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Procurement assessment can make a crucial difference in creating value from an acquisition

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Mergers and acquisitions, company integration and the establishment of shared service organizations have become commonplace in today's competitive business environment as companies seek to squeeze out every last penny in the search for efficiencies. Yet authoritative studies have found that fewer than half of all mergers fail to deliver on their promised value, while many have actually reduced value.

There are several reasons for this. Many point to a failure to exploit the full potential savings available from a well-planned, well-executed integration; in other words, leaving money on the table. But underlying this is the absence of due diligence towards the supply chain before the deal is done.

In our experience a \$3 billion turnover company who has not had a strategic focus on procurement could easily save at least \$30 million and realistically over \$60 million annually from a range of supply management initiatives. Such figures would drive substantial earnings per share improvement in a private organization, significantly increasing its valuation and in the public sector add significant value to fund improved service provision or investment. Typically benchmark savings for procurement are around 25-30% of all merger synergies.

Unfortunately, all too often, M&A is something that just happens to procurement. Key decisions on savings numbers are made in the finance arena, which procurement simply inherits and is expected to deliver in a short space of time. This process is flawed for a number of reasons.

The focus of finance tends to be on high-level financial metrics such as top-line growth and earnings multiples, which do not address the fundamentals of "how to" at the operations level.

Bringing procurement into the analysis process can help the organization focus on the correct set of metrics and begin "how to" planning that much earlier.



Few financial and executive leaders recognize the full potential for cost savings from the supply chain. So procurement executives may be able to identify additional synergies.

It is an organization's ability to deliver savings that ultimately determines whether or not integration will be a success. By developing excellence in procurement execution, procurement becomes uniquely placed to add value through:

Spend analysis:

1. Rapidly identify and analyze spend data in the due diligence process.
2. Early use enables procurement to accurately project savings opportunities that can be achieved through the integration.
3. Involves conducting a detailed review of the aggregate spending of each company.
4. Allows the organization to optimize its relationship with suppliers and supports the ability to align integration initiatives with its core suppliers.

Spend management competency:

1. By developing a joint category structure, suppliers can be grouped to allow a thorough strategic sourcing effort as part of an overall category management program to accelerate savings. In many cases, procurement can negotiate new contracts prior to finalization of the merger so that cost savings begin the day the merger is completed.
2. Develop a methodology to evaluate, deploy and manage outsourced purchasing options when integrating other businesses.
3. Look beyond cost savings to the impact of cash- flow benefits from standardizing payment terms and reducing inventory etc.
4. Build models to understand the potential for spend management BPO.

Procurement must get involved in the planning stages. If it does not and it subsequently takes months to do the detailed supply-side analysis, then at worst, you will have lost the momentum and the opportunity, and at best almost guaranteed sub-optimal supply-side performance and increased risk of disruption. Action must start on Day 1, and one way for procurement to prepare for this is by developing a first 100-day plan (F100D).

The F100D after signature will make it clear who is in charge at a time when new information is being discovered and conflict over assumptions, resources, style and roles is frequent. Procurement should



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establish an integration task force and appoint representatives with clear responsibilities and accountabilities to drive delivery.

A strong F100D program sets the stage and builds the foundations for the sustainable success or failure of the integration effort. It is also the best time to introduce change. For procurement, this means launching an early wave of targeted and ambitious sourcing-improvement projects aligned to the value-drivers of the integration and overall company strategy.

This means procurement must develop a detailed procurement plan for the F100D and beyond. This not only creates an excellent impression of procurement in the new business, but also facilitates inter-company co-operation to deliver benefits from these initiatives. .

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