Facilities Integration

Leveraging facilities for deal success

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April 2017

At a glance

Good Facilities integration looks beyond the usual cost saving opportunities.

The impact Facilities consolidations and workplace changes can have on employee culture and productivity should not be underestimated.

Decisions to outsource or centralize operations should be considered prior to adopting a Facilities consolidation plan.

Introduction

In an M&A context, Facilities integration is often regarded as an afterthought. However, detailed Facilities integration planning prior to transaction close and execution of initiatives post-close have a very real impact on a company's chances for integration success.

Successful Facilities integration requires looking beyond the immediate brick-and-mortar concerns of physical plant, geographic location, and the dollars-and-cents that can be saved by rationalizing workplace design and service levels. The timing, communication, and execution of these changes can have a significant impact on critical intangibles like company culture, employee morale, and retention.

Tactical changes in physical and IT access and security impact employee productivity and the preservation of intellectual property. Moreover, decisions to close plants, consolidate R&D, and relocate staff often signal the next steps of the combined company, both to employees and to the broader marketplace.

[1] PwC's 2017 M&A Integration Survey Report

The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.

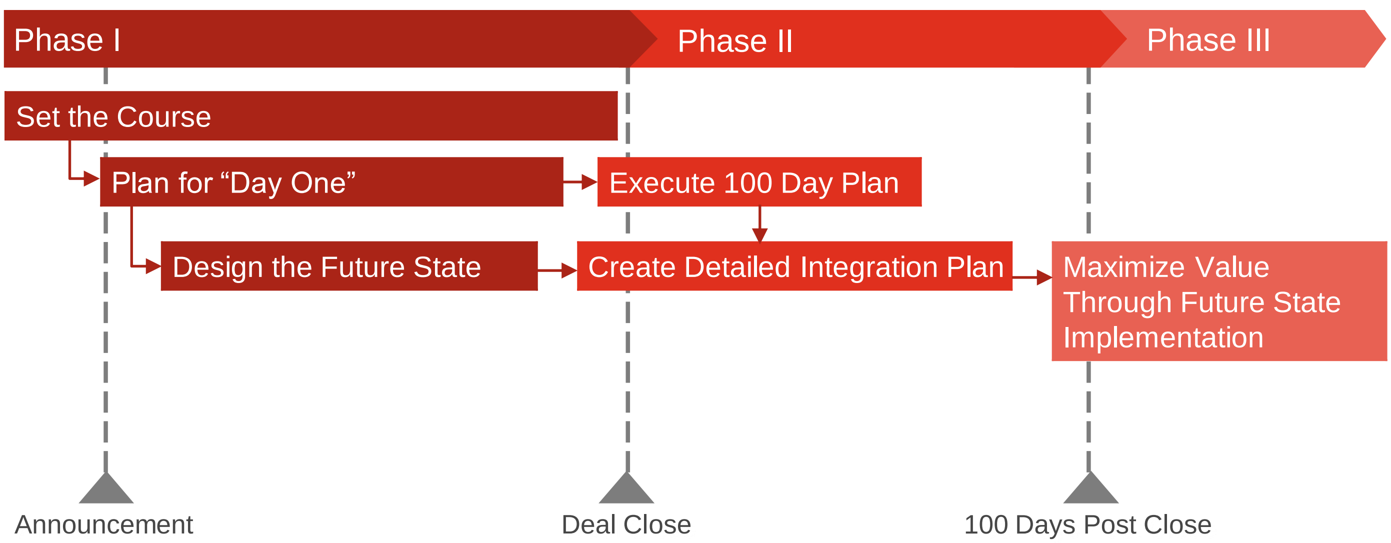

Figure 1. The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.

Set the course

A merger or acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Setting the course involves defining clear objectives and establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including Facilities—to communicate effectively and take decisive action.

Setting the course for Facilities involves making the right decisions regarding the convergence of Facilities operating models (for example, whether to insource or outsource site services), rationalizing differences in workplace service levels, and determining how aggressively the new company will pursue office consolidations and closures. An important challenge can arise in planning for and executing the Facilities operating model, considering that a facility and its office layout can directly impact workforce culture and productivity. For example, office layout designs that create "neighborhoods" can enhance collaboration and productivity, while separating departments across different floors and locations may have the opposite impact. Making the right decision on the Facilities operating model is a critical step in providing an environment suitable for the business needs of the organization and its departments.

In addition, Facilities integration relies heavily on cross functional communication and executive guidance. Facilities plans are significantly impacted by decisions involving go-to-market, product roadmap, and talent management strategies. For instance, decisions made by other functional teams about branding, headcount reductions, and cost cutting targets often impact signage, space planning and usage, and workplace services. Each of these matters requires relatively long lead times to execution, and will have a visible and lasting impact on daily employee experiences.

Common areas of focus to Set the Course for Facilities integration

Real Estate Portfolio and Lease Administration
- Lease strategy
- Property management
- Space and capacity planning
- Site strategy and integration
- Finance and budgeting
- Site specific vendor lists

Buildings and Sites
- Signage
- Permits
- Maintenance, testing and inspection
- Infrastructure
- Help desk

Administrative Services
- Reception and telecommunications procedures
- Hallways and conference rooms
- Break and common areas
- Supply and copier areas
- Cleaning

Hospitality
- Food and beverage services
- Fitness services
- Concierge services

Shipping and receiving
- Mailroom
- Third party vendors

Security
- Physical building
- Executive security
- Badges and access control
- Site emergency contact list

Health and Safety
- Local laws and regulations
- Safety programs
- Fire safety
- Defibrillators
- Material safety data sheet
- Spill prevention, control, and countermeasure

Cross-functional areas to consider:
- Insurance
- Purchasing cards
- Travel
- Technology infrastructure
- Legal contracts
- Insourced/outsourced venders
- Business continuity planning

Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of essential operations.

Basic items such as mail service, building access and security, employee directories, and intra-company network access are expected to be resolved at close. Telephone answering scripts, the ability to redirect calls, temporary signage, and the availability of new business cards and other facility related collateral send powerful messages to your employees and customers. Missteps in these basics will cause frustration among your customers and employees—and will be exploited by your competitors.

Minimizing the operating impact of facility changes is critical. Never underestimate the effect workplace changes can have on employees. Such changes hit employees where they live—quite literally, when you consider all the time spent at work over the course of a career. A change in employer, work group, physical location, or workplace environment can influence an employee in many ways, including their sense of Who they are, How they work, and What they enjoy. These can dramatically impact organizational effectiveness, employee engagement, and overall productivity.

Matters of physical security and employee health and safety are also critical at Day One. Often these items are overlooked simply because people are busy and distracted by the transaction, even though the risks in these areas are heightened. New faces can slip through security, and physical movement coupled with new environments can create circumstances ripe for an accident.

Some things to remember when integrating Facilities functions

- Understand what's in and what's out.
  Define the scope of Facilities-related activities by identifying who "owns" them within each company. Matters like insurance, company credit cards, executive security, and employee travel are sometimes handled by other functions such as finance and risk management.
- Examine leases early.
  Immediately inventory all leases and focus on those set to expire within a year or less. Thoughtful planning, renegotiation, termination, and execution of new leases could potentially save millions.
- Work with resources in your local markets.
  Globally dispersed operations require greater dependence on local real estate, legal, and regulatory resources to deliver on your plans.
- Don't overlook cross-functional dependencies between IT and Facilities.
  Often the line is blurred between IT and Facilities when it comes to the responsibilities associated with moves and new space build-outs. Be sure there is a clear understanding of who is responsible for establishing new contracts with telephone and network service providers, managing the "in the wall" network build, and setting up workspace technology peripherals like phones, printers, and desktop computers.

Design and maximize future state operations

Partial execution of the go forward operating model for the combined company is an actual prerequisite for beginning to realize significant long-term synergies. In the case of Facilities, decisions to outsource services or centralize operations can have a significant impact on a company's headcount and geographic footprint, and should be determined prior to adopting a Facilities consolidation plan. Figure 2 provides a framework for optimizing the future state Facilities operations.

Facilities Optimization Framework

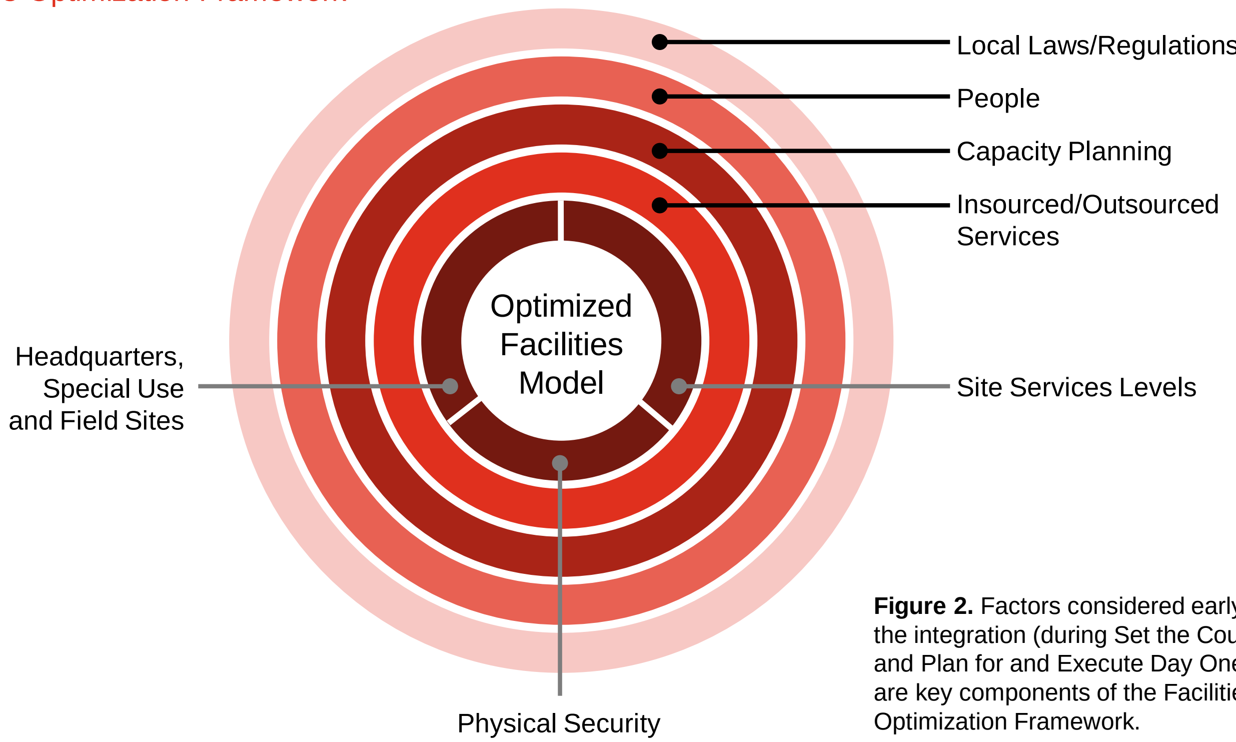

Figure 2. Factors considered early in the integration (during Set the Course and Plan for and Execute Day One) are key components of the Facilities Optimization Framework.

When two companies become one, excess workspace capacity often cries out for reduction to increase return on investment, and balance the real estate portfolio. Corporate campuses are consolidated—sometimes with significant and under-anticipated employee dislocation and headcount impact. Sales and field offices are also consolidated—typically based on the outcome of a fairly straightforward capacity and cost analysis.

Non-specialized manufacturing sites and distribution centers are frequently consolidated based on similar capacity and costs factors, but require more detailed analysis due to the greater costs associated with their abandonment and relocation. R&D and special purpose sites are often kept open in the hopes of retaining critical talent, preserving a company's core competency, or supporting the product roadmap alignment despite traditional cost-benefit outcomes that call for their closure. International consolidations require more care, since local regulations in international markets can significantly impact facility plans. For instance, in some countries, the planned consolidation of Facilities exceeding pre-established distances apart must be handled as a workforce reduction, triggering severance regardless of an employer's intent to retain employees. Also, some countries disallow co-locations until after the legal entity merger in that country is complete. 'Gun-Jumping' the legal entity merger in certain countries can expose employers to significant penalties and fines.

Conclusion

Consolidating Facilities is often an important part of two companies coming together, and it often has a high impact on employees. The physical closure of Facilities and movement of assets from one facility to another may be considered a routine activity in capturing synergies to deliver deal value. However, organizations should not overlook the people impact of Facilities consolidations and the messages such movements communicate, intended or not.

The impact of Facilities consolidations extend to overall integration strategy. Consolidations must be in sync with the future operating models and long-term integration plans of other functions. Accordingly, companies need an optimized Facilities model early in the integration process and in conjunction with cross-functional activities.

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