

# M&A INTEGRATION FRAMEWORK

SEPTEMBER 2022

**FOR EXTERNAL USE**



**“ Integration clearly means different things to different people. Most importantly, it means different things in different situations ”**

# FRAMEWORK INTRODUCTION

“While there are common ingredients in the [integration] processes, **each acquisition presents managers with a different situation and forces a choice of integration approach**”. (1)



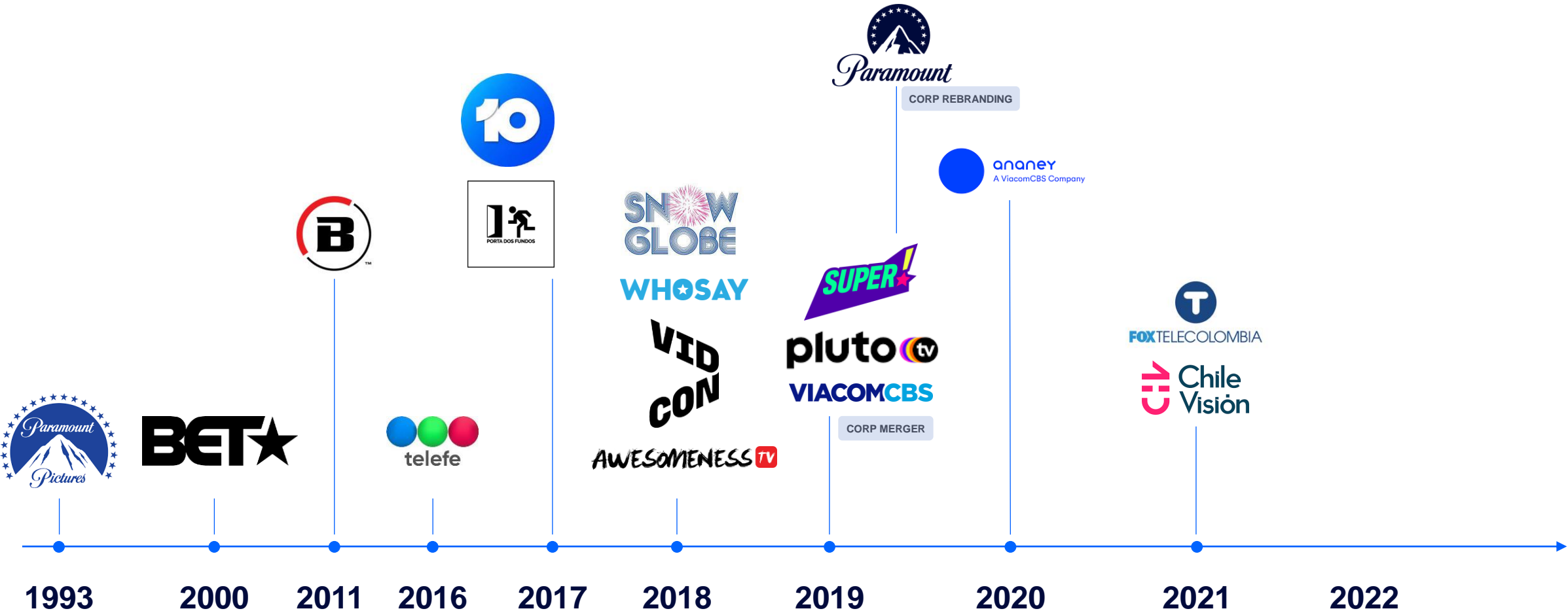
The essential task in any acquisition is to **create the value that becomes possible when the two organizations are combined**, a value that would not exist if the firms operated separately.

Because we regard **strategic capability transfer as the precursor to value creation**, it is clearly **vital to preserve the strategic capability that is to be transferred**.

# TARGET ASSET



# NOTABLE TARGET ASSETS & EVENTS



COVID PANDEMIC

RUSSIAN INVASION OF UKRAINE

*Includes mergers, acquisitions and joint ventures. Does not include divestitures.*

# TARGET ASSET DESCRIPTION

## ACME PRODUCTIONS OVERVIEW

Confidential  
For Discussion Purposes Only

Independent animation studio with significant IP, high-quality production capabilities & presence in multiple int'l markets

### FACILITIES

   
OPERATIONS IN BOTH US & UK WITH ANIMATION EXPERIENCE IN MORE THAN 15 COUNTRIES  
~ 90 staff & 30 temp employees

**State-of-the-art Animation Studios**

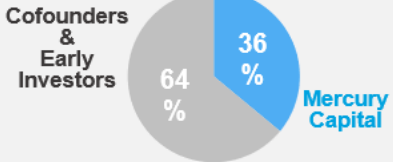
- Award-winning animators and talent
- 12 complete 3D and 2D animation studios
- Warehouses for animation props
- State-of-the-art postproduction
- Modern office space

### KEY GENRES & PRODUCTIONS

Stop motion, claymation, 2D animation and Japanese Anime



### OWNERSHIP STRUCTURE



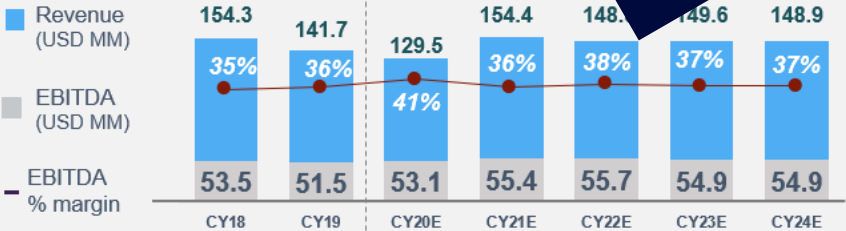
### REVENUE BY COUNTRY



US



### FINANCIAL INFORMATION (PARAMOUNT)



### IP PORTFOLIO

Total IP library ~ 17500 episodes / 65 formats (excl. third-party-owned IP)



Legend: Fully owned (blue), Rights controlled by ACME (grey), 3rd party rights (light blue)



# **OBJECTIVES, VALUE CREATION AND DIMENSIONS**

# OBJECTIVES

1

**Domain strengthening** reinforces an organization's position in existing industry segments.

Viacom + CBS merger

2

**Domain extension** broadens an organization's position through adjacent industry segments.

Paramount int'l FTA acquisitions

3

**Domain exploration** in which an organization enters a new industry segment through an acquisition.

Pluto TV acquisition









# VALUE CREATION

Post-closing value is created by strategic capabilities transfer and its preservation.

## Examples of Capability Transfer and Value Creation:

			
Resource Sharing	Functional Skills Transfer	General Management Capability Transfer	Combination Benefits
<p>Combination and rationalization of operating assets. Value creation through the <b>combination</b> of both entities at the operational level, so <b>functional overlaps and duplication are eliminated</b>.</p>	<p>Transfer of procedures and practices by moving <b>people</b> across organizational boundaries or when information and <b>knowledge</b> are shared.</p>	<p>Improved strategic or operational oversight, coordination or control through direct general management decisions (<b>executive transfer</b>) or processes to improve the acquired asset's own strategic or operational capabilities.</p>	<p>Available immediately and not related to capability transfer (<b>scale and strength by numbers</b>, e.g., excess cash, borrowing capacity, purchasing power, increase size, etc.).</p>

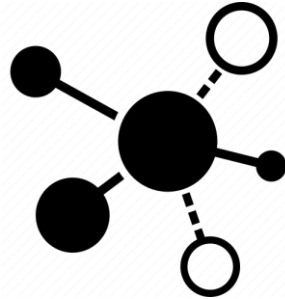


# KEY INTEGRATION DIMENSIONS

The need for **strategic interdependence** and **organizational autonomy** are the most important factors to determine the integration approach.

## 1 Need for Strategic **INTERDEPENDENCE**

The mutual dependence which needs to be established (between the acquirer and the acquiree) to ensure value creation through the desired capability transfer.



## 2 Need of Organizational **AUTONOMY**

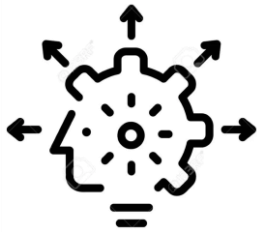
Boundary protection between both organizations to preserve organizational autonomy and the acquiree's innate characteristics (preserve capabilities and value).



# ORGANIZATIONAL **AUTONOMY** CAN BE FURTHER BROKEN DOWN INTO:



**Organization-wide autonomy:** when the acquirer has virtually no experience in the business or when capabilities are inextricable from their cultural roots.



**Embedded capabilities autonomy:** protection of important functionally embedded capabilities in specific parts of the acquiree, whereas the rest of the organization is less sensitive to changes.

# **INTEGRATION APPROACHES**



# INTEGRATION APPROACHES

An M&A process could involve different types of integration approaches and go through changes in approach during the process, but it is **highly recommended to choose a primary integration “theme”**.

The choice of a blanket integration approach, versus a more granular approach across different parts of the organizations (or across time), is directly related to the organizations’ ability to implement such approaches.

Need for Strategic Interdependence 

Low

High

	High	<b>Preservation</b>	<b>Symbiosis</b>
	Low	<b>Holding *</b>	<b>Absorption</b>

High

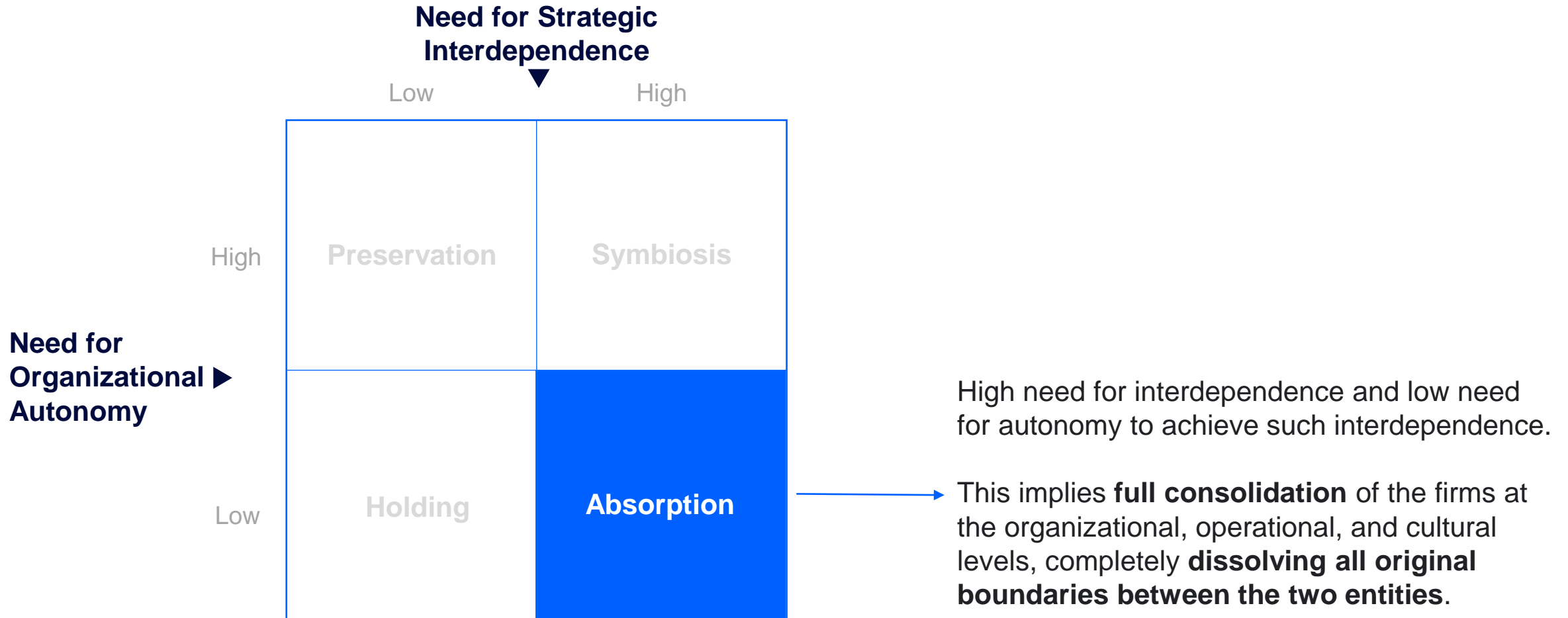
Low



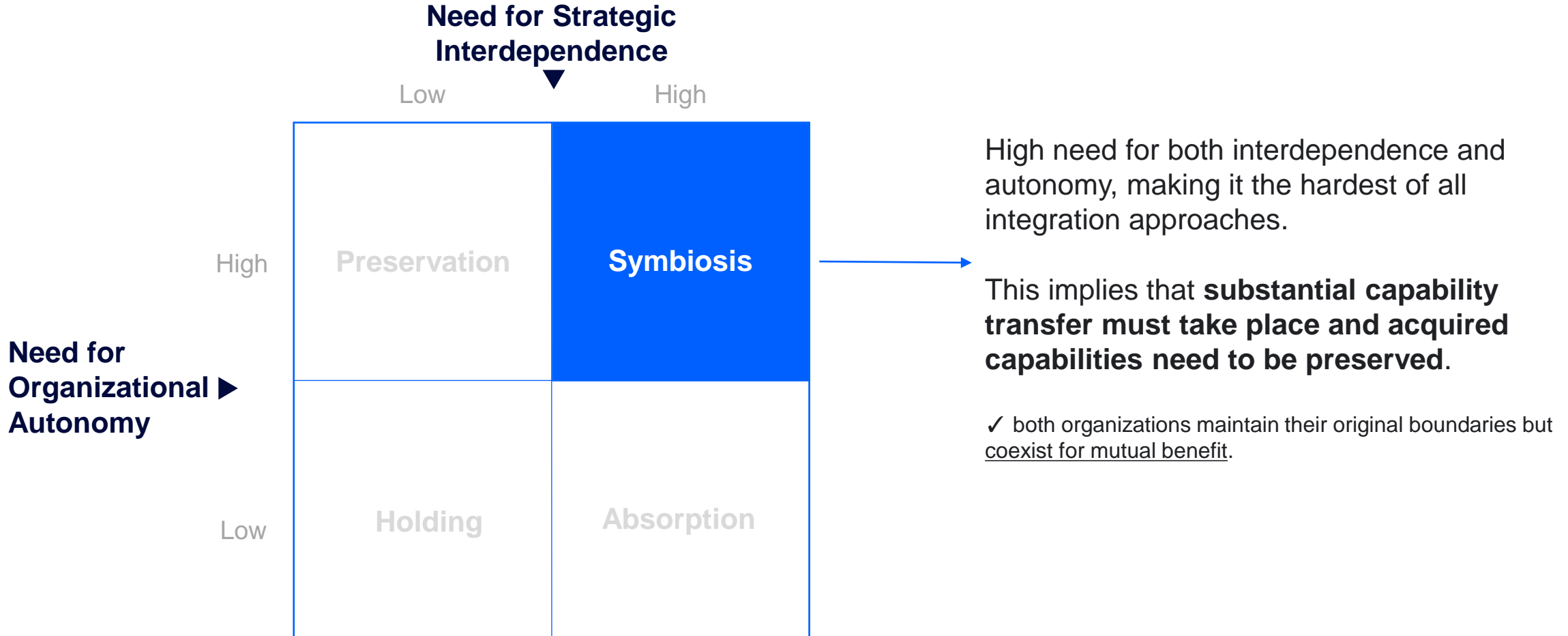
Need for Organizational Autonomy ▶

\* This approach is unlikely in strategic M&A where capability transfer is the primary objective. Value in such an approach is only created through financial and general management transfer.

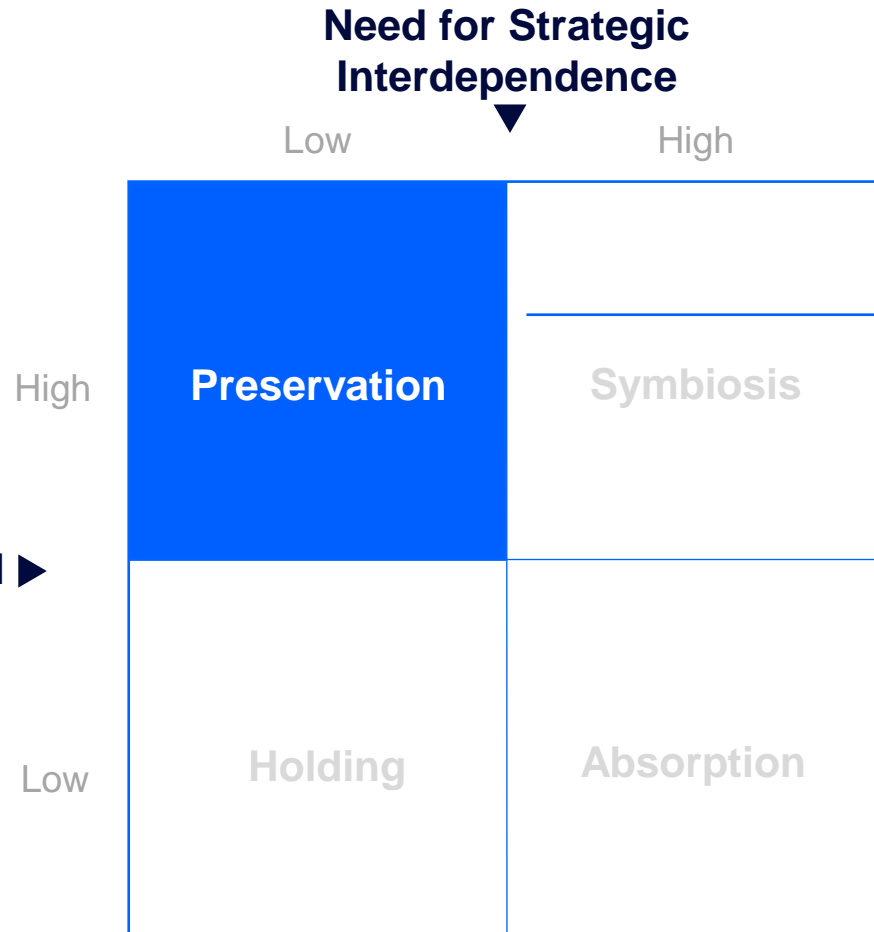
# INTEGRATION APPROACHES



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High need for autonomy and low need for interdependence.

Its primary objective is to **keep acquired capabilities intact**. “The metaphor that best captures the way value is created in preservation acquisitions is that of *nurturing*”. (1)



# CULTURE ANALYSIS



# CULTURE

Managing and shaping culture can be a step-by-step process.

Culture, when aligned with strategy and leadership, drives organizational outcomes.

1. Culture should be viewed as a **foundational business system** and managed as such. A company's culture can make or break a great strategy or the most experienced executives.
2. Managing culture requires a **definition and a model**. An organization should start with a clear understanding of what culture is.
3. When setting a **target culture**, think about external forces for change, strategic direction, and how to motivate the current workforce.
4. Select and develop **leaders who support** the culture you want.
5. Steering Committees should understand the role organizational culture plays in **business performance**.

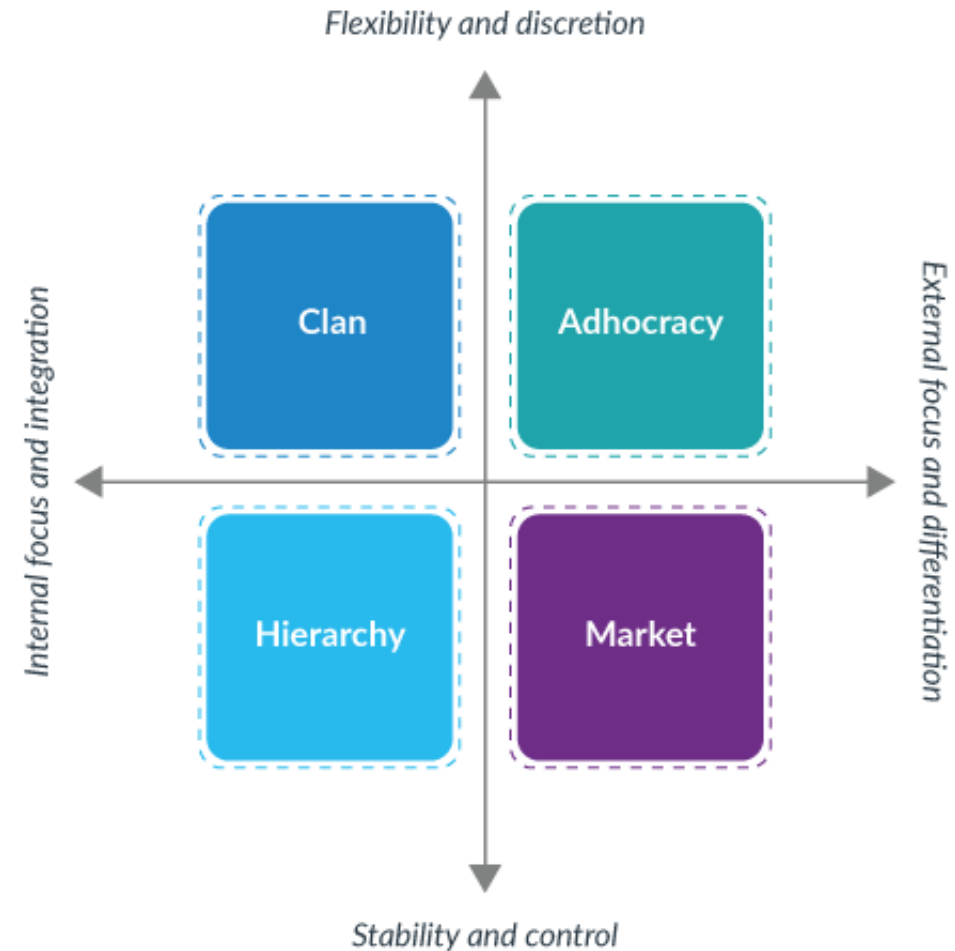


# COMPETING VALUES FRAMEWORK

Every organization has its own mix of these four organizational culture types, with **one culture typically dominating**.

The larger the organization, the bigger the possibility that there may be more than one culture in the organization.

This may be beneficial to the organization, but it may also be disadvantageous or challenging when attempting to have a cohesive culture in a regionally and globally dispersed organization.



# COMPETING VALUES FRAMEWORK

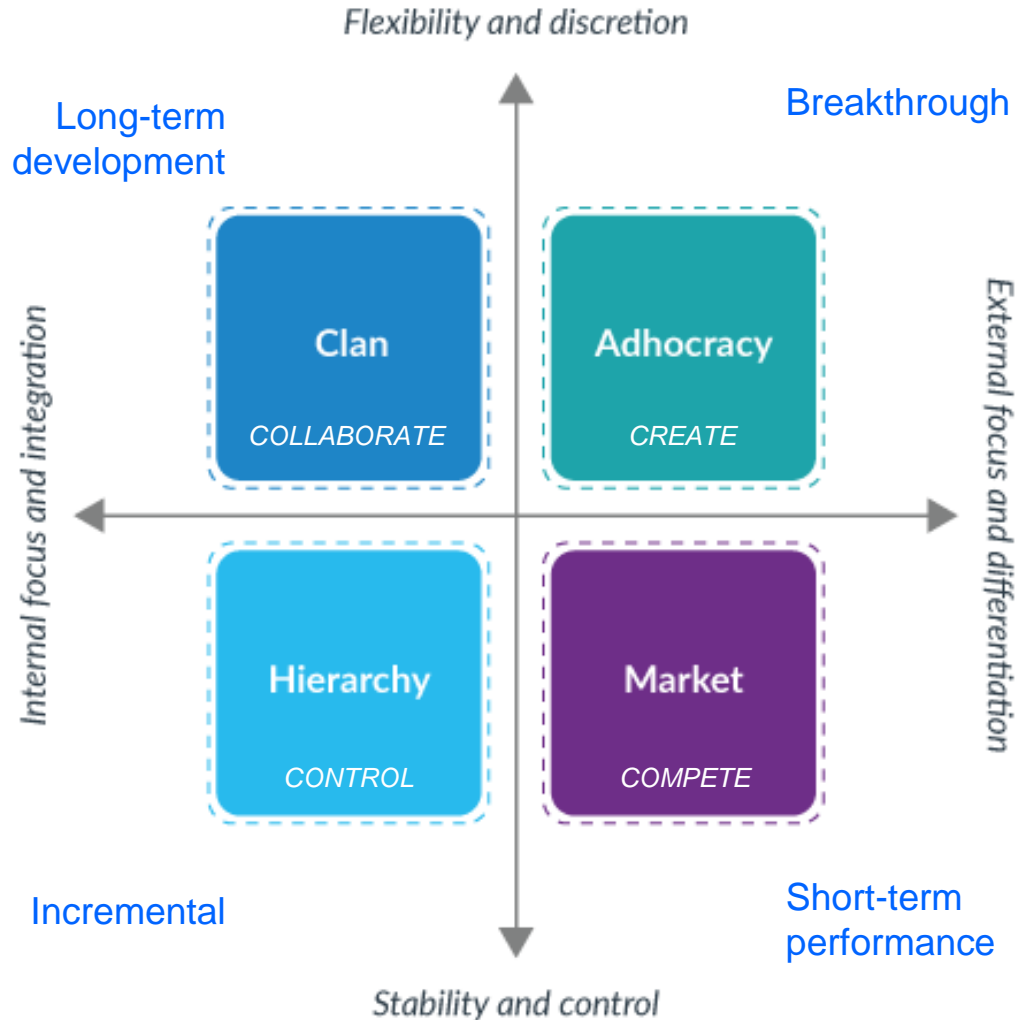
Integration Approach Best Match

The people-oriented, friendly Collaborate Culture. "Do things together".

**Symbiosis**  
HIGH AUTONOMY  
HIGH INTERDEPENDENCE

The process-oriented, structured Control Culture. "Do things right".

**Absorption**  
LOW AUTONOMY  
HIGH INTERDEPENDENCE



The dynamic, entrepreneurial Create Culture. "Do things first".

**Preservation**  
HIGH AUTONOMY  
LOW INTERDEPENDENCE

The results-oriented, competitive Compete Culture. "Do things fast".



# KEY TAKEAWAYS



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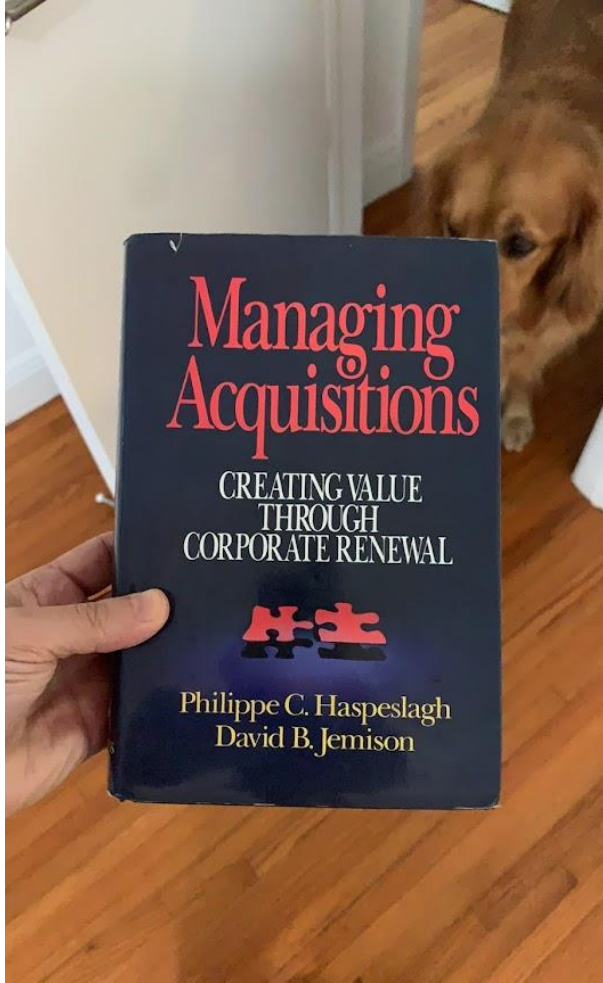
1. Primary reason to acquire an asset should be **value creation**, “value that would not exist if the firms operated separately” →  $1+1=3$
2. There’s no “one size fits all” approach to M&A integrations
3. **Strategic capability transfer** is the mother of **value creation** → vital to preserve the strategic capability that is to be transferred.
4. Identify **main objective** “theme” → **domain strengthening, extension or exploration**.
5. Identify what **strategic capabilities** need to be transferred and how value will be created.
6. Understanding **strategic interdependence** and **organizational autonomy** are the most important factors to determine the integration approach → also understand organization-wide vs. functional or embedded autonomy.
7. Choose one **integration approach** as a primary “theme” even though it’s likely to change and evolve → granular and complex approaches are “directly related to the organizations’ ability to implement such approaches”.
8. Don’t underestimate the impact of **culture** → cross-check your main integration theme against the prevailing culture type and identify possible conflicts early on.



# APPENDIX



# FURTHER READING



## Managing Acquisitions: Creating Value Through Corporate Renewal

1991 - David B. Jemison (Author), Philippe C. Haspeslagh



<https://www.amazon.com/Managing-Acquisitions-Creating-Through-Corporate/dp/0029141656>



# CONTINUE THE CONVERSATION



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