

Opportunities for Action in Operations

When Worlds Collide: Navigating Supply Chain Integration

THE BOSTON CONSULTING GROUP



When Worlds Collide: Navigating Supply Chain Integration

A large global manufacturer has just acquired a competitor. The deal made good sense on paper, affording the company greater scale, new products, access to new markets, and lower costs. Now the company faces a critical task: integrating the two organizations' supply chains. If it succeeds, the company will capture a host of benefits: increased sales, greater speed to market, and more efficient production, leading to faster growth. If it fails, the company will lose the trust of its key constituents.

Unfortunately, many companies fall short when facing this task. Melding two previously distinct supply chains into one is an enormous operational challenge. It requires a simultaneous focus on products, markets, systems, processes, and people. Worse yet, it can be hard to fully understand the acquired company's critical operational and business processes before the deal is closed. In addition, essential knowledge of the acquired company can disappear overnight if key employees leave.

But there is no excuse for a failed integration—and there will not be much patience among shareholders or in the marketplace. Any weakness in the system on day one of the new organization's life can quickly translate into excess inventory, stockouts, or even lost customers. And the damage can be severe. In some industries, a flawed integration can drive inventory levels as much as 40 percent higher within a few short months. It can have a similar or even a greater impact on distribution costs, timeliness of deliveries, and a variety of other metrics.

How can a company achieve successful supply-chain integration? A real-world example of a company that went through the process successfully—not once but twice—provides some answers and insights.

Round One

Several years ago, Company A, a leading global manufacturer, acquired Company B, a smaller rival but still a significant player in the industry. (Before the merger, Company A had five major product lines and 30 major production plants; Company B had two major product lines and 15 major plants.)

Integrating the two supply chains posed a considerable challenge. Company B's supply-chain processes were relatively advanced: a replenishment manufacturing philosophy, good visibility of inventory, and collaborative relationships between markets and plants.¹ Company A's processes were less advanced. Manufacturing was primarily make-to-order, and both the visibility of inventory and communication between markets and plants were limited. Company A faced a choice: downgrade Company B's supply-chain processes to make them compatible with its own or substantially improve its own processes.

Company A's management team chose the latter. Its immediate priority, though, was a smooth launch of the combined company. In less than two months, Company A would have to fully absorb Company B's plants and processes and ensure an uninterrupted

1. The relative merits of the replenishment and make-to-order approaches vary by industry and company. In this particular industry, the replenishment approach—in which finished goods are produced and stocked before customers' orders are received—has clear and compelling advantages.

flow of products and information between production and end users.

The company's first move was to segment and tackle the markets by region. It developed organizational structures that brought together managers and other key personnel from the markets and plants to identify and troubleshoot potential problems. The teams set priorities and channeled resources to markets where product-supply continuity was deemed most at risk, devising stopgap solutions where necessary.

Concurrently, the teams began to make broad, long-term process improvements. They started converting make-to-order markets into replenishment markets—essentially leveraging Company B's best practices across the new organization. The teams also created regional supply-chain agreements between plants and markets. The agreements established guidelines and performance metrics—specifying, for example, targets for the accuracy of market forecasts and for monthly inventory levels, as well as acceptable ranges of production variance for plants. This exercise greatly strengthened the new supply-chain organization by facilitating relationships and providing a mechanism for resolving disputes.

Underpinning these efforts was a focused investment in IT. To gain the long-term efficiencies the merged company wanted, it needed mechanisms that would allow it to measure and track inventory from start to finish—from raw materials to delivered product. The company also wanted to anticipate and respond better to “exceptions” (for example, manufacturing glitches and temporary spikes in demand) and to monitor all aspects of performance.

To acquire these capabilities, the company launched a powerful new planning and tracking system with a

targeted implementation period of three years. The company didn't attempt to bring its entire global network online at once; instead, it focused first on major plants and markets (which represented approximately 20 percent of the total network), where the stakes were highest and any gains in efficiency would quickly translate into significant savings. For its remaining plants and markets, the company came up with low-cost stopgap solutions. The solutions were designed to leverage the facilities' existing IT infrastructures and personnel until those plants and markets could be converted to the new system.

Company A's approach proved highly effective. The integration was on time, with product supply continuing uninterrupted. The company's longer-term improvements began to bear fruit as well, evidenced by steadily falling costs, lower inventories, and a better ability to forecast and plan. Indeed, two years after the merger, inventory—measured as safety stock on hand—had fallen by 15 percent, and forecasting accuracy had improved by 25 percent.

Round Two

The successful integration fostered a new attitude toward supply chain management—a far more collaborative and anticipatory one—that took hold throughout the organization. It became particularly evident several years later, when the company made its second major acquisition.

When Company A decided to acquire Company C, it faced a substantially greater challenge. Company C was far larger than Company A, with four major product lines and 50 major plants. It had multiple supply chains, more complex manufacturing processes, more lines of business, and more than twice the number of

SKUs. It also managed a large portfolio of outsourced manufacturing. Its manufacturers were involved at numerous points of the supply chain, from the preparation of raw materials to the assembly of finished products.

Although this merger posed a greater challenge than the first, the capabilities that Company A had developed the first time proved invaluable. Management quickly implemented the same approach but on a broader scale, conducting a threat assessment exercise and devising temporary work-arounds, patches, and processes where necessary. Simultaneously, it launched longer-term optimization efforts—in particular, the aggressive conversion of make-to-order markets into replenishment-based systems.

Company A's experience also gave it the courage to make several significant organizational moves. It quickly appointed champions of its major markets, product lines, and operations. These individuals acted as dedicated managers and troubleshooters, facilitating communications between plants and markets.

In the end, Company A's integration of Company C's supply chain went more smoothly than its integration of Company B's, despite the greater complexity. Product supply continued unabated—not a single SKU was back-ordered or suffered a stockout as a result of the integration—and the company's longer-term optimization efforts resulted in synergies and efficiencies that significantly exceeded the expectations underlying the deal.

Lessons Learned

Company A's experience shows that two supply chains can be integrated successfully, irrespective of scale,

with little or no interruption to product flow. If your company is about to take on the challenge, keep these guidelines in mind:

Resolve short-term issues quickly, but focus on the long-term plan. Without a doubt, your company will have to put out fires. But don't approach the task of integration as a series of one-off fixes. Take a top-down, long-term view, and map out time frames for implementation. Drive to where you want your organization to be in three to five years.

Communicate. Communicate. Communicate. Share the plan with both organizations. Employees from acquired companies have tremendous angst in acquisitions, not just about job security but also about the caliber of their new leadership team. If they sense that no one at the helm is capable or if they feel they're being ignored or marginalized, they are likely to leave, taking critical knowledge with them. So create the vision and the plan, and keep people informed.

Be realistic about time frames. You can't achieve total integration overnight. The immediate challenge—in fact, the challenge for the first year—is to keep the product on the shelf. Simultaneously, you can begin to institute processes for the longer term. In years two and three, you'll be strengthening those processes and gauging their effectiveness.

Concentrate on your biggest markets first. A product shortage in one of your major markets can be devastating; a shortage in a smaller market is more forgivable and far less costly.

Make the necessary organizational changes early. Designate visible champions to manage your most

critical or problematic markets, product lines, and processes—and do so quickly. This will inspire confidence, minimize the potential for major lapses, and pave the way for the broader organizational changes to come as the two supply chains become one.

* * *

Most companies sell themselves short when it comes to supply chain integration. They do the absolute minimum, resorting to a series of patchwork, manual solutions to short-term problems rather than employing a long-term, strategic view. The typical result: a massive buildup of safety stock (accompanied by a proportional rise in carrying costs) to hide mistakes; an inefficient production process; and a squandered opportunity to gain a significant edge over competitors.

The best companies take a different approach. They view the acquisition as a launching point for optimizing their entire supply-chain process. They get markets and plants on the same page and eliminate guesswork and miscommunication. They actively push their organization along the evolutionary supply-chain path toward an optimized version of whichever philosophy—replenishment or make-to-order—makes the most sense for their business. In the process, they sharpen the performance not only of their supply chain but also of their entire manufacturing organization, since their ability to plan and allocate resources is greatly improved.

There is nothing mysterious about what it takes. Boiled down, it takes a willingness to address the short term while maintaining a long-term perspective; a persistence in implementation; and a focused investment in IT. But done right, the process can

yield a massive payoff: enhanced growth, lower costs, better service, and the ability to use the supply chain as a strategic weapon to build the next generation of competitive advantage.

Charles-André Brouwers
Aryn Merchant
Alex Ulanov

Charles-André Brouwers and Aryn Merchant are vice presidents and directors, and Alex Ulanov is a manager, in the New York office of The Boston Consulting Group.

You may contact the authors by e-mail at:

brouwers.charles-andre@bcg.com

merchant.arin@bcg.com

ulanov.alex@bcg.com

To receive future publications in electronic form about this topic or others, please visit our subscription Web site at www.bcg.com/subscribe.

THE BOSTON CONSULTING GROUP

Amsterdam	Houston	Prague
Athens	Istanbul	Rome
Atlanta	Jakarta	San Francisco
Auckland	Kuala Lumpur	Santiago
Bangkok	Lisbon	São Paulo
Barcelona	London	Seoul
Beijing	Los Angeles	Shanghai
Berlin	Madrid	Singapore
Boston	Melbourne	Stockholm
Brussels	Mexico City	Stuttgart
Budapest	Miami	Sydney
Buenos Aires	Milan	Taipei
Chicago	Monterrey	Tokyo
Cologne	Moscow	Toronto
Copenhagen	Mumbai	Vienna
Dallas	Munich	Warsaw
Düsseldorf	Nagoya	Washington
Frankfurt	New Delhi	Zürich
Hamburg	New York	
Helsinki	Oslo	
Hong Kong	Paris	

BCG

www.bcg.com

3/05

