Managing a successful integration: lessons learned from the HP/Compaq merger

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Agenda

• The opportunity
• Achieving success: doing our homework
• Managing a rigorous pre-close process
• Preparing for launch day
• Creating the post-close integration structure and processes
• Where HP stands today
• Any open questions
The opportunity
Merger overview

• Merger created a $70 billion global technology leader with the industry's most complete set of IT products and services for both businesses and consumers
• New HP is the #1 global player in servers, imaging & printing, and access devices (PCs & hand-helds), as well as Top 3 player in IT services, storage and management software
• Combination furthers each company's commitment to open, market-unifying systems and architectures and aggressive direct and channel distribution models
• Combined company is creating substantial shareowner value through significant cost structure improvements and access to new growth opportunities
• New HP has operations in more than 160 countries and over 140,000 employees
HP’s challenge

• Largest merger in technology history
• Skeptical market
• Heated proxy battle
• Weak IT market
Achieving success: doing our homework
Attributes of successful mergers

- Bring like businesses together, aren’t forays into new businesses
- Help achieve clear market leadership
- Are stock only and provide a stronger post-merger balance sheet
- Result in significant cost savings
- Use a strong, central planning effort

“Indeed, we found the market apparently prefers deals that are part of an ‘expansionist’ program, in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and services. The market seems to be less tolerant of ‘transformative’ deals, those that seek to move companies into new lines of business or to remove a chunk of an otherwise healthy business portfolio.”

Deals that Create Value
McKinsey Quarterly
2001 Number 1
## 10 critical success factors in execution

<table>
<thead>
<tr>
<th>Critical success factors*</th>
<th>Sample elements</th>
</tr>
</thead>
</table>
| 1. Well-defined acquisition strategy | • Reasons for merger explained  
• Degree of integration defined  
• Criticisms addressed |
| 2. Clear product roadmap | • Communication of offerings to marketplace  
• Re-alignment of internal efforts  
• Branding strategy |
| 3. Unyielding focus on customers | • Clear points of contact  
• Uninterrupted attention/support  
• Maintained relationships with partners/channel |
| 4. Day one readiness | • Plans in place for all functions, businesses, and geographies  
• Effective transition from plan to action |
| 5. Synergies and path to realization specifically identified | • Both cost and revenue synergies included  
• Plans, accountabilities, and clear metrics/targets assigned to project level  
• Strong program management processes to track/drive results |

### 10 critical success factors in execution

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</table>
| 6. Clearly defined new co. governance |  - Board/executive roles agreed to  
- Organization structure defined  
- Line management roles determined |
| 7. Effective communications to stakeholders |  - Communication early and often  
- Reaches all stakeholders (employees, shareholders, analysts, customers, partners, et al.)  
- Clear, consistent messages |
| 8. Focus on employee retention |  - Key employees identified and targeted  
- Employee morale issues addressed  
- Incentives utilized where appropriate |
| 9. Recognition of cultural differences |  - Nature of cultural differences identified  
- Proactive steps taken to bridge gaps  
- “Rules of the road” for interaction defined |
| 10. Speed/decisiveness |  - Minimize periods of uncertainty  
- Complete the planning prior to close  
- Attack synergies from day one |

Managing a rigorous pre-close process
Building the integration planning team

- Post-merger integration (PMI) leadership and group management named at time of announcement on September 4, 2001
- Additional “new HP” senior leaders announced October 12, 2001
- Dedicated, full-time PMI leads from both HP and Compaq directing planning for businesses, functions and horizontal processes since September
  - Linked to “new HP” senior management team
- World-class advisors engaged
New HP vision

We create a great new company that is a leader in our chosen fields and is positioned to be the leading overall IT solutions provider

Merger integration team purpose:
- Provide effective overall leadership for the planning and execution of the integration of HP and Compaq
- Assure effective linkages with the business line managers, functions, regions, the integration steering committee and HP’s Executive Council
- Assure that the value captured is maximized and exceeds public expectations
- Assure the new HP is set up to achieve long-term growth objectives
Guiding principles for the merger integration team

- Start with the customer experience, retain the highest level of customer satisfaction
- Name executive leaders early and link tightly into planning
- Ensure that structure follows strategy
- Make decisions quick and make them stick
- “Adopt and go”
- Clarify roles and ensure shared accountability
- Create dedicated integration teams
- Address cultural similarities and differences
- Rigorously measure, manage and communicate integration progress, wins, issues and opportunities
Sharply focus on value creation

Pre-close merger integration team structure

<table>
<thead>
<tr>
<th>Businesses</th>
<th>Central program management office (cPMO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imaging and printing systems group</td>
<td>go-to-market</td>
</tr>
<tr>
<td>Personal systems group</td>
<td>go-to-market</td>
</tr>
<tr>
<td>Enterprise systems group</td>
<td>go-to-market</td>
</tr>
<tr>
<td>Services</td>
<td>go-to-market</td>
</tr>
</tbody>
</table>

Horizontal processes

- Supply chain
- Customer to cash team (CRM, OM, PDM)
- Information technology
- Finance
- Human resources (includes organizational design and selection)
- Brand architecture
- Communications – organization
- HP labs
- Real estate
- CTO
- e-inclusion and community engagement
- .com/e-commerce
- Government affairs
- Culture
- Closing/antitrust (legal)
- Global functions infrastructure
- Communications – merger communications & messaging
- Shared go-to-market
- Value capture
Integration planning framework

Strategy
- Strategic priorities
- Go to market strategy
- Portfolio
- Channel strategy

Measures
- Customer satisfaction
- Financial
- Employee satisfaction
- Operational excellence
- Recognition and reward systems

Structure & process
- Organization structure
- Systems & processes
- Information flows and decision making process
- Financial & information systems architecture

People & culture
- One common culture
- Retention of top talent
- New competencies for our people
- Roles and responsibilities
Integration team focus before completing the merger

Organization & GTM structure
- Level 1-3 leadership
- Top 100 accounts
- Contingency plan
- Organizing principles
- Go-to-market structure and planning
- Supply chain partners

Product roadmaps
- Base model revenue, market share
- Product lines as they exist today
- Go-forward product lines and sub-brands
- Phase-out set of products
- Hand-off to master brand team

Financial plan
- Historical model
- Base case and target model
- Headcount, restructuring, discretionary spending targets
- Accountability and operational metrics

Launch plan
- Touch programs
- Advertising/brand launch
- Web launch
- Account plan process
- Training
Workstream spotlight: Cultural Integration
Cultural integration goals

To build a strong, new culture that:

• Is clearly defined and broadly understood
• Reflects the business strategy and brand
• Supports best-in-class performance with customers, partners, shareowners and employees
• Produces alignment, commitment and excitement
• Establishes a competitive advantage
• Is reflected in the communications and actions of core leaders
Culture integration planning framework

Sample input
- Newco exec culture session
- HP historical
- CPQ historical
- New HP brand
- Competitive environment
- Customer

Sample output
- Vision & governance for new company
- Balanced scorecard & pay metrics
- Leadership selection
- Formation & start-up of new teams
- Customer (quality) initiatives
- FastStart program
Preparing for launch
Day 1 preparation

• Focus solely on launch day
• Gain agreement on day 1 requirements across functions/activities
• Make adopt-and-go decisions
• Develop conceptual/ physical models
• Prepare
• Test
• Review readiness
• Establish command centers
March 4, 2004

Managing a Smooth and Successful Integration
Measuring success at launch
‘We were ready’

- >170 client business managers, 25 partner business managers and 30 retail account managers trained and announced
- >800 senior managers named, including region and country leads
- Product roadmaps and transition plans available
- Customer and partner outreach and training programs initiated
  - >1100 customers contacted to date
  - 23 top US/EMEA retail accounts contacted on day 1
  - All partners given access to on-line sales training
- Sales readiness training website received 40,000 hits in the first hour of launch and 100,000 hits by end of day
- >20,000 presales and sales call center agents and 8000 consumer support users trained and ready day 1
- Channel strategy in place and communicated
- Work force restructuring initiated
Launch report: Infrastructure delivers

- hp.com (online store) open for business
- @hp employee portal accessible to all employees
- Company networks connected at key strategic locations
- Active directory and enterprise directory synchronized
- E-mail systems interconnected
- All external call centers with HP greeting on day 1
- Employee names with hp.com suffix for external email (both in-bound and out-bound)
- Day 1 infrastructure management environment
  - Monitoring and reporting process
  - Escalation and incident management process
  - Command center for 30 days
The new world of HP IT

- Weekly email volume: 24 million
- Number of desktops: 220,000
- Applications: >7000
- IT professionals: 10,000
- Sites networked: 1193
- Number of countries: >160
- Accounts: 232,632
- # of network devices: 39,000
- Hits/day on @hp employee portal: >2 million
- # of daily calls (IT help centers): 8000
- Number of countries: >160
Post-close integration
structure and processes
Integration plan of record

• Managing integration progress through a rigorous process
• Tracking all projects and their milestones to ensure we meet synergy goals on schedule
• Ensuring tie off with value capture, restructuring and financial planning targets
• Determining accountability owner for each project
• Driving results through merger integration office focus on cross-organizational dependencies, pan-HP view
Remain sharply focused on value creation
Post-close merger integration team structure

Steering committee

Central merger integration office

Groups
PMI

Regions/countries
PMI

Worldwide operations
PMI

Corporate functions
PMI
Value capture planning framework

Integration planning

Value capture team
- Drive overall top-down corporate planning process to achieve full value of the merger by 2004
  - Provides top-down baseline, forecasts, synergy targets
  - Consolidates integration team submissions
Integration teams
- Verify and refine top-down baseline, forecasts and synergy targets with bottom-up data

Implementation post-closing

Corporate planning
- Monitors and tracks revenue, cost and synergy capture over time
Groups
- Responsible for revenue, owned cost and synergy targets
- Execute on synergy capture for day-to-day operations
Functions
- Execute on synergy capture on owned costs for day-to-day operations
Management compensation tied to achieving value capture goals
Strong central design management – Clean Room & IPORs plus clear targeting

There are 2 main elements to the integration structure implemented:

- Cross Business Group / Infrastructure
- Business Group Specific

The cross Business Group structures focused on integration elements that touched multiple Business Groups

They are run at regional and country levels
Where HP stands today
Ahead of plan on four key areas

**Key area of focus**

- **Procurement/supply chain**
- **Headcount reduction**
- **Administrative facilities closures**
- **IT integration**

**Milestones/targets**

- **Procurement/supply chain**
  - $550 million direct procurement synergies
  - $250 million indirect procurement synergies
  - $125 million manufacturing facilities closure
- **Headcount reduction**
  - 10,000 by end of 2002
  - 17,900 by 2003
  - $1.5 billion synergies
- **Administrative facilities closures**
  - 21% reduction in total square footage
  - $250 million administrative facilities closure
- **IT integration**
  - Complete integration of key systems
  - Reduce current application portfolio
  - Transform IT innovation into competitive advantage
Important lessons learned

• Detailed planning is essential
  – Entails more work than expected
  – Requires sufficient, full-time resources on planning teams
  – Requires balanced teams – knowledge and culture
• Working cultural issues is essential
  – Due diligence
  – Values (new)
  – Fast Start
• Must create a sense of urgency and move quickly
  – Name executives and planning leadership and start planning immediately
• Set ambitious goals and measure rigorously
• Understand and take into account EMEA complexities
• Additional end to end process focus preferable
• Use ‘adopt and go’ decision style
• Define an end date – not too soon & not too late! (12 – 18 months)
Merger integration success: It all starts with people
Managing a Smooth and Successful Integration

HP’s People Strategy after the merger...

Managing Cultural Change
Managing Cultural Change

I. The need for a change management strategy
II. HP’s People Strategy
   – Stabilize: Building the new HP foundation
   – Mobilize: Creating a high performance workplace
   – Energize: Ensuring the best work environment
III. Conclusion
IV. Q&A
Change is an opportunity that you can influence, and when managed correctly it will energize an organization.
Why Manage Change?

- Significant workplace change can defocus an organization

- Consistently practiced change management techniques will:
  - anticipate the phases of emotions
  - address the issues
  - maintain strong communication efforts
  - provide the catalyst to move people through change without losing focus and productivity
HP-Compaq Merger: The Challenge for HR

Develop a strategy to maintain and surpass the pre-merger standards of both companies while managing massive cultural change.
Five Stages of Change Management
Stage One: Awareness
The HP People Strategy is aligned to our corporate objectives and values and designed to keep employee commitment, especially in this time of change.
HP’s People Strategy

HP’s People Strategy enabled HR to:

• Speed and smooth the process of change
• Move through the initial change period
• Set a culture of high performance right from the start
Overview: HP’s People Strategy

- Best Place to Work
- Energize
- High Performance Workplace
- Mobilize
- New HP Foundation
- Stabilize
Stages Two and Three: Cope, Internalize and Align
Building the New HP Foundation

Build New HP Foundation

Stabilize
Building the New HP Foundation

- org design & selection
  - MRU
  - Fast Start
  - culture cornerstone

workforce reduction

- total rewards & benefits design
  - job titles
  - job levels
  - pay/bonus mix
  - structures
  - retirement
  - time-off
  - health

organization implementation & effectiveness
Guidelines for Building the New Foundation

- Speed is essential
- Act early
- Encourage face-to-face interaction
- Be pragmatic
- Choose a cornerstone for the new organization
Building the New HP Foundation

• Speed is essential
  – Clear, regular and open communication

• Act early
  – Involvement of management and employees from the very beginning
  – “Clean Room” teams discussed the design and culture of the new organization
Building the New HP Foundation

• Encourage face-to-face interaction
  – Fast Start sessions

• Be pragmatic
  – “Adopt and go” methodology

• Choose a cornerstone of the new organization
  – Employee portal: @hp
Stage Four: Execute
Creating a High Performance Workplace

High Performance Workplace

Mobilize

New HP Foundation
Stabilize
What is High Performance?

The high performance culture accelerates future growth by:

• Maximizing organizational/individual productivity and capability
• Aligning individual performance with company and business objectives
• Using rewards as the motivator
• Developing people through effective coaching, performance feedback and development planning
The High Performance Model

1. Goal setting & cascading
2. Monitoring & feedback
3. Assess performance
4. Reward & recognize performance

balanced scorecard, HP values and supporting behaviors
Stage Five: Reinforce and Arrive
Ensuring the Best Work Environment

- Energize
- High Performance Workplace
- Mobilize
- New HP Foundation
  Stabilize
Ensuring the Best Work Environment

1. Re-evaluated personal conduct policies and practices
2. Objectively examined behaviors and actions within HP
3. Created a new set of standards that define what we stand for today, owned by all HP employees.
4. Not an HR program—a broad-based, company-wide initiative
5. Long-term solution
6. Personal accountability and ownership
"How we get things done is as important as what we get done."

- Carly Fiorina
Reinforcing desired behavior

- Clearly set expectations for personal conduct
- Charge each employee with accountability and responsibility for creating the best work environment
- Provide resources, training and tools
- Reward those who contribute to and ensure best work environment
Five Stages of Change Management
Question & Answer Session