Ramp up to value from Day 1

Using proper planning, metrics, and tools, companies making acquisitions, divestitures or transformations can easily identify and address issues before they impact monthly and quarterly results.

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Introduction

Even the most carefully planned transactions and transformations by the most sophisticated players can fall short if the execution is thrown off at the start. When combining the operations of complex, global organizations across processes and borders, and managing the transition of people, contracts, and systems, thousands of things can go wrong—and frequently do.

The C-suite can now use real-time data and new approaches to detect performance from Day 1 through the initial "hypercare" period. This enables management to detect problems across functions and business units sooner, anticipate where new challenges may arise, and intervene before value is compromised.

This approach, which we call "ramp up to value," allows companies to begin tracking and delivering value immediately after close—a period when traditional operational KPIs simply can't reveal what's happening on the ground. By the time transition issues appear in monthly or quarterly reports, minor glitches may have grown into major sources of value loss.

In this paper, we describe the methodologies, tools, and practices we have developed to make smoother handoffs to "business as usual," maintain uninterrupted operations during integration, and capture value. To illustrate how the process works, we use the example of a global life sciences company that succeeded with a highly complex transaction while making material operational changes.

Fix transition gaps before value is lost

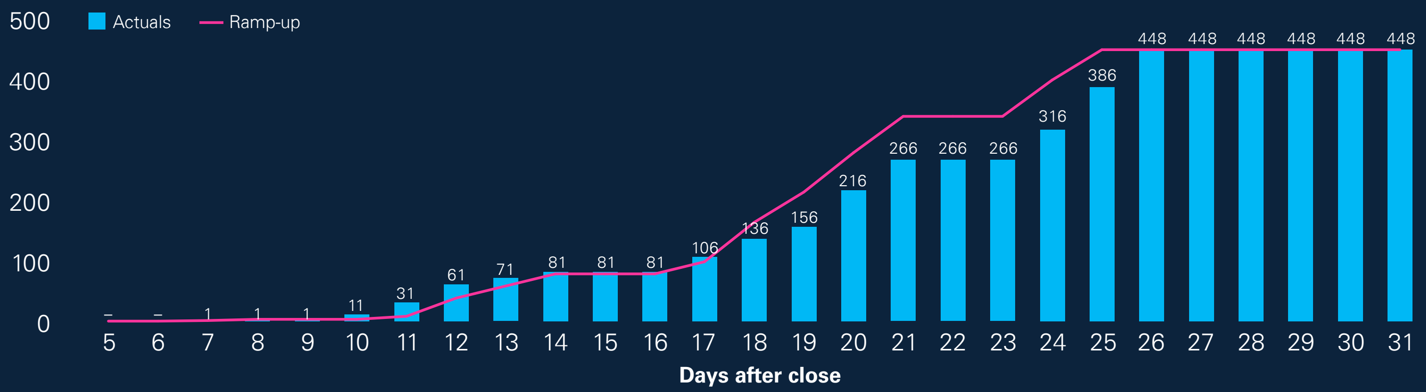
Shortly after a global life sciences company completed a business carveout, the early monitoring program detected a dangerous anomaly. The number of invoices issued in one large market was below initial targets—even though the number of orders fulfilled was in line with plan, as shown in Exhibit 1. The company needed physical invoices and product documentation to transport goods in this market, so this gap could have seriously disrupted operations with financial impacts that may not have been discovered for weeks without our ramp-up approach.

On the same day the invoice acceptance shortfall occurred, KPMG conducted a root-cause analysis and discovered a data migration error that was causing some customers to reject invoices. Local leadership immediately designed a manual work-around to avoid shipping delays and order backlogs. Within two days, the daily volume of invoice postings and shipments processed almost tripled, catching up with planned targets that otherwise would have caused a significant business impact.

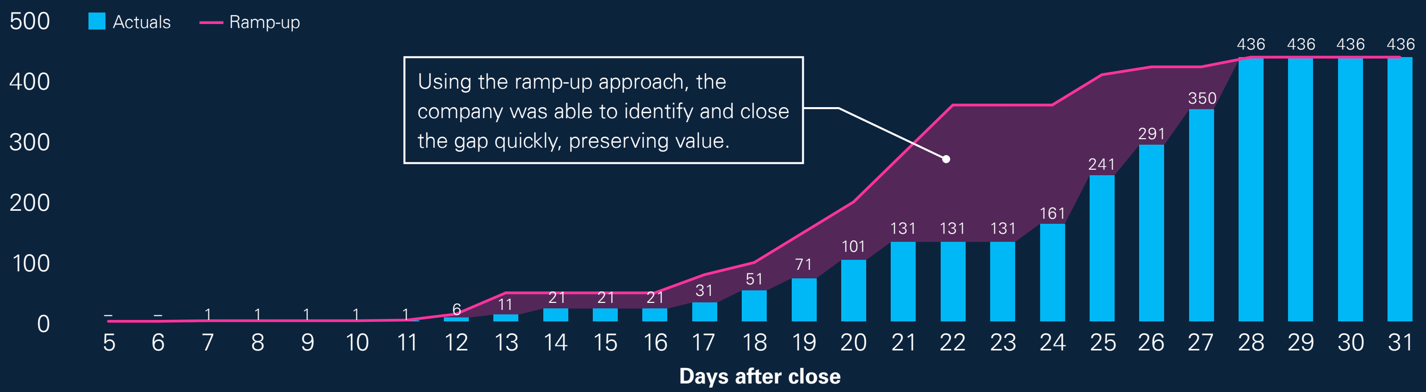
Teams can identify challenges in real time using the ramp-to-value approach, tools, specialized operational metrics, and data analytics to proactively put teams to work and get them back on track. "SWAT teams" remain on standby at all times to address material issues such as customers not receiving orders, invoices or collections being delayed, procurement being interrupted, or IT systems faltering.

Exhibit 1: Orders were in line with the plan, but invoicing gaps were growing

# of orders created versus ramp-up plan (cumulative)



# of invoices posting versus ramp-up plan (cumulative)



Ramp-up-to-value planning

Ramp-up planning should be built on historical data about business operations and baselines for how each function, business unit, and geography will perform in the first operational cycle and month-end financial close. In addition, cutover data about business operations such as expected cashflow, numbers of orders, issued invoices, and goods receipts can reveal the real-time anomalies of the transition compared to business as usual. With these clear and comprehensive benchmarks in hand, transition plans can be developed across the organization:

Systems readiness

Validate system readiness and consider system freeze periods, testing, data quality validation, etc. Teams should anticipate or delay the execution of certain business processes, such as order fulfillment, in freeze periods.

Master data and quality

Gain full visibility into data migration, quality check timing and other metrics to help senior leaders revise migration plans, and retest as necessary. In our experience, most organizations need a dual data-maintenance period for both old and new systems to achieve business continuity.

Product flows

Understand the timing to freeze and ramp down the current operating model based on regulatory, systems, and process readiness, such as the transfer of market authorizations, import and export licenses, and warehousing and distribution systems. Use historical and cutover data to identify new product flows and stockpiles that must be transitioned or used, and prepare mitigation plans to achieve product and financial flow continuity.

Financial flows

Based on the financial freeze period and potential cutover activities, revise financial forecasts in accordance with asset transfers, anticipated or delayed products sold, such as stock-in-trade, to confirm first-month end close target variations.

Program resources required

Soon after Day 1, transition program resources typically start moving to their old roles or new ones. This is often a major pitfall, as these critical resources should be kept on board until the business is stabilized and senior leaders align on a formal validation and exit-approval plan.

With a detailed, bottom-up plan for what should happen in each function, business unit, and geography on Day 1 and in the weeks that follow, the transaction team can be prepared to ramp up to value immediately.

Ramping up to value from Day 1

Global integration and separation projects tend to be complex, especially when they span operations and business units across borders.[1] This is why a hypercare program with a rapid response team may not be sufficient or effective. Additional anticipatory planning is needed to ramp up operations and business processes. Metrics should include order-to-cash, record-to-report, procure-to-pay, hire-to-retire, and plan-to-produce and others as needed. These metrics can alert leadership to early signs of technical or operational challenges that require close monitoring and mitigation before they become a major disruption.

We helped the life sciences company carve out a business unit with more than 20,000 employees and assets in over 50 countries, including manufacturing sites, distribution and export centers, R&D operations, and shared services. The client's main challenges included transitioning thousands of people, standing up new ERP systems and applications globally across back-office, manufacturing and commercial functions, changing product and financial flows to support a new global entity structure, securing local regulatory approvals in all countries, all while maintaining business and product continuity. Senior leaders also initiated transformation programs to make the organization more agile across product flow, back office, and regulatory compliance.

Product flow

The company's new export and distribution hub would centralize product flows for sourcing, manufacturing, and commercial operations.

Back office

A new shared service center would meet the needs of Corporate Finance, Accounting, Financial Planning, Order-to-Cash, Record-to-Report, Procure-to-Pay, Master Data Management, and Human Resources.

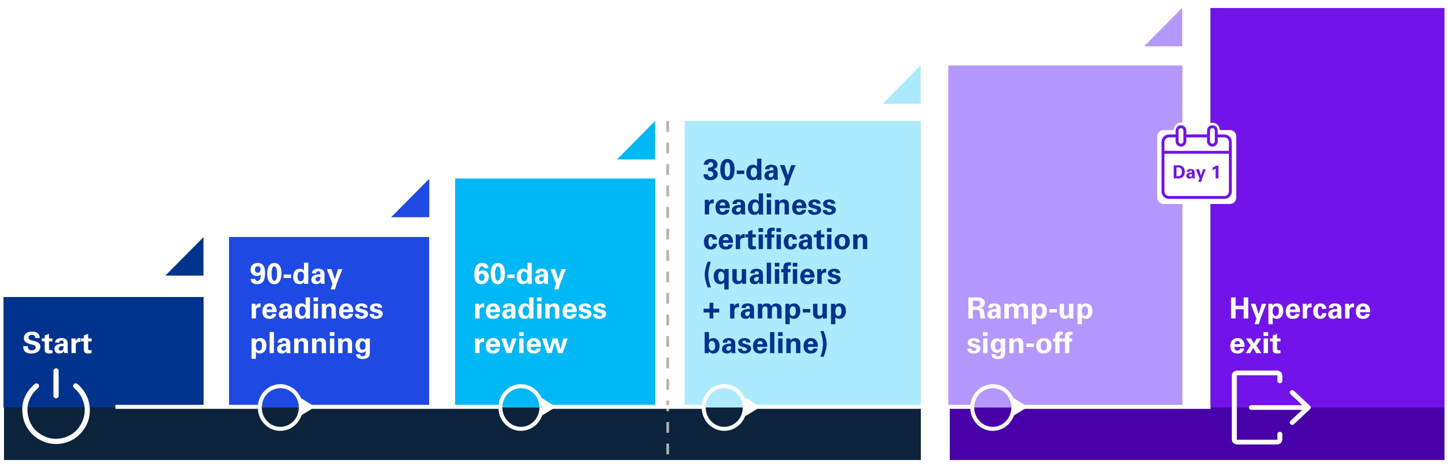
Regulations

A new regulatory hub would manage Pharmacovigilance, R&D, and Medical and Regulatory Affairs.

[1] "Navigating complex M&A," KPMG LLP, 2022

Leaders needed to closely monitor not only post-transition progress but early signals to mitigate any potential operational disruptions, proactively address risks, and avoid value leakage. We incorporated a ramp-up monitoring approach in the hypercare phase—four weeks before and after Day 1—that included close qualifiable and quantifiable monitoring of cutover and business critical processes pre- and post-close. Using KPMG's methodology, client teams conducted detailed analyses of historical performance, adjusting them to exclude or include the impacts of the transition to develop a robust and true ramp-up baseline across end-to-end processes. The ramp-up process started before Day 1, as detailed in Exhibit 2.

Exhibit 2: Detailed planning for pre- and post-close activities



Ramp-up planning:
Central and local work plan execution

- End-to-end process review, KPI identification and baseline development, and transition ramp-up planning
- Senior leader review and cutover detailed planning and pre-Day 1 cut-over activities begin

- Transition to cutover & hypercare monitoring
- Cross-functional planning for all end-to-end process ramp-up dates considering frozen periods
- Finalize KPIs

Hypercare and ramp-up KPI tracking: (2-4 weeks pre- and post-Day 1)*

- Country and functional leaders finalize ramp-up dates, targets, and detailed planning
- Daily reporting on KPIs actuals versus planned initiated

- First financial close and completion of cutover activities
- Ramp-up exit criteria achieved and transition management team released

* Duration dependent on meeting exit criteria.

** Qualifiers are statements used to stress-test work plans to verify exhaustiveness, align activities across functional work plans, enforce accountability, and align senior leadership on priorities to get to Day 1.

The timeline illustrates the steps required to review qualifiers—confirmatory statements used to stress-test transitional work plans for exhaustiveness, align cross-functional interdependencies, enforce accountability, and align senior leaders on priorities to get to Day 1—at the central and local levels.

In the "readiness certification" meeting 30 days before Day 1, we confirmed process readiness, gathered cutover data, and modeled the ramp-up KPIs and reports to track end-to-end business processes, employee transfers and key hires, legal entity setups and credentialing, asset transfers, the operationalization of transition services agreements (TSAs), and systems readiness, including user acceptance testing.

An effective hypercare phase should be designed to help senior leaders and project teams obtain early signals to resolve issues promptly. Using clear ramp-up KPIs as baselines with daily analysis and reporting, the transition team can provide management with early signals of deviations from agreed-upon thresholds. Tracking quantitative and qualitative ramp-up metrics helps leadership prioritize resources and determine best courses of action to meet financial targets in the first financial cycle.

Determining when to return to business as usual

Typically, a few weeks after the transition, leadership needs to wind down the transition management office. And after a few weeks and up to the first-month financial close, the company can confidently determine when to move to business as usual, based on weekly updates on business ramp-up progress and adoption of the new operating model.

Working with our life sciences client, we sought input from transition project management offices in each region and country to confirm that project teams could be released based on ramp-up exit criteria. For example, some functions were able to end hypercare support earlier because they met the criteria and were not involved in supporting the financial close.

Leading practices for ramping up to value

Given the high stakes and complex nature of larger integrations and separation transitions, we recommend that senior leaders consider some of the lessons we've learned serving clients across industries around the world:

Start cutover planning early:

It should include the first shipments, inbound and out, with dates, documentation, and user acceptance testing (UAT). Tracking a client's inbound shipments per day, we discovered that the first shipments in some countries were rejected due to minor data migration invoice mistakes that could have resulted in material backlogs at order and distribution centers.

Prepare for first month-end financial close:

Confirm well before Day 1 that corporate applications and interfaces across subsystems have been tested and access has been granted to functions and business units that conduct closing financial tasks, including communications between the finance team and local businesses. Closely monitoring ramp-up KPIs enables us to create a feedback loop to rapidly identify issues that must be addressed before the closing period.

Prepare for business ramp-up:

Thirty days before Day 1, identify realistic KPI thresholds for how each business will ramp up, considering Day 1 and cutover challenges such as technical issues with systems implementation and data migration, and key users' access using local, regional, and central operational business data. Test key processes, such as returns and credits, even if no returns are likely in the first month posttransition.

Confirm resource availability:

Plan for UAT, cutover and hypercare support staffing, especially during holidays and heavy-bandwidth periods such as month-end closing. Where necessary, confirm the availability of critical resources—such as legal entity representatives, accounting teams, and supply chain experts—who can monitor and report ramp-up KPIs to safeguard product continuity.

Conclusion

The stakes are getting higher in acquisitions, divestitures, and transformations. Valuations and complexity continue to rise, along with the scrutiny of investors, customers, suppliers, and regulators. Senior and functional leaders can no longer afford to fly blind while waiting for quarterly results—they can, and must, constantly harness new troves of data in the weeks before and after a closing to identify and address ramp-up challenges and shortfalls.

The rewards are substantial, beginning with delivering the value contemplated in the deal or transformation thesis. That value extends to long-term outperformance, which may include attracting and retaining talent, serving customers and communities better, growing revenues and margins even during a pandemic or recession, and building a more agile, fit-for-purpose business.

How KPMG can help

The KPMG Strategy practice serves corporate and private equity companies in transformations and across the M&A lifecycle, from strategy development through implementation after the close. With our integrated, multidisciplinary approach, we provide clients with critical insights into overcoming obstacles and creating value—at deal speed.

Traditional approaches to due diligence will increasingly fall short in the wake of the pandemic and with concerns about a recession. More assets may come with hidden and growing troubles, for example, as companies try to trim their portfolios and raise cash. This is why more of the world's leading organizations across industries are partnering with KPMG in M&A. With our proven capabilities and methodologies, we analyze assets more quickly, and help execute and transition deals faster and with greater efficiency, to deliver more value with fewer surprises.

A team with extensive industry experience

Strategy and growth, and performance transformation

- Market assessments and white space growth
- Strategic planning and growth strategies
- Enterprise-wide transformation and performance improvement
- Operating model redesign
- Technology strategy, including digital mobility

M&A and partnerships

- Strategic options and redesign of asset portfolios
- Deal theses and partner prioritization
- Commercial, synergies, operational diligence (in tandem with KPMG financial, tax, coding and compliance diligence, valuation, and corporate finance)
- Integration and separation, including Day 1 planning, PMO, and value capture and post-close strategy

Integration and planning support

- Support integration, separation planning, and execution across functions to maintain consistency of deliverables, timely delivery, and drive momentum
- Drive coordination activities
- Provide advice, best practices, tools, and accelerators

For more information, contact us:

Jeff Wilson
National Transaction Execution Leader
757-572-3717
jeffwilson@kpmg.com

David Delgado
Managing Director, Advisory
469-387-0951
ddelgadodalmau@kpmg.com

Didzis Ozols
Managing Director, Advisory
646-992-0805
didzisozols@kpmg.com

Osman Yousuf
Director, Advisory
404-536-6727
muhammadyousuf@kpmg.com

Collaborators:

Russell Smith
Director, Advisory
678-361-9036
russellrsmith@KPMG.com

Edileia Prata (Gigi)
Manager, Advisory
203-482-0051
edprata@kpmg.com

Nick Mikulka
Senior Associate, Advisory
720-891-6155
nmikulka@kpmg.com

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