Preparing your Supply Chain for

Mergers and Acquisitions

Ensuring business continuity and sustainability in the face of organizational restructuring
Overview

In June 2019, United Technologies Corporation (UTC), a reputed aircraft manufacturer, announced it was entering an all-stock merger-of-equals deal with Raytheon Company, a leading defense contractor. By the end of the year, Raytheon reported a 43.3% growth in shares and UTC’s shares grew by 40.6%. 

The purpose of an M&A can be anything from extending global footprint and enhancing product offerings to meeting strategic requirements and gaining access to technological expertise. In the case of the UTC-Raytheon deal, it was to create one of the largest systems providers in the aerospace and defense segment with an estimated combined annual sales value of USD 74 billion.

Depending on the overarching targets of the participating companies, M&As can be of four types:

- **Horizontal**
  - Companies with similar product or services combining to expand their market and offerings

- **Vertical**
  - Companies in the same industry, often competitors, combining to improve logistics and consolidate staff

- **Conglomerate**
  - Companies from different industries combining to broaden their range of products and services

- **Concentric**
  - Companies with shared customer bases but different offerings merging to combine their value propositions

Global M&A activity has been experiencing a steady rise since the 1990s. Despite political uncertainties, market volatility and global events like trade wars, Brexit, and China’s weakening economy rocking the macroeconomic environment, the M&A market has remained resilient. The past few years, in particular, have been especially voluminous with most of the focus being on acquiring new technology. And of the 1,000 executives surveyed by Deloitte in their sixth M&A trends report, 79% expect an increase in the average number of deals by 2020.

![Fig. 1: Percentage of organizations that expect an increase in the average number of deals over the next 12 months (Source: Deloitte)](image)
The success of an M&A deal is dependent on various factors, some of which are quite apparent, such as strategic mapping, due diligence, business synergies, and management proficiency. However, organizations tend to overlook certain aspects of the exercise. The supply chain is often one such area.

A couple of decades ago, upfront supply chain integration was severely undervalued in the event of a strategic acquisition. During the rise of mergers and acquisitions in the 1990’s, supply chain integration was largely treated as an afterthought. It was often not included in the primary integration agenda, and most major decisions surrounding procurement and operations, with the exception of cost reduction, would be made prior to the integration process.

However, with a growing emphasis on supply chain agility, global sourcing, and supplier relationships, the supply chain has become a potential component in value creation and driving profitable growth. As a result, organizations have begun perceiving mergers and acquisitions from the vantage of supply chain integration, not the other way around.

**M&As from an SCM Perspective**

In 2011, when mergers and acquisitions were in the limelight and steadily growing in popularity, the Harvard Business Review placed the global failure rate of M&As between 70% and 90%. Among the various factors that lead to the failure an M&A deal, lack of clarity and execution of the integration process are most common. These issues are further exacerbated by inherent complexities involved in the post-close phase of the deal.

In order to avoid this, supply chain professionals and M&A executives need to consider the following key challenges and milestones while undertaking supply chain structuring assessments in both pre- and post-close phases:
Changes to the supplier network

Both participants in the deal may have a complex network of suppliers with very specific skills, certifications and work contracts. With the merging of two end-to-end supply chains, there is a concern around the complexities of managing and adjusting these supplier relationships. This is especially difficult in cases where there is a substantial shift in processes within the acquired organization. Such a situation would involve requalifying suppliers based on the requirements of the newly formed organizations and re-establishing supplier relationships.

Getting around this challenge often involves an extensive redesign of the supplier network. Needless to say, this often proves to be an onerous administrative task that can be extremely costly without the right tools in place. Moreover, the possibility of cross-border integration of the supply chain, especially involving trade embargoed countries, could further complicate the situation.

Changes in logistics and distribution network

A complete redesign of the supply chain does offer significant opportunities for primary logistics services. Adding new participants into the supply chain could result in shorter response times, wider product variety, higher product availability, expanded network of mission-critical service-providers, and improved customer experience.

However, in the event of an inefficient integration, there is always the risk of budget overruns and effort multiplications. Expansion of the distribution channels could also lead to increasing basic supply costs such as inventory costs and facility and information costs.

Uncertainties in SCM policies

When it comes to supply chain integration, uncertainties in SCM policies are often the underlying factor for most, if not all, of the challenges. While this issue is much simpler during acquisitions, with the absorbed company conforming to the policies of the absorbing company, mergers become a different ball game. Supply chain decision-makers often need to spend hours defining policies that are best aligned to the objectives of the merger. This ranges from policies regarding procurement and operations to occupational health and safety.

During the integration process, it is important to bear in mind that both companies participating in the merger have spent years optimizing their respective supply chain policies. The policies have enabled them to set standards which, in turn, have helped shape the supplier network and logistics and distribution challenges. The intricacy of the policies and the resulting structure of the supplier network can often make the integration process a tricky affair.
Absorbing new operations and established vendors can raise ambiguities around compliance and risk management. Such scenarios may lead to productivity dips and greater risk of regulatory violation and workplace incidents.

The primary synergy targets of an ideal supply chain integration exercise include:

- Protecting S&OP performance and ultimately revenue
- Optimizing the supply chain to realize all available efficiencies
- Defining sourcing strategies that consider cash outflow
- Protecting the brand from incidents that can negatively impact Investor Relations

The Road Ahead: Best Practices for Establishing Business Continuity

The complexities of supply chain integration during mergers and acquisitions are numerous. It is not, however, an impossible task to accomplish. Charting out a robust and detailed supply chain management transition plan can be a key to combating risks while creating resilient, smoother and more cost-effective processes. And, doing this early secures the deal and minimizes the chances of risks destabilizing or threatening the transition process.

The three most important actions that will help facilitate the success of the overall transaction:
01 Stabilize

The transferred supplier network needs to be stabilized to provide business continuity and prevent a negative impact on current operations and business value. This phase includes establishing an effective governance structure that facilitates proper integration of the acquired asset and stabilizes the operation of the asset through constant monitoring of performance and compliance.

During the post-closure phase, the acquiring organization needs to closely monitor its supply chain for some time to identify any signal of impaired performance. In fact, a buyer also needs to audit and thoroughly evaluate purchased assets to ensure they comply with the latest government regulations and corporate policies. This applies to the acquired company’s contracted vendors and suppliers as well.

The acquired company’s contractors and vendors must comply with compliance policies based on the buyer’s established standards. It is, therefore, the buyer’s responsibility to remediate such issues within a limited time frame. Failure to do so could give rise to problems related to supply-chain operations. For instance, operators may fail to comply with regional employee health and safety (EHS) standards or be in violation of trade laws – such as not performing denied-party screening for offshore shipments.
02 Integrate

In the next phase, the buyer must proactively work on integrating the acquired asset with the existing operations. Only then can the participants begin to realize the synergy benefits that were part of the original objectives of the merger or acquisition. Successful change and people management is the first step towards ensuring seamless integration of resources and assets.

From an organizational point of view, when any new asset is merged with the buying organization, there are possible cost reductions that can be achieved through headcount reduction. The buyer, however, should follow appropriate procedures to ensure that there’s no talent “leakage”. This also provides the buyer with an opportunity to thoroughly review and revise employee roles and responsibilities within the procurement value chain.

Another key aspect that defines the success of asset integration during M&A’s is technology transfer. Leveraging cloud-based solutions to simplify key supply chain processes such as demand planning, contractor management, vendor documentation, and inventory management can significantly enhance the value of deal from both the buyer’s and seller’s standpoint. In fact, technology can also help in accelerating deal closure as well.

For instance, audits and due diligence during a merger or acquisition is significantly time-consuming. In order to be confident about the transaction, the acquiring company need to evaluate that the seller’s contracts and financial statements are updated. With thousands of documents to review and analyze, audits and due diligence can be a painstaking process. Research reveals that due diligence for a major M&A deal could take anywhere between 6 to 9 months. Thanks to the proliferation of cloud and AI-based technologies, this time can now be reduced to three months on an average.

03 Optimize

Supply chain decision-makers can only realize the full synergy potential from the acquisition through a portfolio of supply chain performance improvement tools and parameters, which support both commercial and operational objectives. These incremental improvements can range from short-term ramp-up plans, such as sourcing collaboration right after the deal closure to long-term transformational development plans such as streamlining the manufacturing, distribution and vendor collaboration roadmaps.
How can Avetta Help?

By leveraging Avetta’s supply chain management solutions and services, companies can easily monitor and manage the performance of their supply chains while realizing successful mergers and acquisitions. The integrated analytics platform can provide stakeholders with automatically generated reports on supply chain performance. The intuitive interface promotes faster and more accurate decision-making.

Moreover, Avetta’s supplier prequalification platform can prove to be a powerful tool for companies looking to create an efficient and synergized supplier network in the wake of a merger or acquisition. By clearly defining standards and regulatory requirements on the platform, the organization can effectively reduce uncertainties and confusion in the supplier hiring process, thereby improving procurement performance.

The platform can also help buyer’s work on Safety & Liability considerations that come with absorbing new operations and inducting established vendors and contractors into the company network. The Avetta platform not only helps ensure compliance with the buyer company’s corporate policies but also fast-track vendor adoption of the Acquiring company requirements, policies, and procedures to eliminate Risk.
Rounding Up

Integration of new assets, employees and contractors can also bring about meaningful transformation within the parent company. Process analysis, vendor audits and supplier performance reporting actioned during the integration phase can produce newer learnings and foster new efficiencies that can be implemented across touchpoints in the wider organization. This can eventually lead to enhanced performance and long-term cost savings.

In most of the cases, the acquiring company implements its established policies, procedures and practices in the new organization. However, in doing so without a proper strategy, it may miss out on capturing value from the acquired company’s operations. The best way for an acquiring company to go about it is, therefore, to conduct a rigorous analysis of the target company’s supply chain processes, identify opportunities and capture value before too much change is initiated. After all, harnessing the best of both the supply chains can ultimately help minimize risks and drive cost reductions in the long run.
References

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About Avetta

Avetta connects leading global organizations with more than 85,000 qualified suppliers, contractors, and vendors across 100+ countries. We support the sustainable growth of supply chains through our trusted contractor prequalification, supplier audits, insurance monitoring, robust analytics and more. With real results in helping companies reduce TRIR, our highly configurable solutions elevate safety and sustainability in workplaces around the world—helping workers get home to their families each night.

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