Supply Chain Integration

Maintaining customer service and optimizing the supply chain

By Mile Giguere and Amit Verma

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At a glance

Integrating the Supply Chain during mergers and acquisitions can vary greatly from industry to industry, but a Golden Rule applies: No disruption in service to the customer.

To minimize disruption to the product flow, Supply Chain synergy capture efforts must be balanced with integration priorities, taking execution complexity into consideration.

Effectively executing the tactical requirements of Supply Chain integration will create operational efficiencies for capturing deal value.

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Introduction

Integrating Supply Chains during mergers and acquisitions can vary greatly from industry to industry, but a Golden Rule applies: No disruption in service to the customer. Orders are fulfilled and shipments will continue as promised, product quality will not be compromised, and there will be no deterioration in customer service.

The primary objective during Supply Chain integration is to preserve relationships with key customers and strategic vendors. Being aware of the transaction, customers and competitors will look to realign their strategies to their benefit. In such an environment when rumors are rampant, it is important to maintain supply velocity and manage relationships with strategic vendors during the transition period. A proactive approach is required to retain these relationships and ensure no disruption.

To minimize disruption to the product flow, synergy capture efforts must be balanced with integration priorities, taking execution complexity into consideration. When manufacturers merge, the buyer is typically eager to achieve cost synergies and efficiencies. However, those charged with completing the integration often face multiple complicating factors, including regulatory oversight, union contracts, extended lease commitments, agreements with states and municipalities, and work-force morale, among others. For manufacturers with multiple plants and distribution centers, site selection and consolidation options must be carefully considered.

Industrial and consumer products companies typically include procurement, distribution, and transportation disciplines within the Supply Chain function. Aspects of the Supply Chain that do not provide a strategic advantage are usually outsourced. In Technology companies, while the primary focus is on R&D and Engineering, Supply Chain integration must account for relationships with component manufacturers and third party logistic (3PL) providers.

Regardless of the industry, or the breadth and complexity of the Supply Chain integration, the paramount requirement is that customer service levels are maintained. The combined company is critically dependent on the tactical requirements of the Supply Chain function to quickly and successfully integrate to maximize deal value, minimize deal cost, and realize synergies.

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.

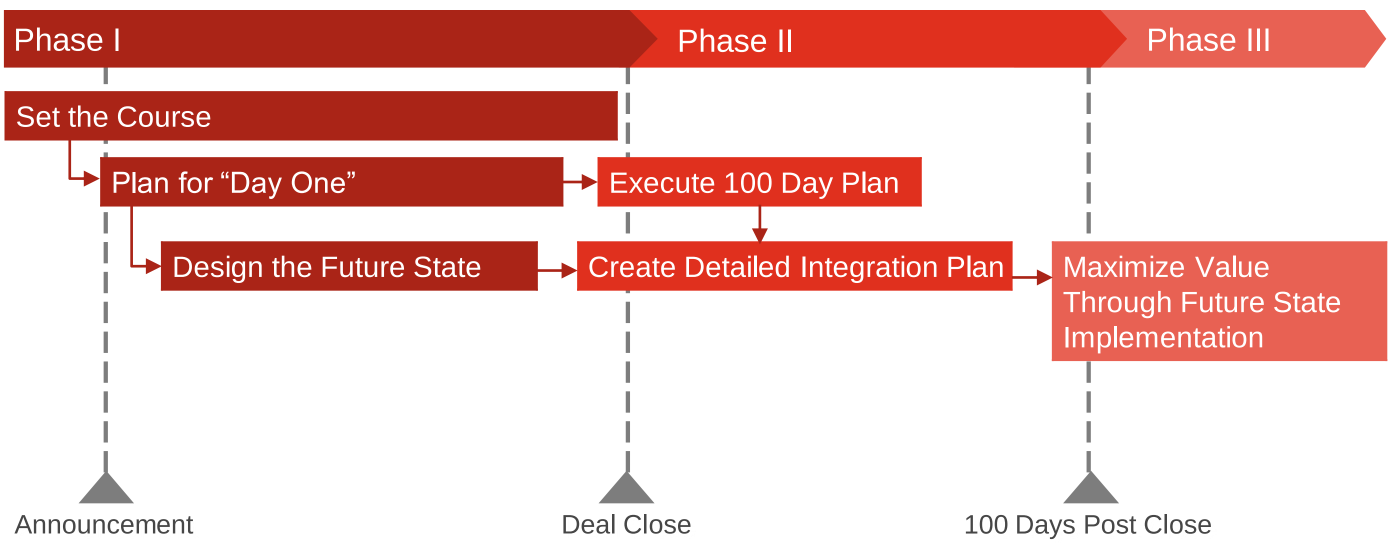

Figure 1. The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.

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 Supply Chain – to communicate effectively and take decisive action.

Setting the course for Supply Chain integration requires immediate attention to address critical matters important in the early stages of a merger or acquisition. Setting the course typically addresses the following areas.

Business Insights are developed based on analysis to meet and exceed initial synergy targets sooner than planned. This includes assessing the target to determine what to keep, defining the combined operating model, identifying the Supply Chain footprint, outlining Supply Chain processes (plan, source, make, deliver, and return), enabling systems infrastructure, and interacting across functional teams. These insights serve as a basis for integration planning, including estimating resources and time needed for the integration and to develop an interim operating model.

No Customer Disruption is the Golden Rule in Supply Chain integrations and critical to making the M&A process seamless to customers. Day One readiness planning is a crucial component to ensure operations continue without disruption, minimizing the impact on forward and reverse flow of products and materials; aligning the organizational structure, leadership selection, and roles and responsibilities; identifying key employees that need to be retained; developing a Supply Chain roadmap to smoothly migrate to common processes; and rationalizing third party providers and suppliers.

Synergy Realization is about identifying, optimizing, and realizing synergies across the Supply Chain. Evaluating and prioritizing synergy opportunities against "Speed of Implementation" and "Financial Impact" will help maximize deal value for shareholders. The key is to focus on those value drivers that promise to deliver the most shareholder value. These include rationalizing footprint and partners (CMs, 3PLs, etc.), standardizing and enhancing processes, integrating common functions, rationalizing the supply base, leveraging facilities and infrastructure, rationalizing product and service offerings, defining market presence (e.g., enter/exit markets), and aligning Supply Chain strategy with corporate strategy.

To manage the myriad of Supply Chain integration activities, it is important for company leadership to quickly identify a Supply Chain integration leader. This leader should then establish a Supply Chain integration team, an integration governance, and a program management office. The Supply Chain integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in the areas of focus for the integration strategy. See Figure 2 for common Supply Chain integration focus areas.

1 year+

	Phase I – Planning & Day One	Phase II – Interim	Phase III – End State
Plan	Interim consolidated process	Combined S&OP process and consolidated systems	Robust S&OP process to optimize profitability
Source	Uninterrupted supply and combined procurement operating model	Consolidated spend analysis and contracts analysis; Contracts assigned / transferred / revised	Captured procurement synergies and advanced category management levers pursued
Make	Assessed inventory processes, systems, manufacturing and supply footprint, and facilities	Aligned materials strategy and rationalized manufacturing footprint	Optimized manufacturing footprint, inventory, processes, and manufacturing systems
Deliver	Continuous flow of goods and analyzed network capacity, capabilities, and requirements	Consolidated network rationalization	Captured synergies through network rationalization
Return	Reverse-logistics network is in place for return of goods	Aligned resources for process for customer response, warranty, or repair	Optimized reimbursement and good repairs process

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Figure 2. This chart outlines key areas of integration focus for Supply Chain, along with their typical timing across the PwC integration process.

With ‘increasing shareholder value’ as the goal of most integrations, Supply Chain is often seen as an area to achieve synergies and strategic differentiation. In assessing Supply Chain capabilities of the target company, it is important to understand the integration options and develop an effective Supply Chain integration strategy that aligns with combined company goals.

Typical supply chain capabilities to be assessed

Manufacturing (in-house or contract)	The two companies may have facilities in similar geographies or may have different or unique strengths and competencies (e.g., efficiency, cost, quality, throughput, etc.). The two companies may also have different outsourcing strategies. When consolidating the manufacturing footprint to drive synergies, it is critical to proactively reduce the risk of supply disruption.
Procurement and sourcing	Procurement consolidation or leveraged purchasing efforts is often a significant area of synergy. Companies often have common spend areas in direct materials (inventory), indirect materials (packaging supplies, maintenance supplies, office supplies), and services (benefits, freight, security, maintenance). It is important to identify and prioritize the value from “quick hit” opportunities that require minimal effort, versus value from opportunities that will be accomplished over the longer-term.
Distribution and warehousing	Similar to manufacturing, both companies may have distribution facilities that serve similar geographies, or have available capacity. Rationalizing the distribution footprint by product, customer, or geography is often a key area of synergy. Establishing a timeline and sequencing plan early in the integration is critical.
Transportation and logistics	Companies typically have multiple contracts with third-party logistics firms ranging from long-haul freight carriers to overnight express shippers. Consolidating contracts to recognize immediate synergies is often a focus area early in the integration.

The Supply Chain integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for the key cross-functional areas that impact the Supply Chain, and the typical timing across the integration process for large-scale and middle market transactions.

1 year+

	Phase I – Planning & Day One	Phase II – Interim	Phase III – End State
Value drivers and synergies	Conduct supply chain synergy analysis	Validate key value driver initiatives	Execute value drivers and track synergies
Communications and change management	Develop stakeholder engagement plan	Deliver Day One communications; prepare 100 Day communications	Execute longer-term leadership and stakeholder engagement activities
Organizational and workforce transition	Define Day One organization	Design detailed organization structure and refine roles and responsibilities	Map new roles and execute changes
Business process and systems integration	SC systems roadmap	Interim system solution	Enable migration to common systems

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Figure 3. This chart outlines key cross-functional areas of integration focus for Supply Chain, along with their typical timing across the PwC integration process.

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.

It is critical to develop a combined Supply Chain strategy and operation model that includes both growth strategies and a high-level consolidation before developing detailed integration plans. The Supply Chain integration team should develop integration plans that define what is in and what is out for Day One, along with an interim and go-forward vision for the combined Supply Chain function.

Focus areas for Day One integration

Plan	Consolidate the sales, inventory, and operations planning processes, including calendar inputs, partners and business drivers, and priority areas for Day One. Understand the forecasting process and granularity, paying specific attention to rationalizing forecast inputs for overlapping products. Determine the use of systems (ERP, planning, spreadsheets) in the planning process. Align forecasting methodologies and identify core metrics for tracking performance of combined operations.
Source	Complete an end-to-end sourcing and procurement process assessment, including developing a combined procurement operating model and set of priority areas for Day One. Assess the staff stock and buffers needed to cover the integration phase and determine inventory policies and targets to ensure continuous supply. Execute a vendor relationship assessment process and develop a coordinated supplier communication plan.
Make	Work with manufacturing and facilities counterparts to determine both the supply footprint of the target and priority areas for Day One. Ensure inventory accuracy, opening and closing balances, and excess and obsolete allocations. Identify vendor KPIs to manage and assess inventory policies and targets and evaluate use of manufacturing systems. Identify current capacity and capacity limitations both internally and with Supply Chain partners.
Deliver	Assess warehouse volume and shipments, operating procedures, current service level agreements (SLAs), and facility operations, and identify priority areas for Day One. Evaluate annual volume, shipments, and spend by mode, lane, and carrier to identify potential consolidation opportunities while still enabling continuous flow of goods throughout the network.
Return	Evaluate the in-place reverse-logistics process and support network for processing the return of goods. Identify consolidation opportunities and priority areas for Day One.

Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

For the Supply Chain function, transaction close provides an opportunity to optimize the manufacturing and distribution footprint of the combined company, align and optimize processes, enabling systems, and personnel, and segment and re-align vendor relationships.

To realize an efficient and streamlined future-state operation, the Supply Chain function will have to work closely with several functions to plan and prioritize overlapping areas, including Sales Operations, Customer Service, Product, Research and Development, Human Resources, Information Technology, and Finance.

Cross-functional focus areas for future state operations

Value drivers and synergies	Leverage the synergy analysis and financial models developed during the diligence process work across functional teams to include the most current information from Day One planning in developing Supply Chain value driver business cases. Finance commonly manages the overall synergy tracking process.
Communications and change management	Manage the transition through communications tailored to each category of Supply Chain employee group, including permanent hires, transitional employees, and terminated employees. The Supply Chain function works closely with HR to communicate retention strategies, including compensatory for transitional employees and primarily non-compensatory for permanent hires. Deliver a robust Supply Chain training program to ensure Supply Chain employees adopt the integrated policies, processes, and systems as changes occur. The training program should also consider cultural differences and focus on aligning cultures to help ensure a cohesive Supply Chain operating model that supports newly integrated employees.
Organizational and workforce transition	Define new combined Supply Chain management with reporting lines. The Supply Chain function works closely with HR to transition the Supply Chain organization to an interim state while designing the end state Supply Chain organization and operating model. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state Supply Chain operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy. Manage rewards and performance throughout the transition and integration.
Business process and systems integration (BPSI)	Manage and coordinate BPSI related dependencies across functions and geographies. Supply Chain systems are critical to enable manufacturing, fulfillment, logistics, customer service, and returns. The overall BPSI effort is driven by IT as a part of the enterprise-wide systems roadmap and migration efforts. Supply Chain plays a critical role in defining requirements, identifying systems, migrating data, and updating business processes to meet the capabilities required to run the combined business.

Conclusion

The Supply Chain can be a significant source and enabler of synergies during an integration. It is important to ensure the flow of material from suppliers and products to customers is not impacted, despite the urgency to focus efforts on realizing synergies.

Leaders of the Supply Chain function following the Supply Chain integration process laid out in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to accomplish growth objectives while instilling confidence among their stakeholders.

Contact information

For more information, please contact one of our practice leaders or your local PwC partner.

Gregg Nahass, Partner
US and Global Leader,
M&A Integration
310 200 2797
gnahass@pwc.com

Consumer Markets

Boston	Derek Townsend Michael Ross	derek.b.townsend@pwc.com michael.d.ross@pwc.com
Dallas	**Mike Giguere (US Leader)** Sushil Ahuja	**mike.giguere@pwc.com** sushil.ahuja@pwc.com
New York	Jim Smith Ali Furman Mike Pokorski Tony Filipe*	jim.smith@pwc.com alison.furman@pwc.com michael.pokorski@pwc.com tony.filipe@pwc.com

Financial Services

Boston	**Paul Kennedy (US Leader)**	**paul.g.kennedy@pwc.com**
Chicago	Josh Carter	joshua.carter@pwc.com
Denver	Vitaly Vishnitsky	vitaly.vishnitsky@pwc.com
New Orleans	Andrew Wooten	andrew.k.wooten@pwc.com
New York	Jay Remis*	jay.l.remis@pwc.com

Health Services

Atlanta	Robert Shuman	robert.g.shuman@pwc,com
Chicago	Angus Buchanan	angus.buchanan@pwc.com
Dallas	Matamba Austin	matamba.austin@pwc.com
New York	**Michael Wright (US Leader)** Sky Milch	**michael.r.wright@pwc.com** sky.milch@pwc.com

* Managing Director

Contact information (continued)

Industrial Products and Services

Atlanta	Joe Balog Marcus Simms	joesph.p.balog@pwc.com marcus.s.simms@pwc.com
Boston	Conrad Balejko Daniel O'Neill	conrad.balejko@pwc.com daniel.a.oneill@pwc.com
Chicago	**Lev Holubec (US Leader)** Lawrena Colombo Jennifer Farkas Manish Kumar Matthew McCurdy*	**lev.w.holubec@pwc.com** lawrena.clombo@pwc.com Jennifer.a.farkas@pwc.com manishk@pwc.com matthew.d.mccurdy@pwc.com
New York	Mike Fiore Kevin Kloske	michael.fiore@pwc.com kevin.kloske@pwc.com

Technology, Media, and Telecommunications

Austin	Barrett Shipman	barrett.j.shipman@pwc.com
Boston	Ed Jasaitis	ed.jasaitis@pwc.com
Los Angeles	**Gregg Nahass (US Leader)** Dries Bredenkamp Nitin Lalwani Ryan Keefer Amit Verma Chris Cook*	**gnahass@pwc.com** dries.bredenkamp@pwc.com nitin.lalwani@pwc.com ryan.keefer@pwc.com amit.j.verma@pwc.com chris.w.cook@pwc.com
New York	Christina Scherma Shungu Chigariro David Baral*	christina.r.scherma@pwc.com shungu.chigariro@pwc.com david.baral@pwc.com
San Jose	Marc Suidan Paul Hollinger	marc.suidan@pwc.com paul.j.hollinger@pwc.com

* Managing Director

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