Deloitte.

Supply chain's role in M&A
Achieving value creation through supply chain

A merger or acquisition (M&A) transaction presents both opportunities and challenges for supply chain executives who are tasked with integrating the best of both legacy organizations while keeping business running on all cylinders. M&A can generate sustainable – and potentially, game-changing – cost and operational synergies, but executives need to navigate inherent post-close complexities to fully deliver those synergies and achieve anticipated deal value. Now, more than ever, supply chain executives are under pressure to:

1. Identify, capture, and deliver deal-related synergies;
2. Invest in operations to support end-state business growth objectives;
3. Integrate legacy supply chains with minimal impacts to customers, partners, and employees; and
4. Make critical decisions quickly to keep pace with transaction deadlines.

While supply chain synergy targets vary by industry, Deloitte experience shows that the supply chain typically is responsible for half of announced deal synergies (Figure 1).

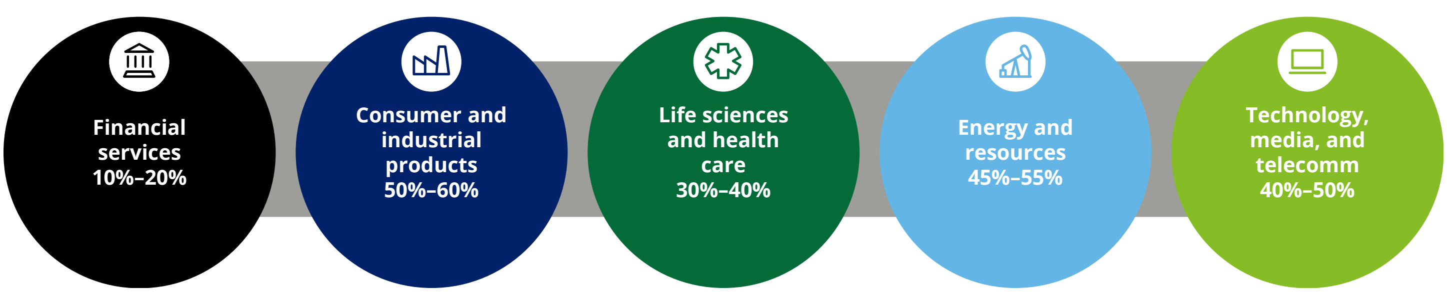
Supply chain executives can play a pivotal role in delivering synergies that can help achieve deal objectives. To meet synergy goals, executives should proactively identify potential supply chain sources of value during a transaction's due diligence and pre-close phases, and take early advantage of Clean Rooms and external advisors to support the launch of synergy projects immediately following Day 1. Despite the high stakes, an M&A transaction provides executives with a powerful platform to transform two disparate supply chains into an integrated operation that can create a competitive advantage in the marketplace.

During the M&A process, supply chain leaders will need to address a number of important issues, among them:

- Redefining the supply chain operating model and organizational structure;
- Leveraging the combined talent, technology, and leading practices of each supply chain;
- Standardizing processes, systems, policies, and performance metrics; and
- Making investments to build and scale the supply chain to support the expanded business.

Executives should expect that their focus and priorities will shift as they progress through three phases of the M&A lifecycle: pre-close planning, the first 100 days sprint, and post-deal transformation and growth.

Figure 1. Supply chain synergies as percent of overall deal synergies, by industry



Source: Deloitte Consulting Global Benchmark Center

Pre-close planning

An important first step in the pre-close planning process is to establish a strong governance structure and dedicated supply chain integration team to set Day 1 priorities and lead decision-making. Including representatives from the core supply chain functions and each of the geographies is critical to planning a successful Day 1 launch and designing an end-state organization to support the newly-merged entity. Other pre-close planning priorities include retaining talent and "tribal knowledge," and managing integration risks to enable post-Day-1 business continuity. Many companies going through a merger face uncertainties and cultural tensions, but well-structured, "two in a box" joint planning teams can help smooth the transition. Coordinating with other functional integration teams to resolve interdependency issues should help enable efficient Day 1 execution.

As part of their Day 1 preparations, supply chain leadership will need to address several strategic questions:

1. Day 1 readiness planning

- What is our supply chain integration strategy? What are our guiding principles?
- What are the supply chain 'must do's' to support a seamless Day 1 transition?
- What activities require coordination with functions such as R&D, Commercial, Finance, IT, HR, and Legal?

2. Synergy opportunity Identification

- What are the major sources of value across the supply chain?
- What are the quick wins to accelerate value capture?
- What are the resources, costs, and timing to achieve supply chain synergies?

3. Risk mitigation and change management

- How do we coordinate and communicate changes with customers and strategic suppliers?
- What is our approach to retain top talent and operational tribal knowledge?

Getting Day 1 planning right requires a disciplined approach and clear guiding principles to direct the supply chain integration team; keep the organization focused on Day 1; identify bottom-up synergies and other sources of value; and manage potential risks associated with customers, partners, and employees. Establishing a Clean Room to jump-start synergy planning allows the team to develop quick-win opportunities and mobilize execution immediately following the close of the transaction. Figure 2 depicts examples of supply chain sources of synergy value.

The pre-close planning phase's primary outputs are a detailed supply chain Day 1 checklist, an integration and synergy plan, and a project roadmap. These are critical deliverables required for Day 1 success; they also identify and prioritize projects, timing, and resources to support the first 100 days sprint.

Case study

Situation:

As part of a $10 billion merger, a global industrial manufacturing company required assistance with Day 1 integration planning across business functions including Supply & Operations from pre-close through Day 1000.

- Client leadership had limited experience in planning and executing a global acquisition.
- Supply chain synergy targets comprised the major portion of synergies to support the deal economics.
- The target company was in aggressive cost-reduction mode and provided limited resources for the integration.

Approach & impact:

- The company used external Clean Teams to conduct synergy analyses to identify +$90 million in synergies (150 percent of target).
- The planning team coordinated 70+ global supply chain resources across business functions to prepare and execute for Day 1.
- The team developed negotiation strategies for overlapping suppliers and conducted rapid renegotiations to deliver 30 percent of synergies in the first 30-60 days.

Figure 2. Supply chain sources of value

Material & operations cost synergies

- Rapid supplier contract renegotiations
- Strategic sourcing
- Carrier consolidation
- Design for cost & manufacturability
- SKU rationalization

Productivity & asset optimization

- Demand & supply planning
- Inventory & working capital
- Distribution network optimization
- Manufacturing network optimization
- Plant & warehouse productivity

Source: Deloitte Consulting LLP

First 100 days sprint

During the first 100 days after deal close, supply chain executives' focus should turn to cashing in quick-win opportunities to capture synergies and build integration momentum. High-priority projects should address the wide range of integration and synergy opportunities across the supply chain. For example, rapid contract renegotiations with suppliers serving both legacy companies to move purchases to best price and terms can generate cash to meet synergy goals and help fund future transformation.

The new supply chain leadership team typically is announced during this phase, and the organizational transition to future state begins. Integration activities that address headcount redundancies are implemented, along with required interim work-around processes. Implementing these changes in a timely manner can help to free-up critical resources to drive synergy projects that increase the speed to value realization.

The transition to a combined supply chain organization should engage employees and strategic suppliers in what is changing. Roadshows are often conducted to facilitate interaction with employees to inform and to gather feedback on the transition. It is important to pay attention to the people-related impacts of integrating two supply chain organizations. Too often, executives fail to adequately address these issues, which can result in productivity loss, employee attrition, and difficulty meeting synergy goals. Executives should consider which aspects of each organization can be used to create a new function that will support the supply chain strategy (Figure 3).

In addition to managing staff integration issues, executives will need to consolidate supply chain processes and technology platforms to successfully position the new organization for the third phase in the M&A lifecycle, post-deal transformation and growth. Executives should begin planning for this transformation by deploying the new supply chain strategy so that it supports business growth, improves collaboration with external partners, and drives operational excellence.

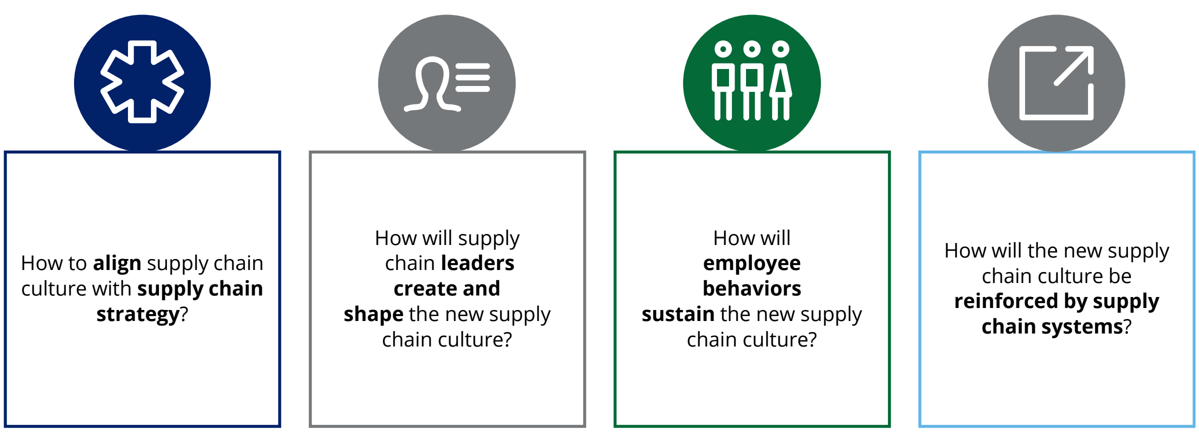
Case study
Situation:

- A specialty chemicals company sought outside advisory support to plan and execute a supply chain merger for a $6 billion acquisition. The integration included three legacy company environments with operations in 10 countries.
- The organization had no structured approach or governance to identify and deliver supply chain synergy targets.
- In addition, the right data was not readily available from multiple ERP systems across legacy organizations and 25 legal entities.

Approach & impact:

- In the first 100 days after close, the client/advisory team launched 30 out of 100+ supply chain projects to capture $60 million in supply chain synergy benefits.
- The team captured $4 million in arbitrage synergies for direct raw materials.
- The supply chain organization launched the first of a multi-wave strategic sourcing program that delivered $2 million in synergies in the first 100 days.

Figure 3. Supply chain people integration challenges



Source: Deloitte Consulting LLP

Post-deal transformation and growth

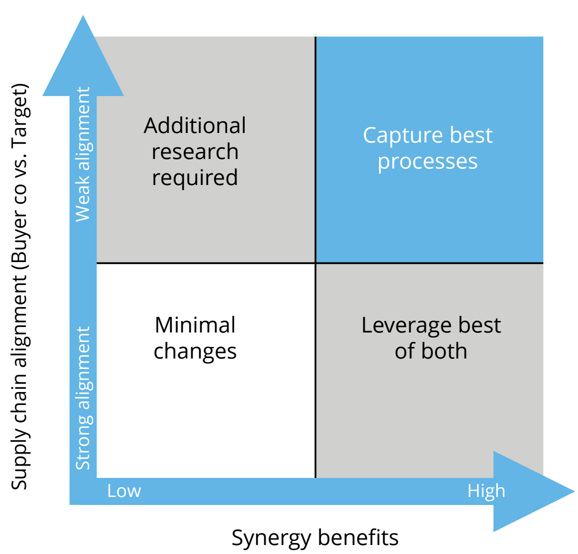
Following initial integration activities, supply chain leaders should focus on positioning operations for long-term growth and optimization. The challenge for executives during this phase is maintaining Day 1 momentum and not reverting to 'business as usual' too soon. This is especially true if the deal is transformational in nature. There is often significantly more upside in driving transformational changes versus incremental ones. Continued focus on larger-scale initiatives, such as sales and operations planning (S&OP) harmonization, strategic sourcing, or distribution network optimization, can unlock significant deal value.

Incremental synergy gains may be realized by adopting and institutionalizing leading supply chain processes from each legacy company. The framework depicted in Figure 4 uses an alignment analysis of current processes and comparisons to leading practices to help supply chain executives identify high-value integration opportunities.

In many cases, the acquiring company implements its standard policies, practices, and processes across the new organization; however, in doing so, it may miss out on capturing value from the target's legacy operations. In addition to leaving money on the table, simply adopting the acquirer's approach may have a negative impact on change management efforts with the acquired company's employees. Conducting a rigorous "stare and compare" analysis across both legacy companies' supply chain processes may yield significant opportunities that should be captured before too much change is instituted.

Finally, collaborating across the new organization is critical when executing a phased transformation plan. Harnessing the best of both supply chains can help minimize risks and capture value throughout implementation.

Figure 4: Supply chain synergy prioritization framework



How similar are the buyer and target processes in each supply chain function?
Criteria: Business reporting lines, level of centralization, Insourced/outsourced, process commonality

What is the synergy value from transforming this process?
Criteria: Improved performance, efficiency or cost reduction

Source: Deloitte Consulting LLP, 2016

Case study
Situation:

The world's leading producers and marketers of concentrated phosphate and potash crop nutrients required assistance with Day 1 integration planning across business functions including Supply & Operations.

- The acquirer needed to substantiate opportunities for operational synergies owing to the proximity of the target's phosphate rock mines to existing operations.
- The project team conducted a leading process assessment to evaluate 12 key supply chain functions across the three mines and three plants to incorporate the leading practices from both legacy operations.
- The team used an opportunity prioritization matrix to map processes across core operations and support functions, and to categorize them based on process alignment and synergy benefits.

Approach & impact:

- The project team identified and compared 21 high-value opportunities to leading practices across 11 supply chain functions.
- A current-state maturity and alignment assessment, layered with detailed, data-driven dashboards and performance metrics, helped build the business case for transitioning to the leading processes.
- Change management risks during the transition were mitigated by the acquirer adopting a number of supply chain practices from the smaller legacy target, which added significant scale benefit.

Conclusion

As stated earlier, supply chain executives play a pivotal role in achieving M&A-related business objectives. Not only are supply chain synergies a significant source of potential deal value, a transformed supply chain can be a critical enabler of long-term corporate growth and market competitiveness. By including supply chain executives in M&A planning, the other deal team members can access the expertise and insights they need to identify potential deal synergies; integrate legacy supply chains with minimal impacts to customers, partners, and employees; minimize post-M&A operational risks; and deliver differentiating results to achieve deal value and potentially, long-term competitive advantage.

Contacts

Kurt Schmid
Principal
Deloitte Consulting LLP
kschmid@deloitte.com

Joel Schlachtenhaufen
Principal
Deloitte Consulting LLP
schlachtenhaufen@deloitte.com

Srini Bangalore
Principal
Deloitte Consulting LLP
sbangalore@deloitte.com

Nate Windom
Senior Manager
Deloitte Consulting LLP
nwindom@deloitte.com

Steve Mangal
Senior Manager
Deloitte Consulting LLP
stepmangal@deloitte.com

Chris Gilbert
Senior Manager
Deloitte Consulting LLP
chrgilbert@deloitte.com

M&A *Institute*

About the Deloitte M&A Institute
The Deloitte M&A Institute is a community of clients and practitioners focused on increasing the value derived from M&A activities, powered by Deloitte's M&A Services capabilities. The Institute serves as a platform to build connections, showcase thought leadership, and accelerate experience and learning for those involved.

Deloitte.