

Operations Integration

How to complete the M&A integration process, minimize disruptions, and achieve desired synergies.*

Effective approaches to integrating operations in mergers and acquisitions vary greatly from industry to industry, but a Golden Rule applies to them all: There shall be no risk of disruption in service to the customer. Shipments will continue to arrive as promised, product quality will not be compromised, and there will be no deterioration in customer support. A key objective during operations integration is to preserve key customers and strategic vendors during the transition period, when rumors are rampant, employees are distracted, and competitors focus on trying to win business in a time of uncertainty.

When manufacturers merge, corporate leaders are typically eager to achieve significant cost synergies and efficiencies. The leaders would like to realize these synergies sooner rather than later. However, those charged with completing the integration often face a host of complicating factors. These may include regulatory oversight, union contracts, extended lease commitments, agreements with states and municipalities, and work-force morale, among others. With large manufacturers, those with many plants and distribution centers, the number of consolidation options multiplies, and each site selection must be considered carefully in light of the others.

In many industrial or consumer products companies, operations will also include distribution, procurement and all related activities, such as transportation and supply chain management. Some of these companies out-source all production, in which case supplier management and supply chain management are critical operations activities. In other companies, such as technology, operations are generally less complex with a heavier integration focus on engineering and product design and development.

Regardless of what the industry or degree of operations integration breadth and complexity, the overriding consideration is the paramount requirement that customer service levels be maintained.

The Issues Our Clients Face, The Actions We Help Them Take

At PwC, we understand the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. We support our clients by rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future State Operations. This is the approach PwC delivers in managing the integration as an enterprise-wide business process. Please see Figure 1.

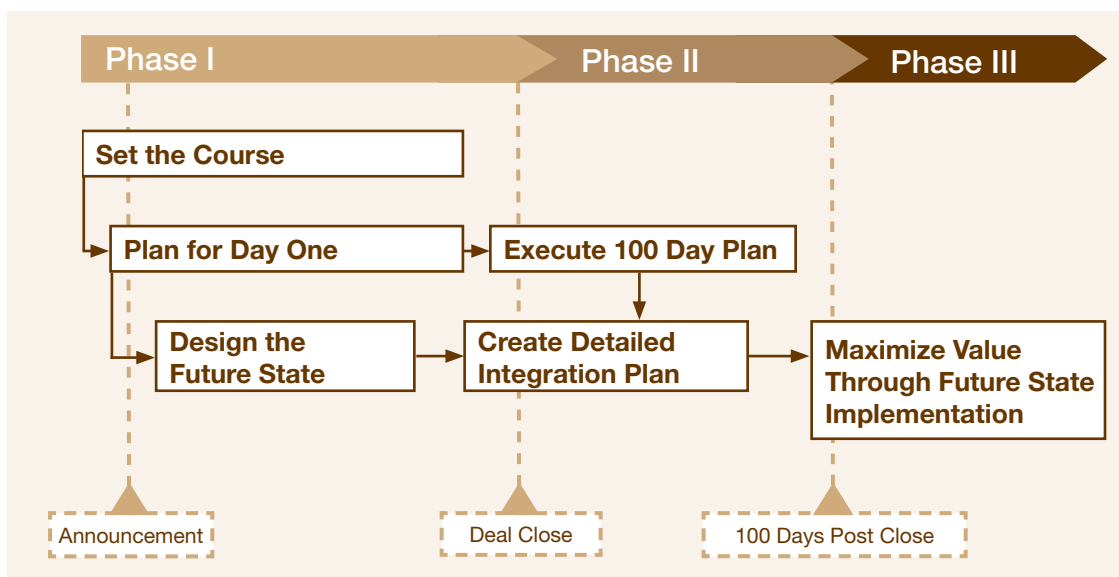


Figure 1 – The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.

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. Across all functions, setting the course involves establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including operations—to communicate effectively and take decisive action.

Developing a clear understanding of the strategic goals for the combined company is important for those managing operations integration. The operations integration team will want to begin establishing liaisons with the many other functional specialists with whom they will be working. These include human resources, information technology, finance, legal, sales, marketing, and others. This cross-functional dependence is critical because decisions made by these functions often impact operations, and key value drivers in operations are often dependent upon work being done in these functional areas.

Setting the course for operations requires early and immediate attention to address critical matters important in the early stages of a merger or acquisition.

Common areas of focus for Operations

Manufacturing (in-house or contract)	The two companies may have manufacturing operations located in similar geographies, and these manufacturing plants may be under-utilized or perform similar types of operations. In addition, both companies may have different strategies related to outsourcing. It will be critical to determine the long-term consolidated footprint for manufacturing, and how to communicate to customers and suppliers that no disruption to supply will occur in the near term.
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Procurement/ Sourcing	Procurement consolidation or leveraged purchasing efforts is a key area of synergy in many transactions. Companies often have overlap 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 between “quick hit” opportunities requiring minimal effort and those that can only be accomplished over the longer-term.
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Distribution or Warehousing	Similar to manufacturing, both companies may have distribution facilities that serve similar geographies, or have available capacity. Rationalization of distribution operations by product or customer or geography is often a key area of operations synergy. Establishing a timeline and sequencing plan early in the integration is critical.
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Transportation/ Logistics	Whether focused on international shipping or domestic fulfilment, companies often have multiple contracts with third-party transportation firms, ranging from long-haul freight carriers to overnight express shippers (i.e. FedEx, UPS). Consolidating contracts to recognize immediate cost reductions is often a focus area early in the integration.
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Quality	The two companies will have separate quality departments and different standards by which they evaluate their products. These quality specifications or operating procedures will need to be consolidated and standardized as a prerequisite for manufacturing or distribution consolidation to occur.
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Research & Development/ Engineering	In many industries, particularly where new product development is critical to the competitive positioning of a company, better leverage in design and engineering expertise of the combined company is critical. Collaboration in new product development and design is often a long-term synergy, but quick coordination of these departments is often necessary when a label or packaging change is executed in the near-term.
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Plan For and Execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong upon close, absent proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of mission critical operations.

As in all integration efforts, data collection and planning for Day One and after should begin as early as possible; that is, during due diligence or post-signing. It is rarely possible during this period to assemble all the facts required to make final decisions regarding consolidating operations or achieving other synergies. During due diligence, it is common that a great deal of information is not shared because of anti-trust laws or the need to preserve trade secrets or intellectual property. Often, companies that are competitors are reluctant to share information until the deal is closed. Nevertheless, it's important to begin the work as early as possible within the deal process.

In many mergers, Day One will mark the introduction of a new brand that might affect product labelling. In some industries changes as simple as a brand name or name change could require new regulatory approval. In other areas, it may require switching equipment at the right moment to ensure old brand product ships on one day and new labelled product ships the following day. Customer invoicing procedures may also change on Day One, along with back-office services or other customer-facing activities. Changing invoicing could have an impact at every location that ships a product, to ensure the correct packing list and bill of lading is placed with a product to support any back-office consolidation efforts. The goal for operations is to assure these activities do not impact product quality, availability, or delivery to end customers.

Meanwhile, Day One marks the beginning of the end of secrecy between the two companies. Now the search for synergies and efficiencies becomes a key focus of operations integration.

Design and Maximize Future State Operations

After the deal closes, when substantially more is known about the acquired company, the operations integration team works to achieve synergies and process improvements that reflect the strategic goals of the new company.

This requires careful and continuous cooperation with other integration teams and meticulous comparisons of the many options available. Operations works with HR team members on considerations such as union contracts, benefit costs, and management skills. This is often a prerequisite when considering a consolidation of manufacturing or distribution operations, which are key cost saving synergies in many manufacturing industries.

Operations will work closely with legal and regulatory specialists on such subjects as leases, government rules, and tax-abatement grants issued by various authorities, with IT on implications surrounding the consolidation or restructuring of plant or distribution center functions to ensure that all employees can complete necessary transactions in the new system environment, and with marketing on branding and labelling initiatives. The operations team will also work closely with engineering and product development on requirements presented by new offerings in the pipeline. This is an area where managing current levels of inventory and balancing customer demand with the desire to accelerate the introduction of new and improved products is critical. The operations team is also linked to key back-office and finance initiatives related to cost savings, vendor consolidation (procurement), or other support functions such as customer service and invoicing.

Every aspect must come together to deliver the fundamental promise of Operations: the creation of value for customers through efficient and cost effective production and delivery of goods and services.

Our Approach for Delivering Operations Integration Success

Our disciplined approach to Operations integration helps companies achieve early wins, build momentum, and instill confidence among their stakeholders. We take an active, hands-on approach to helping clients focus on the right things at the right times, creating early and sustainable capture of deal value. We deliver time-tested integration processes to support client integration teams and supplement those teams with experienced resources to fill resource and technical gaps as required. We customize our tools and services to complement each client's specific needs and internal capabilities.

Our Tools for Operations Integration

Team Lead Discussion Guide
Guide for functional team leader with questions that trigger thought to assist in rapidly defining integration scope



Operations Integration Workplan Model
integration workplan used as a “starter” set of tasks to jump start the functional workplan development effort



Critical Dependencies
Example dependencies to assist in accelerating the business requirements identification from other functions

Function	Integration	Business	IT	Legal	Finance	HR	Marketing	Operations	Supply Chain	Customer Service
Accounting	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Business Development	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Customer Service	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Finance	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
HR	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
IT	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Legal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Marketing	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Operations	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Supply Chain	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Site Consolidation Business Plan
Plan to enable rapid evaluation of property consolidation options by summarizing relevant property information in an executive summary format

Property	Location	Size	Value	Cost	Benefit
Property 1	Location 1	100,000	\$10M	\$5M	\$5M
Property 2	Location 2	200,000	\$20M	\$10M	\$10M
Property 3	Location 3	300,000	\$30M	\$15M	\$15M
Property 4	Location 4	400,000	\$40M	\$20M	\$20M
Property 5	Location 5	500,000	\$50M	\$25M	\$25M

Procurement Savings Toolkit
Framework and tools for identifying and estimating procurement savings, and a project and tracking plan to realize the savings



Operations Value Drivers
Summary business cases for critical initiatives required to achieve functional synergies and cost savings



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