The Power of Procurement in Mergers & Acquisitions
Capturing Synergies Before the Deal Closes

By Kris Timmermans, Axel Savoye, Laurent Delsaux and Armando Diaz
It may not be “merger mania” yet, but worldwide Mergers & Acquisitions (M&A) activity is definitely on the rise. And although approaching deals with an eye toward expanding and entering markets is increasingly popular, most companies still view M&A as a path to greater enterprise-wide efficiency.

This is why one of M&A’s most important focal points is procurement: using a merger or acquisition to help shrink total cost of ownership by 1) buying goods for less and 2) operating the combined procurement organization more efficiently. Accenture research and experience have repeatedly shown that a strong pre-merger focus on procurement can strengthen an M&A initiative. The key is starting early and making procurement performance a centerpiece of the combined entity’s pre-merger activities.

Figure 1: Total global and cross-border M&A transaction values (bn USD).

Source: MergerMarket
The M&A Trap

Every one of a typical merger’s hoped-for benefits—creating business value, increasing competitive advantage, opening new markets, reducing costs—can be nullified by underestimating (and consequently failing to plan for) the union’s operational and integration complexities. These failures are stunningly common. Studies have shown that a high percentage of all mergers continue to result in wealth destruction rather than wealth creation. More sobering still is that most of those failures reflect a poor job of managing discovery, recognizing/mitigating risks, and planning for cost reductions and process and technology integration. Failures seldom stem from imprecise financial valuations, flawed legal operations or poor auditing skills.

This is where procurement comes in. Accenture experience confirms that supply chain synergies may constitute 30 percent to 50 percent of merger-related increases in shareholder value. And of all supply chain synergies, increased shareholder value depends most heavily on the ability to quickly integrate sourcing and procurement operations. So when you put all the aforementioned findings together, two conclusions become evident: 1) The success of many M&A initiatives depends on process and technology optimization and integration. 2) Some of M&A’s greatest rewards come from process and technology initiatives focused on procurement.

And from these two conclusions stems a third: successful M&A initiatives demand a careful and structured—pre-merger—approach to procurement process and technology optimization and integration. This Accenture Point of View looks at how leading-practice companies often use their acquisition’s pre-merger, sourcing and procurement efforts to make the union more successful.

By more successful we mean:

- Reduced “time to synergy”: With a concentrated pre-merger integration initiative, delivery of savings can begin up to six months earlier than efforts for which no pre-merger work was undertaken.
- Increased procurement savings: up to 15 percent, with average cost reductions of 10 percent.
- Greater probability of procurement leaders from both organizations using the same “playbook.”
- Increased ability of decision makers to agree on priorities, thereby streamlining the entire merger-integration process.
- Enhanced visibility of the procurement function, with executive management focusing more tightly on procurement’s contributions and how to support and enhance them.
- Ability of the newly merged organization to deal effectively and economically with suppliers beginning on Day One.
A Leading-practice Sequence for Increasing the Value of Procurement in M&A

Accenture research and client engagements consistently show that a disciplined, multi-stage approach—a sequence of leading practices—gives merging companies the best chance to realize the mentioned benefits.

1. Set up a Clean Room

Think of a Clean Room as a secure, legally compliant environment where confidential information can be accessed, shared and scrutinized. Within the Clean Room, third-party advisors—a Clean Team—work with select decision makers from both companies to examine data in ways that comply fully with antitrust regulations. The Clean Team basically performs the same kind of detailed analyses that are typically done after a deal has closed. Paramount activities include identifying risks and long-term savings opportunities; structuring the new procurement organization; and formulating solid process- and systems-integration plans.

In effect, Clean Rooms can help merging entities increase speed to cash without breaching confidentiality rules. Things happen more quickly as well as more effectively. “Time to synergy realization” is often reduced by as much as six months (Figure 2).

Insights gained in the Clean Room can also benefit processes and departments other than procurement. For example, the Clean Team’s acquired knowledge of suppliers’ contractual arrangements for inventory holding, delivery performance and inventory liability can reveal opportunities to improve customer service and stimulate cash flow. Such analyses may also help identify suppliers that could pose a reliability problem.

Agreeing on how to deliver identified synergies is seldom easy. However, the Clean Room is a good environment for helping parties reach consensus about where the greatest (and most attainable) opportunities reside. Figure 3 demonstrates how a Chinese Wall (an information barrier), erected by the third party, helps provide the privacy, governance and continuous alignment that companies need.

2. Analyze Total Cost of Ownership

Once goals, processes and parameters have been set, the Clean Team’s top job is to perform a total cost of ownership (TCO) analysis. This helps lay a hard-data foundation for negotiations (primarily supplier-contract discussions) that will happen when the merger closes. Components assessed under the banner of total cost of ownership vary from company to company. However, TCO is generally considered to be an assessment of all direct and indirect costs associated with the acquisition, use and eventual disposition of an asset or service.

To complete the TCO analysis, merging partners gather item/component/material data and consolidate it in a “neutral data warehouse.” Supply chain intelligence solutions are then developed to match the spend cubes from the different entities and then identify opportunities.

- Leveraging data from accounts payable, general ledger, purchase orders and supply

Figure 2: Accenture experience points to a variety of Clean Room benefits.
Chain intelligence solutions help identify “keep opportunities” for the merger—including master supplier references, contract commencement and termination dates, key accounts and suppliers, and recurring and unique transactions that can shape discussions going forward.

- A spend cube refers to the data that contributes to a mutual understanding of the two companies’ purchasing patterns, including primary suppliers, third-party providers, potential contract opportunities and supply risks.

A common taxonomy—a framework that includes similar benchmarks, terms and quantification approaches—may be created during the TCO analysis. This helps ensure that both parties work from the same playbook when evaluating an item’s lifetime value and the relative value of new or modified procurement models and approaches. It’s all about making like-for-like comparisons of materials or services (prices, conversion costs, transportation costs, labor costs, supplier margins, etc.) under similar conditions (importing taxes, exchange rates, etc.) using consistent units of measure (durations, volumes, denominations, etc.)

3. Assess and Reconcile Contracts

Supplier contracts for both companies need to be gathered on separate, secured share-points within the Clean Room. These contracts are analyzed according to an extensive list of qualitative and quantitative criteria. Particularly important are legal clauses containing best-of-nation information and guidelines for maintaining continuity when changes of control occur. Other important information includes termination and exit clauses; extension options and commitments; evergreen clauses; and minimum notices for terminations and extensions.

Clean Team members also work together to reconcile those contracts—folding in the available information about new operating practices and current market conditions. Identifying and resolving discrepancies (e.g., supplier terms & conditions and pricing strategies) is particularly important since this helps the Clean Team discover quick-win opportunities.

Company category managers are involved in contract analysis and reconciliation to the extent that it is legally permissible. Through these interactions, Clean Team members learn more about contract specifics and get a better handle on what contract enhancements are most important to the merging companies. Every insight helps the Clean Team reconcile contracts more effectively and accurately gauge short- and longer-term savings.

**Benefits Brewing**

Careful pre-merger planning was key to the successful merger of two brewing companies with operations in Europe, South America and Asia. Prior to Day One, high levels of attention were given to developing a contract database; identifying potential synergies; creating an action plan; and designing elements of the new procurement organization and its processes, supporting technologies and value-assessment metrics. The pre-merger team also assisted with the delivery of a globally aligned sourcing & category management structure. More than $1.5 billion in procurement-related savings were attributed to the merger, and procurement operating costs fell by 10 percent.

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1. Attorneys often assist with certain Clean Room issues, such as setting up guidelines.
4. Identify Synergy Levers

The Clean Team is now ready to engage in actual planning by identifying synergy levers for each commodity. Think of a synergy lever as a “capturable” opportunity. Figure 4 lists ten of the most important synergy levers.

Team members generally evaluate synergy levers using a scale from “none” (no opportunity) to “high” (significant opportunity). If a particular synergy lever is considered worth pursuing, activities such as those shown in the table’s rightmost column can be undertaken. These actions often form the basis of a merged company’s first 100-day plan.

A prioritization matrix—geared to balancing ease of implementation and savings potential—can help participants determine which commodities offer the most (and the most readily attainable) benefits. As shown in Figure 5, identified savings might first be categorized as quick wins and eventually become embedded fully through longer-term strategic sourcing programs.

5. Create an Action Plan

An action plan translates the Clean Team’s identified synergy levers into specific initiatives, such as:

- Summarize opportunities relating to price, discount levels, payment parameters and overall trade terms.
- Prioritize those opportunities based on factors such as anticipated savings, contract expiration, and relative importance to the business.
- Compile a list of suppliers for negotiation—assembling relevant information such as expenditures, contract duration, relationship history, and data on past performance.
- Prepare bid documents, making particular note of vital negotiation points, win-win opportunities and desired outcomes.
- Map requisite activities by spend category, expected savings and cost-reduction potential.

<table>
<thead>
<tr>
<th>Lever</th>
<th>Action</th>
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</table>
| Vendor Rationalization | • Reduce number of vendors for the new company’s combined spend  
• Redistribute volume across suppliers  
• Explore eAuctions |
| Strategic Vendor Relationships | • Develop joint cost-saving initiatives (e.g., share productivity gains, integrate logistics operations)  
• Develop key suppliers  
• Bundle raw materials  
• Explore make-versus-buy options  
• Investigate vertical integration opportunities |
| Aligning Product/Process Specifications | • Identify the most cost-effective specification(s) for products and services that share a function or process |
| Logistics | • Reallocate inbound flows to reduce costs  
• Redesign distribution network model |
| Demand Management | • Identify more (cost) effective compliance approaches  
• Align logistics policies  
• Share leading practices and knowledge |
| Global Sourcing | • Combine and leverage each side’s low-cost-country sourcing experience  
• Expand geographic supply base  
• Develop new suppliers  
• Profit from global supply/demand imbalances |
| Payment Terms | • Align payment terms for common suppliers  
• Consider extended payment terms for non-common suppliers |
| Price Discounts | • Determine lowest price and indexation formula for common suppliers and specifications  
• Apply best current discount on (FOB) prices for common suppliers |
| Volume Consolidation | • Negotiate rebates beyond price alignment with common suppliers where significant share-gain potential exists  
• Combine volume from different categories  
• Pool volume across business units  
• Create a joint venture between the new company and another one to consolidate volumes and increase buying power |
| Value Engineering | • Simplify overly complex specifications  
• Explore SKU standardization: e.g., using functional industry standard specifications or designs  
• Design for last-minute product differentiation/customization  
• Rationalize SKUs to help ensure the most cost-effective specifications (as opposed to creating retail price points that increase complexity) |

Figure 5: Prioritizing opportunities.
6. Develop a New Procurement Operating Model

The pre-merger period is a great time for the two companies to design a new procurement operating model—one that represents the best of each organization’s previous approaches and reflects additional outside-the-box thinking. Ready for implementation on Day One, the new model could reflect agreed-upon decisions about centralization versus decentralization; organization (responsibilities and reporting relationships); scope of procurement services (strategic, tactical, operational); process flows; key performance indicators; service level agreements; and implementation issues, priorities and tactics.

A notable leading practice in this area is moving from a two-part to a three-part procurement operating model: inserting a “middle office” between standard front-office tasks (sourcing strategy, category management, supplier management) and back-office tasks (accounting, finance, logistics). Key tactical activities such as sourcing support, spot buys and performance measurement become the province of the middle office, which can be managed onshore or offshore by an in-house team or third party. Deploying a middle office can benefit the newly merged company in several ways:

• Help achieve contract compliance and identify savings opportunities more quickly—the result of better reporting quality, greater transparency, tighter spend monitoring and increased use of a procurement portal.

• Increase control over tail spend. Via the middle office, a centralized team handles all one-off purchases that lack a contract. Strategic buyers thus can dedicate more time to value-add activities. Tighter scrutiny of recurring spot buys can result in new contract-creation opportunities and reduce the quantity of one-off purchases.

• Create a leaner procurement organization and a lower non-value-added workload.

Concurrent with the new operating model, the combined company may wish to launch a spot-buy-reduction program. The idea is to move frequently recurring purchases to more automated buying channels, instead of over-burdening the middle office. Two phases generally compose a spot-buy-reduction initiative: a diagnostic phase during which opportunities are identified and prioritized, and an implementation phase during which specific initiatives are executed (e.g., launching new or expanded catalogs and automating additional purchase order activity).

By making a new or revised operating model part of the Clean Room agenda, companies can accelerate the development and effectiveness of the middle office and even go live more quickly.

7. Chart Procurement Processes and Map the System Landscape

Clean Team and key company representatives document the end-to-end processes of both procurement organizations, focusing most tightly on rationalization opportunities, potential synergies and application of leading practices. They also launch a “system landscape analysis” that surveys the two entities’ technology environment—emphasizing the potential for consolidation and integration, and the prospective value of new tools. This analysis makes it possible to identify systems from which vital information must be extracted, and to recognize technology limitations that could hinder or obstruct progress after the merger is completed.

8. Lay a Foundation for Value Tracking

The final pre-merger activity focuses on communications, documentation, scheduling and organization. Oftentimes, the linchpin is specialized value-tracking tools that help merging companies identify, quantify, plan for, and maximize benefits associated with the new union. Value-tracking tools offer multiple approaches to value optimization, including identifying and planning savings, helping define strategy, assisting with formulation of contracts, allocating resources to specific projects and identifying when specific savings are likely to be realized. Value tracking also creates a clear connection between the group’s activities and issues relating to value, cost, action and time.
On and After Day One

Procurement-related advantages of the Clean Room approach are present throughout the merger integration process, from early in the discovery and planning phases through the new company’s launch and well beyond. One good example is that, when Day One arrives, key Clean Team members are up to speed on facts and plans. No time is wasted assembling and launching a new integration team.

To facilitate the evolution from Clean Team to Integration Team, companies often organize integration workshops. Over several days following deal close, key procurement stakeholders come together to analyze issues, identify common ground, confirm targets and flesh out staffing. Goal setting is key. Several priorities guide the integration workshop:

- **Speed sourcing (quick wins):** Following merger close, combined companies that have deployed a Clean Team may be better equipped than most to capture large cost reductions in a short time. One reason is the opportunity to do “speed sourcing” using bid documents that have already been prepared. Categories with the potential to generate significant savings are the exercise’s main targets. For direct materials, the initial focus may be “normalizing” (identifying and demanding the lower of two prices from the same supplier) and “leveraging” (combining volumes). For indirect materials, “rationalizing” (rethinking and implementing supplier relationships to reduce cost and maximize scale) might be a top priority. Down the road, the company might seek to rethink its sourcing strategies and value engineering concepts, with the goal of fully “integrating” suppliers and item/service specifications for its direct and indirect categories. These concepts are illustrated in Figure 6.

- **Strategic sourcing (medium-to-long-term focus):** Once initial savings have been captured, other sourcing opportunities can be pursued in waves—perhaps three strategic sourcing initiatives per year. These activities will consider a range of strategies, but the primary focus is usually on supplier rationalization and category integration.

- **Process and system integration:** Significant synergies can be attained by integrating, improving and rationalizing the new organization’s people, processes and technology. Toward these ends, the Clean Team will already have undertaken maturity checks and process/system analyses. To build on those efforts, post-merger work may focus on implementation plans (defining new processes, roles and responsibilities); communication strategies (assessing requirements and developing key messages and channels); and performance measurements (identifying metrics and methods for establishing and tracking milestones).

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**Figure 6: Quick wins versus long-term initiatives.**

<table>
<thead>
<tr>
<th>Same Supplier</th>
<th>Different Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rationalize</strong></td>
<td><strong>Integrate</strong></td>
</tr>
<tr>
<td>Negotiate lower price AND maintain current supplier</td>
<td>Negotiate lower price AND maintain current suppliers</td>
</tr>
<tr>
<td>OR Qualify one supplier for all parts and shift volume</td>
<td>OR Identify and qualify new supplier and shift volume</td>
</tr>
<tr>
<td>OR Shift volume without qualification</td>
<td>OR Identify new supplier and shift volume without qualification</td>
</tr>
<tr>
<td><strong>Normalize</strong></td>
<td><strong>Leverage</strong></td>
</tr>
<tr>
<td>Require lower of two prices to be applied to all existing and future PO’s with supplier</td>
<td>Leverage combined volume to lower prices for all parts procured by supplier</td>
</tr>
</tbody>
</table>

- Focus for Direct Materials
- Focus for Indirect Materials

Same/Similar Product (or service) | Different Product (or service)
Key Success Factors in Pre-merger Procurement

Procurement cost savings of up to 15 percent—rapidly achieved—are possible when merging organizations work prior to Day One to combine buying power; rationalize contracts and purchases; define lowest-cost sourcing practices; and develop a plan for eliminating redundant activities. To reach these pinnacles, Accenture has identified a half-dozen key success factors:

• **Address the right synergies:** Work to identify the areas that truly create value. Don’t try to improve or rationalize everything.

• **Insist on the best employees for staffing pre-merger and integration teams:** The most effective teams will comprise full-time, highly experienced, management-level people who can drive initiatives across different value areas.

• **Become one team as soon as possible:** Time is money—particularly for companies walking the M&A path. A unified plan should be in place on Day One.

• **Build a control tower:** A centralized monitoring and communication capability—powered by analytics—can help the newly merged organization excel at reporting, governance, quality management, resource allocation, and the identification and completion of project priorities. A robust value-tracking methodology is typically embedded into the control tower to help ensure pace and progress.

• **Connect quickly and consistently with suppliers:** Suppliers should be engaged days after final merger approval. Suppliers also should be approached in a structured way, with an agreed-upon negotiation strategy.

It bears repeating: a high percentage of all mergers continue to result in wealth destruction rather than wealth creation. However, when merging companies commit to gathering intelligence and formulating plans during the pre-merger period—and when they complement those efforts with a diverse Clean Team and leading M&A and procurement-optimization practices—the probability of a successful merger increases significantly.
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