Kurt Salmon

When One and One Is Three

Successful M&A Supply Chain Integration

A recent run of retail merger and acquisition (M&A) activity—from Ascena's acquisition of Charming Shoppes to Golf Town's purchase of Golfsmith and Cost Plus' sale to Bed Bath & Beyond—matches a larger trend. As the competition intensifies for an increasingly choosy consumer's dollar, many retailers are looking to M&A as a chance to increase their capabilities and grow market presence and omnichannel sales while keeping costs in check.

Many buyers and deal initiators view M&A as a way to quickly enter new markets or new channels, expand their offerings or capabilities, or leverage scale to increase profits.

Sellers often consider M&A for many of the same reasons—to inject capital into their business, help them access new markets, or develop new capabilities and leverage assets.

Risk of failure is magnified when it comes to supply chain integration. The benefits can be significant, but mistakes can be crippling.

These deals represent historic inflection points for both companies and are often the most significant events of the executive teams' careers. But despite lofty goals, botched deals can cause significant harm. Although definitive numbers aren't published, we estimate that nearly half these deals fail to deliver the anticipated value promised at the outset.

Risk of failure is magnified when it comes to supply chain integration. The benefits can be significant, but mistakes can be crippling. When mulling over any kind of M&A activity, consider the following five keys to make sure it goes smoothly and successfully.

1. Focus on value creation.

Mergers and acquisitions take place because the parties see value in the deal for shareholders and consumers. Driving to that value should be the singular objective of implementation. Understanding each company's starting point and mapping out the path forward will help determine the potential for success before the ink is dry.

It almost goes without saying, but buyers should know their own business inside and out before considering a purchase. What factors are driving the desired purchase? Is it to buy a specific capability or increase market penetration? If so, how does this jibe with the buyer's current capabilities and strengths? What level of investment will be required to bring the acquired business' supply chain up to speed? Many times, retailers complete a purchase with no concept of what exactly the acquisition will do for their supply chain, let alone for the organization as a whole.

From a seller's perspective, preparation is essential. Sellers should ensure they have a good grasp of their capabilities and strengths, how they want to fit into the new organization, and what aspects of their current operations they are going to push to keep. Finally, understand why now is the right time to sell in the context of specific strategic goals and larger industry trends.

2. Address foundational elements at the outset.

Answering several key questions at the outset can lay the foundation for a successful merger. Which processes will win out? How will the new organization look?

Addressing these questions early on is even more essential when two conflicting organizational cultures merge. For example, consider Shiseido's purchase of Bare Escentuals in 2010. Striving to counterbalance sinking sales in its native Japan, Shiseido bought Bare Escentuals to grow internationally. But as a result of cultural differences and a lack of internal communication, the acquisition didn't initially produce the promised synergies and, instead, the share price dropped 30% in the two years immediately following the purchase, according to *The Wall Street Journal*. Only now, as the two brands begin to share Shiseido's production facilities and distribution networks in the U.S. to cut costs and expand distribution of Bare Escentuals through Shiseido's networks, are they beginning to unlock real value.

3. Achieve economies of scale.

One of the biggest sources of supply chain cost savings during a merger or acquisition comes from achieving economies of scale, such as purchasing scale and pricing power. Shrinking excess capacity or removing redundant DCs from a network can also help cut costs. On the other hand, pumping increased capacity through an existing DC can do wonders for increasing the ROI of the infrastructure investment. Finally, don't underestimate the cost savings that come from classic synergies, such as headcount reduction.

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4. Drive new business processes.
Shared services can be incredibly helpful in driving new business practices. One company can leverage the systems capabilities of the other, enabling enhancements like new replenishment models and vendor-direct programs. The same is true for omnichannel capabilities like in-store pickup and ship from anywhere. As for online specifically, co-branded websites can help increase cross-brand sales, while comingled shipments can help lower costs.

5. Optimize performance.
Once these new practices have been put into place, they must be standardized to ensure optimal performance. Everything from management down to internal DC processes must be addressed across the entire supply chain, including rationalization of inbound and outbound transportation and size and function of the DC network.

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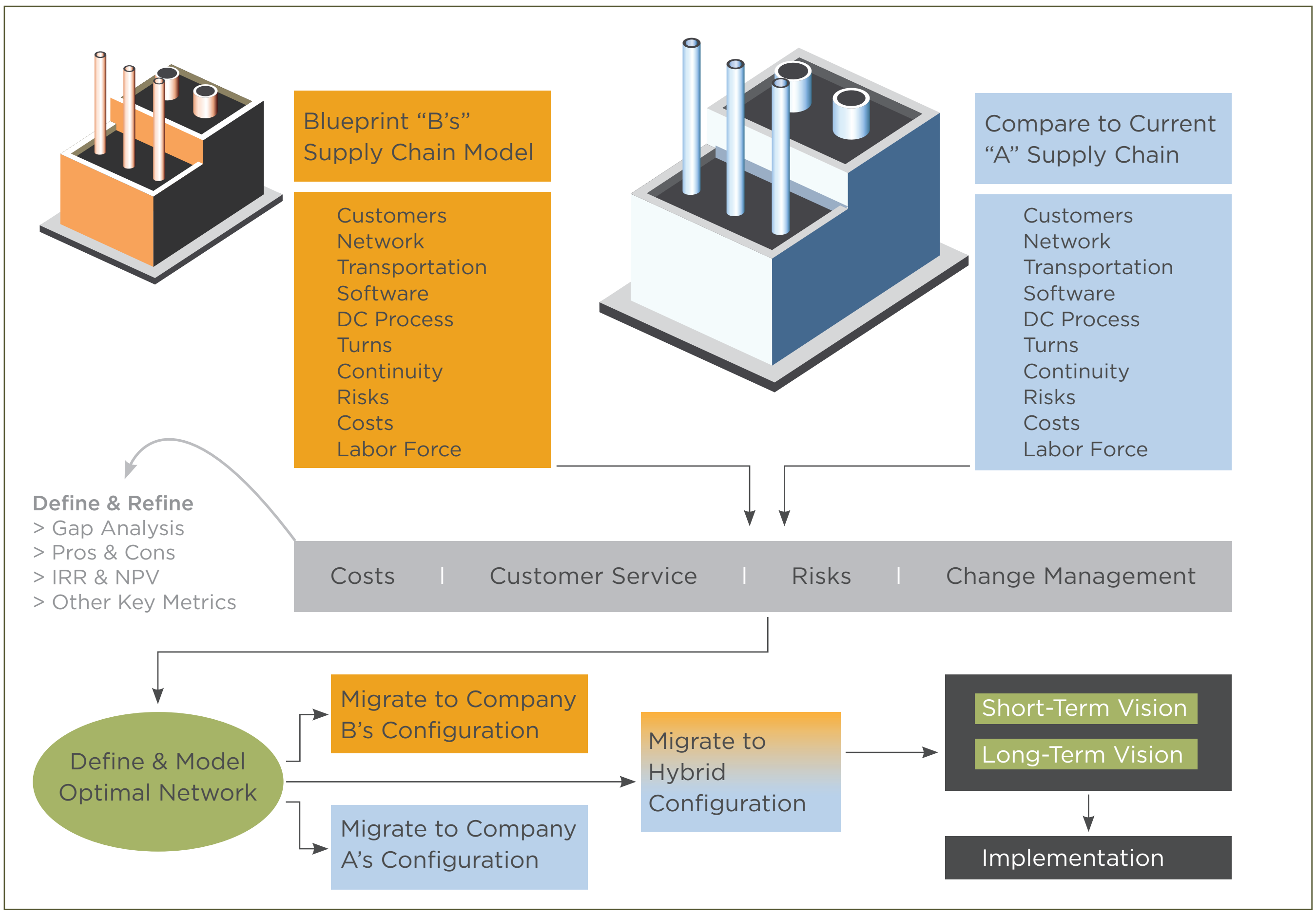
Supply Chain Integration Process



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brings to the table and to identify which practices will exist in the new organization.

Start with a validation of the entire network across both companies, taking into account facility locations, functions, processes and service levels, transportation costs, supplier base, IT infrastructure, and management team and store associate capabilities.

The aim of this analysis is to identify best-in-class processes across both organizations. And if they don't exist, can they be created? What network strategy will best serve the new company—a consolidation of the two, an expansion, a fresh start? Don't forget the transportation, systems and process implications of each option. This detailed mapping will also help identify overlaps in the network, opening the door to potential coverage changes to lower overhead. And, of course, the ultimate goal of these analyses is to ensure that the merger or acquisition generates synergies and creates value. To that end, consider regional or channel-specific DCs to lower costs and improve service levels or new and different MHE solutions.

After the initial planning is complete and the deal has been inked, the most important part of the work begins—fleshing out the nitty-gritty details of executing the integration. The most successful post-merger integration plans include the development of a program management office as well as a cross-functional integration team, and they set financial and timing targets as part of a larger, holistic integration plan. For all the caution, mergers and acquisitions can, of course, be tremendously profitable. For example, during one retail acquisition, Kurt Salmon identified more than 40 projects that would drive more than $10 million in savings with no additional investment needed. Particular savings were found in leveraging the key strengths of each organization's systems and processes in areas stretching from merchandise planning and allocation to wholesale order management and supply chain support.

But the key to this successful merger—and a host of others—was that both parties were exceptionally careful and focused on value. With so much at stake, retailers mulling a merger or acquisition can't afford to be anything but. ❖

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