GOTHAM CONSULTING PARTNERS
Value Creation In Private Equity

Carve-out Planning For Specialty Chemical Manufacturer: Determining Organization Structure And ERP System For The Standalone Company

The Challenge: Our client, a specialty chemical manufacturer owned by a middle-market PE firm, was recently carved out from a larger chemical company and was temporarily operating under a shared services agreement. Our client operated 1 manufacturing plant and managed domestic salesforce, with its former parent providing SAP ERP system and IT services as well as finance, supply chain, plant engineering, international sales, and corporate functions. The client had hired the CFO at the time of separation and the CEO more recently. With the transition services agreement expiring in 13 months, the client asked Gotham to: (1) develop a target organization structure and personnel requirements; and (2) determine whether SAP is a cost-effective solution for our client.

Rapid Carve-out Assessment to Enable Critical Organizational and ERP Decisions: To understand the situation, Gotham:
- Visited corporate HQ and interviewed finance, HR, IT, plant engineering, and supply chain teams to: understand the organization, business processes, and support provided to our client; gather data required to quantify the workload to be migrated to the new standalone organization; and establish ERP and other IT system usage related to our client's operations
- Visited the manufacturing plant and interviewed key operations and support personnel to: confirm/determine what functional support comes from the corporate organization; understand local support team structure, capabilities, and interaction with support teams at corporate HQ; evaluate SAP usage and identify ERP system requirements; and assess IT system requirements
- Participated in the new CEO's all-day sales meeting to understand customer needs and sales requirements
- Built target organization structure for the standalone company, including personnel requirements (from bottom-up activity-based build-up), and personnel costs taking into account the company's strategic priorities and transition requirements
- Reviewed ERP systems; interviewed ERP vendors and system integrators; and developed one-time and ongoing costs, implementation timeline, and risks/benefits of various on-premise and cloud-based implementation options.

In addition to assessing the SAP ERP system, we also cataloged and established functional and IT system criticality, and one-time transition/implementation and annual costs of:
- Business applications: ERP-integrated (e.g., FP&A, sales tax, logistics); regulatory (e.g., safety data sheets, product labels, incident tracking and reporting, fugitive emissions measurement and tracking, safety audits, REACH compliance); HR (e.g., payroll, time clocks); operations (e.g., AspenTech); and collaboration (e.g., SharePoint, Exchange ,CRM, homegrown)
- IT infrastructure: websites; servers; data storage; workstations; printers and scanners; distributed applications (e.g., Windows, Office, endpoint security, desktop); network (WAN, LAN, remote access); and local phone systems and mobility devices.

Staying with SAP Slightly More Expensive but Ensures Transition in Timely Manner with Minimal Risk

Gotham's assessment of the ERP options concluded that: SAP provides good functionality for process manufacturing; the company has a long history of SAP use; and SAP can be implemented faster and cheaper (in 3-5 months) than other ERP options by copying current SAP configuration as-is. We concluded that there is no compelling need for the latest SAP technology (S4/HANA) as the additional length and cost of implementation does not justify any feature and performance benefits gains. We also establish that the new SAP Public Cloud product is not a viable option for another 18-24 months. We recommended that the client host new SAP implementation on the cloud and eliminate the cost of on-premise implementation.
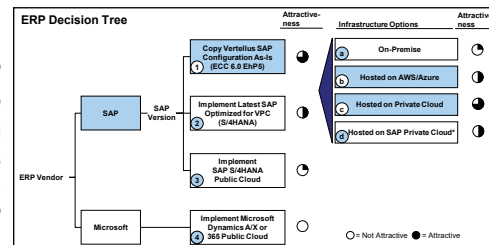
Business Applications and IT Infrastructure Can be Simplified Significantly

Gotham established that 3 operational systems controlling manufacturing processes were already managed by the staff at the manufacturing plant and 7 key applications currently licensed by the parent company have to be transitioned to the client. We recommended that 3 licensed and 6 homegrown applications can be eliminated and replaced with simple spreadsheet/ SharePoint-based solutions or alternative 3rd party software. On the IT infrastructure front, we concluded that using cloud-based infrastructure and migrating to Office 365 for core business applications will reduce upfront hardware costs and ongoing management requirements. Existing computing and networking hardware can be leveraged but would require a well-coordinated reconfiguration to transition from the parent's network to the new infrastructure. We also provided an analysis of outsourcing IT support vs. developing in-house capabilities and recommended the outsourced option to simplify operations.

Standalone Organization Cost In-line with Shared Services Agreement Cost

Gotham's G&A organization structure included: hiring finance staff to support the CFO; hiring HR lead to complement HR support already at the plant; hiring IT lead to manage transition and outsourced services; and outsourcing legal, tax, and other professional functions provided by the parent's corporate staff. For the supply chain organization, we established that: a supply chain lead would need to be hired to manage supply chain staff already at the plant; some functions performed by corporate staff would have to be transitioned to the client's supply chain organization; and the current 3PL relationship would need to reviewed and new terms for the carved-out entity would have to be negotiated. For the commercial organization, customer service representatives dedicated to the client would have to be transferred from the parent's customer service organization. International distribution to currently handled by the parent, should be left untouched for the time being but a longer-term solution must be developed.

The Outcome: Gotham's robust assessment of transition requirements for ERP, business applications, IT infrastructure, and organization structure allowed the client management team to make fact-based decisions on the standalone company. Our client hired a Chief Information Officer and a VP of Supply Chain to manage transition. The client has now successfully transitioned to be a standalone company and launched a manufacturing capacity expansion project to support ongoing growth.