

# INTELLIGENT M&A IN DISTRIBUTION

MAXIMIZING VALUE AND MINIMIZING RISK



## THE 4 P'S FOR INTELLIGENT M&A

Questions for executives



### PROCESS

- Is your targeting ongoing and proactive, or episodic and reactive?
- Does each deal feel like a one-off?
- Do small but important process steps ever get missed?



### PEOPLE

- Do you assemble a new team every time you do a deal?
- Does doing a deal take away your best people from running your business day-to-day?
- Do you have deal experts and integration experts on staff or readily available?



### PRACTICE

- Will your next acquisition go better than your last one?
- Do you gain the necessary experience from smaller, lower risk deals?
- Is your organization ready for a big deal?



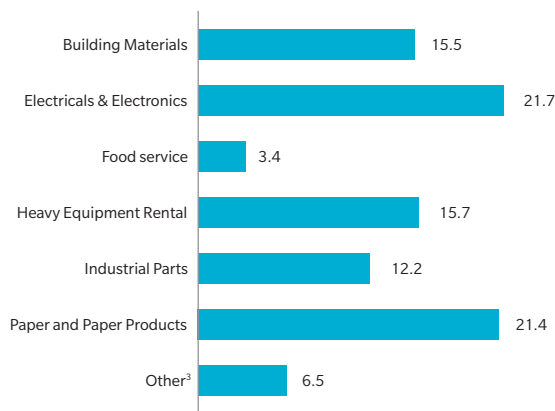
### PLATFORM

- Can your processes and systems be leveraged by companies you acquire to create value?
- Do your synergies emphasize commercial and operational performance, or just reductions in the cost of overhead?
- Will you succeed at this if you acquire a company in a different sector?

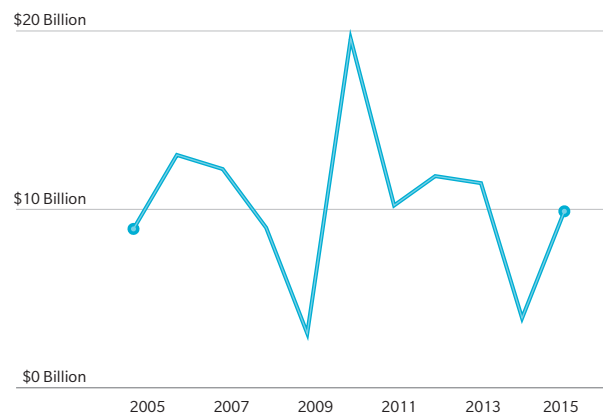
## M&A in Distribution: Facts and Figures

>\$1BILLION IN REVENUE DISTRIBUTORS IN US AND EUROPE

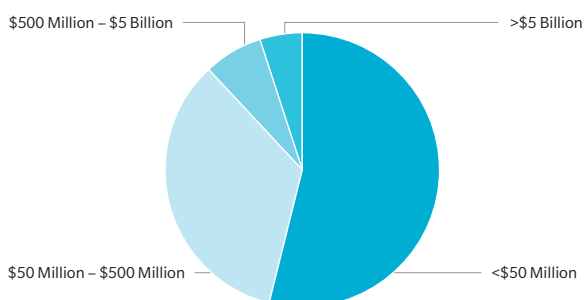
AVERAGE # OF DEALS BY SECTOR  
2005-2015<sup>1</sup>



REVENUE OF ACQUIRED COMPANIES<sup>2</sup>  
2005-2015

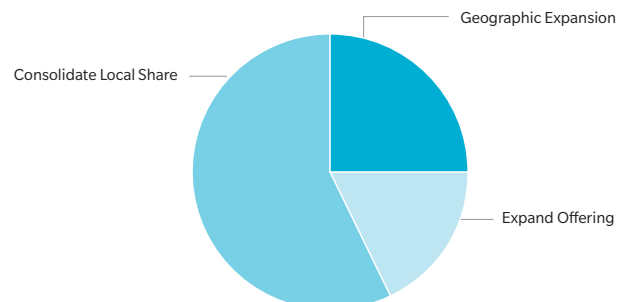


REVENUE OF ACQUIRED, AMONG TOP 20 ACQUIRERS  
2005-2015



Note: A large portion of deals sizes are unreported size. Not shown.

PRIMARY ACQUISITION RATIONALE  
2010-2015



<sup>1</sup> Includes all reports deals as acquiror between 2005 and 2015

<sup>2</sup> Total revenue at time of acquisition of acquired company. Scan includes only acquisitions where target revenue >\$50 Million. 2015 YTD data is annualized

<sup>3</sup> Other includes office supplies, upstream metals, extermination, and other professional services equipment

Sources: CapIQ, Hoovers, and OneSource, Oliver Wyman analysis

# INTELLIGENT M&A IN DISTRIBUTION

## INTRODUCTION

At Oliver Wyman, we believe distributors need to evolve their business and stay ahead of competitors by making their business more “intelligent”: using data, analytics, and processes to improve decision making throughout their organizations. We are now in the era of the “Intelligent Distributor”.

We often have described the previous period as the era of the “Consolidated National Distributor”, when improved business performance came from increased scale, often driven by geographic acquisitions. In that era, bigger was better, and the upside from consolidated purchasing power was more than enough to justify the deal, while further integration was a distraction and sometimes a risk. Judging by distribution mergers and acquisitions (M&A) activity in recent years, some of the elements from that era will persist in the new period that we believe distributors are entering.

In discussions with distribution executives on this topic, we have heard two things consistently: Yes, we are indeed in an era where distributors are seeking to make smarter decisions using data and analytics and improving business processes throughout the organization, and yes, M&A and consolidation continues to be an enormous growth opportunity.

We think these two concepts together create the opportunity for an intelligent M&A approach that can enable the best distributors to break away from their competition. Becoming an intelligent distributor, and then using these capabilities as the core rationale for M&A, can result in successful expansion and higher returns than peers.

Intelligent M&A is an approach designed for the strategic executive team that sees M&A within and across product categories as a path towards a breakaway competitive advantage. In a fast-changing marketplace where disruptors threaten the commodity and small-order business, intelligent multi-product and cross-category business models are accessible to the smart player. As such, we expect to see more frequent and larger cross-category transactions, as distributors deploy industry-leading capabilities inside and outside their traditional product category verticals.

Distributors need two competencies to achieve this ambition. The first is an approach to M&A that is disciplined and rigorous – deploying a standard set of acquisition targeting and integration processes, staffing these efforts with experienced and skilled people, and

ensuring that lessons are learned from each transaction. The second competency (and one that is much more difficult to develop) is a set of operating platforms that deploy the concepts of the intelligent distributor to create upside in your core business that can be extracted and transferred to other sectors where it can be used to create a similarly strong advantage.

This paper outlines both of these capabilities. When combined, they provide a powerful growth engine for a distributor in any product category to drive an inorganic growth strategy with superior returns.

## THE CURRENT STATE OF DISTRIBUTION M&A

While M&A continues to be a critical growth driver for most distributors, many executive teams have spent far too little time and attention to building the capabilities required to consistently identify, attract, and integrate target businesses effectively to maximize value. Many distributors we have spoken with say their organizations are too “ad hoc” in how they identify and vet acquisition targets. And so, each time a transaction is in motion, they find themselves inventing and reinventing how they put together an integration team and the process for integrating the target company.

Furthermore, many distributors are hesitant to fully integrate acquisitions within their product category due to the concern that driving alignment presents risks that outweigh the benefits. The acquired business continues to operate more or less independently, so local characteristics remain. In large part, this is because distribution has historically been a business where key decisions are made in the field, and the role of the corporate center has been relatively limited.

For this same reason, it has been rare, historically, to see distributors acquire companies that operate in different product categories, because merging two very different businesses was considered impractical despite the financial upside. So ambitions were limited to geographic bolt-on acquisitions focused on acquiring the revenue of the target and seeking procurement synergies, with limited attempts at deep integration or cross-product category ambitions.

Of course, success in M&A doesn't come easily – and often doing the wrong deal is worse than doing no deal at all. But those who continue to invest in acquisition and integration capabilities have access to a tool kit that significantly raises the odds of success. In our view, the foundation is about creating a disciplined and repeatable process, building a team of skilled people who are dedicated to these activities, and ensuring that with each transaction lessons are learned and capabilities built so the organization is increasingly prepared for future transactions. These capabilities are available to any distributor with gumption and discipline who aspires to grow through M&A.

With the foundational elements in hand, the way to achieve transformational M&A success is through platforms – capabilities that can be delivered from the center of a distributor – where the benefits of doing things with scale are significant and build on,

rather than ignore, local market conditions. These platforms are only available to the intelligent distributor, and justify larger future bets on acquisition opportunities across product categories.

## BUILDING FOUNDATIONS

### 1. PROCESS: MAKING ACQUISITION ACTIVITY RIGOROUS AND REPEATABLE

Acquisition targets don't identify and integrate themselves, and making it up on the fly is rarely a winning approach. Indeed, our experience suggests that even some distributors with stated acquisition plans do not have a robust and tested strategy for identifying and integrating targets. If M&A is a key part of its corporate strategy, an acquirer needs a well-defined process for how it identifies an evergreen list of potential targets, monitors each of them over time, and prioritizes among them. Once the acquisition target is identified and a transaction is being discussed with a seller, successful acquirers begin a rigorous process for designing the integration strategy and execution plans, and how and when synergies will be realized.

There are many different post-merger integration processes, but all have to deploy several key success factors: rigorous planning covering all elements of the business and governance at all levels of the organization. The process should always ensure that a robust understanding of the acquired business and its ways of working are developed and shared, and it should result in a practical and transparent implementation plan that can be tracked, at the task level, with its principal stakeholders held accountable. But no matter what the high-level process looks like, it will need to be adapted to meet the specifics and circumstances of the particular acquisition.

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*"It used to take us months or even years to integrate acquisitions, but we've gotten this down to a disciplined process to acquire and integrate in a focused process."*

Distribution CEO

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### 2. PEOPLE: ASSEMBLING A DEDICATED AND SKILLED TEAM

Many distributors think of acquisition identification and integration as an "off the side of the desk" activity for some set of senior leaders, supported by a young analyst or planner. We have seen many organizations take a set of managers off of their day jobs for several months to focus on acquisition integration, without an articulated plan for how their roles will be covered in the interim period. Doubling tasks and stress halves the chances of success. To make acquisitions work and to build a repeatable capability, a company needs to set up a dedicated group of specialized and experienced personnel to focus on M&A identification and integration.

This should begin with a small but capable corporate development team, tasked with identifying a long list of targets, tracking them over time, and initiating transactions. The size of the team should scale up with the complexity of the acquisition strategy and number of transactions being contemplated at any one time. Remember that a deal is not scale-sensitive; buying a small company is as complicated as buying a big one.

After a deal is done, the corporate development group hands off to a team for whom post-merger integration is the primary role. The integration team should be cross-functional and represent the whole business – sales and commercial activities, operations and supply chain, finance, IT, HR, etc. When the dedicated team is in place, they are running the integration process on one or more acquisitions at any point in time. The integration team can become a highly coveted set of roles and skills in the organization, as working on a new acquisition is often one of the most important topics in the organization and has a high degree of C-suite exposure.

### 3. PRACTICE: BUILDING CAPABILITY THROUGH REPETITION AND IMPROVEMENT

As with anything else, succeeding in M&A requires practice. And, certainly, there are distributors who appear to have been very successful with M&A, with the opportunity to practice through years of acquisitions. This practice has given them the perspective and wisdom to continually improve, and ensure that lessons learned are shared, successes repeated, and missteps avoided.

However, in many cases, companies make an acquisition, fail to successfully integrate, and then believe that M&A is simply too hard and too complicated. Others don't try because it appears so daunting.

Our view is that M&A should not be episodic. M&A works best when an organization sets the strategy, creates the opportunity to practice, and learns lessons each time as it continually builds its capabilities – both the process and the people – for future acquisitions.

If you have the right company to acquire, you need to have a plan. Using a disciplined approach to the foundational elements of M&A, we believe that a distributor can realize significantly greater synergy more quickly than by following a more ad hoc, one-off M&A integration playbook.

## BREAKING AWAY

### 4. OPERATING PLATFORM: THE DEFINING CHARACTERISTIC OF INTELLIGENT M&A

Powerful operating platforms, often embedded in the corporate center, allow the intelligent distributor to rapidly add breakaway value to any distributor, even one in a different market sector. We are referring to any capability that can be delivered at scale for a distributor – and where the benefits of doing things centrally build on, rather than ignore, local market conditions and product categories. With powerful operating platforms, an intelligent distributor can unlock even more value from the acquisition by driving increased benefits and creating new sources of synergy that traditionally would not be considered.

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*“The process we’ve developed and high-quality people that we can deploy on acquisition diligence and integration have dramatically raised the odds of success.”*

Distribution Executive

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Procurement is one platform that has been relatively well understood, and will continue to be an important benefit of consolidation. However, there are several other examples of such platforms that can create significant value as well. For example, the ability to operate a best-in-class logistics network, which has allowed companies like Amazon to expand into almost every product category and achieve increasing benefits from scale. Another relevant example is customer-facing technology and e-commerce platforms designed specifically for the B2B market. For instance, Grainger's online business has grown dramatically, far more than that of Amazon Business, because it has built its e-commerce capabilities to focus on the business customer, and its platform greatly simplifies their buying process across channels. Another important emerging platform is commercial data and analytics: the ability to equip the sales force with information to help them make better decisions on pricing and how they spend their time.

Intelligent platforms like these are more powerful because they are built to be scalable, extractable, and product agnostic. They allow distributors to rapidly bolt on value to companies they acquire, because they are designed to work from the center in a manner that helps the field representatives do their jobs more successfully with added data and insight.

The intelligent distributor sees M&A differently because it has platforms that allow it to reap the scale benefit from any target that it acquires, even targets in a different market sector, and the upside from deeper integration far outweighs the risks. Armed with such platforms, we expect to see the emergence of distributors that will be able to grow quickly through M&A, fueled by superior synergies, and will consolidate distribution not only within product categories, but into new product categories as well.

## CONCLUSION

M&A has been and will continue to be a key growth vector for distributors in all product categories and in all geographies. Those who take a disciplined approach to M&A will be able to identify, attract, and integrate the best targets in their product category more quickly and with lower risk. Becoming an intelligent distributor and then using those platforms to drive M&A activity will result in these distributors breaking away from their peer group, as well as expanding the potential viable acquisition targets outside of their traditional product categories. We may even soon start to see the emergence of a handful of distribution platform operators building breakaway competitive positions both within and across traditional product category verticals.

## ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Distribution and Wholesale practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we've built our business by helping distributors and wholesalers build theirs.

Oliver Wyman is a strategic advisor to the NAW and sponsors a number of NAW roundtable events for companies with revenues \$1 BN+.

[www.oliverwyman.com](http://www.oliverwyman.com)

## ABOUT NAW

The National Association of Wholesaler-Distributors (NAW) is the national voice of the Wholesale Distribution industry in Washington, DC. NAW is uniquely positioned to provide wide access to and exchange of leading-edge information and high-quality services among noncompeting peers within its membership. Its highly endorsed Billion Dollar Company program focuses on networking CEOs and their Direct Reports across industry segments in a noncompetitive environment where wholesale distribution executives can exchange ideas with peers in other lines of trade. In addition, NAW provides real value to its members by advocating the interests of distribution companies before the government; providing groundbreaking, distribution-specific research and strategic management best practices via publications and webcasts; and giving access to leading-edge products and services highly valued by industry peers.

[www.naw.org](http://www.naw.org)

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## CONTACTS

SHRI SANTHANAM

Partner

[shriram.santhanam@oliverwyman.com](mailto:shriram.santhanam@oliverwyman.com)

+1 650 575 6469

JOHN PETER

NAW SVP Corporate Relations

[jpeter@naw.org](mailto:jpeter@naw.org)

+1 202 872 0885

## CONTRIBUTORS

Keith Creehan, Kaijia Gu, Sam Rosenberg, Shri Santhanam, Jeremy Sporn

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