6 Mistakes Manufacturers Make During Post-Merger Integration

And how to correct those issues to capture value

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Manufacturers leave value on the table by failing to properly integrate acquisitions.

Although 2021 was a record year for M&A, many of those deals have not reached their full potential. According to the **2022 BDO Manufacturing CFO Outlook Survey**, 31% of manufacturers say recent deals have failed to achieve expected synergies.

Manufacturers who have completed acquisitions in the past two years have an opportunity to revisit those integrations and see where they can reap additional value. Unlocking new benefits from previous integrations could be key to mitigating the headwinds manufacturers are facing, including economic uncertainty, supply chain disruption, rising interest rates and persistent materials shortages.

What post-merger integration issues should manufacturers look to correct? Here are 6 common mistakes that may be preventing companies from capturing full value from their deals.

Mistake #1

Overlooking supply chain integration

As part of their integration strategy, manufacturers should align their existing supply chain with that of the newly acquired company. Failing to consider all components of supply chain alignment can disrupt logistics, impact customer service levels, and leave opportunities for increased efficiency on the table.

Manufacturers need to decide which acquired production and logistics facilities will remain open and which will close or be combined with existing facilities. Additionally, manufacturers must consider where to place new truck lanes, how integration will impact inventory management, which equipment needs to be moved and more.

For example, customer satisfaction can decline if a manufacturer that has acquired another company does not consider how to streamline fulfilment for its expanded product portfolio. If the newly acquired company does not have the same capabilities to track orders or provide customer support in case of issues or changes, the manufacturer's existing customer could experience a lower level of service than they are used to when buying new products.

If a manufacturer downsizes too much of an acquired company's assets and distribution capabilities, however, it could impact their ability to fulfil orders for an expanded customer base. The specific strategy for supply chain integration between a manufacturer and an acquired company will differ depending on the goals for the transaction – whether adding products/services, entering a new market, acquiring new customers or expanding production or logistics scale.

Mistake #2

Delaying integration of people, processes and technology

Manufacturers that fail to efficiently integrate people, processes and technologies from acquired companies can face several issues related to cost, operational efficiencies and more. Lack of integration is especially prevalent when the acquired company is family-owned and sensitive to changes. While adhering to any pre-deal terms to not interfere with the acquired company is important, especially if leadership from the acquired company is kept on post-close, making no effort to integrate operations will be detrimental for all stakeholders.

One common and critical point of failure is with enterprise resource planning (ERP) software. ERP impacts everything in a business: from financial reporting to operations management to product line inventory counting and beyond. The close process is often driven by ERP systems, and disparate systems can add unnecessary complexity to the close and financial reporting. Holding onto two ERPs after an acquisition also means a company may lack visibility into all its operations and miss out on opportunities to use data to inform decision making. Consolidating into one ERP system can help a manufacturer understand the performance of the entire business and discover new options to create value.

Integrating two ERP systems is rarely without difficulties, however, and minor mistakes can have significant impacts. For example, if a company sets the standard costing incorrectly in the new ERP system, they may lose large amounts of money before discovering their mistake. Failure to ensure all information and coding in the new system are correct makes the manufacturer vulnerable to expensive errors, operational inefficiencies and more. There may also be differing systems philosophies between the two companies, with one using a cloud strategy and the other having an on-site approach. Additionally, consolidating systems without considering change management can lead to adoption issues if employees are not adequately trained and bought-in to the new system. The more resistant employees are to new processes, the harder it will be to implement the ERP with the acquired company.

In cases where a manufacturer and an acquired company have vastly different processes or business models, however, it may make sense to leave two different ERP systems in place. In these instances, manufacturers should still incorporate key data from the acquired company into its main system or have roll-up financial reporting or consolidation practices in place.

Mistake #3

Missing resource optimization opportunities in the supply chain

In addition to operational integration, manufacturers should look for opportunities to streamline costs throughout their supply chain. Having access to data from across the business – for instance, through a consolidated ERP – is critical to understanding costs throughout the enterprise.

For example, consider analyzing all suppliers across both businesses to determine where there is overlap and which suppliers are the most cost-effective. From there, a manufacturer can identify opportunities to shift ordering to a smaller, core group of suppliers. The company also has more buying power post-close and should take the opportunity to negotiate more favorable pricing with suppliers common to both companies. Companies that skip this step or are reluctant to end long-term but cost-inefficient relationships stand to lose opportunities for further value realization.

There may be areas of high costs that provide competitive advantage, however, which do not make sense to rationalize. For example, if a particular product is highly expensive to make but is highly profitable for the business and a source of competitive advantage in the market, it may not make sense to deprioritize that product.

Mistake #4

Moving forward without a unified vision

Every company has its own culture, structure, story and goals which impact its vision for the future. While a unified vision is the foundation of successful integration, visions may not always align when two companies combine. Without all team members agreeing on a detailed roadmap and specific measurable KPIs, the organization will struggle to achieve any of the goals it envisioned in the pre-deal stage.

Without the goals provided by a shared vision, functional leaders may find it difficult to make decisions. For example, if a manufacturer acquires a company who previously sought to locally source as much of its products as possible, the acquirer will need to determine whether to continue with that practice or integrate the production and distribution into existing operations. Until this decision is made, supply chain decision leaders at the acquired company will not be able to make any major decisions, such as entering or renewing agreements with suppliers. This could lead to higher costs if the acquired company can only make more costly short-term decisions and arrangements with suppliers and vendors.

Mistake #5

Adhering rigidly to pre-deal resource allocations

The dealmaking process usually lacks complete information transparency because it involves negotiations between two separate entities. Once the two parties become one company, new information related to existing and needed resources may come to light that mean planned resource allocations are not feasible. For example, pre-close manufacturers may plan distribution or plant consolidations that no longer make sense following the merger. Post-close analysis could reveal that consolidating distribution could impact service levels and delivery times for key clients, leading the company to revisit operations plans entirely. If they planned to achieve cost or operational savings from these changes, they may have to look elsewhere in terms of consolidating to achieve those savings.

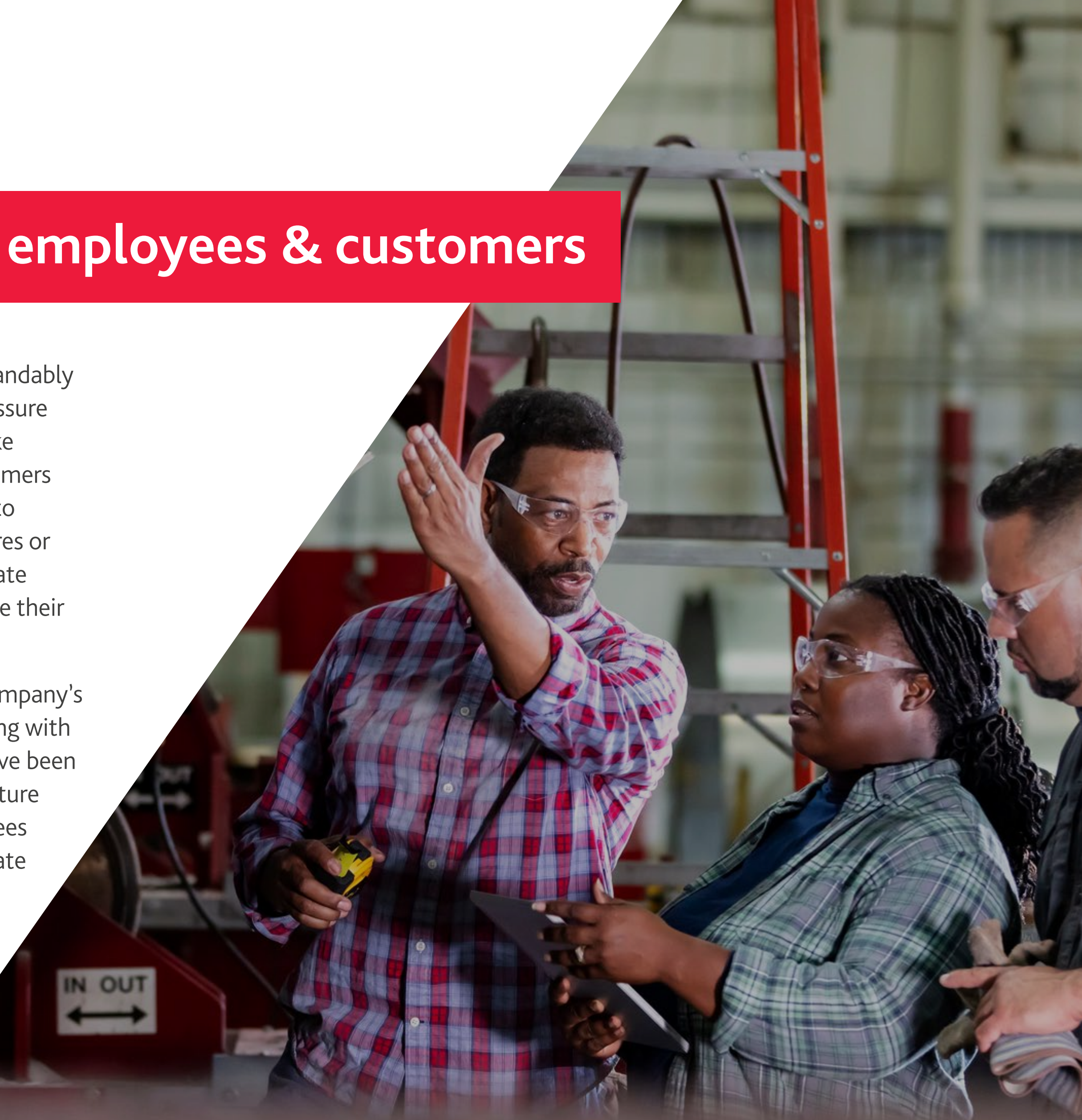
Sometimes, companies are inflexible on resource allocation because they are prioritizing short-term cost reductions. In so doing, they may unintentionally hinder long-term growth potential by not adapting to the new needs of the company. Consulting pre-deal, long-term plans is important, but manufacturers need to be adaptable as they uncover new information about their acquisition.

Mistake #6

Failing to communicate with employees & customers

News of a merger can cause alarm among customers, who understandably want to know how they will be impacted. Companies should also assure customers that the merger won't impact their service levels and take the proper steps to keep that promise. They should also show customers the added value provided by the merger – whether through access to new customer support resources, more competitive pricing structures or additional products and services. Companies that fail to communicate the merger is taking place or that allow the merger to inconvenience their customers run the risk of losing lucrative accounts to competitors.

Successful integration also hinges on buy-in and trust from each company's employees. Sometimes, businesses are so focused on communicating with customers they neglect their own people. If employees feel they have been left out of key conversations or are worried about the company's future or their jobs, the stress can cause productivity decreases or employees to leave for more stable opportunities. Companies that communicate ineffectively may find themselves lacking key support throughout the integration process. During an integration, businesses should be sure to thoroughly communicate goals to legacy and new employees.



The Bottom Line

A company's approach to integration can make or break a deal. Fortunately, manufacturers can navigate the pitfalls by taking a methodical approach to planning. Ultimately, careful attention in the integration process can pave the way to greater value realization.

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