

Procurement Within Mergers & Acquisitions



When companies combine via mergers and/or acquisitions (M&As)—whether domestic or global—every business unit within each organization has a part to play in making the new business profitable and successful by reducing total cost of ownership (TCO).

For procurement teams, the focus during mergers and acquisitions is on streamlining the supply chain, expanding market reach, and building a more efficient and effective procurement organization from the combined companies.

Improving TCO is about both quick wins and long-term gains. Striking that balance requires a firm understanding of best practices for procurement before, during, and after M&A transactions, as well as outstanding communication and planning.

The Role of Procurement in Mergers

For procurement professionals, the greatest increase in business value for a new company formed during M&A activity comes from a two-fold approach. The first goal is to maximize savings through cost reductions.

The second is greater procurement performance and efficiency through improved sourcing practices and a streamlined supply chain.

Together, these two goals support a third, larger goal: building long-term value exceeding what either of the merging companies could achieve on their own.

Just as a delicious and complex recipe requires careful preparation before the cooking can begin, a merger benefits from thorough planning and optimization of processes, communication, and available technology.

This is especially true for procurement, where everyone from the Chief Procurement Officer (CPO) down can identify and leverage potential procurement synergies (i.e., procurement savings) present in both companies if they are engaged early in the M&A process.

Failure to Plan is Planning to Fail

A 2018 study conducted at Texas Tech University found that business value creation and destruction due to M&A transactions are affected by a wide range of predictable and unpredictable factors.

But in a world where an estimated 50% of all mergers result in financial disaster, it's crucial to pursue every potential strategy supporting a healthy, successful merger.

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Pre-Merger Practices for Post-Merger Success

The benefits of prioritizing procurement in acquisitions cannot be overemphasized.

Procurement departments often have a broader, deeper view of their parent companies than other business units do, and that perspective can help merging

companies avoid pitfalls and seize opportunities.

With the right software solution and buy-in from key decision-makers, procurement leaders can practice more effective project management and:

- Boost procurement synergies significantly.
- Shorten the time required to see cost savings.
- Establish efficient global procurement practices and policies drawn from both organizations.
- Drastically enhance spend visibility, supply chain management, and internal hierarchies for streamlined processes during the merger and beyond.

Following a few key practices will help ensure your new organization hits its stride instead of stumbling on Day One.

Make Technology Your Silent Partner

Nobody likes to go swimming with one hand tied behind their back.

By integrating a scalable, cloud-based, centralized procurement software solution, you'll have a one-stop shop to store contracts, evaluate and monitor suppliers, and assign roles for approval and purchasing within your new organization.

The total transparency provided by this kind of software makes it infinitely easier to weed out hidden roadblocks and take advantage of procurement synergies that may have been invisible before.

A tool like this can also help immensely in creating a unified team. With everyone accessing the same resources and on the same page, communication is easier and the odds of costly mistakes drop dramatically.

With one simple installation, you can begin reducing costs immediately by virtue of improved efficiency and reduced redundancies.

Build a “Clean Room” and Start Fresh

While you could certainly take a page from CSI and set up an actual sterile environment for your merger planning, a Clean Room in this context is a secure

environment where a Clean Team of third-party advisors can share information and work with high-level stakeholders from both of the merging organizations.

In this space, team members work to identify risks and opportunities for building value, establish a restructured procurement organization, and draft optimal integration schemes for policy, processes, and absolute legal compliance.

Using a Clean Room, your team can collect, store, and manage data to mine insights and reach consensus on post-merger practices touching on everything from supplier management to approval and purchasing limits.

They can set short-term and long-term goals for both procurement and the business as a whole, providing the foundation for an effective Action Plan.

The more information you have, the better the chances you'll spot potential problems (e.g., underperforming vendors, duplicate contracts, rogue indirect materials spending, etc.) and the easier it will be to establish a common taxonomy, or classification scheme, for spending and category management.

This framework covers not just vendor data, but terms and systems of accounting, as well as performance benchmarks.

A shared taxonomy puts everyone on the same page and provides a working vernacular for evaluating and establishing relative and lifetime value of goods and services.

It is an apples-to-apples consolidation of operating costs, margins, and other payment information, using consolidated units (time, quantities, etc.) across shared circumstances.

With a software solution in place, your Clean Room can transition to Mission Control (in concept, if not literal location) once merger activity is complete, giving you a centralized location where your team can continue to refine and optimize procurement performance to build value for the new business.

Analyze and Plan for Optimal TCO

Once your Clean Team has established the goals and taxonomy for the merger, the next step is to analyze total cost of ownership.

This analysis informs and simplifies a number of processes during the merger closing, including the negotiation of supplier contracts.

In general, you can think of TCO as a comprehensive evaluation of both direct and indirect costs related to obtaining, using, and (eventually) disposing of a given product or service.

Analyzing TCO is a fairly straightforward process:

- Team members from both merging companies gather and consolidate all product and service cost, use, and disposal data in a centralized location.
- The collected data is used to establish intelligent supply chain management solutions based on spend cubes from the respective organizations and then leveraged to identify synergy opportunities and develop sourcing strategies for the best possible TCO.

A Note on Spend Cubes: Despite its name, a spend cube is not the latest alternative sweetener.

It is the procurement data harvested from each party in a merger or acquisition, and is used to create a shared framework that coordinates the purchasing behaviors, suppliers, risk management, and possible contract revision or negotiation opportunities for the company formed by the merger.

Turn Data into Dollars

With the TCO analysis complete, the information collected by the Clean Team can be further utilized to begin creating concrete savings via cost reductions.

These savings are often referred to as synergy levers, and represent opportunities to retain and grow value when they're "pulled."

▪ **Combined Spend**

Working with decision-makers from both companies, the clean team may be able to engage in policy and process revision or contract management that increases savings before the merger is complete.

For example, once a common taxonomy is established, some vendors might be open to contract re-negotiation based on changes to the total combined volume of their spend, cutting costs and improving the bottom line well in advance of the day the new company goes live.

• **Price Alignment**

Another potential opportunity lies in price alignment. If your team has total spend and supply chain visibility, it's easy enough to identify which of the two companies in the merger is paying less for a similar goods and services used by both.

The differences are often minimal, but added up across total spend, a reduction of fifteen or even ten percent can have significant impact.

• **Clean-Sheet Negotiations**

Depending on the goals of your organization, your team might also pursue what is known as clean-sheet negotiations, which are focused not on how much your company spends, but on the fairest price for goods and services your business purchases.

This ties directly into TCO, since maximum value relies on optimal utility and lifespan of an item or service for each dollar spent.

Armed with spend data and related analytics, you can engage in negotiations with suppliers based the difference between the lowest price for a product or service under optimal manufacturing conditions and the price you're currently paying.

This shifts the focus away from old-school swap-meet tactics and toward fact-driven analysis that can reveal hidden opportunities that benefit both your company and the supplier.

• **Global Sourcing**

This lever may vary based on specific circumstances, but for companies operating in the global arena, it makes good sense (and dollars) to

compare, combine, and utilize both merging companies' global sourcing options.

This creates an opportunity to build a diverse supply chain and engage with new suppliers while also giving the new company greater options should the climate or geopolitical circumstances affect access to critical resources.

Standardization of Service Level Agreements (SLAs) and Procurement Policy

By virtue of removing redundancies and streamlining both indirect and direct spending, standardization can create substantial savings out of the gate.

For example, drafting and implementing standardized SLAs for assorted services, creating universal packaging guidelines, or switching to a single health care benefits provider can all generate real savings.

Standardization doesn't have to end with policy, however. A merger empowers procurement teams to push for evaluating and purchasing new versions of items at lower cost or greater value, or consolidating services to fewer providers or with more beneficial terms.

Backed by data and buy-in from management can make these changes, and the savings they bring, a reality.

Plan to Act, and Act on Your Plan

Whether your team is handling a merger or an acquisition, putting the information and insights you've collected to work is critical as you move toward a finalized agreement and the birth of a new company.

1. Organize and summarize potential procurement synergies connected to pricing, terms, and discounts.
2. Based on total savings, contract terms, risk management, and overall business goals, assign each opportunity a priority.

3. Assemble your list of potential vendors, sorted by existing relationships, total spend, contract terms and duration, and past performance data.
4. Draft the necessary documents and provide as much context as possible for all parties involved, including key negotiation opportunities, essential terms, and optimal/acceptable outcomes.
5. Track the pursued opportunities by category, potential cost-reduction amounts, and actual savings.
6. Transform your Clean Room to “Mission Control” for your integrated software suite.

Create metrics for tracking TCO improvements created by each pursued opportunity once the merger or acquisition is complete, and identify new synergies as they appear.

7. Use the intelligence generated to refine procurement policies, practices, strategies, and goals for the new business while also tracking value as a function of TCO.

Maximize Your Merger Management

The marriage of two companies can open new markets and create incredible opportunities.

By prioritizing procurement and making modern technology part of your toolkit, you can help ensure your merger or acquisition is one that’s legally compliant, optimized for efficiency, and focused on building value through TCO.

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