Tap into deal potential by diving deep on skills

Spotlight on M&As

As a **CHRO** of a leading **tech firm,** Mark knows that staying ahead means building an organization stacked with future-fit skills. Yet, with **skill obsolescence a top risk,** he knows an injection of skills via M&A is one way to outpace the competition. His challenge, however, is knowing what skill benefit or liability an acquisition is adding to his talent balance sheet and figuring out how best to integrate or infuse the acquired skills into his legacy business to create a skill advantage.

To date, getting a read on skills pre- and post-deal too often comes second to evaluating an asset's potential for value and growth. With **most deals failing** due to a lack of attention to the people dimension, leading companies are using data and AI to change the game.

Imagine a world where you could gain extensive insight into the skills within a target pre-deal — one where you could develop a comprehensive talent strategy before people walked in the door. Armed with this knowledge, you could proactively attack essential revenue synergy decisions, such as how best to structure the deal for business results and future advantage; how to value the skills of founders to define their packages; what talent to buy; where to find the leadership skills to champion the change necessary to deliver on the deal logic; and how to blend teams to increase skill depth and bench.

Skills create or erode value

Supported by expert skills-based consulting, talent intelligence platforms link real-time intelligence with analytics to make a significant difference in M&A deals. By providing insight on the skills a company is acquiring, you can now quantify the intangible people assets to be gained and clarify those to be retained.

Such a platform ties together people strategies related to the acquisition; development; diversity, equity and inclusion (DEI); and the overall employee experience to inform the deal and actively drive revenue growth. This is vital information to ensure deal synergies are realized and hidden costs are not brought onto the acquirer's book.

Pre-deal, this insight provides transparency in understanding the skills being acquired and their alignment (or lack thereof) with the anticipated long-term return. This information is vital when entering deal negotiations. Post-deal, this insight can identify skill redundancies and gaps, aid selection and redeployment into critical roles, and help target retention strategies. With rapid **increases in deal activity and valuations**, it has never been more critical to facilitate a realistic path to ensure revenue realization.

Making sure M&As deliver a sustainable return is essential. The COVID-19 pandemic has led to a **surge in M&A activity**, driving an increased focus on sustainable returns. It's no surprise that environmental, social and governance (ESG) and sustainability objectives are top of mind for both the board and investors. So understanding the dimensions of the talent you're acquiring — from capabilities to diversity, skills profiles, and alignment to future skills needs — is vital. It can have a profound effect, eroding or enhancing the deal both now and over the longer term.

Gaining early access to critical skills data gives corporate development, executives and the deal team more time to invest in their people plans and to answer questions such as: What talent risks are you buying into? In what post-close skills do you need to invest? How aligned are the target's skills with those needed in the core business? What advantage could be gained by cross-fertilizing skills? How much of your skills are home-grown versus leveraging-in contractor skills, and how does that impact future value?

Gaining insights into such questions can provide early warnings and better inform decisions regarding talent advantages and liabilities the buyer will inherit.

Visualize a new reality

What if corporate development and leadership teams could:

- Have the ability to map out an organization's skills in the targeting phase?

- Assess the talent and skills being acquired and evaluate the people implications and risks pre-close?

- Make more informed decisions at speed and scale post-close?

- Have accurate information about the continuing skill investment needed to stay ahead?

- Define new roles and slot talent into those positions quickly?

Mercer, powered by Eightfold® AI, can take massive amounts of data and turn them into forward-looking future intelligence. When used to drive talent decision-making, efficacy and efficiency are enhanced.

The more X-ray vision we have behind the walls of a company pre-deal, the better able we are to make quality decisions when it matters most. With data-driven talent insights, we can better integrate the businesses post-merger when people risks are at their greatest.

How does it work?

- The real value comes from digitizing data integration, applying it to predictive modeling, and guiding it with talent management expertise to determine the fit and capabilities needed to drive the deal and the organization's future growth.

- The Eightfold Talent Intelligence Platform™ ingests data from various sources — employee profiles, HRIS data, jobs, learning systems, performance data — to match across different areas and for many use cases. The platform collects, indexes and analyzes more than 1.5 billion profiles and uses advanced AI to match skills with jobs, opportunities and careers.

- This, in turn, provides the level of insight and analytics needed to inform pre-deal decisions and the ability to maximize post-deal integration and returns far beyond "day one." It does so by creating a line of sight into how work will change, the impact on the value chain and the resulting pay bump for skills in demand.

- This allows organizations to reskill, upskill or redeploy their people to be ready for market changes, and it gives them the ability to locate the right internal or external talent to fit their business needs.

Making scalable people strategy decisions

By using a skills lens, companies can make strategic people decisions at scale and speed. With deep-learning AI technology, what was once a time-consuming, expensive human process fraught with inaccuracies is now automated and delivered early in the deal.

Leaders can now focus on the right level of investment (salaries, bonuses, learning, roles, etc.) to drive early successes. When an organization knows what skills are available within its workforce (and stays connected to how skills are evolving), it can rapidly move talent to the most pressing business needs — making it resilient in upheaval and relevant as the business evolves.

The ability to make informed decisions pre-deal and move fast post-deal is critical for organizations and investors. One challenge is that people data in most companies is typically fragmented. Data rests in HRIS systems, performance reviews, job moves and pay structures — historically, providing the platform for talent decisions. This is further compounded when you look across companies, as each organization has different systems, each using a unique classification of skills, competency models, job architecture, etc. — all of these makes assessing the people side of M&As challenging. Companies have been trying to "programatize" the data collected for many years. But even when done well, it still provides a retrospective view of people and offers little insight into the current value of individuals' skills and their future potential.

Skills as the currency of value

Innovative leaders view their workforces through a skills lens rather than using jobs as the "currency" of value. Instead of simply matching people to jobs, a focus on skills creates greater agility to break jobs down into roles with clearly defined skills needed to perform specific tasks. This enables more sophisticated quantification of the value vital people assets bring and what they can offer the firm beyond their current positions.

As organizations navigate transformation and deals, moving from traditional to new ways of working, such as project-based and portfolio-led approaches, the ability to flex or be agile has a premium. Skills insights are critical for defining work in an extremely competitive world. They help companies deploy talent to areas that drive revenue synergies and foster better career management so leaders can understand the value of employees with specific skills sets. Organizations that are mature in their understanding of employees' skills and skills aspirations are more likely to attract and retain future-fit talent with a compelling employee value proposition.

Five questions to consider

1. Do you know the skills you have or the skills you will need for the future?

2. Are you putting as much weight on the projected value of the skills you're acquiring in your deal calculations as you are on valuation of other assets in the deal?

3. Do you have the correct data to define earn-out structures and other aspects of the plan for founders and key executives?

4. How confident are you that your firm's decisions around leadership appointments and "day one" are informed by skills-based pay and market-demand trends?

5. How robust is your people plan regarding future skills needs and the costs associated with continual talent attraction, development and agile deployment?

Five tips for deal success

1 **Know your skills quota.** Consider, for example, an investor in the energy sector looking at different potential assets for acquisition with skills in sustainability and alternative energy sources. Having data from the outset on what talent and skill sets exist in an organization will define the asset's value and provide insight into integration opportunities and challenges.

2 **Prioritize your talent challenges.** Are there any critical skill sets you need to retain? How robust is the pipeline, and what are the implications for retention bonuses and future skill development required to sustain growth? How do the cultures differ, and what will be essential for cultural integration? Knowing such answers early will help clarify the critical talent priorities that will drive deal value post-integration.

3 **Move at speed and scale.** A deal may take many months to deliver. During that time, talent may be targeted by competitors or active in the market themselves. Getting technology to access data on people and validate their skill sets quickly helps accelerate enterprise-wide people decisions.

4 **Invest in leaders, and stabilize talent moves quickly.** Know whether the leadership skills you're buying are (or are not) in line with what's needed for the next phase of the organization's growth. Specifically, identify change management skills in business unit leaders and critical influencers, as managing change will be essential so that you can prepare all levels of leadership to integrate and transform the organization post deal.

5 **New Co., new pro.** Review the mix of new profiles within the acquired talent, and co-create plans to improve their employee experience, especially for professionals. Help the acquired talent understand the future-success criteria for the organization so employees can invest in targeted skill development to aid their job security and improve their market value. This also enables leadership to forecast future skills and build a plan to address any skill gaps essential to future success.

Getting the people decisions right at every step of the deal

Pre-close

Speed without sacrificing talent

What talent are we buying?
What are the potential talent risks?

Operating model and L1/L2 day-one structure

What will be integrated/ transformed?
What is the leadership structure?
Which are critical capabilities to retain?
Which talent gaps do we foresee?

Timing is deal dependent

L1/L2 leadership staffing

Who will be in which roles?
What skills are key to success?
How do we best select leaders in a consistent/ objective way?
How do we progress versus derail on DEI commitments?

L3+ day-one structure

What is the operating model and right sizing?
What skills are key to success?
How will we structure the organization?
Who will be in which roles?

Leadership alignment, onboarding and integration journey

How can we accelerate leadership alignment/ onboarding? What culture do key leaders need to drive?

How can we drive cultural integration?

Post-close

L3/L4 structure

How do we align on people decisions?
How do we select the best talent?
How do we accelerate succession?
Which talent gaps do we foresee?

L4+ structure

▶ **Change in reporting**

▶ **Redundancies and gaps**

▶ **Selection and staffing**

Adverse impact/DEI
Targeted retention
Upskilling/Reskilling
Internal redeployment
Separation/Outplacement

How do we make accurate talent decisions at scale?
How do we identify the talent we need?
How do we measure success?

Deals are about value creation; it intersects with every step of the deal process. Getting the people decisions right sits at the heart of every deal, and it intersects with every step. Mercer's research shows a clear connection between the rigor with which people issues are proactively addressed and the likelihood of delivering on the deal's outcomes year after year. Yet talent is persistently one of the most overlooked components of M&As.

Aligning the people strategy with the deal thesis — such as how leadership needs to act, what cultural signals need to be strong and how we cultivate sustainable skill development — are all key to unlocking success. Furthermore, having a robust and dynamic view of the skills within your businesses can assist with strategic workforce planning and future integration decisions. Talent supply modeling, which can flag skill surpluses, sufficiency or even skill poverty, can help organizations stay one step ahead, with applications far beyond day one and year one.

With the power of Mercer — the leader in skills-based consulting — informed with data from Eightfold's AI-powered Talent Intelligence Platform, companies can integrate and assimilate unique skills and competencies to ensure your M&As deliver true value now and into the future. With talent data driving deal decisions and talent insights informing integration plans, it's never been a better time to unleash a skills advantage through M&As.

Client case study

A global company in the energy sector, with renewables as an important pillar of its future growth strategy, was seeking to acquire new business models and skills in this space. The challenges the company faced were twofold:

- Acquire assets with a footprint and credibility in the renewables sector, and infuse new skills and capabilities into the parent company

- Accelerate alignment and reskilling of its own leaders to meet future business needs for an effective blending of acquired teams and businesses

The first step the buyer took was to learn what it was buying into in terms of the target's skills and capabilities and to gain a general understanding of the strength (proficiency) of skills and depth of the talent pipeline. The main objective was to ensure the deal value on renewable skills, leadership and capabilities was sustainable over time.

The second challenge was identifying the right leaders in the buyer's own organization that would be able to lead and effectively integrate the target given differences in business models, culture and talent/skills. In past acquisitions, the buyer had left these renewable businesses as standalones so as not to disrupt value being created or the unique culture. After several of these acquisitions, the company learned that to accelerate growth and leadership in the renewables space, assets needed to be integrated into the overall organization. The company took a different approach to leaders — focusing on their ability to lead change and integrate diverse cultures and teams. Two factors were critical to success: having accurate information on emerging skills in this sector and designing a process that created transparency around the current state and also informed HR on how best to ensure skills remained relevant post-deal.

This approach enabled them to retain top talent by enticing employees with broader career paths, which helped accelerate the firm's enterprise transformation goals.

Interested in learning more?

Reach out to a Mercer consultant to get insights to future-proof your organization.

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