any given timeframe.

HOME TEAM
The home team comprises the M&A leader(s), organization executives and key functional leaders who make the strategy and integration decisions in line with the integration strategy. This team will anticipate counter-moves from the other constituents.

COMPETITOR TEAM
The competitor team will respond to any opportunities arising from the uncertainty created during strategy or integration, and will make countermoves including attracting key talent, customers and taking advantage of any other strategic lapses from the home team.

CUSTOMER TEAM
The customer team comprises a well-planned mix of the most loyal, fringe and opportunity-based customer segments that would each react differently—and potentially in opposition with one another—to moves from the home and competitor teams. If need be, more than one customer team can be brought into the mix based on the size and complexity of each customer segment.

EMPLOYEE TEAM
It is important to assess, factor and manage the employee impact and flight risk. This team is critical to assess the execution capacity of the organization, as well as engage and proactively build a retention strategy for talent.

Figure 7: Designing the moves
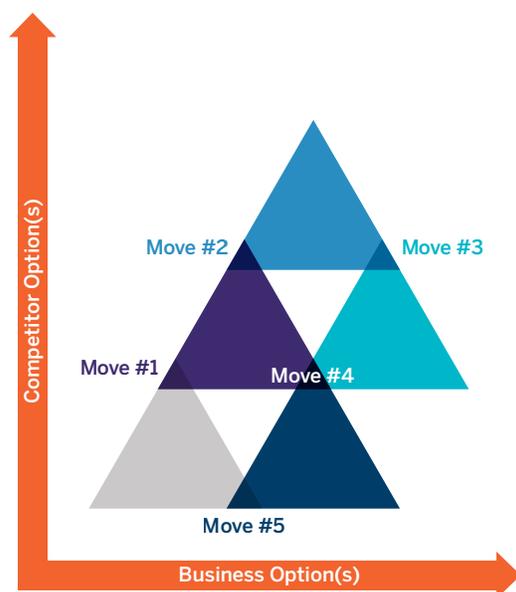
Wargame Move Options

- **Move #1:** The teams are asked to predict what opponents plan to do and to analyze potential blindspots

- **Move #2:** The teams develop strategy recommendations for the M&A integration team, using the information presented in Move #1, placing special emphasis on exploiting process blind spots with proactive assessments as to how uncertainties are "most likely to unfold"

- **Move #3:** Teams are required to support/defend their recommendations and predictions based on analysis and real time simulation

CHAPTER 6
BENEFITS AND USE CASES

Picking the right scenario and Wargame allows for any given timeframe.

The right people, levels and ingredients introduced into a Wargame bring several advantages. The involvement of select board members, executives and line managers in the exercise who "live" the strategy and the consequences of the decisions improve Wargame effectiveness.

Wargaming also makes learning from mistakes easier; it tests reactions to different situations and brings the capabilities of the organization to the surface. Another advantage is that radical moves are possible, challenging all assumptions, uncovering blind spots and stress testing the economic logic under specific acquisitions or business models.

Simulating competitor moves brings forth innovative approaches previously not considered. Below are some very specific benefits of applying Wargaming to M&A Integration scenarios.

Table 2: Non-exhaustive list of Wargames applied to M&A integration areas

Change Management	M&A Landscape Analysis	Revenue Synergies	Customer Retention
• Understand planned and unplanned areas impacted by change during the integration efforts • Evaluate barriers and accelerators to change efforts due to external factors • Understand personality factors, cultural nuances and leadership styles impacting change management • Assess the magnitude of change by stress testing specific change vectors like reporting lines, locations, policies, processes, etc.	• Understand industry dynamics, trends, emerging technologies, value chains and game changing targets to create competitive advantage through acquisitions • Analyze business strategy, target fit, due diligence posture, integration capability and possible competitor moves in response to deal announcements • Proactively develop alternate target lists, adjust integration strategy and plans to align with value creation • Develop and align integration strategy and plans with target pipeline patterns to proactively simulate integration for different types of deals	• Understand the impact of each integration decision through the lens of go-to-market teams, customers and competitors; build in specific accelerators in the integration process to catalyze revenue synergies • Understand key levers of revenue synergy (e.g., cross-selling, product bundling, channels, features, sales incentives, brand position, etc.) and ascertain impact from each lever on revenue synergies • Understand blind spots with each value driver and functional area (e.g., sales, marketing, products, pricing, service, customer experience, etc.) • Stress test the timing of key change to minimize risks and maximize go-to-market synergies by creating appropriate counter-moves	• Live the acquisition and integration from the customer's vantage point; understand key enablers, driver and unforeseen risks • Identify specific safety nets and isolate higher risk customer segments to proactively address possible issues • Consider impact on customer experience attributed changes in products, policies, pricing, operations, processes, etc. • Consider and factor in strategic moves by competitors

CHAPTER 7
COMMON PITFALLS AND BEST PRACTICES

Although every situation is unique and there is no 'one size fits all' approach when it comes to Wargame design for M&A, there are certain practices which, when followed, will enhance success. Common considerations are outlined below:

- Identify and pick the right situations to use Wargames (i.e., for low to moderate uncertainty, outcomes should be limited range of options rather than infinite)

- The right level and type of Wargame must be identified; a corresponding number of moves must be designed

- Involve the right roles and invite the right people from the organization; limited stakeholders bearing quantifiable impact through each other's decisions and actions

- Automated software cannot (yet) replace human intelligence, decision-making and intuition; avoid automated games (after all, in the real world, you're still competing with people and not AI)

- Over-engineering problems do not help the cause, keep issues close to reality (planning for the Zombie Apocalypse, for example, is arguably unnecessary)

Best practices for enterprise Wargaming are as follows:

- Keep the games and moves simple; complicated games will divert energy on non-essential items

- All roles and players need to have meaningful dynamics between them to generate the right counter-moves

- Give yourself time; do not run the Wargame very close to the D-Day, it might not yield desired results and in fact be counterproductive by distracting from the actual event itself

- Asking questions and challenging assumptions is crucial; if an organization's management and culture do not support challenging existing thinking, then stay away from Wargames

- Assess competitive blind spots as they arise; understand where you need additional focus and insights

- Challenge all assumptions, think like competitors and challenge the boundaries

A CASE STUDY

A technology company announces an acquisition as part of a strategy to pivot their business model and enhance their competitive advantage through a new business unit. The acquirer has never run the business model that target company uses to deliver to its customers (although the products solve for the same problem). There is a large premium paid for the acquisition, and the deal thesis is heavily dependent on the delivery of revenue synergies, especially given the risk of one business model cannibalizing the other.

We had the Senior Executives and M&A integration leaders participate in an intensive Wargame to develop insights, surface threats, and refine tactics. Here's what happened:

Table 3: A typical case study of Wargaming application

Objective	• Assess the impact of making a new type of acquisition and ascertain the ability to create value from buying a new business model • Understand impact on exiting business model and risk of cannibalization • Evaluate M&A integration capabilities (i.e., scalability of existing infrastructure, skills and processes to create revenue synergy from the new deal type) • Stress test underlying assumptions and document business and execution risks in areas new to the company
Game Design	• Consisted of representatives from the two business units, a cross functional operations team, human resources, finance, IT and go-to-market leaders • A discrete event analytical model was built to simulate the financial and economic impact of each move, decision and counter-move • A control team to manage the Wargame, its strategic direction and key control points • Third party team members representing customers, competitors, regulators and suppliers
Surprises	• The control team brought in perspectives from the customers who did not accept a lot of changes very willingly and needed to be incentivized • While employee and other customer challenges were mostly understood and planned for, channel partners were neglected, impacting the revenue trajectory • There were several personality issues that posed challenges to products, features, organization structure, sales incentives and decisions around these aspects
Key Lessons	• Commercial due diligence was performed at a very high level (e.g., industry dynamics, market size, etc.) and was not a good enough size and quantify revenue synergies • While the IMO was able to run the cranks and manage the integration process, they lacked the skills to create deal value through design of revenue value drivers • A functionality configured IMO could note effectively deliver go-to-market synergies, value driver configuration yielded optimal outcomes • Sales personnel were harder to incentivize, given the regional organization structure and additional incentives to capture value and had to be designed • Brand and pricing were two key levers not factored in the thinking behind revenue generation and would have been considered during actual integration • An external consulting firm would have to be staffed with personnel who understood the industry and sector well; generalists would not be able to maximize value from this deal

CLOSING THOUGHTS

As a concept, Wargaming has been around for more than a century; in the recent past it has gained acceptance amongst business and M&A leaders when it comes to strategy development and strategy testing. It is still in its infancy of application during M&A integration scenarios, but is fast catching up in more complex deals and environments.

The truth is that M&A strategies cannot be built in a vacuum; they need to align with the business environment and the operating model. At the same time, simply hoping an M&A acquisition and integration strategy will work is hardly a productive way to operate in the current environment.

Dozens of uncontrollable uncertainties exist after a deal is announced, and every subsequent decision has a high impact on the business (and its value), be it managing change or protecting brand reputation.

Exposing a strategy and tactics—and potentially difficult truths—provided via Business Wargaming radically transforms a company's odds when facing marketplace uncertainties, and it is my belief that early adopters of the practice will significantly outperform their competitors.

ABOUT THE AUTHOR

Nitin Kumar, CM&AA, CMC, CDDP
Senior Managing Director
FTI Consulting, San Francisco
Phone: +1 408 915 8627

Nitin Kumar is a seasoned C-level operating executive who has spent the entirety of his career working in and around Silicon Valley, helping both his people and his clients make the most of innovation, disruption and the opportunities that new technologies can bring to business.

Nitin helps CEOs, boards, investors and leaders transform their business models by leveraging disruptive trends and sophisticated M&A strategies. A management consultant with two decades of experience in the technology, media and telecommunications sector, Nitin is currently the Global Leader of the Technology Sector at FTI Consulting where he is involved in leading the firm's offerings for disruptive strategies, transformative operations, M&A and restructuring. He has previously held leadership roles at organizations including PwC, Deloitte, and HP.

Over his career, Nitin has been involved in adding value to over 700 M&A transactions, delivering strategic recommendations, executing due diligence and integration services and is well known as a thought leader who brings insights and innovation to develop unique M&A practices that in turn have allowed boards, CEOs and shareholders to realize value.

Nitin is experienced in all types of M&A transactions, from consolidation plays and adjacency moves, business model transformation and tuck-ins, acqui-hires, distressed M&A, hostile takeovers and both activist offense and defense.

He has advised multiple boards, CEOs, corporate development and integration leaders on developing strategy and executing in uncertain, dynamic environments.

Nitin has won international awards for his pioneering work on M&A revenue synergies and M&A Wargaming.

EXPERTS WITH IMPACT™

About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

www.fticonsulting.com