Revenue synergies in chemicals deals

Follow through on well-designed commercial integration strategies to achieve full valuation

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Design and follow-through are critical

Revenue synergies remain among the most underutilized value creation levers in dealmaking—frequently promised but rarely delivered.

Companies and their advisers regularly namecheck revenue synergies in their deal rationales but then go on to oversimplify the effort to a cross-selling initiative. Within a few years, projections for increased revenue driven by a meaningful combination of organizations remain unfulfilled.

Yet achieving revenue synergies is increasingly important to justify valuations, including in the chemicals sector where transaction valuations have remained relatively stable even after a period of historic highs.[1] Consolidation, greater attention to profits over volume, and portfolio shifts to higher-value specialty chemicals have buoyed valuation despite market challenges.

Chemical companies are still practicing capital discipline amidst uncertainty, but deal activity is projected to rebound in the second half of 2023 if energy prices continue to decline, sector fundamentals improve, and demand remains steady. Sustainability trends and a push to complete deals before the 2024 U.S. presidential election also could drive M&A activity in the sector.[2] Meanwhile, many organizations are still integrating assets acquired in 2021 and 2022.

Whether developing an achievable valuation target for acquisitions, or trying to extract greater value from recent deals, chemical companies benefit from understanding how to design and follow through on effective revenue synergy strategies.

Chemicals Q1’23 deal volume declined, deal value increased

Chemicals deal volume decreased 28 percent compared to Q4’22. However, deal value went up 22 percent from the previous quarter.

The chemicals subsector shows resiliency in contrast to the overall energy, natural resources, and chemicals (ENRC) sector.

Q1’23 ENRC deal volume and value fell by 36 percent and 62 percent respectively, compared to Q4’22.

Source: CapIQ, KPMG LLP Analysis

[1] Piper Sandler, “Chemicals M&A Review,” October 2022

[2] KPMG LLP, “Dealmakers watch and wait,” 2023; KPMG Economics, “Lost in Translation: The Federal Reserve vs. Financial Markets,” February 2023

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The case for realizing revenue synergies in today's deals

Cost synergies help drive EBITDA efficiency, but revenue synergies are often necessary to produce the higher valuations dealmakers seek in the current market environment.

Looking back at many recent chemicals deals, companies often prioritized operational efficiencies, particularly as commodity process surged.[3] According to a KPMG M&A survey, chemicals and energy companies have focused their recent cost synergy efforts on direct and indirect cost rationalization, followed by working capital optimization; process, systems, and staff consolidation; and streamlining supply chain and other operations.[4]

However, amidst more difficult operating conditions and a less favorable deal environment in 2023, cost efficiencies are harder to find. Moreover, cutting costs can't fully support the valuations dealmakers expect.

Revenue synergies have always been much harder to predict and achieve than cost cutting, requiring more analysis and a strong working relationship with acquired companies. Planning and implementing revenue synergies has become an increasingly necessary part of a successful M&A outcome.

Pre-deal considerations

Pressure is growing on companies to highlight revenue growth potential, including commercial synergies, for intended transactions. Such pressure can unfortunately encourage chemical companies to make broad assumptions during the planning phase without a clear plan to achieve revenue synergies through cross-selling, customer expansion, and other levers.

The issue is often exacerbated by a lack of granular data from the sell side to build better assumptions. Buyers should request transactional sales data, marketing and business growth plans, and underlying cost data to test the underlying business plan through scenario analysis. Further, a review of the front office and revenue-supporting functions should be undertaken to understand additional improvements in the target's sales model, go-to-market strategy, customer growth plans, and customer overlap.

What specific areas of revenue synergy is your company focused on achieving?

KPMG 2022 year-end M&A survey, all sectors, multi-select

- Organic customer growth strategy 54%
- Produce/service development......................... 42%
- Pricing optimization 41%
- Sales and marketing integration 39%
- Combined offering development...................... 37%
- Product bundling 29%
- Alliance and channel partner optimization 24%

Source: CapIQ, KPMG Analysis

Post-deal considerations

Once the deal closes—especially a growth acquisition—chemical companies often fail to connect each other's commercial leaders and key team members. Too often, they are slow to organize their commercial integration efforts and obtain critical transaction-level data that helps define how to work together and increase sales from the combined product portfolio.

An effective strategy employed by leading chemical dealmakers divides opportunities into two categories: quick wins and future-state revenue synergies.

Quick wins offer a tangible way for the two different commercial teams to start working together to provide upside to the target's first-year growth plans. Rallying around those quick wins also allows both organizations to learn and develop a collaborative process to support future-state integration goals.

Future-state revenue synergies can take two or three years, if not more, to show revenue growth tied to the deal. It pays to be proactive, starting early by testing hypotheses, identifying product development work needed, and understanding how revenue synergy efforts fit into the overall strategy and the cost of implementation.

[3] KPMG LLP, "Cautious optimism: M&A trends in ENRC," 2022

[4] KPMG 2022 Year-end M&A survey

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Why companies often fail to capture revenue synergies

Successful commercial integration takes cooperation, dedicated resources from both sides—and a lot of shared information.

Organizations often focus on one party in the deal rather than looking carefully at both sides of the house.

It's not unusual for companies to include ambitious targets for run-rate synergies in their deal announcements and rationales. The acquirer's deal thesis often centers around cross-selling and value capture but fails to include a conscious, management-driven commercial integration strategy. Without dedicated commercial integration efforts, employees go about performing the usual deal activities without taking customer impact and experience into account.

Additionally, acquirer and target often misunderstand each other's go-to-market strategies and don't have a cohesive approach from the start. For example, the acquirer may be highly customer intimate (customer pull) versus an acquired organization driven by product push. This misalignment, coupled with a failure to conduct basic "blocking and tackling" such as understanding common/overlapping customers and white space opportunities, ultimately contributes to a failed execution.

Lack of overlapping products, customers, and markets aren't identified until it's too late.

Chemical companies face a significant challenge at the start of the dealmaking process: difficulty accessing and sharing proprietary information about their product portfolios early enough in the diligence phase.

As a result, the investment hypothesis can be fundamentally flawed from the outset. The parties don't have enough information to appreciate the commercial synergy process and develop an inside-out understanding of the markets. For example, the acquirer may absorb an organization that sells different products into the same markets, thereby expanding its overall chemicals portfolio. But a deeper dive would have uncovered that each company's products were not chemically similar or compatible for use by the other's customers.

The inability to fully grasp the chemistry behind the product portfolios or the differences across the value chains and applications can negate any potential cross-sell hypothesis. Without these synergies, the new "whole" can't be greater than the sum of its parts.

Dealmakers must gain a detailed understanding of the portfolio they're buying in order to explain how the combined organization will create greater opportunity to grow revenues.

Companies don't dedicate enough time or resources.

Buyers and the acquired companies have to be patient and properly identify where the greatest opportunities are for the combined portfolio and markets. The information needed is often scattered across multiple entities, depending on the complexity of the deal, and data needs restructuring.

Companies also need to be realistic about the cost and effort to define, communicate, and implement strategies. Deal announcements are typically vague about where and how revenue synergies will be achieved, and yet analysts and investors demand greater detail and accuracy. Growth estimates from these often-complex strategies require more data and work to develop than cost synergies and other common deal rationale proof points. Additionally, in the usual rush to communicate something to the Street, pricing optimization is often overlooked.

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Three actions to drive commercial synergies in chemicals

1 Identify combined go-to-market strategy opportunities

Shortly after close, commercial integration teams from both sides need to validate revenue synergy assumptions from diligence and identify new combined opportunities to pursue—both short term for quick wins and longer term combined go-to-market opportunities. A portfolio tailored to customer needs will drive the highest customer lifetime value, and it starts with a deliberate review of all customers and all markets across both companies.

This informs the development of a product portfolio with specifics for each of the six key potential combined customer classes and markets: customers of the acquirer and acquiree in shared markets; customers of the acquirer and acquiree in non-shared markets; and prospects in shared markets and in markets where the acquiree was located

We have seen companies place emphasis on cost synergies and back-office integration, while pushing off go-to-market plans and commercial integration until later.

The assumption is that both commercial and customer service organizations can continue operating as they have until management can get around to making changes. Or, that the organizations will just operate until they figure it out.

This lack of coordination and formal integration planning threatens to ruin the customer experience, such as hearing from two different salespeople at the same company about the same product, but with different prices and contract terms.

Food industry companies satisfy combined sales teams by maintaining incentives

A global public food industry manufacturer agreed to purchase a private company in the same space. But with its smaller size and agility, the acquired firm was growing faster and had higher profit margins than its new owner.

KPMG designed an interim commercial go-to-market model in which, among other attributes, the incentive structures that helped the newly acquired company expand by double digits before the deal announcement would continue for the first couple of years of ownership. Likewise, the acquirer's customer focus and growth strategies would also continue uninterrupted by immediate changes to incentives.

For the final future go-to-market operating model, the organization introduced newly designed incentive structures that accounted for the different incentive needs for "farming" and "hunting" market customer archetypes.

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2 Organize sales teams, incentive structures, and the future-state model around customers and growth plans

Initially, guardrails should be in place to ensure sales teams are not stepping on each other as they go to market and serve customers. After the initial transition, the teams should start developing their future-state and go-to-market model, which includes assigning responsibility for maintaining and growing individual accounts.

Once customer strategies and pricing programs are defined, the combined entity can develop sales incentives and management systems to drive desired behaviors across unique customer groups.

The new entity also should determine the overall incentive structure and communicate changes, if any. Misaligned incentive structures across newly combined organizations can lead to internal conflicts that will eventually spill over to the customer experience. Therefore, acquirers need to think strategically about how and when to integrate incentive plans, especially if there are major differences between the deal parties.

When it comes to sales and customer experience, the combined organization and business needs should have access to and share tools and training. This includes the implementation of leading practices and techniques to maximize value across the groups.

Finally, the back office and revenue-supporting functions for the combined organization also need to develop a future-state model based on commercial integration plan and business needs. The model should answer several questions, including:

- How will the finance and accounting team support sales reporting?
- How will financial planning and analysis allocate capital effectively to the business?
- How will operation plans support the customer product and growth plans?

Key questions to assess commercial synergies

The following questions are designed to help chemicals organizations planning deals or integrating recent acquisitions to uncover the similarities and differences that can contribute to success, or issues that need to be addressed before they lead to trouble.

- Are there similarities that can be consolidated across both sales teams?
- Does the acquirer have an inherent bias for the target because the business appears to be similar to its own? Playing devil's advocate, how dissimilar are the businesses?
- Are there differences where best-of-breed should be taken?
- What is the revenue synergy potential across products and channels?
- What is the go-to-market approach of each company?
- How are the commercial organizations structured?
- How are the commercial organizations incentivized and how should be think about key differences?
- Are there special capabilities to be shared from one organization to the other?
- What is the sales technology integration approach and what are the business needs to achieve growth/revenue synergies?
- What are the plans for talent retention?
- Have perimeters been set up around strategic accounts? What are the defined swim lanes?
- How will shared accounts be managed?
- What is the transition plan for Day 1, and 100 days? What are the interim and long-term plans to achieve commercial synergies?

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3 Develop dynamic pricing strategies that can improve customer product profitability

Properly evaluating deals in the chemicals sector in particular requires an analysis of pricing strategies. Private equity investors, for example, want to know how efficient chemical companies are in adjusting pricing. Are they increasing margins, treading water, or experiencing margin compression as logistics or other costs come into play? Are they truly benefiting from revenue synergies, or just catching up?

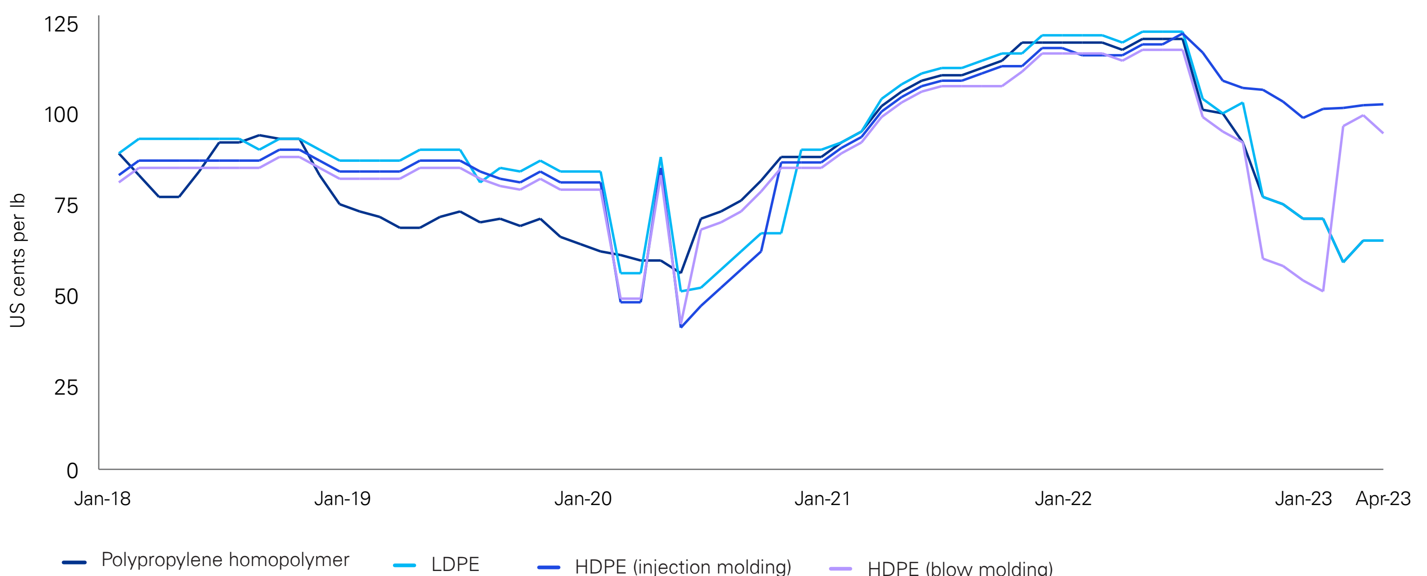
Here, many chemicals organizations have room to improve pricing in order to protect margins, grow, and maintain their customer base. At the height of the pandemic, some chemical companies were slow to pass on price increases over concerns about maintaining customers. Margins got squeezed, and now these companies are racing to "catch up" as raw material prices continue to increase (see Exhibit 1).

Meanwhile, current pricing dynamics are being driven by COVID-19 recovery, complex and challenged supply chains, the Russia-Ukraine war, and other factors unique to the year. Valuation can be driven by how well chemical companies can quickly pass through price increases and adapt quickly as raw materials and other factors change. A clear story around cost pass-through compared to pure-play pricing increases is critical for diligence. And yet, clarity is difficult given multiple contract mechanisms and dated technology systems.

Various pricing models exist with various levels of sophistication. Some models use data analysis to pass through price increases as they happen (dependent on contracts), rather than increase prices in advance of an expected trend or change. Others wait to feel the impact and then pass through increases quarterly. And still others use smart contracts with blockchain technology to automate and track the supply chain.

Tailoring pricing by market, customer, and product maximizes the customer relationship and increases opportunities to find greater profitability while improving service. With digitization and data analysis, chemical companies can quickly adjust pricing to market conditions such as raw materials costs and freight increases, supply and manufacturing disruptions, individual customer demand by volume, and more. Once dynamic pricing is introduced, all customer-facing personnel will need training and experience to understand and follow the opportunities provided by the data analysis.

Exhibit 1: Polyolefins pricing (spot and contract) from 2018 to 2023



Source: Morgan Stanley, "European Chemicals Monthly Data Book," US Petrochemical Price Review

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Improve the odds of revenue synergy success

Through our work in chemicals and across other sectors, we have identified key enablers to capture even more value.

Advanced data and analytics

Whether considering future deals or integrating recent acquisitions, chemicals organizations need data and analytics capable of fully assessing synergies and demonstrating value.

Pre-deal, buyers typically perform commercial due diligence to develop high level revenue synergy targets. However, there usually isn't enough information to provide a clear directive on how to deliver. It's not uncommon for buyers to see their targets' customer lists until a few days before the deal closes (if not day-of).

Chemical companies should define synergies up front and obtain the acquirer's transactional-level data needed to test and set upper limits for potential synergy cases. This includes who is selling what and where, the size of the sales team, and customer overlap.

Finding that data across disparate systems and dashboards is time-intensive task, as is structuring it. Once data sets are clean and comprehensive, companies then need proper analytics platforms to uncover the most promising cross-selling opportunities and determine which entity is best to serve certain customers.

Additionally, as mentioned, enhanced data and analytics are critical to enacting pricing strategies. The combined organization should tap the technology resources and knowledge of the more digitally sophisticated company—the acquirer or the target—to infuse data-driven pricing practices across the new entity.

Speed-to-market as one

Companies must work quickly as soon as the deal is done. Post-close, buyers need to coordinate closely with acquired organizations to confirm and identify new synergies that weren't apparent during the pre-close period, while developing realistic implementation plans.

Buyers should not only develop strategies that increase the value of their targets, but also keep an open mind and adopt processes that their acquired organizations do well. Organizations are much better positioned to execute well on the back end when information gathering goes well before closing.

Additionally, the effort to combine sales operations should be completed as quickly as possible to highlight opportunities in the enhanced portfolio and take advantage of the cross sell. Losing customer attention and momentum in the integration period will open the door to competitors.

Realizing revenue synergies takes time, longer than it takes to implement and benefit from efficiencies. But the planning and executing commercial integration can't be delayed.

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How KPMG can help

Today's complex M&A environment requires dynamic strategies to address disruption, stiff deal competition, faster cycle times, elevated valuations, compounding macro-economic risks, and other market realities. KPMG mobilizes experienced professionals across global markets, industries, and functions to guide companies along every step of the deal lifecycle. By focusing on value identification and outcomes, we can help uncover the cost, revenue, and transformational levers unique to each deal.

For revenue and commercial levers specifically, we work closely with company leaders to uncover growth potential, identify new products and markets, and understand the ecosystems and partners that can help combined organizations drive the greatest deal value. We look for synergies and opportunities for sustained performance improvements across everything from product pricing and cross- and up-selling to customer loyalty, sales and marketing integration, and go-to-market optimization.

With wide-ranging capabilities and thorough orchestration, KPMG can meet the most complex M&A needs for a better overall client experience and long-term deal success. In chemicals deals, we can help you identify and realize revenue synergies through three actionable steps, leveraging our data and analytics capabilities.

1

Identify combined go-to-market opportunities

We help clients identify and seize opportunities through combined GTM activities. This should occur early in the integration by bringing the acquirer and acquired commercial teams together to look for revenue synergies and assess how to best to coordinate activities at common customer accounts (either by combining leading practices of each organization or by applying one's GTM activities to the other).

2

Build your future-state model

We advise clients to design their future state to the business model and growth aspirations. Shortly after close, the acquirer and acquired commercial teams should meet regularly to develop the combined organization design, processes, technologies/systems to support revenue synergy and growth targets.

3

Develop dynamic pricing strategy

Our data and analytics capabilities help us support our clients through transaction level analysis and see the ability of a target to accurately pass through raw materials cost increases and targeted price increases where the market warrants it. We typically find during diligence that there are multiple opportunities for customer-specific price increases where market price misalignment exists.

Data and analytics

We have leading data sources, advanced analytical techniques, and tested tools that enable speedy and better outcomes.

Data sources:

First party transaction and KPI data

KPMG proprietary data

Third-party and alternative data

Public and open source data

Data sources to data analysis and insights

Data analysis and delivery:

Rapid data ingestion and blending

M&A analytics platforms

Bespoke deal science & analytics

Insight delivery

Impact and outcomes

Speed to insights

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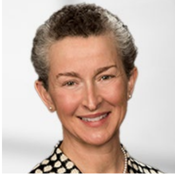

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Gillian is a principal in the KPMG Strategy practice and has spent more than 25 years supporting corporate and private equity clients with actionable corporate and business unit strategies, many of which have involved acquisitions and divestitures. She works with clients pre-close and post-close to develop coherent and executable commercial integration strategies in the current business climate.

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John has more than 20 years of operations, marketing, and M&A services experience in agricultural chemicals, base chemicals, specialty chemicals, minerals, catalysts, coatings, and pigments. He leads integration and separation engagements in the agricultural and chemical sectors covering both due diligence and deal execution for large multinational firms.

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