



Mergers & acquisitions: Securing strategies for supply chain success

A good practice guide

SCALA

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An opportunity for growth? Setting the scene

It's been a turbulent few years for businesses, with social and economic disruption across the globe shifting consumer behaviours and creating significant knock-on effects for supply chains in turn.

Businesses quickly learned that innovating and adapting to changing markets and macroeconomic conditions is key to sustaining success - and can in fact drive growth. Many businesses have already seized this opportunity and are reaping the rewards of having resilient supply chains that can accommodate their unique business demands.

Some businesses may be experiencing stagnation, having reached a certain point in their growth journey but now seeing traction slow down. In some cases, a step-change in capabilities and infrastructure, delivered through a merger or acquisition, can offer an effective route to growth. Mergers and acquisitions (M&A) can offer businesses the opportunity to promote best practice, open up to new markets and benefit, from driving efficiencies to improving balance sheets.

However, acquiring a business can sometimes mean dealing with the consequences of poorly informed decisions and actions that the acquiree has taken in the short- to medium-term. Meanwhile, the merging of companies - and the network of stakeholders, suppliers and contractors that make up their respective supply chains - can, by nature, be a complex undertaking. As such, the risk of getting it 'wrong' can have significant ramifications for all parties.

An opportunity for growth?

A strategic solution

When it comes to M&A, conducting careful analysis and creating a clear strategy, before going on to monitor and optimise its effectiveness beyond the completion of the deal, can make all the difference to future operational and commercial success.

In the case of acquisitions, one area that is often overlooked is **a review of the supply chain**. Potential acquirers should take the time to consider the upsides and potential problems posed by completing such a deal, identifying in advance the opportunities to streamline or swap out inefficient processes for more effective ones, from examining the sales & operations planning (S&OP) approach to looking at the logistics operations.

For mergers, having a strategy in place that promotes supply chain synergy between the existing businesses is crucial. Companies coming together can be hugely beneficial for all parties, but it's important to consider the practical implications of teams and operations merging and make informed decisions in advance, in order to avoid problems later down the line.



An opportunity for growth?

In this guide

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“When it comes to M&A, there is no “one size fits all”; every supply chain comes with its own challenges and opportunities unique to its sector and organisation, meaning that every deal and process can look different.

“It’s important to dedicate time to conducting careful analysis, creating a bespoke supply chain and logistics strategy and ensuring it is implemented successfully, with the aim of creating the highest return vs. cost, risk and business change.”



Phil Reuben, executive director at SCALA

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SCALA is a leading supply chain and logistics consultancy in the UK which provides independent, objective expertise with professionalism, diligence, and integrity. Its consultants work with many leading international companies, delivering practical solutions to help businesses meet future commercial requirements and drive real, tangible benefits.

This good practice guide shares useful insights from SCALA’s supply chain experts and trusted partners for companies to consider before they embark on a merger or acquisition journey, as well as exploring what they should think about after the deal is done to ensure a smooth and successful transition.

The guide will cover the key factors to assess from a financial, operational and risk perspective, including:

- ☒ Manufacturing
- ☒ Warehousing and distribution networks
- ☒ Logistics operations
- ☒ Human resources

Pre-acquisition

Analysis before acquisition

Manufacturing, warehousing, and distributing raw materials or finished products inevitably incurs significant costs that can impact – or even determine – the profitability of an entire operation, meaning that supply chain operations should be a key factor taken into account when considering an acquisition.

Before embarking on the journey, it's important for the prospective acquirer to understand and troubleshoot potential scenarios that could arise, considering factors from supply chain resilience to resourcing, as well as examining opportunities to put in place new systems that could heighten success and add profitability.

Modelling and analysis, including creating a digital twin, can be a useful way to assess existing and potential “what if” scenarios from a financial, operational and risk perspective, in the context of what the business looks like now and what it may go on to look like in the future. Although opportunities are likely to be very limited, conducting site visits to warehouse and distribution centres to understand how current operations are working in practice and meeting with the prospective acquiree to gather insights and understand the scope of the opportunity can also be hugely beneficial.

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“Whether you’re a private equity firm or a large conglomerate with a busy in-house team, if you’re looking to embark on an acquisition, the need to complete pre-acquisition documentation and due diligence under time pressures can create obstacles to progress.

“But making an acquisition is a big commercial decision with the potential to catalyse financial gain - or bring about unexpected loss. While it’s common practice to bring in financial and legal experts, the opportunity to bring in supply chain and logistics expertise before making a formal offer is not always front of mind.

“But third-party consultants can bring objective, specialised expertise and help with the process, drawing on experience of the complexities and a comprehensive understanding of the impact that decisions taken early on can have on operations later.”



Phil Reuben, executive director at SCALA

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Pre-acquisition

Key things to consider

What are the macro business considerations?

Embarking on an acquisition is a big business decision and sales play a key part in its success – but this can also have considerable impacts on the supply chain. When businesses consider whether the sales strategy of the prospective acquiree is working, or if the decisions taken to date could pose a cashflow risk, the impact on supply chain operations must be considered.

Questions that should be asked include:

- ***Are the current products selling?***
- ***Will they continue to be in demand?***
- ***Is the existing stock likely to sell?***

Failing to ask these questions and assess the situation for stock and sales beforehand can have significant implications on the supply chain post-acquisition – for example, inflated stock positions could impact warehousing space and transport and logistics requirements.

Pre-acquisition

Key things to consider

Is the existing sourcing and manufacturing infrastructure 'working'?

Businesses should evaluate whether the prospective acquiree's current supply chain and manufacturing network is efficient and could provide the capabilities required for projected change or growth.

- *Could any costs be cut, from procurement to product materials?*
- *Could changes be made to benefit the quality and value of the goods in the future?*



Pre-acquisition

Key things to consider

Do the current operations offer an optimal logistics network?

Businesses should examine the prospective acquiree's transport, distribution, and fulfilment processes, considering whether those already in place are effective or if they could be streamlined to cut costs or drive efficiencies.

- *Do the current distribution methodologies make sense; would outsourcing logistics or bringing everything in-house be more cost- and time-efficient?*
- *Could manufacturing and warehousing operations be streamlined?*
- *Could new markets be serviced by existing facilities in a potential growth scenario?*
- *What impact would such decisions have upon resourcing?*



Pre-acquisition

Key things to consider

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“It’s wise to get a second pair of eyes on your M&A deck, investment thesis and projections, as any small detail can have an impact on your valuations or highlight risks and blockers that could arise further down the line.”

Tom Rice, former head of supply chain at Olsam

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“There are many factors pertinent to consider before embarking on an acquisition. Businesses can benefit from seeking an objective, third-party opinion in areas such as supply chain regulatory and compliance – with major considerations including import and export, duty, plastic and environmental taxes and supply chain visibility laws.”

Chris Clowes, senior consultant at SCALA

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Pre-merger Modelling before merging

One of the most significant benefits of merging can be learning and gaining insights from other companies, enabling businesses to adopt better practices and take forward new ways of working. But the coming together of companies involves strategic decision-making and a need to agree which existing processes should be taken forward or replaced with new ones to meet the requirements of the new business entity.

As with acquisitions, it's vital to analyse factors from logistics to manufacturing and warehousing before undertaking a merger. However, the huge implications of merging two or more supply chain and logistics operations and the need to ensure synergy create an additional layer of complexity. For example, merging can involve diversified product lines, which require different storage facilities to accommodate different types of products.

Digital modelling can provide a structured approach to risk assessment and help to assess the optimal logistics set-up, with techniques relating to centre of gravity, optimised routing, fleet specification and supply chain resilience often employed.





Pre-merger

Key things to consider

What are the macro business considerations?

When businesses are considering the potential scope of the merger from a future sales perspective, they must not overlook a detailed evaluation of how this could impact supply chain requirements.

- *How can bringing the two businesses together be commercially advantageous?*
- *What impact will introducing new products or increasing the scale of operations have on warehousing and logistics?*
- *How will existing strategies be taken forward, rescopeed or replaced to serve the needs of the new business entity, and how will this affect people and operations across the supply chain?*
- *How and where can growth opportunities be maximised, and how can the supply chain accommodate this?*

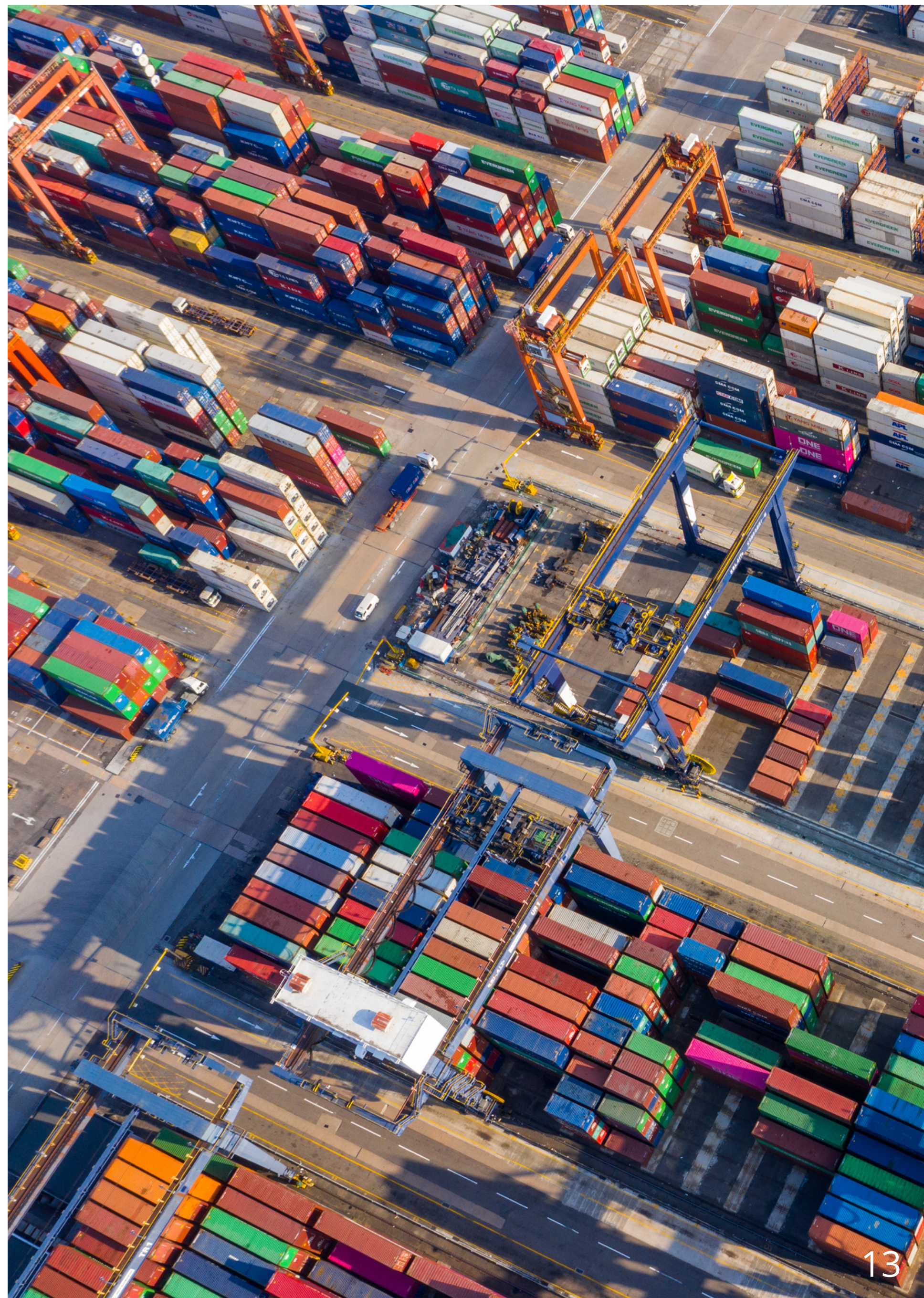
Pre-merger

Key things to consider

How could this impact supply chain networks?

Given the complexity of bringing multiple operations together, businesses should consider the practicalities, implications and challenges of merging supply chain and manufacturing networks early on in the process.

- *Will existing suppliers and processes be able to deliver the right capabilities and service quality for the new business entity?*
- *Could the current network accommodate expansion into new geographical or sectorised markets?*
- *Is one business' network or process more efficient than another?*
- *Would it be more effective to establish new networks and systems to meet the requirements of the new business entity?*





Pre-merger

Key things to consider

Will the existing distribution networks meet the requirements of the new set-up?

Businesses should examine the existing logistics networks of all parties, considering how these may need to change to accommodate different types of products, a new market strategy or a change in operational scale.

- *Is the new business entity hoping to expand into new global markets, requiring different capabilities in terms of transport and logistics?*
- *Are all the existing warehouse facilities required?*
- *Are they well-located?*
- *Will they provide a cost-effective solution?*
- *Will the current distribution and fulfilment processes continue to deliver what is required?*

Post-M&A: What happens next?

Increasing effectiveness, ensuring optimisation

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“After a merger or acquisition, it’s important to reach out to current vendors, from manufacturing and tech suppliers to 3PL and freight providers. Whether you’re establishing a relationship or looking to exit a contract, there is potential for supply chain disruption, but the aim should always be to integrate as efficiently as possible.”

Tom Rice, former head of supply chain at Olsam

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“One of the major challenges post-M&A is the human element. Businesses must respect and support those that have sadly lost their jobs and are experiencing a difficult period, meanwhile engaging with individuals whose role has become even more crucial in the new business entity.”

Tom Rice, former head of supply chain at Olsam

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“While it’s vital to have a robust plan in place pre-M&A, sometimes, the relatively short period for exclusivity for a deal limits the time available for due diligence and detailed analysis to be completed.

“With this in mind, it’s vital that resource is allocated to monitor and optimise the outputs from work carried out during the due diligence period to ensure supply chain success. Continuing to work with consultants that provided the initial advice or bringing in external expertise at this point to oversee a successful transition can provide the support needed for new operations to hit the ground running.”

Chris Clowes, senior consultant at SCALA

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Post-M&A: What happens next?

Increasing effectiveness, ensuring optimisation

Even with a clear strategy and preparations in place, there will inevitably be much work to be undertaken post-M&A to oversee the practical transition and deliver the projected results.

While adequate time invested in pre-acquisition planning should measure the risks, new challenges have the potential to crop up in practice and are often inevitable as time and markets continually evolve.

The early transition period is an important stage for identifying issues, and it is critical, from a supply chain and logistics perspective, that businesses look out for problems early on to avoid them gaining traction and compromising the effectiveness of the operation. This can involve continually evaluating and seeking further improvements and opportunities for optimisation.



Post-M&A: What happens next?

Increasing effectiveness, ensuring optimisation

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“Having provided the advice and recommendations during the due diligence phase, SCALA can help drive the new strategy forward to ensure achievement of the projected results.”

Phil Reuben, executive director at SCALA

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“Some of the biggest challenges post-M&A can relate to people and change management, as the movement or closure of workplace locations, or a change in the scale or type of resource, could be required. This can involve teams restructuring or job roles changing to avoid duplication or take on supply chain responsibilities.

“Meanwhile, merging or shifting away from existing technology systems and interfaces can mean that people and processes experience teething issues. And if significant change is to take place, sometimes the business needs to operate dual workstreams in the first instance, continuing existing operations while distinct, new operations are established and bedded in.

“On the flip side, it’s also possible that M&A could be so successful early on that the business experiences rapid hyper-growth and requires a new strategy to deal with demand, providing increased capacity and capabilities.”

Chris Clowes, senior consultant at SCALA

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Acquisition

A route to success

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“When considering an acquisition - whether stand-alone or as part of a merger – it’s important to take time in the due-diligence phase to consider potential future challenges and opportunities relating to supply chain and logistics.

“This work needs to be conducted thoroughly and rapidly, and can be a hugely valuable exercise revealing opportunities to reduce costs, increase supply chain resilience and reduce lead-times by, for example, simplifying logistics activities and understanding complex route to markets.”

Mark Duffy, manufacturing director at KP Snacks

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About SCALA

A leading supply chain & logistics consultancy in the UK

SCALA Consulting was founded in 2001 and has earned an excellent industry reputation for providing high-quality supply chain and logistics expertise. The company now has an executive board of directors, all of whom have senior level business experience.

SCALA consultants work with many leading international companies. It is our approach to create partnerships with clients, combining our external experience and expertise with our client's own business knowledge to deliver practical solutions to meet future commercial requirements and drive real tangible benefits.

SCALA Consulting is focused on ensuring that all our projects are carried out with sustainability and environmental factors as part of any decision-making process. SCALA's experienced team is passionate about innovating supply chain improvements and providing independent objective expertise with professionalism, diligence, and integrity.



SCALA

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