

Merging and Consolidating Operations: Sorting Out the Nuts, Bolts, and Wrench-turners

By C. Richard Panico

The challenge of successfully merging and consolidating operations can be met by closely managing the “hard” and “soft” elements of the task.

Successfully merging and consolidating manufacturing operations into a unified entity can be a task of great magnitude and complexity. Implementation is laden with risk, and the outcomes can vary between business growth and prosperity to the underachievement of organizational goals and potential cultural demise.

One way to ensure a positive outcome and help navigate the many issues posed by these consolidation challenges is to employ an approach that carefully balances two key activities:

1. Logical and disciplined rationalization of the margin operations
2. Proactive and insightful management of organizational change

It is important to note that these activities are not mutually exclusive, and must be effectively planned and managed concurrently. These activities are complementary in a consolidation strategy. Many consolidation projects fail before they even leave the starting line. Interweaving the human considerations into the tactical operational planning is paramount to success.

This discussion will explore the basic steps and considerations within each of these critical activities while providing insight regarding how to best plan and manage their application. I will draw upon lessons learned through management of numerous operational integrations, in a variety of corporate environments, to relay experiences describing common pitfalls and best practices. It is my hope that these lessons learned will help you to realize the synergistic benefits of an effectively consolidated operation.

The Nuts and Bolts

The first activity of rationalizing the merging operations can be thought of as the nuts and bolts. It is rigorous and requires application of a structured process to

collect, comprehend and draw meaningful conclusions from relevant information. The investment of time up front to understand the operations and carefully plan the integration (front-end loading) will reap considerable dividends. Many times organizations instinctively want to skip right to implementation, often resulting in iterative fixes to actions that should have been done right the first time.

The following are key components of a consolidation framework that, when effectively employed, provide an excellent process to identify and capitalize on available synergies while minimizing rework:

Discovery and Characterization

The first step yields a factual baseline of processes within the merging operations and forms an excellent foundation for further analysis. Effective discovery and characterization requires truthful and accurate documentation, thereby eliminating bias and delivering a mutually understood and agreed to definition of the current state of the operations. Key activities include establishing a project management structure followed by data mining, data verification and data compilation to represent the current-state operations.

It is imperative to ensure that the consolidation effect is aligned strategically with the expectations and objectives of the managing organization, which can be achieved by soliciting understanding and agreement to the project charter with the appropriate stakeholders. Moving forward with an effort that is not aligned likely will create failure and disappointment as the project progresses.

Analysis

The objective in this step is to visualize the desired end state, understand gaps or obstacles to getting there, develop consolidation options, and conduct detailed analyses to qualify and quantify the benefits and risks of each option.

Typical activities include: confirming products that will be manufactured and those to be outsourced to contract manufacturers; development and analysis of key manufacturing requirements; identification of plant operation practices, systems and intellectual property to be preserved; establishing operation and support personnel requirements, and developing a retention and displacement strategy.

The insights and conclusions developed in this step will be utilized to create consolidation recommendations. However, project teams can easily get caught up in performing irrelevant analyses and spending time identifying options that do not warrant consideration. Diligent adherence to the project charter and effective stakeholder management will avert this scenario.

Recommendation

The key activity in this step is to evaluate the options previously identified against *objective* criteria. To derive a recommendation that meets the overall goals of the initiative, it is critical to establish the evaluation criteria carefully. The use of rank prioritization methods and collaborative stakeholder involvement are imperative. Other key activities in this step include completion of the risk and benefits assessment and development of a preliminary implementation strategy, including schedule and budget.

At this point, you need to trust your data and analysis and ensure that all stakeholders have an understanding and buy-in to the recommended option. This is critical. Project teams must realize that they have to sell their recommendation to sponsors. Having to retreat and re-analyze information is de-motivating and often prohibitive due to time constraints and other project priorities. This can be avoided by being as thorough as possible.

Final Planning and Design

Once approval is received, the necessary planning details can be prepared. A detailed work breakdown structure is a good vehicle to identify lower level, quantifiable tasks. These tasks then are loaded with resource, time and cost estimates. This information then is rolled into a more robust implementation plan and budget that, ultimately, will be reviewed and approved by the sponsor stakeholders.

It is also essential to revisit the risks and benefits preliminarily identified in the previous steps. Risks and benefits must be quantified and validated in conjunction with the implementation plan and budget. Once the detailed implementation plan, budget and risk/benefit assessment have been completed and approved, these documents will serve as a baseline to control activities, track work progress and measure performance.

Implementation

Implementation is where the rubber meets the road. It is the transition from the current state to the recommended consolidation option. However, before

beginning, a control structure must be in place to facilitate management of scope, schedule, cost, communications and risks. Establishment of a control structure allows continual assessment of performance to the implementation plan and budget while ensuring effective resource utilization and risk mitigation.

The control structure requires completion of activities – such as development and implementation of a communication plan, creation of a formal process to address and evaluate project scope changes quickly and efficiently, continual assessment of project risks and implementation of mitigation strategies, and accrual and documentation of costs and benefits as previously identified.

A cautionary note – proper identification of either positive or negative variances to scope, schedule and budget often is neglected by project teams due to employment of a sliding scale. The final planning and design documents must serve as static baselines, allowing thorough understanding and measurement of change. Not managing the consolidation initiative in this manner can present a missed opportunity to truly gauge execution performance and understand where corrective action or positive reinforcement can be applied.

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The Human Element

As you work through the consolidation framework and complete the individual process steps, careful attention also must be provided to the second part of your approach – the management of organizational change.

Human nature provides a reflex to preserve your personal comfort, a comfort typically derived from a sense of control or knowing what lies ahead. Initially, stakeholders may not have a clear vision of what the future holds for them. Individual roles and responsibilities, personal logistics and work environments undoubtedly will change as the existing operations are merged. This can create a feeling of discomfort that must be sensitively managed throughout the project to avoid stakeholder bias, resistance and lack of engagement. The benefits of successfully managing the human element can include establishing

focus support, high levels of individual contribution and constancy of purpose. The key considerations regarding managing the human element are listed below:

Leadership

Consistent leadership is an essential ingredient for success and an absolute requirement when consolidating operations. Merging organizations naturally are divided into the two sides of the consolidation, “us” and “them”. This creates specific loyalties, opinions and perceptions among stakeholders that may lead to conflict and distraction. Effective leadership will minimize these effects by objectively managing stakeholders and not allowing conflict or bias to undermine the project goals. This leadership also will build bridges between the two organizations, thus imparting a spirit of unity, as they will all now need to work as one.

Vision

Perhaps the most significant contributor to the fear of change is the fear of the unknown. Clarity can be achieved through the collaborative creation of a vision of the future, derived through execution of a structured process. Stakeholders can gain comfort and confidence as options are put to paper and supported by facts and analysis that they have been party to and understand.

Communication

Two particularly relevant aspects of good communication come to mind immediately. First, it is important to remember that one must manage the communications that are both sent and received. Open communications, those that flow freely to and from, are not a given in an inherently tumultuous situation where opinions are strong and often biased. A good leader must also be a good listener, adeptly extracting the knowledge and perspectives from the project team while confidently sharing information and direction.

The second issue regards confidentiality. Confidentiality is often an initial requirement on consolidation projects. It can be difficult to draw in all the resources that are needed to analyze and plan a complex consolidation, particularly when specific details cannot be communicated. In this case, difficult decision must be made to appropriately include these resources or make educated assumptions regarding the required information. Swift communication is almost always best. Rumors and assumptions quickly will fill any void in information, and it is often more difficult to deal with rumors than to have been up front with the organization in the first place.

Creativity

An excellent way to manage the fear of change is to transform it from a perceived negative to a perceived positive. Engaging stakeholders in an effort to create

something new, in this case an improved and consolidated operation, can be an effective tool to minimize fear. By virtue of effective leadership, stakeholders must be reminded that they are part of a select group that affects positive organizational change and create something that is better than what exists today. It will be a powerful and exciting feeling to realize that thoughts and opinions of how things should be will not only be heard but eventually acted upon. Engaging stakeholders in this manner often can minimize negative impacts associated with the fear of change.

The challenge to merge and consolidate operations can be daunting. Engagements of this type require the deft management of a myriad of data, information and resources, and it can quickly become encumbering – particularly without the guidance of a structured approach. It is absolutely essential to apply *equal* focus to the nuts and bolts and the human element. With respect to these critical activities, *independence* is not an option – substitute *interdependence*. The application of a truly interdependent, structured approach to consolidating operations will yield a solution that is successful and, most importantly, sustainable. **GCI**

Acknowledgement

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