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ENGINEERING SUCCESS – ESTABLISHING A DILIGENCE MANAGEMENT OFFICE (DMO)

The due diligence process is often fluid and unpredictable. Timelines can be tight, expectations can be high and accessing information can be a challenge. Effective and well-planned due diligence is critical to making informed decisions and driving a successful outcome in the M&A process. Carefully planned due diligence will identify and clarify current obligations, liabilities, problematic contracts, litigation risks, intellectual property issues, and much more. Given these demands, best practices in planning and managing the diligence effort call for establishing a Diligence

Management Office (DMO). A DMO provides a systematic approach to ensure the entire effort is properly managed, communicated and coordinated.

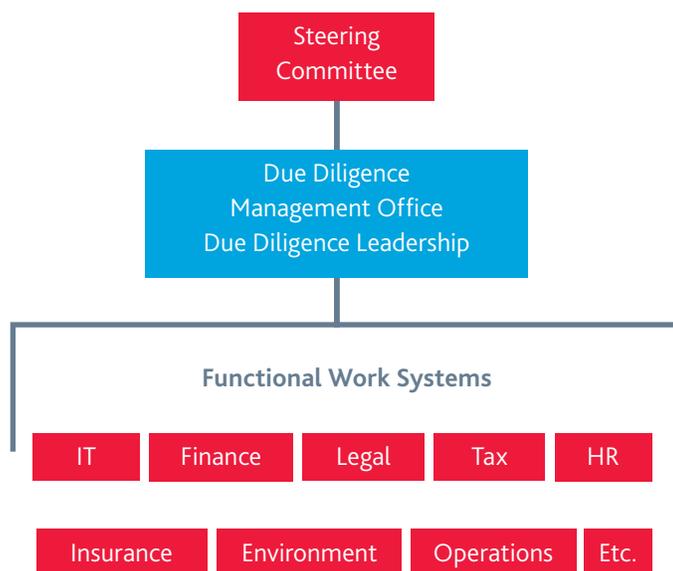
In the flurry of activity surrounding an acquisition, setting up a DMO can be the difference between success and failure. A DMO is designed to facilitate and manage planning, track progress and maintain control over the diligence process. Having a DMO in place will improve communications and help to ensure that planned synergies are captured and realized.

Structure: Finding the Right Balance

The DMO should be put in place prior to the initiation of due diligence. The structure of the DMO can vary, but best practices dictate a structure that provides both oversight of the acquirer's functional work streams and accountability should report to a Steering Committee. This structure provides the proper positioning in the acquirer's management organization to permit oversight of the due diligence process on behalf of the Steering Committee.

Steering Committee: The Steering Committee should be comprised of active and informed executive management personnel prepared to provide oversight, direction and make decisions. Accordingly, the Steering Committee should be ready to provide guidance and weigh in on any issues that are escalated for review and/or approval. They must also be prepared to support the DMO leadership to ensure functional leaders are responsive to inquiries and deadlines.

DUE DILIGENCE MANAGEMENT OFFICE (DMO) STRUCTURE



DMO Leadership: The DMO itself should be managed by a strong manager who understands the due diligence process and has sufficient organizational authority to influence people to complete assignments and get the job done. One of the primary responsibilities of the DMO is to provide a structured process that includes creating standard methodologies and tools. The DMO is also responsible for: 1) identifying and communicating milestones, 2) tracking progress, 3) establishing a meeting cadence, and 4) identifying any potential issues or risks to the effort.

The DMO oversees functional work streams requiring diligence (e.g., finance, HR, operations, audit, IT, environment, legal, tax, etc.). Each work stream leader represents their respective functional area as part of the DMO management team.

Work Plans: The DMO leads the planning for the diligence effort and develops a clear and consistent methodology for the work streams. The DMO works with the Steering Committee and the work stream leaders to develop agreed upon due diligence plans and schedules. It then provides the tools, templates and guidance to manage the project. It serves as the coordinating body ('air traffic controller') for the entire diligence process which allows work stream teams to focus on their respective areas, while still maintaining contact and communication with the larger team. The DMO ensures work streams are accomplishing what is necessary in the agreed upon timeline and helps them overcome barriers and/or escalate issues as needed.

DMOs are also helpful in managing resources and directing work. Often the work stream teams conducting due diligence are working full-time in other roles within an organization. An effective DMO will define the essential tasks and set the pace so teams can better understand expectations and deadlines thereby allowing them to focus on what's important so as to avoid wasting time on irrelevant or immaterial items.

DMO Status Meetings

It is critical for the DMO to set a cadence for meetings and to facilitate effective status meetings with work streams. Status meetings should be efficient and include a standing agenda as well as updates from each work stream. A meeting agenda might include:

- I. **Welcome**
- II. **Update/Waterfall:** DMO leadership provides work stream leads with information about the current state of the M&A effort, news, rumors, etc.
- III. **Work Stream Updates:** Leads update the team on the status of their work stream including their progress against the plan, challenges, concerns, etc.
- IV. **Review of Risk and Issue Log**
- V. **Review of Timeline**
- VI. **Parking Lot:** Discuss any off topic items that have come up during the meeting but need to be addressed. Decide if they should be discussed offline or in a separate meeting.
- VII. **Adjourn**

Roles and Responsibilities: Work Streams

The work streams represent the functional areas where due diligence information is needed. The teams become the “boots on the ground” for the diligence effort. They are often engaged with the target and are responsible for collecting and analyzing information collected in the due diligence process. Their work must be closely aligned to goals of the diligence – the strategic objective of the potential acquisition and the value drivers – to be truly effective. In a well-orchestrated diligence process, the DMO provides communication and tools that support work streams, while the work streams provide the DMO updates, escalate issues and risks, and ensure engagement with target company representatives is handled in a positive and effective manner.

Critical Success Factors

Due diligence is designed to identify and understand the opportunities and risks in M&A. Without proper management of the diligence effort through a DMO, success can be compromised. There are a number of key areas that are critical to implementing an effective DMO.

Communication: The goals of the due diligence, the strategic assumptions and any constraints on the process, must be well communicated. Appropriate information must flow from the top down and the bottom up so team members are informed about what needs to be accomplished, timelines, unresolved items, etc. A DMO provides value as the bridge between the work stream teams and the executive team by facilitating communication.

Clear Roles and Responsibilities: There is often a rush to begin due diligence without pausing to ensure that everyone on the team understands their respective responsibilities and timelines. What are the expectations for work stream leads to report into the DMO? How will the DMO report to the Steering Committee? What needs to be reported? Are there others outside the due diligence effort that need to be consulted on certain issues? How are risks to be escalated? It is important to clarify roles and responsibilities early in the due diligence process to avoid misunderstandings, gaps in information, or overlaps. Tools such as responsibility matrices can be helpful to clarify roles and responsibilities early on.

Managing White Space

Perhaps one of the most valuable attributes of the DMO is the ability to manage the ‘white space’ between work streams. It is common for work streams to focus in their own silos where it is hard to discern potential areas of overlap, gaps or synergies. The DMO can help reduce duplication of efforts by facilitating effective communication (often in status meetings), looking for areas of opportunity, and staying in tune with the overall plan and progress.

Project Management Controls: Due diligence efforts are well suited to a project management approach. An effective DMO provides management a systematic approach, framework and tools for planning, and monitoring and controlling of the diligence process. The DMO becomes an efficient resource for each due diligence effort so new teams can get up to speed quickly without having to re-invent the wheel.

While a full DMO may not be required for all due diligence efforts, a DMO should be considered by any acquirer looking to ensure a successful outcome from the diligence process. A DMO provides a systematic approach to ensure the diligence effort is properly managed, communicated and coordinated - creating both value and minimizing risk for the acquirer.

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