Project Report
Post-merger Integration

How integrating three buy and build assets created a market leading industrial manufacturer.

Summary

A failed integration of three acquired individual businesses turned this buy and build investment into a high-risk situation: hoped-for synergies failed to materialise, financial results worsened continuously, employee uncertainty caused internal conflict and prevented any positive change. The integration team (three external specialists) made a concentrated effort to overcome these challenges. They derived a new business model, implemented necessary structural changes, and handed over an improved, competitive, profitable, and growing business.

Details

Project

- Sector: Construction and Materials
- Revenue: 100m to 250m
- Employees: 100 to 300
- Level: Board level
- Title: COO
- Duration: 24 months

Focus

- Strategic Business Development
- Competitive advantage
- Post-merger Integration (PMI)
- Supply chain management
- Production design
- Outsourcing
- Restructuring

Background

A financial investor acquired three traditional window manufacturers (PVC and wood) as part of a buy and build strategy and merged them under one umbrella brand. After a three-year integration phase, the expected synergies failed to materialize, sales had collapsed to below 100m CHF (-35%), and EBITDA had turned negative (c. -20m CHF). The investor commissioned a private equity-proven management team to turn around the failed post-merger integration.

Integrating the three businesses to a competitive unit

After a concentrated initial operational analysis, the team presented a restructuring plan to the supervisory board based on the following observations:

- High proportion of low-margin property business (foreign suppliers up to 40% cheaper),
- Higher average cost base than industry peers,
- Outdated production facilities in most locations,
- Heterogeneous IT infrastructure across the three formerly independent businesses.

The new business strategy focussed on serving private customers selling proprietary products and offering better assembly services. The implementation was planned for a four-year period and broken down into 11 main projects. The team redefined the organizational and leadership structure (CEO), redesigned financial, controlling, and reporting processes (CFO), whereas the COOs main tasks included the revision of all business processes (including sales, production, assembly, and service), the introduction of a unified ERP system, the restructuring of procurement, logistics, and production processes, and several efficiency improvement programs.

1. **Production:** Identification and acquisition of a cost-effective production partner for the "corporate business" division, effectively outsourcing the lower margin business.
2. **Supply chain:** Reduction of the number of pre-products, renegotiation of procurement relationships streamlining the purchasing processes and reducing handling costs.
3. **Assembly:** Internalization of assembly activities while simultaneously reducing dependencies on subcontractors capturing a higher proportion of value adding processes.
4. **Staff reduction:** Reduction of the workforce by 110 employees (c. 30%), including corresponding social plans.

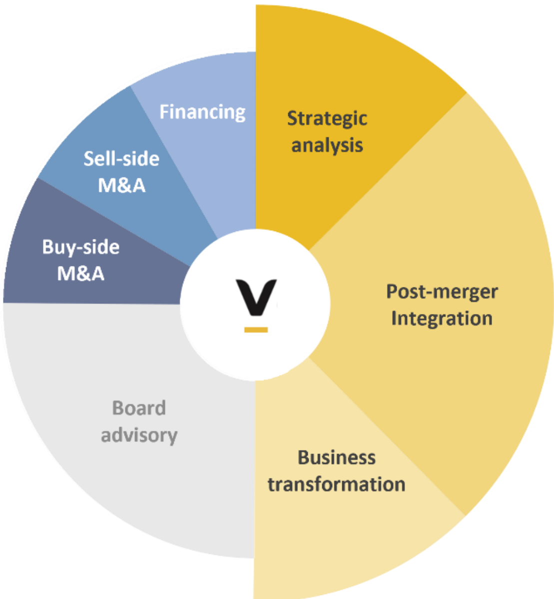
Results

After just two years, cost reduction programs, the reorganization of purchasing (savings of approx. 1.7 million CHF p.a.), logistics, production (productivity increase and associated margin improvement of approx. 4%), and sales were completed. Due to the change in strategy, sales initially fell to around 60 million CHF. However, massive cost savings enabled a positive EBITDA of around 3 million CHF (+23 million CHF) to be generated after just one year.

Statement by the transformation expert

> *„The first thing that struck me was the disproportion between sales and the number of employees. The cultural behaviour was also striking. As former competitors, each business defended their status quo and believed that golden times were dawning with the financially strong investor. Forming a common vision took an enormous amount of effort and could only be achieved through strict management leadership and leading by example."*

Scope of transformation



The lack of a clear plan for integrating three independent business dramatically increased the risk of a failed investment. Failing to realise expected synergies, increased uncertainty amongst the staff, and divisions fighting each other led to operational and financial mayhem.

The hired management team transformed the failed integration by strategically analysing its competitive position, deriving a suitable organisational structure, designing operational and financial policies and processes. Furthermore, they managed to implement the new business model in two vs. the planned four years. The advantages of hiring a well-established team to deal with such a complex and far-reaching transformation enabled the investor to turn around the failed integration and set up the combined business for future growth.

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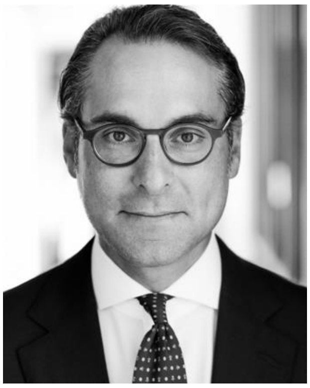

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