

Measurement

Measuring key aspects of the sale improves outcomes and yields future benefits.

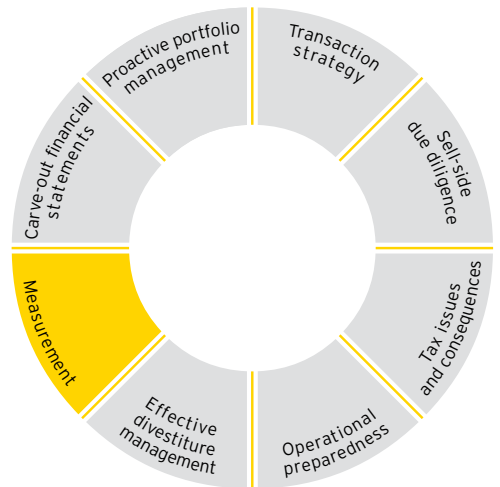
by Susan Prior and Pierre Marc Seguin

A key to divesting for value is having a detailed transaction measurement process in place. Most companies tend to track results only, based on broad corporate benchmarks or the contributions of individuals.

Establishing specific performance and process metrics and tracking them at every stage of the deal improves both process and outcomes, and enables continuous learning and improvement.

In a comprehensive measurement program, goals are set at the beginning of the divestiture process and revisited regularly. Protocols and timetables for the divestiture team are established. Each step of every deal is measured against them.

One company, for example, tracks weekly progress on deals using a dashboard that includes 10 to 15 major workstreams, such as financial statement preparation, HR, intellectual property separation, contracts, IT and supply chain, and their related teams. The status of each activity/team is color-coded to mark its progress and to flag areas where executive intervention is needed. If one group is behind schedule, the M&A team can go to senior management and request additional resources or a new leader for that team.



.....

Key points:

- ▶ Develop and promote metrics to evaluate key aspects of divestitures
 - ▶ Establish a comprehensive measurement framework including tools needed, timetables and success criteria
 - ▶ Utilize a combination of financial and strategic criteria
 - ▶ Communicate metrics to internal and external stakeholders
-



Develop and promote metrics to evaluate key aspects of divestitures

Many companies track little more than the final selling price of the asset. But broader success metrics make measurement more useful - gauging, for instance, how efficiently deals were carried out or how well stranded costs were managed. Key metrics should be strategic and financial, directly linked to transaction value drivers and flexible enough to incorporate controls and contingency plans if performance slides. With a good measurement system, even deals that fail can yield valuable insights into the market, the business or the company's divestiture process.

Transaction leaders should develop a comprehensive framework that establishes the scope, authority, methods, tools, timeline, decision trees and expectations for measuring the transaction that will be benchmarks for measuring their deals. This framework should form the basis of any

performance management and incentive system for deal team members. A tracking and reporting system is needed, with someone assigned to handle measurement.

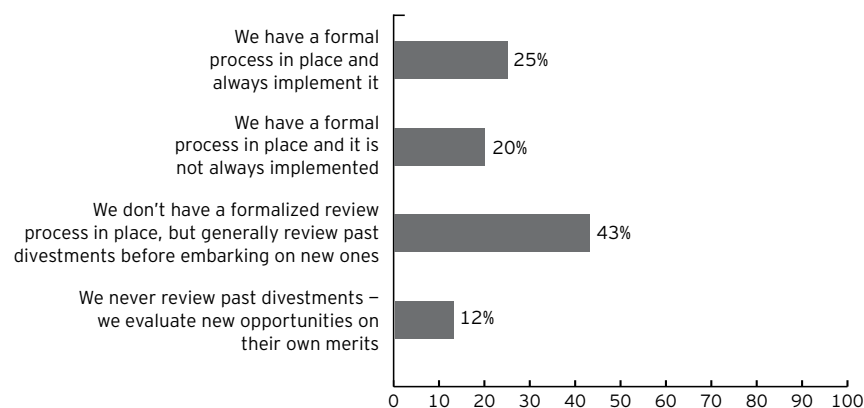
It is important that the status of every transaction be known and communicated to all internal and external stakeholders at multiple points in time. Feedback loops, independent reviews and ongoing evaluation will improve transaction processes and promote continual learning. ▼

Susan Prior is a member of the Transaction Advisory Services practice of Ernst & Young LLP. She is based in New York, N.Y.

Pierre Marc Seguin is a member of the Transaction Advisory Services practice of Ernst & Young LLP. He is based in Montréal, Canada.

Reviewing lessons learned from past divestitures.

Only 45% of respondents have a formal postmortem process in place. Almost half of them don't apply it consistently. Another 43% review past divestitures informally.



Source: Observations from a recent EY/Economist Intelligence Unit global divestiture survey of 360 senior vice presidents and C-suite executives from companies with revenues of more than US\$1 billion.

Case study I



Measurement: Company E

A large multinational corporation invests significant time and effort in transaction measurement assessing value capture, process review and residual costs. Against these categories, the transaction team reviewed what they achieved against initial expectations.

Value capture

The review focused on comparing original value expectations for the business with what was achieved, analyzing the cause of any disparities. They also assessed how value was extracted:

- ▶ Price – including post-closing adjustments
- ▶ TSAs
- ▶ Extracted from the business prior to disposal
- ▶ Other commercial relationships

Process review

The team assessed where the deal timetable (including the transition timetable) was not met and determined if critical path items were identified early enough in the process.

The review also examined post-completion and separation issues, to determine if they could have been addressed more efficiently.

Residual costs

A key measure of the team's success was to assess how stranded costs were being addressed and, more importantly, how they differed from the team's original expectations.

By conducting a formal process, the team compared what it achieved with regard to the transaction to its original expectations. Further, it enabled the team to institutionalize lessons learned so that it could conduct the next divestiture more efficiently.

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

Transaction Advisory Services (TAS)

Our Transaction Advisory Services team works with some of the world's largest organizations, fastest growing companies and private equity firms on some of the biggest and most complex cross-border deals in the global market. We can help you achieve the growth, performance improvement and returns your stakeholders expect.

We offer integrated, objective advisory services that are designed to help you evaluate opportunities, make your transactions more efficient and achieve your strategic goals. We have an extensive global reach, with 8,700 transaction professionals worldwide, and the experience of thousands of transactions across all markets and industry sectors. We can bring together the people you need, wherever you need them, to focus on helping you achieve success throughout the transaction lifecycle – and beyond. Whether it's a merger, acquisition, strategic alliance, divestment, equity offering or restructuring, we offer you the advice you need to help you make the right deal at the right price at the right time. It's how Ernst & Young makes a difference.

© 2009 EYGM Limited.
All Rights Reserved.

EYG No. CE0584h
0810-0991810 NYC

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.