Preparing to Capture Mergers and Acquisitions Operational Synergies

Perspectives on the Effective Approach

Part 3 of the Miniseries on Mergers and Acquisitions Operational Synergies

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Introduction

As the merging plan is shaped and the supply chain organization is assessed for the proper way to merge the operations and deliver value, the organization will require thorough preparation in terms of people, materials, and processes. As we learned in Part 2: Planning to Capture Mergers and Acquisitions Operational Synergies, by establishing a strong vision and identifying key supply chain executives between the organizations to lead the merger, a resilient foundation is created to support the integration process. Once the supply chain executives are identified to drive the integration, it is important that they form dedicated integration and steering committee teams with clear roles and responsibilities, to establish focus on supply chain throughout the process.

Research indicates there are certain principal reasons why organizations miss synergy targets related to supply chain and manufacturing operations. The common theme is that during the analysis phase, the operational compatibility of the two companies is overlooked. As a result, the supply chain functions are not synchronized with the combined entities' customer and market needs. The consequence of this is a supply chain rework that delays and/or erodes the projected savings. While the plan for the merger must necessarily take a holistic view and consider the long and short term goals, the preparation should focus on aligning the operating model with the targeted business model and taking the most effective actions in the short term to deliver the best results in the long term.

The integration strategy directly impacts the supply chain performance, and different business strategies are likely to be best supported by different kinds of supply chain strategies and decisions. The supply chain and operational strategy should be aligned with the overall business strategy to help confirm successful integration. With the integration team established and the target operating model defined, the team should then work on developing an effective and detailed integration plan. Finally, the team should identify potential risks, determine their magnitude and likelihood, and develop plans to eliminate or mitigate the major hurdles.

“The supply chain and operational strategy should be aligned with the overall business strategy to help confirm successful integration”

Key *Preparing* Strategies

1. Establish Roles of Right Leadership in M&A

During the Prepare stage of the deal, the key executives across the supply chain of both merging entities should establish dedicated integration, project management office, and steering committee teams with clear role descriptions, cadence of meetings, and synchronized templates for deliverables and status updates.

When there is a collaborative involvement of supply chain leadership a timely, comprehensive operations perspective can be brought into an M&A integration process. This collaboration is possible when all levels of the organization work together during the entire integration process; however, the role of supply chain and operations personnel will vary depending on the phase of the integration process.

Senior C-level executives should establish a Project Management Office (PMO) that would be accountable for the day-to-day oversight, coordinating interdependencies, communicating status to the Steering Committee and overall execution of the planned activities. Once established, they should work with integration team in the planning phase to establish and define cadence of meetings for the entire integration process. The Project Management Office (PMO) must also provide templates for functional deliverables including status updates to manage consistent efforts across functional teams. This consistency is important for setting priorities, balancing efforts and tracking progress.

Level of Leadership Involved	Role
Chief Operating Officer (COO) and individual Head(s) of Operations	• Stay informed of the potential targets that are being evaluated for merger • Develop integration strategy • Develop interim-state and end-state vision
Deputies to Head of Operations	• Develop a robust integration plan • Evaluate all current initiatives and determine re-prioritization of supply chain projects and timelines (Day 1+30 days, 6 months, 1 year, etc.) • Conduct a high-level assessment of the integration risks and long-term integration plan
Junior-level Managers	• Develop detailed execution plan • Drive the execution • Take on ‘Owner’ and ‘Decision Maker’ roles

With the supply chain executives already participating in and sponsoring the integration plan as part of the steering committee, they should recruit and designate responsibilities to deputies and managers that form the integration teams to drive the integration effort. The teams should include experienced, knowledgeable managers from both companies as well as outside experts. These groups must work together in order to assess how the current supply chains are planned, managed and controlled. They can then review the current structure of both companies and clearly identify the capabilities, competencies and performance of each.

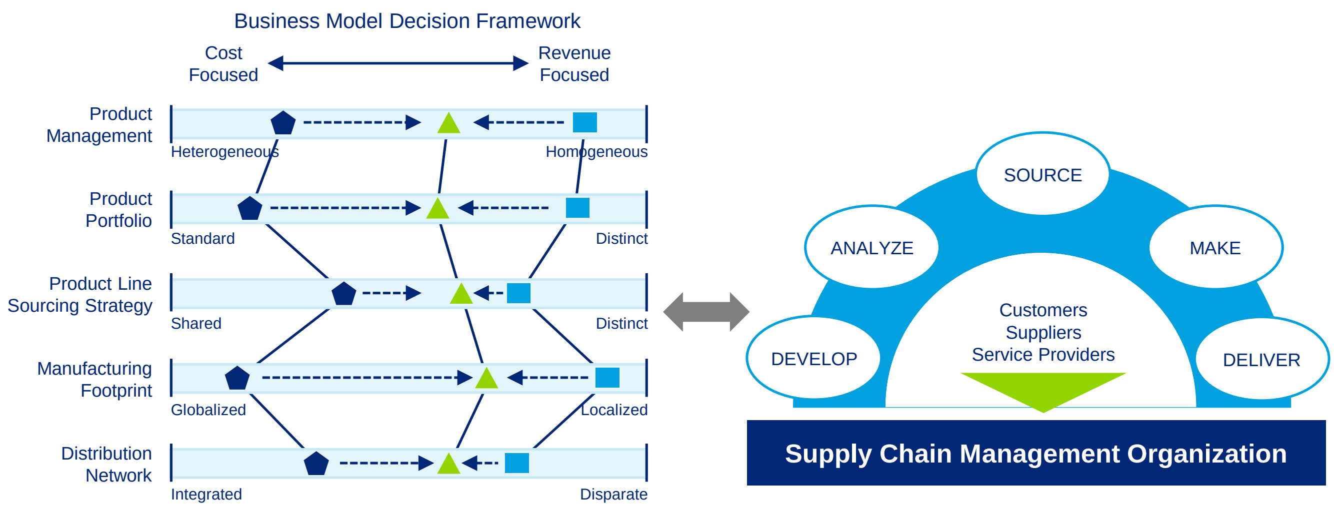
An additional benefit of establishing an integration team with clear roles early on in the process is that the continuity needed to effectively integrate the overall operating model in order to capture the full value from the merger is established.

2. Align Operating Model to Enable the Business Model

A key to successful supply chain integration is a clear definition and understanding of the business strategy for the combined entity and aligning the operations strategy and model both, nationally and internationally, with that business strategy.

To determine which business model structure would best suit the combined entity, companies must determine the desired design of their future-state organization, assess the gap between current state and future state, and make the case for the degree of centralization required. Once the future-state business model is determined, an organization that enables each company to work cross-functionally across the entire supply chain must be created and expected to last throughout the post-merger integration phase. Next, the integration team should evaluate each company's business model and target business model for the new entity, and assess alignment of each company's supply chain functions with the targeted business model.

The Integrated Supply Chain should enable the Future State Business model



The above framework serves as an example of how the future state can be developed for the two entities. The main consideration is that supply chain and manufacturing operations organizations are intentionally aligned to serve a specific business model. The changes brought upon by a merger will disrupt the previous business models and risk value capture. If the business models of the merging entities are not aligned, the supply chain functions may also be misaligned.

High-performing organizations develop an integrated improvement program that integrates business, technology, and people operating with a common set of principles. This program provides the product supply organization with discipline as well as effective processes that enable the organization to improve overall business results. The numerous tactical performance improvement initiatives can be structured into several projects that form the overall supply chain improvement program.

3. Develop an Effective and Detailed Integration and Risk Mitigation Plan

Most supply chain integrations typically extract short-term financial synergies efficiently, but fall short in creating a high-performing supply chain. Tight timelines in the M&A process may mean that the impact to the supply chain and operations function are not fully considered in the overall execution of the deal. As discussed earlier, this can be mitigated by establishing the supply chain leadership and teams early in the integration and aligning the supply chain functions with the target business model. The imperative with business and operations strategies is that the new supply chain aligns with, and enables, these strategies to be achieved.

As a next step, the integration team should work towards developing detailed integration work plan with activities and key milestones in preparation for Day One, including all actions that will be put in place on Day One. Critical Day One tasks need to be identified early on in order to allow for prompt identification of long lead time items. By starting early and structuring an effective plan, merging organizations can position themselves to maximize shareholder value and realize the anticipated synergies. Doing this can determine that the proper preparation is put in place that will enable seamless execution.

One of the key tasks while developing a detailed integration plan is to not only focus on the direct operational units, but to also take into account the supporting functions such as the technology systems used to support operations, the organization used to run it, and tax accounting for evaluating and documenting the cross functional dependencies.

Product Management	• Product Development	• Planning & Management Processes
Product Portfolio	• Product Portfolio Optimization	• Product Life Cycle Management
Product Line Sourcing Strategy	• Direct and Indirect Sourcing	• Sourcing & Procurement Processes
Manufacturing Footprint	• Manufacturing Footprint Strategy • Make vs. Buy Strategy	• Manufacturing Process • Maintenance & Quality
Distribution Network	• Network Strategy & Optimization • Warehousing Capacity & Performance	• Transportation Consolidation Order Fulfillment & Returns Process

Technology consolidation

Organization consolidation

Tax aligned supply chain

The changes brought upon by a merger can also increase an organization's exposure to supply chain risk. Organizations are often underprepared for the increasing complexity of supply chain risks. In addition to low levels of preparedness, organizations frequently do not have the necessary governance, people, process, and technology enablers to facilitate holistic supply chain risk assessment.

An essential task in the preparation phase involves identifying supply chain risks and evaluating the probability of the risk and the magnitude of the potential loss. To better prepare the organization for these risks, integration teams should deploy a more proactive approach to supply chain risk management by developing risk mitigation and contingency plans so as to address the risks before they become critical and unavoidable.

The PMO can play a critical role here by providing templates as well as setting up a process for tracking potential issues, interdependencies, and statuses across all functions. A RAIDD (Risks, Assumptions, Issues, and Decisions, Dependencies) log should then be used to track issues as they arise and their subsequent resolutions. Tracking critical dependencies would help confirm that all work streams are coordinated and aware of the status of dependent activities

The table below provides some examples of mitigation strategies and contingency plans for the supply chain.

Category	Risk	Mitigation Strategies
Demand Risk	Demand fluctuations	• Increase inventory tracking • Increase inventory safety stock levels
	Change in customer service levels and geography	• Establish multiple stocking locations for inventory • Change stocking strategy at warehouses
Supply Risk	Capacity constraints	• Increase flexibility of operations • Build redundant operations
	Concentration or clustering of supply base	• Reconfigure Supplier base • Retain redundant suppliers

Case study: U.S. based manufacturing company

Background	Approach	Value delivered
• A manufacturer of aftermarket automotive parts with revenue of $1B merged with another automotive aftermarket parts manufacturer with revenue of $1.2B • The combined entity has limited fact basis on the competitive positioning of the integrated product/service portfolio hindering the combined entity's ability to leverage scale • The combined entity needs to rapidly develop the "go to market" strategy to further drive profitable growth with their large customers	• Conducted a business unit overview, reviewing financial results, strategic objectives, and account-level detail • Conducted discovery sessions to understand each unit's market strategy, clients, and sales processes • Solicited customer insights, defined customer and target market segments, and defined segment value propositions • Prioritized opportunities into a portfolio of options based on impact, complexity, and timing of benefits; and developed an implementation roadmap to realize the benefits	• Developed an integrated strategic initiative roadmap to achieve high-priority initiatives necessary in ensuring the success of the combined product portfolio • Performed early assessment of the four key areas of the sales value chain - distribution, strategy, operations, and people to understand the key elements that drive these areas and provide recommendations on improvement opportunities • Developed specific, actionable and positive ROI breakthrough strategies for the large customers • Identified process improvement opportunities to more quickly identify cross-selling opportunities and reduction in barriers to cross-business unit collaboration

Conclusion

An effective plan that takes into account the long term goals of both organizations is a critical step in determining that the full value of the merger is captured from the supply chain function. Although the tight timelines of merger activity can be an obstacle to preparation as long term considerations are often given short shrift as deadlines approach, the preparation steps outlined above are crucial to a successful integration of the supply chain and operations function of the two entities.

Merging organizations can keep their eye on the ball by appointing the right team and keeping it stays the same throughout the process. A focused team will then be able to effectively assess how operations mesh with the business model, and determine the best way to implement the required changes while identifying risks.

Each of the companies' supply chains must be carefully analyzed from the beginning to the end to assess the gaps between the current state and the desired future state. This will help in identifying any inefficiencies and synergies between the two organizations' supply chains, and will help confirm that the supply chain of the merged entity aligns with the target business model. In choosing the type of supply chain integration strategy and approach, careful consideration of the unique risks involved with each strategy must be made, and mitigation strategies and contingency plans should be developed for these risks.

All of these preparations can then enable a merger execution that will not only conform to timelines, but also create and sustain long term value.

“Collaborative involvement of supply chain leadership and comprehensive operations perspective should be brought into an M&A integration process for preparing detailed integration work plan.”

Parts 1, 2 and 3 miniseries are now available, with part 4 scheduled for publication in Q3, 2014.

For more details, please download additional articles of our miniseries - Mergers and Acquisitions Operational Synergies @ www.deloitte.com/us/maminiseries

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Acknowledgements

The authors would like to thank all of Deloitte Consulting LLP, for contributing insights to this paper.