



**AOP Live Transcript**  
**The Critical Role for Procurement in Mergers, Acquisitions, and Divestments**  
**Chris McCarney and Marcos Cortes, KMPG**

**0:00**

**Philip:**

Hi there, everybody!

Welcome to today's AOP Live webinar!

I want to thank you so much for joining us.

Now, if this is the first time that you've been to an AOP Live, it's really all about the questions that you ask. As we went through the registration process for today's webinar, we asked you to ask questions in advance. We did get some questions in, so we have built those into our conversation today.

Also, we invite you to ask questions as we are going through the conversation. You will see a little box underneath the video where you can pop your questions straight in. My colleague Kelly Barner – who is actually off video today – is going to be watching for any questions as they come in. Then we will come into some of those as we get through the conversation where it really makes sense to pose some of the questions that you are asking to our panelists.

As a reminder, to submit a question, use that question box below.

Now, the title of today's conversation is "The Critical Role for Procurement in Mergers, Acquisitions, and Divestments" which really is a critical missed opportunity. Or we brought along a little bit too late to really make a difference.

We're going to be talking about what role can procurement play; how can procurement get more involved in mergers, acquisitions, and divestments; and really the impact that we can have then as we do come through a deal process.

My guests today are Chris McCarney who is a Partner of Consulting at KMPG, and Marcos Cortes who is Managing Director of HCLS Strategy also at KPMG.

With that said, let's go into today's conversation.

Hi there, Chris! Hi, Marcos! Thank you for joining me today in today's AOP Live!

First, the easy question – I'll ask this to you first, Marcos – whereabouts are you joining us from today?

**2:05**

**Marcos:**

I am based in Orlando, Florida. That's where I'm based.

**2:10**

**Philip:**

Me, too. This is two-thirds Floridians today.



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**2:15**

**Marcos:** We should be doing this together next time.

**2:17**

**Philip:** Yes, right!

Chris, where are you joining us from?

**2:20**

**Chris:** I'm a bit north of you guys. I'm in the suburbs of Chicago.

**2:25**

**Philip:** Well, we will keep quiet to any conversation about weather today.

We really want to get to know both of you before we go into the conversation.

Chris, this is a question that we ask all procurement practitioners and folks who have been in and around procurement for a long time. Did you find procurement? Or did procurement find you?

**2:45**

**Chris:** Wow! I would say it's a mutual attraction, if that makes sense.

A little bit of background about myself – prior to KPMG, I was actually in the United States Air Force. The role I had there was in a contracting and technology development role. Through that process, I learned a lot about how to engage a third party, highly regulated environments, how to create these massive agreements.

But, more importantly, I would say that I learned the power of the supply base. In that role, we were developing products that were helping us fight wars that the US Air Force and other services were using. Through that process, I saw the power of the supply base.

When I came to KPMG and made the transition to consulting, I would say I always found myself working with the input end of organizations. Whether you call it supply chain or purchasing, helping our clients either evolve the procurement function, work closer with their suppliers, and (4:02 unclear). Again, I would say it's a mutual attraction.

Today, one of my roles in the consulting business is to oversee the strategic procurement capabilities set through the firm. As I said, I consider procurement as my major, and M&A as my minor.

**4:20**



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**Philip:** Which is a good setup for the conversation that we're going to have today about procurement's role in M&A. Before we go that much further, Marcos, I'm going to bring you into the conversation too. Your background isn't necessarily in procurement. How do you best describe your role to a procurement audience?

**4:40**

**Marcos:** To give a little introduction about myself, as you said, I'm a managing director within our M&A transaction execution center of excellence. I have been working as a consultant since 1992. I started as a technology consultant. I migrated to M&A about 12 years ago, spending time in several industries from life sciences, technology, and energy companies.

At KPMG, I'm dedicated to support global clients. I support their inorganic growth strategies – managing primarily initiatives in mergers, acquisitions, due diligence throughout post-close activities. I really focus on devising clients establishing their project infrastructure and help them with their separation or integration strategy, planning for day one, implementing transition services agreements, and really leading more tactically that pre- and post-merger activities.

Prior to KPMG, I worked at Siemens in the M&A corporate development team where I was responsible for managing a portfolio of integration and separation activities.

**5:53**

**Philip:** I'm looking forward to digging into the role that procurement can play as well and what you see as a little bit of an outsider to procurement. I'm sure there are things that you've seen where we can really up our game to make sure we can have as big an impact as we possibly can for our organizations within mergers, divestments, and acquisitions.

Now, to kick things off, we actually ran a little bit of a LinkedIn poll leading up to today's webinar where we asked our community, "What is your experience with mergers, divestitures, and acquisitions?" We wanted to get a little bit of a pulse check on the audience. If we could bring up the slide here with the results.

"What is your experience with mergers, divestitures, and acquisitions?" The results that we had, we had about 100 responses – 65 percent said that they had been there and done that; 15 percent said, "Yes, my organization did, but procurement wasn't involved;" 15 percent said they had no experience with any; and 5 percent are going through a merger or acquisition right now.

Chris, I want to ask, is that consistent with what you see?

**7:05**

**Chris:** It is.

When I worked on my first separation, for the client I was working with at the time, it was a very foreign concept. "Hey! What am I doing inside of the deal?" This happened to be a separation



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when the client was selling two major assets – two major pieces of the business. It was a very foreign concept to the procurement and supply chain organization.

Today, we see a lot more experience in this space, but it's usually one event or two events. For us procurement professionals, having to go through these one or two times in your career is normal, but for someone like Marcos or someone who is in a corporate development team, they are doing this constantly.

A lot of people are exposed to it and see a lot of experience with it, but I think the real question is the depth of experience and involvement.

**8:05**

**Philip:**

This goes with my experience as well.

At some point in time during a procurement professional or a procurement leader's career, they are going to go through a merger acquisition or a divestiture. Only 15 percent say that they haven't done so, so far.

I can speak from my experience as we go into the conversation. I've been through both divestitures of divisions within larger organizations where I went with the divested organization, so you're really starting a procurement function from scratch as you land within the new organization that is spun out of a larger one. For anyone who is in procurement that hasn't been through one of these, you likely will be going through one at some point.

One of the interesting things as you see that second-top result – and I'm going to come to you on this, Marcos – “yes, but procurement wasn't involved” is 15 percent of responses. Why is it that procurement sometimes doesn't get involved in the M&A process?

**9:10**

**Marcos:**

Primarily because the deal team is mainly focused on getting the transaction done. Many times, operational topics could be a distraction if not managed appropriately. For that, I always recommend typically for the procurement stakeholders to be in the room doing due diligence activities – not being at the table – to allow the organization not only to think more strategically but allow the deal team to perform the transaction activities with no major distractions.

**9:43**

**Philip:**

There's a risk of trying to become too involved, is that fair? Or being seeing by the deal team as a distraction?

**9:52**

**Marcos:**

Yes, there are always the hand-off points. They typically happen during the due diligence to the deal closing in (10:01 unclear) but you need to find what is the good balance of that hand-off.



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More deal-making mature organizations have done this and have the muscle memory to do this very seamlessly. Organizations that either may not have a corporate development team that is very mature and very dedicated process that is widely known in the organization have a tendency to avoid involvement of operational-related stakeholders to really not distract the deal-making activities.

**10:35**

**Chris:** I'd offer that, for the maturity level, there's a really large spectrum here. We have some clients. They may be listening in or watching in today.

**10:47**

**Marcos:** You've got to be careful, right?

**10:49**

**Chris:** I can think of one large client of ours that has a dedicated acquisitions and divestiture team. Not just for procurement but for all functions, they have dedicated professionals ready to go because they're so involved in acquisitions and divestments. They are constantly buying and selling and spinning what-not. In that case, they have dedicated teams.

In many cases, as you said, if you haven't gone through one, you will go through one. Where we spend a lot of our time is helping our clients prepare because this is the first time they're going through it, so it's a pretty wide range.

I'd offer that it's a little bit of the plague of the procurement professional. As always, we're trying to demonstrate our value. I think that's a lot of why procurement isn't involved. It's this constant quest to demonstrate our value to the organization – whether that's candidly inside of a deal cycle or outside of one.

**11:48**

**Philip:** I know we're going to get into some specifics, but I wanted to follow up. Can we be too needy as procurement professionals when you find yourself in the room and that actually plays to our detriment?

**12:00**

**Chris:** Yes, that's a really great observation. We can be, right?

Procurement professionals tend to want to get into the data and ask a lot of questions. We don't do well with assumptions. To find yourself in a diligence process with limited information and trying to either execute on or establish a proper investment or deal thesis or whatever the case may be, I think procurement professionals – if we are not careful – can get in the way.

I think the trick there is understanding and being able to speak acquisitions and divestitures. I think the first stage of demonstrating value is understanding the language. Let's be empathetic, if



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you will, to those corporate development folks that are really trying to get the deal done and really pick and choose the right questions to ask and the right information, too.

**13:00**

**Marcos:**

To add to that, it's starting to have a good appreciation over the strategic rationale for that inorganic activity. It's key to really find that proper balance because the procurement-related activities could be high on the top of the synergy list, or it could be something that needs to happen to ensure that you have certainty in terms of value preservation.

Having an appreciation about the strategic components and the strategic rationale of that initiative is super important to allow the procurement stakeholders to say, "Should I ask this question now? Or is this something that I will park mainly for the integration planning phase or the integration execution phase?" If it is a divestment, it might be a more tactical-related component that can be addressed at the later stages of the deal.

**13:53**

**Philip:**

I imagine that a lot of information – certainly in early days of the deal cycle – is on a need-to-know basis. The organization may not be wanting to divulge broadly when there are some sensitive plans, so for those that are involved in those conversations perhaps there is a confidentiality requirement.

**14:14**

**Marcos:**

Yes, I'll give an example an M&A professional.

A lot of my live projects that I'm working with clients on deals that have not been signed, I have not even because I'm really focused on a piece of the deal, I focus more on the execution, and there is information such as the valuation that I don't need to know. I simply don't ask.

You become comfortable to operate in the environment that you have little to no information. I think this is something that typically more seasoned deal professionals have a certain level of comfortability to operation within that environment.

**14:57**

**Chris:**

I think this is where the procurement professional and the M&A professional meet. There's a little bit of "how do we meet in the middle?" here. We can kick and scream and want to be in the room and be in the middle of the deal. We probably won't get that far upstream in the deal cycle. Obviously, the earlier, the better. But, at the same time, through education, I think we want procurement to be maybe not top of mind but be a consideration.

I think the ability to meet in the middle is where we really extract a lot of value in the deal cycle.



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I can't tell you how many times we've been part of this, especially in an acquisition environment. Diligence is done by a consulting team somewhere. They get to signing. They do the deal. They're getting the closing. They've got all these synergy targets. It's way too late in the process. The chief procurement officer or heads of supply chain get handed a synergy target and it's a significant portion of the overall deal of value.

Again, maybe it's the plight of procurement. We're always the last ones to be considered, but I think it's earlier recognition of procurement's role – whether it's synergies or dysynergies. To Marcos' point, I think sometimes there are real items in a purchase sale agreement that tie to procurement activities in order to close the deal that we find out too late about, but the earlier we can get that information, the better prepared we're going to be for day one and beyond.

**16:38**

**Philip:**

I'm already seeing some questions coming in. I actually want to go a little bit deeper into the role of procurement within the deal cycle in a moment. It's actually a great segue.

Marcos, if you could share a little bit for us that aren't necessarily involved in M&A every single day of the week, what does the deal cycle look like? What's the process of an M&A deal?

**17:00**

**Marcos:**

That's a great question.

It always starts with the M&A strategy which is basically part of the phase where the deal team is really looking for assets. It's the M&A strategy and target screening because basically they are looking for assets and the focus is really trying to find assets that will fulfill the strategic rationale of the growth strategy of that organization.

The second step is the due diligence. If we focus on an acquisition, the main aspect is to validate the historical financial performance and confirm the strategic rationale. Essentially, this is the step that validates the target attractiveness for – in this case – the acquisition in question.

The third step is really where we get closer to the hand-off point – deal readiness and close. Now, we're between the second step that I just mentioned – due diligence – and this one is where the hand off occurs. It's where the deal team is turning over the operational components of the execution to the business.

There are three main points that we typically see that are risk areas of concerns – (1) resources fail to recognize and understand the key value of the opportunities, let's say, in the form of synergies; (2) integration resources are not involved early enough which makes it challenging for the procurement teams to prepare the execution piece or prepare a strategy for execution; and (3) ineffectiveness of knowledge transfer.



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Many times, the deal team already gets the deal done and are really focused on the next one. They just want to pass the baton as quickly as possible, and they have a tendency to rush and pass the information and turn this over to the business-oriented stakeholders.

**19:05**

**Philip:** Chris, maybe I'll pose this follow-up to you.

As we look about that deal cycle, where should we as procurement professionals aspire to be involved? When Marcos goes through that, I'm thinking, "If we're really 10X-ing the impact of our procurement organization, we're involved in deal strategy because we're seeing all supply markets and opportunities perhaps for integration by looking at and bringing targets to the table." Is that an unrealistic goal? Should we lower our sights for how and when is the right time for procurement to get involved?

**19:42**

**Chris:** We've got to push as hard as we can. As we lay the deal cycle on the page, I always say we've got to get to the left-hand side of that page. It seems like we're always on the right-hand side.

I think our ability to swim upstream in that deal cycle and I wouldn't say influence it but be a consideration starting at that strategy level and into diligence, the more we can be considered, the more procurement can be thought about, I truly believe there is greater value in that deal.

Ability to execute. It only takes a few questions to ask in diligence to openly have downstream impact.

**20:33**

**Marcos:** If I may add to that, when I say the procurement team needs to be in the room, I mean, if I'm going to throw something, I better say that it's not necessarily physically in the room.

I'm also not using some form of metaverse or anything like that I think it's all about data and technology because I think we need to find a better balance for procurement organizations to mature the contract life cycle management activities to allow better access to contract data, spend data, and have that information readily available even before the deals come to the table.

To me, more mature organizations from the contract life cycle management perspective have the ability to have that information readily available for deal teams to really do proper diligence. To me, if you really want to be on that further left of the page – as Chris alluded to which I love – it does not necessarily physically, but procurement needs to be represented, and I think the best way of doing this is with data and technology.

**21:42**

**Chris:** Yes, I think that's spot on, Marcos.





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Our clients that – even without a deal – are digitally enabled across their procurement function are so much more effective in acquisitions and divestitures. I do think that, for organizations that are considering some sort of digital transformation of the procurement function, and they are inquisitive, or they are active in M&A asset spinning and being acquired, I just think that is such an important part of any business case.

If you are considering doing a deal, there is a ton of value in digitally enabling or digitally transforming your procurement function.

**22:29**

**Marcos:**

Yes, because we are seeing that, let's say, M&A professionals, (22:33 unclear) should be they know how to understand data.

Let's pick an example. Let's say the synergy aspect. Cost synergy is always an important component in any transaction. On the buy side and the sell side, there is always a think behind cost. On the sell side, you are more focused on preserving value. On the buy side, it's really about capturing and improving value.

But the main point is having that level of maturity on your digital strategy within the procurement organization will really allow you to be in the room more effectively because, in fact, with the organization, I think it's very difficult to augment confidentiality provisions, the concerns that the C-level executives have in terms of having a small group of stakeholders managing the deal (23:31 unclear) faces. I think the best way to augment this, or influence organizations is with technology.

**23:38**

**Chris:**

Marcos, I remember we worked on a deal with a large live sciences organization. They actually split the company in half. We did a spin-off. Separations, by the way, I find to be much more complicated for procurement than integrations. We're ascending half of the enterprise to go spin off and rebrand themselves.

We were shipping contracts to our offshore team to do the analysis and pull out the terms, what contracts can be assigned, and what can we not, and that was a manual process. We were cranking through spreadsheets.

To recent deals where our client's ability to write a report and have all that contract information or have all that metadata readily available, what that does from a synergy or disynergy analysis perspective, what that allows you to profile from a risk perspective is really powerful stuff. Again, our clients didn't wait until the deal was happening to put that capability in place. That has to happen well in advance of the deal happening.

**24:46**



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**Marcos:** Chris, you're making me feel like a dinosaur because now I see a lot of our consultants using those AI technologies. It's like a video game. It works like magic. It's fantastic how we augmented from that deal that Chris is using as an example.

Now, we leverage technology to accelerate those activities on a tremendous pace. The amount of information that we can handle now and leverage technology and really allow, for example, the more seasoned professionals in the procurement organization to be more strategic.

Chris, I think you remember we spent a lot of time doing nitty-gritty work that we could be spending more on a strategic part of the transition. I think technology – perhaps in the post-pandemic environment – accelerates more points that allow us to be more strategic, but I think we need to use more and not less of technology.

I agree with you. It does require capital investments, but I think especially on this economic cycle where the supply chain disruption is going from buyers to sellers, I think this is money well spent to get access to the data that you have at your disposal.

**26:10**

**Chris:** Yes, I think that's a great point.

If you look in today's world and what we're seeing with what I would call supply risk as well as supplier risk. In most dealer environments, there's this notion of transitioning safe compliant ongoing operations. That transition – whether it's inbound or outbound – and taking the supply base through that is more critical today than it ever has been before.

It's everything from "how do you identify and act on certain agreements with certain suppliers?" It's kind of holding suppliers' hands through the process as well as internal stakeholders. Where's my supplier? Where's my stuff? It's really a sensitive space today given what many organizations' supply bases are in a squeeze, if you will.

**27:09**

**Philip:** Well, we've got a lot of great questions. I think it's really interesting that you said, in an organization that's active in the market, to tie procurement transformation investment from an ROI perspective to the success of acquisitions, divestitures, and mergers because you've got the speed.

I'm sure that having confidence in numbers drives greater confidence in the synergies which can drive deal price. There are lots of reasons and ways that that data is critical – not just beyond doing good procurement but actually to the outcomes of the process itself.

I want to pick a couple of questions that we got in as we were speaking here. The first one is from Monica. "What questions should procurement ask during due diligence as you're going through that pre-close process?" Chris, I'll pose that one to you first.



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**28:05**

**Chris:**

The biggest questions – for me, there are really two components.

One is the supply base. I think there are some basic questions in due diligence around what are the critical sources of supply, what are the major suppliers, how do we get at that, what is going to ensure supplier continuity, and what is going to maintain the appropriate cost base as well. There are some questions there. What's critical to this organization? Who are the suppliers that are tied to that criticality?

The other piece of this is in the function of procurement itself. There are always some questions to be asked of who is doing the purchasing, what does the organization look like, what is the degree of centralization, because quickly you are going to need to start processing how that function is going to transition and what it's going to look like in the future.

Those are the two forms that I think you typically want to get at as early as possible – the functional domain itself and the supply base aspect of it.

**29:13**

**Philip:**

I have a question from David. I'm going to ask this to you, Marcos.

"What regulatory rules impact what information can be exchanged during M&As that procurement needs to be familiar with?" Not necessarily "these are the rules, but these are the principles." What do we need to be careful of?

**29:29**

**Marcos:**

From the regulatory standpoint, there's an industry component that plays a factor. But in a nutshell, let's say one of the regulatory aspects that will come to fruition in any deal is the (29:48 unclear) aspect and how much information you can share pre-close.

I think that typically is not widely considered in many cases, but that's something that you need to have some basic understanding of that particular transaction – to form a term – appears to be a little intimidating as under investigation, but it's basically under verification from the Federal Trade Commission, but having an understanding how information can be shared during the M&A life cycle and how you can plan to do the different phases is an important component of the execution.

**30:35**

**Chris:**

Yes, I remember one of the first deals I did early in my consulting career was an oil and gas deal. They were selling two very large refineries as well as some other assets. They got the whole transaction team together and they took us through gun jumping training.



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There are all these regulations where there's only so much information you can exchange to these parties. Typically, the amount of exchange increases as you get closer to the close.

Early days, one side doesn't want to share anything with the other side. People are put in ringfences. But as you get closer to the deal, the information starts to flow.

**31:28**

**Marcos:**

You may use a (31:30 unclear) team to evaluate information to allow you to have access to strategic information to finalize the M&A strategic planning, but this is something that – as Chris mentioned – is super important that you have some form of basic knowledge that's associated with your industry in all domains.

**31:54**

**Philip:**

We have a couple of questions on the same theme around objections for procurement's involvement in the M&A process. One that we got – actually in advance – was from Mark.

Mark says, "Our M&A team uses the excuse of secrecy with regards to leaving procurement out of the activities. What has been the most successful argument against the claim that secrecy cannot be maintained?"

Chris, you look like you've had some experience with that in the past.

**32:25**

**Chris:**

Again, as poor procurement professionals, I get this image in my head of the kid trying to look over the huddle. "What's in there? What's going on? Let me in the deal."

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. What it does mean is that, even if I am not in the circle, how do I arm those deal teams with the information before and during considering the deal? Secrecy should not be an excuse.

There's a theme that I keep coming back to. As much preparation as you can do and education you can do between your deal teams and your procurement teams in advance, the secrecy is not going to be an issue because you know the deal team is asking the right questions on your behalf.

**33:33**

**Philip:**

It almost feels like, if you were being asked to get involved when you're already down the process of the deal cycle, it's already too late. It's that proactiveness in advance and the organization recognizing that there's a value that procurement can bring to the table and there's data that procurement has.



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If you haven't done all the upfront work that's not necessarily related to a merger or an acquisition, that perception leads to how involved you get and perhaps where the excuses and the objections come from as the process gets more serious.

**34:07**

**Chris:** Correct.

**34:10**

**Marcos:** We learn that – and I think, in many of the transactions that I participate in – procurement becomes an afterthought by the deal team.

I am going to go back that, if you can counter that political dynamic within the organization, focus on creating a level of maturity within the procurement organization by having data available for the deal team because you're going to influence the deal in a more positive aspect because the deal team will have access to key information that historically they may not have had access to.

They had to make up a bunch of assumptions. If they have access to that information, necessarily, they are going to have questions, and they are going to invite procurement stakeholders to be in the room.

You have to influence and be comfortable and have a level of maturity that your organization is present but perhaps not physically initially, but you have a good representation because – I'm going to continue to use this as an example – the contract life cycle management activities is well-established, operating on top quartile, the deal team has pure access to contract level data, spend level data that they can properly forecast, for example, synergies.

**35:38**

**Chris:** Sometimes, this isn't a question of being involved for the sake of being involved. Let's check out egos. It's not about being left out. It's about – once you do learn about it – looking at the expectations and go, "Wait. Who did this? Who did this diligence? Where did they come up with that number? I have to be able to transition how many agreements in what period of time?"

As a procurement professional, being engaged or being notified of a transaction and the terms of it and what-not and knowing that the deal team actually asks these questions on your behalf, that's getting off on the right foot as opposed to "we didn't ask any of these questions." Now, you're on the backfoot, as they say.

**36:30**

**Philip:** Yes, and you put a placeholder in the synergies, and now you're on the hook.



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I've been through that process before. A number is then given to the street for you to deliver on, and that number may not lay much bearing in reality, but because you weren't involved in that process, it sticks and then that's for procurement then to deliver on.

**36:52**

**Chris:**

We had a transaction where we were supporting a procurement supply chain organization. There were terms in the purchase sale agreement that had to be met, and certain schedules had to be populated at the time of closing. They came to us extremely late in the process.

We didn't have knowledge of this requirement, but we had to report all open-purchase orders over certain materiality, so we were scrambling with weeks to go before close. "How are we going to populate this schedule?"

This is actually a combination of technology issues, knowledge issues that we talked about, but the ability to simply run an open PL report and have it ready to go on the day of close. We wound up doing that exercise – that dress rehearsal – for weeks in order to make sure we had that process done right.

If we had known about that requirement when we first started the process, it would have been much easier. Instead, you find yourself scrambling, working through disparate systems, trying to understand the requirement in detail, and that's at the final hour. Not to say you're always scrambling at the final hour on these things, but the earlier, the better.

**38:05**

**Philip:**

I have a question that came in from Grant. Grant said, "This is a great conversation. Will it be rebroadcast so we can watch and listen again?" I want to let you know, Grant, that this will be available to watch on-demand afterwards if you'd like to share with any colleagues to get more folks to watch it, so yes is the answer to that question.

Now, there's a bunch of questions still around objections. I don't want to spend the entire webinar on objections as much as I could, and the answers would be really interesting. I want to pivot a little bit towards procurement itself – the integration of procurement.

I've seen these deals that happen. At least in the experience that I've had, one of two things has happened. One is that there is a divestiture that's left a procurement organization to be built from the ground up, or it's a merger and there are two competing procurement organization. It's like going through the pre-merger stage; you have two competing to show "I can bring more value to the combined organization than somebody else."

One of the questions that we had was from Craig. I'll ask this to you, Chris. "What are your views on the downstream integration processes that exist in process and tech infrastructure?" Once you are looking at a deal closed, how do you start bringing everything together?



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**39:30**

**Chris:** Phil, you mentioned the scenario where you have to go and build a new procurement function. That's fun. There are boundaries. It's not a blank check, but that's fun.

**39:46**

**Philip:** You have to go and beg all your suppliers to give you the same deal that they gave you.

**39:53**

**Marcos:** It's a different scenario nowadays, right?

**39:55**

**Chris:** To answer Craig's question, the integration process – like every corporate function or like every what I would call back-office function – can be a challenge. This is where you see the classic culture clash – the question over “are there synergies in people?” Headcount synergies are real synergies that get looked after in these environments. You've got competing systems. You've got highly centralized versus decentralized. Again, you don't have a blank checkbook.

The question very often becomes, if there is not a dominant buyer, if there is not a dominant player that says, “We are going to integrate you; you are coming our way,” you do find yourself oftentimes from a process and technology and infrastructure perspective picking off what you want to keep and what you want to go. That's hard. There's no easy way around it.

But what I would offer is – whether it's the enterprise at large or procurement in itself – it is a massive opportunity to upgrade capability. Again, it's not easy, but to take a deal environment and say, “I can take the best of what I'm getting. I can shed poor process. I can refresh my tech stack,” I think that's critical.

That's a huge opportunity for the function because I think most of us procurement professionals don't get an opportunity very often to invest in your capabilities, to refresh your tech stack, to redo process.

What also is very difficult in these deals is the knowledge transfer. Category teams spend careers guilting into category strategy, working with their supply base. In a lot of these integrations or separations for that matter, that knowledge transfer is a really critical component to making the integration successful.

**42:05**

**Marcos:** Yes, and adding to that, it always goes back to the point of saying, “How early is procurement involved in the deal?” If you are not involved early enough, then you can't influence the investment of those initiatives.

It becomes very difficult because we see many deals where there was no top process to integrate processes in a technology infrastructure, and that becomes part of the business improvement



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activities which, with very tight budgets, especially in the North American market, it becomes very challenging because it's very competitive and it's all about cost efficiency and cost effectiveness in terms of your profile. It becomes very effective.

That's why it goes back to how early procurement teams are involved in the deal that they can influence those initiatives in a more strategic fashion.

**43:02**

**Philip:**

As a procurement leader in this situation, you are needing to also make the case for the investment as part of the integration budget. You are fighting for dollars from an integration budget, but you are doing that as the deal is being solutioned because the finances are based on a lot of the implementation and integration budgets as opposed to waiting for the deal to close and being told, "You've got this pot of money. Go and integrate the two teams."

**43:28**

**Marcos:**

Right.

If you focus on the ROI, those investments are not only going to help the realization of savings but are also going to improve by this, this, and that. That becomes an easier path to make a case for investments, right?

But it comes down to the early phases of the diligence and being able to really identify those gaps and ensure that there are not only properly forecasted but accounted for to ensure that you have the financial resources and the human capital to execute.

I think there is a lot of capital available, but we are fighting for resources, technology being very difficult to get integrated nowadays.

**44:18**

**Chris:**

I think one of the reasons the function is overlooked is because it's so tangible. It's procurement. Everybody knows procurement. But I think how tangible it is, it's one of the corporate functions where you can sit there and go, "For every dollar I invest, I should be able to see what I'm getting back." There's a real return on procurement investment.

One of the classic issues that we see in integration is, as you bring in two organizations together and you've got a synergy target to hit but you've also got a headcount, you've got what I call third-party spend synergy target to hit, then you've got a headcount target to hit, the expectation is that you're bringing down the headcount, but you need those resources to deliver on the synergy savings.

It becomes this debate that says, "How many variable resources do I need over what period of time to really go capture the synergies?" The profile of the organization does start to look different than the other functions that they are expecting synergies out of. It becomes a very





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tricky debate for procurement to say, "Hey! I have this extra load of work and I need to keep these resources around in order to go execute."

**45:43**

**Philip:**

It is not unusual to invest upfront and capture the value that is part of the business case, but then you're always looking at steady state and what steady state is and how that may look different from what you need upfront.

I have a few questions I was going to ask that slipped my mind. I'm going to see what I have on here to go. This is a great question.

"What about mergers and acquisitions where the culture as it relates to spend governance is very different between the two organizations? One that's very cost conscious and maybe the other one's "well, it's around collaboration and partnership."

**46:23**

**Chris:**

Yes, I think culture is something that can't be overlooked. Again, I think this goes with any function that goes through the integration process. We have a life sciences client that purchased more of a product development company. Culturally, at this large life sciences conglomerate, their procurement function was so (46:50 unclear) and they are a machine.

You buy this company that are researchers. That's in their culture. Margins are huge and you are bringing this procurement function – let alone the supply base – into an environment where we run a tight ship and we are constantly asking suppliers to sharpen their pencils. We're asking our teams to run lean.

For the procurement professionals from the acquired organization, there was a little bit of a culture shock. Everything from how we communicate to our suppliers, how stringent our agreements are, everything is done on our paper and not the supplier's paper to "here are the systems and processes that we use, and thou shalt cut a purchase order for every agreement." To that acquired organization, that's a shock. "By the way, you have to do the supplier enablement as well to bring that supply base along." That's a very, very difficult thing.

What I would say is that this goes to the heart – in many cases – of communications and change management. We can talk about process and infrastructure and technologies required, but the communication and change management that's required – not only to the procurement professionals but to the supply base as well – is critical in these environments.

**48:10**

**Marcos:**

I did a recent deal between a large public institution and a biological research center that had fundamentally not only different cultures in terms of spending strategy and activities, but it's also to their operations.



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The whole conclusion that came from the deal team and the acquirer which was this large public university was “we need to preserve the operational components of their procurement activities and the way they do things to ensure researchers will stay with us and they continue to obtain grants and they continue to obtain new faculty to their medical doctor program.”

That means that expands to all facets of the organization. That is also very important to have human capital professionals that understand and have the sensibility to really look at data very differently and the impact because something that may be rational to execute from the procurement standpoint could be an absolute disaster for the rest of the organization because it’s going to influence not only how they do business, employee satisfaction, how they impact their customers, et cetera.

**49:43**

**Chris:**

Sorry if I’m telling too many war stories, but Marcos and I worked on a deal pre-pandemic. We were elbow to elbow, working hard with our teams. We were on the sell side of a deal that was being contemplated. I recall the potential buyer. Once they saw the cultural difference and the operational differences of the company that we were trying to sell, the potential buyer started to raise an eyebrow and say, “I’m not sure we want to do this anymore.”

These culture clashes are not just culture behavior and attitude. It comes out in the operations of the business. It comes out in the operations of the inherent function. Marcos and I were working with the client, and the buyer is going, “Wait a second. I don’t think we want to do this deal now that I’m seeing what I’m seeing.”

**50:48**

**Marcos:**

This was an example of our client, the seller, and (50:54 unclear) certain facets of the procurement organization. It was more relationship-based or oriented – how to manage their supplier base. The buyer was mainly more transaction-oriented and they couldn’t understand it. “Why do I need a relationship manager for those key third-party accounts to manage this relationship?” They couldn’t understand the value.

It’s fascinating how culture can influence the performance of the organization from the procurement standpoint.

**51:30**

**Philip:**

We had a great question from Dave that came in advance.

“What mistakes – if any – have you seen procurement teams make during this process and how can we avoid them?” I’m sure that that could probably be the subject of another whole webinar, and I know we’ve touched on a couple of them throughout the conversation. But, Chris, anything that immediately comes to mind as things that you’ve seen?



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**51:55**

**Chris:**

I think the big one is don't assume your suppliers are just going to get in line. Don't assume that, when you say jump, they're going to say, "How high?" I think that's a pretty poor assumption.

I think the other thing is, sometimes, procurement organization think they are operating better than they are. "We've got our contracts in order. We've got the data at our fingertips." I think those are some of the mistakes.

It's really more over-assuming you can get things done in a period of time. We have access to information. Again, I come back to the suppliers are just going to do that bidding. I think that's a pretty big mistake.

**52:50**

**Philip:**

Marcos, what do you see?

**52:52**

**Marcos:**

Yes, just adding to what Chris mentioned, I think it's about thinking and acting strategically because historically procurement organizations – especially in the deal space – have a tendency to focus primarily on contract transitions, open POs transition, and not thinking strategically enough to capture and improve the value of the deal. You can very easily get tied up with those activities and not think of the big picture.

**53:31**

**Philip:**

Yes, all about the outcomes. We talk so much on Art of Procurement about driving business outcomes. It's not about our procurement goals necessarily. It's about how we connect with what the business needs. It sounds like it's no different from an M&A perspective.

We've got a couple of minutes left. If anybody has any last questions, please send them over. We may get a chance to ask one more. I have a very tactical question for you, Chris. It ties on what we talked about before, but I also referenced it in my experience before of suppliers and working with suppliers.

You go through the transaction, then suppliers are coming back to the table and saying, "Well, now you're a different business. There's change of command, language in the contract. I want to put everything on the table again and renegotiate this."

Any advice on how to respond if you start to get a flurry of those once the deal is closed?

**54:21**

**Chris:**

Yes, I don't know if we have enough time. There are a variety of tactics and techniques.

I would say suppliers do want to continue to supply. If a supplier is approaching this environment going, "It's time to renegotiate," it's probably because the deal wasn't balanced the right way in



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the first place. It's probably not that they're coming to squeeze you because they have an opportunity to. I've seen that. "This is a raw deal. This is a bad deal." That's typically what's happening.

Now, there are some things – like when we see technology agreements – that suppliers want to establish themselves with the new organization. One of the tips that I would give, especially when there's any sort of separation, it's really an opportunity for a supplier to establish a new account, to do business and grow with a new organization. That's typically where we advise clients to try not to give away too many of the tricks, but that's a big one.

Suppliers want to supply. It's typically an opportunity for them to grow their business. What's really important – and this is a very tactical thing – is suppliers want to know how they're getting paid on day one. Your ability to communicate P2P and where to send your invoice and cashflow continuity is going to help that supplier come through the transition a lot easier.

**55:58**

**Philip:**

Marcos, in a deal, will there be a contingency typically made for risk associated with suppliers coming back and asking for increased pricing, for example, because you're now dealing with, for example, if it's a divested organization or smaller business?

**56:18**

**Marcos:**

Yes, you typically have critical suppliers early on being identified because you've got all these relationships that have to be communicated in advance to ensure they have the time to negotiate contracts or contracts that would typically require a white-glove treatment, but the answer to your question is yes, Phil.

We typically identify critical suppliers to ensure that we take a very strategic approach to communicate about the deal and also facilitate the negotiation. It really depends on if you are doing an integration or separations. Basically, the dynamics are very different.

**57:09**

**Chris:**

It's actually very similar to the way we do supplier enablement for technology deployments. We spend a lot of time tiering the suppliers. If you think about critical, strategic, and other, that critical tier is going to get some white-glove treatment. There's no other way around it.

How you treat those suppliers in the lower tiers will vary and will change. Also, don't make the mistake that the most amount of spend makes them the most important supplier. If you forget to bring that inspection or certification supplier through the process and you forget about them, you can be in a world of trouble.

**57:49**

**Marcos:**

In pharma, it's typically the lab services. They spend maybe \$10,000 or \$15,000 but if you miss an inspection, you might get dinged by the FDA.



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**57:59**

**Philip:** Or you mess with somebody's lab supplies, and all of a sudden, you've got mutiny from all your scientists.

**58:04**

**Marcos:** Yes.

**58:05**

**Philip:** I know it's about time to wrap up.

Marcos and Chris, I want to thank you so much for joining us on AOP Live today.

I want to thank everybody in the audience for submitting all the questions. As always, we've got a lot more questions than we could answer in the time we had, but I think you've really unlocked what it looks like to be inside a merger and acquisition, and such importance as we talked really throughout the entire conversation.

It's not necessarily about what you do when you're in the room or when you're around the room when a deal is happening but what can you do in advance so that your organization looks to you as a procurement function as somebody who can bring value to a deal as opposed to "yes, we'll set some numbers as we go through the business case," then push it down on procurement when the deal is closed." With that, let's wrap up.

Marcos and Chris, one last time, I just want to thank you so much for joining us today!

**59:00**

**Marcos:** Thanks for the opportunity! That was fun!

**59:03**

**Chris:** Thank you! Appreciate it!