

## **Just Imagine—a Flawless Procurement Merger Integration!**

By Glenda Leatherman \*

Picture yourself as a procurement professional in a regulated industry (e.g., telecommunications). Your company is one of three major players in this industry that are about to merge. Your assignment—should you choose to accept it—is to bring the three procurement organizations together into one functioning organization within months of Merger Day 1. With thought and planning, here is how “Mission Impossible” could become a reality.

This merger could prove to be more complex than most. The three merging entities are large. And, in an industry regulated by both state and Federal entities, information obtained during normal pre-merger due diligence is not available until Day 1 of the merger.

Factors critical to the success of your integration efforts would be:

- 1. Stakeholder identification.** For communications purposes, key stakeholders would include top management (VPs and officers) within and outside procurement, senior managers (usually director level and above) within procurement, contract managers and other individual contributors, and, finally, suppliers.
- 2. Queued information.** Queued information will allow you to hit the ground running on Day 1. You may accomplish queuing through a “parlor room” process monitored by third-party attorneys.  
In a typical parlor room, company representatives submit, through attorneys, requests for information to be collated prior to Day 1. For instance, each company could complete a spreadsheet with agreed-on column headings such as names, titles, User IDs, and manager’s name for each person who serves in a contracting function. Additional spreadsheets could list suppliers with contracts in negotiation or pending expiration dates or, perhaps, definitions of spend categories. Once parties agree on the column headings and populate their spreadsheets, on Day 1, when they exchange sheets, they have comparable data.
- 3. Work Breakdown Structure (WBS) for Day 1 and beyond.** You must spell out steps to be followed by each company, including initial direct communication and phone meetings between leaders of each organization. Your IT arm must

pin down steps for establishing “hand-shakes” between systems of all three companies, with contingency plans in place to cover any failures.

4. **Senior management support for the integration plan.** As the plan evolves, you must vet it with senior management. Before “going live” you must gain senior management approval of all major communications, including mass e-mail messages to hundreds of employees, presentations, and letters to suppliers.
5. **Identification of those in a contracting role.** These people are the heart and soul of a procurement organization. You must accurately identify those with job skills for this function; this is key to rationalizing the three unique schemas of spend categories and determining merger-related savings. Titles are as diverse as contract manager, contract negotiator, purchasing manager, and other similar titles. What really matters is the activities they carry out. Each pre-merger company’s spreadsheets must reflect all of these titles for meaningful post-Day 1 activities.
6. **Self-directed teams.** Mergers are unsettling events. At the top of everyone’s mind is the question, “Will I have a job when this is over?” Organizing people into self-directed teams eases the “getting-to-know-you” part of the process and can help settle nerves. Team members will find a lot in common when tasked with rationalizing spend categories and identifying merger-related savings. (See Factors 7 and 8, below.)

Initially assign people to teams prior to the merger by having senior managers align each person with their spend categories. For instance, Jane Jones could work with “Office Furniture” and “Utilities” in one company; Joe Smith could be tasked with “Furnishings” and “Electric/Gas/Water/Phone” at another company. Both would be placed on the same two teams.

You may manage this process with a database and browser-based user interface that gives each team a page listing its team members as well as other pertinent information. On Day 1, when the site goes live, people can proactively introduce themselves to their counterparts at the other companies. Going forward, the team may use this interface as a communications hub.

You must communicate team formation in a robust manner. Clearly and concisely spell out expectations regarding Day 1 events. Well-crafted e-mail messages vetted with senior management are a must.

- 7. Teamwork: Spend category rationalization.** Every company has its own schema of spend categories related to its Accounts Receivables (A/R) and Payables (A/P) systems. Likely, the merging entities will adopt the dominant company's accounting system and spend categories.

The self-directed teams will rationalize the categories of the other companies into those of the dominant company. The teams perform this task by analyzing current and past spend. This analysis can take a little time, particularly if the companies have gone through other mergers.

Initially, you could start with more than 100 spend-identified teams. After team assignment on Day 1, there will be a period of adjustment in which people can move from team to team as they discover that their spend really aligns with a different team. In addition, some initial distinctions between categories may dissolve and you will find some teams folding into others. Occasionally, a new team will form a new category. For instance, one company might have expertise in a new technology with considerable spend in an area for which the dominant company does not have any categories. Rather than trying to fit the new technology spend into one of the existing categories, it would be worthwhile to call out that spend on its own. While doing this has implications for the accounting system, it would give a more accurate picture of the company's spend breakdown in the long run.

With well-communicated interim deadlines, three to four months should provide ample time for this process.

- 8. Teamwork: Standard savings methodology.** Companies use different methodologies for projects to realize savings on their contracts. Going forward, senior management must agree on this methodology before teams start working on merger-related savings projects.
- 9. Teamwork: Merger-related savings.** A merger is the perfect time to scrutinize contracts for each supplier and for commodities within categories. Contracts could be combined. Lower prices could be negotiated based on higher volume, and the like. The perfect way to bring the teams together is to task them with identifying and negotiating all possible savings.

Looking ahead, top management will want to report to shareholders and the Board of Directors that the merger did, indeed, result in net savings for the

company. Thus, it is imperative to tag these items in the electronic contracting system so they can be differentiated from Business-as-Usual (BAU) savings.

**10. Periodic reports to top management.** Senior managers must outline integration progress in periodic updates to top management. Status of the team effort would include spend category rationalization and merger-related savings projects. You may also compare the merger-related savings with BAU savings. Senior managers also should present high-level strategic plans for further savings projects within their spend areas, thus affording top management a better picture of where the ship is heading.

Three overarching factors stand out for ensuring success of the merger integration. These are (1) absolute support for the integration efforts by top and senior management; (2) realizing that a huge portion of this effort is about people and relationships; and (3) ensuring 360 degree communication, so that nobody is surprised by "what comes next." With these factors in place, you are well on your way. I would say "Good Luck." but you won't need luck if you do your planning!

\* Glenda Leatherman is a change management consultant in the San Francisco Bay Area. She has over 20 years experience leading key strategic change initiatives at Cisco Systems, AT&T, Matthew Bender (Lexis-Nexis), and several startups. Ms. Leatherman has led teams to set best practices, and define and implement products and programs in areas such as content architecture, content management, unified workflow, software product positioning and launches, merger integration, and PMO development. She is an inactive member of the California Bar with a JD from UC, Hastings College of the Law and an MBA from Golden Gate University. In her spare time, she likes to think of ways to invoke change in the lives of friends and family. Ms. Leatherman may be reached at [glenda@tbggroup.net](mailto:glenda@tbggroup.net).

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