Operational Assessments – A New Norm for Mergers & Acquisitions

The current economic environment and uncertainties surrounding healthcare reform, coupled with pressures as a result of reductions in reimbursement and growth in the number of uninsured has caused many healthcare providers and related industries to take steps to dramatically reduce costs through consolidations, mergers and acquisitions. The goal is to expand service areas and/or market share while consolidating or spreading overhead costs. However, oftentimes, decisions to merge or acquire are based primarily on P & L documents and balance sheets rather than utilizing underlying business intelligence to analyze business processes and operations including productivity and quality outcomes that impact future margins and company growth.

The standard for beginning the process to acquire an organization is to audit financials, both current and projected, conduct asset valuations and to confirm regulatory, federal, state and municipality compliance. *But, how does an entity know if the current operations are functioning to the level presented and the organization is capable of achieving its' anticipated financial and operational projections for the coming year?*

Operational due diligence is designed to provide comprehensive analyses of the entire organization's "operating" capabilities. Growth projections are tested and quantified, new capital and business plans and projections are analyzed, staff is interviewed for their insight into operational issues and every core function is measured to determine its current and future capabilities.

Summit OG recently completed an operational assessment to provide an organization's senior management and Board of Directors insight into the actual operations for a planned acquisition. Key findings included:

- Disparity in the projections for the new fiscal year providing the acquiring company a stronger position for negotiation and the Board of Directors transparency into the acquisition.
- Lack of actionable plans, including provisioning for additional resources, to achieve the strategic plan objectives for expansion into a new market.
- Identification of a product, where volume was projected to be lower than needed to meet customer demand, thus causing significant impact to net margin and customer confidence and satisfaction.
- Significant opportunity for short-term and long-term initiatives to improve yield, decrease product re-work and improve both staff and customer satisfaction.
    - New technology that was not supported by the product projected to be purchased.
    - Staff efficiencies.
    - Focused reductions in product losses.
    - Customer mix changes.
    - Processing logistics and product collection markets.
    - Improvement in capacity.

In conducting operational assessments, Summit uses existing, and/or develops:

- Strategic Plans
- Customer location, volume, product mix, contracts, requirements and "satisfiers"
- FTE metrics
- Financial analyses and benchmarking
- Operational data, where existing, and statistically viable sampling analyses where needed

The results of the analyses provided the acquiring organization with key insight into the primary operational targets required to meet their goals in the acquisition, as well as information that provided better transparency with their board, essential for the overall successful negotiation of the acquisition. Additionally, this new information will enable the acquiring organization capability to immediately target areas to meet customer demand and improve net margin.

Summit has considerable merger and acquisition expertise in a wide range of financial, shared service and operations functions in manufacturing, sales, service, distribution, healthcare and blood banking. Our specific expertise includes data and statistical analysis, technology, cost per transaction comparatives, process understanding and financial analyses.

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