

# 10 Things Procurement Needs to Know About Mergers, Acquisitions, and Divestments





*Chris McCarney  
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According to the KPMG 2022 CEO Outlook<sup>1</sup>, CEOs and executive leadership teams have adjusted to the prolonged period of uncertainty we find ourselves in. Despite continued geopolitical instability and economic headwinds, growth opportunities still abound and CEOs remain optimistic.

M&A activity is expected to remain high for the next three years, and yet, high interest rates and borrowing costs will factor into each deal. Extracting full value from these deals will require a close eye on the numbers and keen attention to detail - especially when it comes to the bottom line.



*Marcos Cortes,  
Managing Director,  
HCLS Strategy*

Procurement's potential role in integrations and separations is often overlooked or delayed despite numerous opportunities to 'sweeten the deal.' A company's supply base can influence their profitability and risk, a reality that is magnified in an M&A environment. Sidelining procurement during acquisitions and divestitures may mean missing out on opportunities for deal upside and value acceleration.

Art of Procurement was recently joined by Chris McCarney, Principal, Procurement and Outsourcing Advisory, and Marcos Cortes, Managing Director, HCLS Strategy, from KPMG, LLP. They shared the following ten things procurement needs to know about these deals based upon their combined expertise in procurement and mergers, acquisitions, and divestments.

<sup>1</sup> KPMG, *KPMG 2022 CEO Outlook: Growth Strategies for turbulent times*, (Amstelveen, Netherlands: KPMG, 2022), [kpmg.com/CEOutlook](https://www.kpmg.com/CEOutlook).

## **1. Most procurement professionals are going to experience at least one merger, divestment, or acquisition during their career.**

Many procurement professionals have experience with M&A deals, but it is usually one or two events over the course of a career. Corporate development professionals, however, are regularly experiencing them. The primary question is the depth of experience and involvement procurement has and how much transferable knowledge that provides for the next deal.

## **2. Mergers, divestments, and acquisitions have their own 'language.'**

Procurement tends to want to access data so they can ask detailed questions, and this is prevented by the assumptions that play an important role in many deal valuations. One way procurement can still demonstrate value is by trying to understand the language of the deal, especially when it seems more vague than procurement is used to working with.

*"In today's world, we're seeing supply risk as well as supplier risk. In most deal environments, an emphasis is placed on transitioning safe, compliant ongoing operations. That transition - whether it's inbound or outbound - and taking the supply base through it is more critical today than it ever has been before."*  
- Chris McCarney, Principal, Procurement and Outsourcing Advisory, KPMG, LLP

## **3. Procurement-related synergies often represent a significant percentage of anticipated deal value.**

Due diligence is often handled apart from procurement. And yet, as they approach the deal close, synergy targets begin to firm up. This is often the first time that the Chief Procurement Officer or Head of Supply Chain has an opportunity to review the synergy target - and it may represent a significant portion of the overall value of the deal. The earlier procurement can access that information, the better prepared they will be for day one and beyond.

#### **4. The failure of those synergies to deliver is a common source of value leakage.**

There are three main sources of value leakage in a merger or acquisition:

- Resources fail to recognize and understand the key value of synergy opportunities,
- Integration resources are not involved early enough in the process, making it challenging for procurement to execute or prepare a strategy for execution, and
- Ineffectiveness of knowledge transfer, especially about process and key supply relationships.

In many cases, once the deal is done, the team leading the effort wants to pass the baton as quickly as possible. They have a tendency to rush as they pass the information along to business-oriented stakeholders, compounding the common sources of value leakage.

#### **5. Procurement's ability to be involved sooner can positively impact deal due diligence.**

If procurement can 'swim upstream' in the deal cycle, they may have the opportunity to increase consideration of procurement-related synergies and better understand the deal value. It only takes a few questions asked during due diligence for procurement to have a measurable downstream impact.

For instance, mature contract life cycle management allows better access to contract data and spend data, valuable information that should be readily available before a deal comes to the table.

## 6. Digitally enabled procurement functions are far more successful during mergers, divestments, and acquisitions.

Companies that are digitally enabled across the procurement function are far more effective in acquisitions and divestitures. Having a high level of digital maturity allows procurement to be more actively involved because of the access to information and analytics it enables without slowing down the pace of the deal.

## 7. Separations and divestments may be more challenging for procurement than mergers and acquisitions.

Separations are often more complicated for procurement than integrations. Half of the company must spin off and rebrand themselves, leaving both organizations scrambling to clarify contracts and minimize the cost impact of lost volume leverage. In many cases, this is a manual process, done with far too little time, which makes it even harder for procurement to protect against risk and loss.

## 8. Questions to ask before the deal is done...

*About suppliers:*

- What are the critical sources of supply?
- Who are the major suppliers?
- Which suppliers are the most critical to the customer value proposition?
- What can be done to ensure supplier continuity?
- How will procurement maintain the appropriate cost basis?

*About the procurement function itself:*

- Who will be doing the purchasing?
- What will the organization look like?
- How centralized will procurement be?

And for any of the questions above where answers are not already available, how will decisions be made?

## 9. Every deal is unique.

There are unique aspects to every deal. Some of these will be looked at as a reason to have increased secrecy, and others will render past experiences less transferable. The most important thing is for everyone to play their part in ensuring the envisioned benefits of the deal are realized.

*“Every deal is a snowflake, as we say. There are unique aspects to every deal. Are there things that need to be held confidential? Absolutely. There’s no doubt about that. There’s typically going to be a degree of secrecy. But that doesn’t mean procurement needs to be completely uninformed.” - Chris McCarney, Principal, Procurement and Outsourcing Advisory, KPMG, LLP*

## 10. Secrecy is not a reason to exclude procurement from deal talks... but they should not be involved for the sake of being involved either.

Procurement may not be directly involved in deal talks, but if they are not involved at all, how do they arm the deal team with the information they need before and while considering the deal? Secrecy should not be a reason to deny anyone access to information.

In order to justify being involved, procurement has to be able to tie their knowledge and experience to the due diligence process, especially when they can raise valid points and questions about executing on plans later on.

Procurement needs to know that the deal team is asking the right questions on their behalf if the deal is to get off on the right foot.



**If you are interested in learning more from Chris McCarney and Marcos Cortes:**

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## About Art of Procurement

Art of Procurement was founded in 2015 to empower professionals at all levels to align procurement performance with corporate objectives.

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