



WHITEPAPER

# Overcoming the Challenges of Divestitures in Chemical Supply Chain Performance

**CLX LOGISTICS**

INNOVATION THROUGH PEOPLE, PROCESS AND TECHNOLOGY

When chemical companies increase focus and resources on core capabilities to improve their service offerings and increase shareholder value, divestitures can often occur as a result. Divestitures are major transitions that impact all areas of a business, including supply chain reliability and efficiency.

With today's increased regulations, unstable market conditions, and capacity concerns affecting shippers, it's incredibly challenging for a newly divested company to achieve its transitional goals without the expertise and support of a fourth-party logistics (4PL) provider.

# State of the Industry: Divesting Today to Drive Strategic Growth Tomorrow

Today's corporate divestitures are often motivated by a desire to unload non-core, low-growth assets. A previously published report<sup>1</sup> still accurately reflects the two main strategies for growth:

- Divesting segments deemed to be capital intensive
- Divesting segments that are unaligned with a company's core business

These motivations suggest that divestitures are a necessary tactic for growing core business units. As such, divestitures are reportedly increasing – a trend that is likely being fueled by a narrowing strategic focus on core assets and reactions to volatile marketplace changes. Among companies that divested non-core assets over the last 24 months, the reasons for pursuing a carve-out included<sup>1</sup>:

- Limited growth potential, cited by 37% of the surveyed executives
- Non-synergistic products, mentioned by 30% of respondents
- Poor operating performance, listed by 22%
- Weak market position, chosen by 11%

The right logistics provider offers clear value with comprehensive support for newly divested companies. An experienced 4PL such as CLX Logistics, maintains corporate continuity and supply chain performance during transitions, ensuring the divested company's transitional success. The benefits of working with the right logistics partner also pave the way for shorter contracts to develop into longer, enterprise-wide partnerships.

A 2020 survey of companies and their logistics partners shows that<sup>2</sup>:

- The vast majority of shippers and providers have found success in their partnerships
- The use of outsourced 3PL and 4PL services contributes to improving overall customer service
- The use of a 3PL or 4PL contributes to a reduction in logistics costs
- Shippers are increasing their use of outsourced 3PL and 4PL services globally
- Shippers are consolidating the number of providers they use by embracing 4PL services



**“More and more, chemical companies are understanding that rather than relying on a transactional partner, an experienced chemical logistics 4PL can act as an extension of their existing infrastructure to provide strategic solutions that effectively address merger and acquisition activities.”**

Ken Vrtis, Vice President  
CLX Logistics, LLC



## Key Chemical Supply Chain Performance Challenges

While restructuring assets of a business portfolio can help sharpen strategic focus for chemical companies, divestitures also create challenges for supply chain executives who must ensure the performance of new, smaller companies. These challenges have the potential to disrupt supply chains in several areas:

- Expertise provided by the selling company will no longer be available to the new divestiture
- Staff size will decrease, and employees may not possess skills in all areas, causing capability gaps
- Remaining staff will have to wear more hats to make the divested business run smoothly

These operational challenges, when not mitigated by an outside expert or combatted by the additional resources gleaned from a 3PL or 4PL, can hinder the four main goals set forth for the typical divestiture:

- Maximizing price
- Minimizing disruptions to the retained business
- Keeping capabilities away from competitors
- Handing the buyer something that can be operated successfully from day one

In fact, Merger and Acquisition (M&A) initiatives, which include divestitures, have a failure rate of anywhere between 50 and 90%<sup>3</sup>. This statistic, while staggering, highlights the need for an experienced logistics provider.

## The Role of 3PLs and 4PLs in Capturing Full Divestiture Value

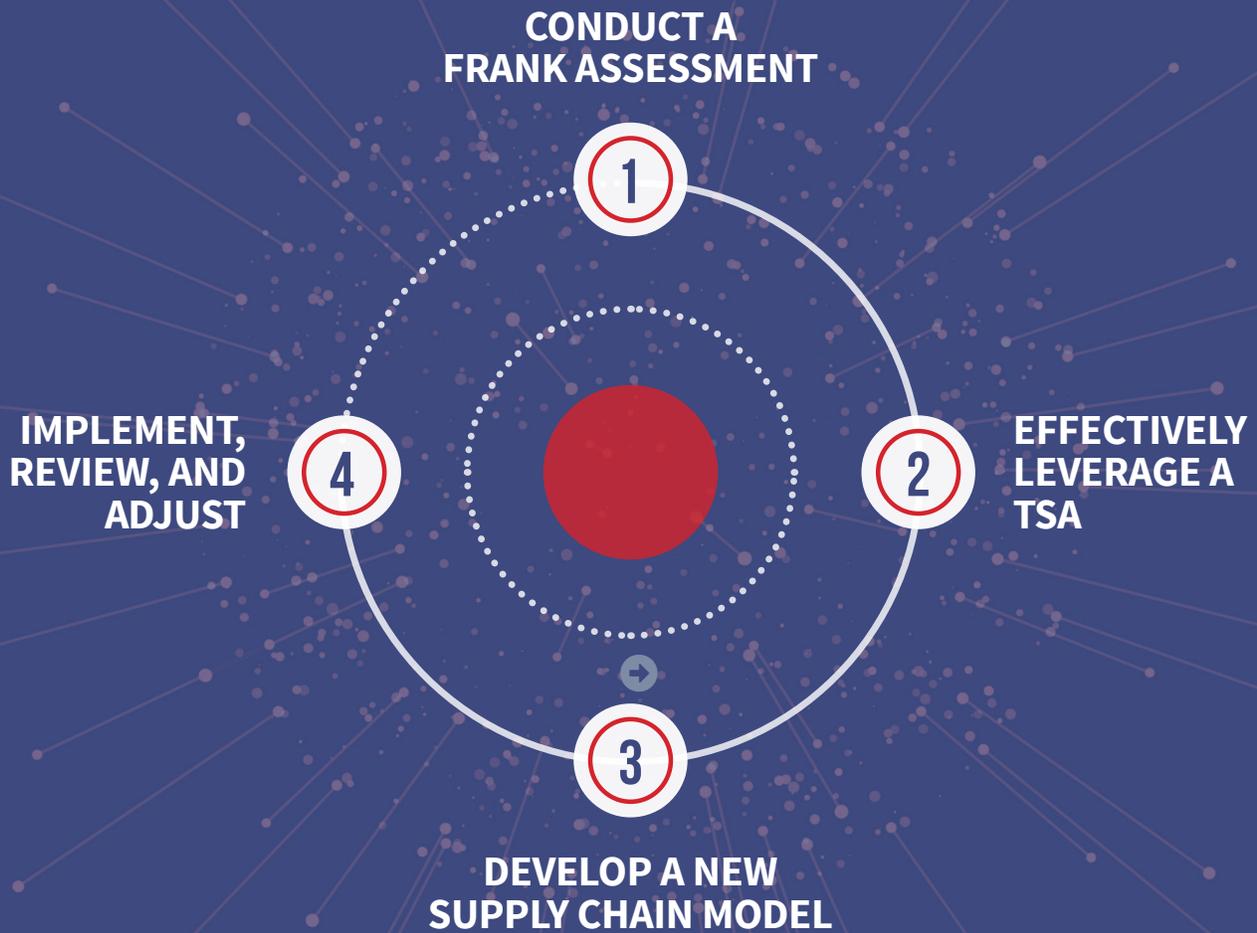
3PLs provide outsourced, or “third party,” logistics services for part or all of a company’s supply chain management functions, and 4PLs provide a higher level of support that orchestrates logistics operations between 3PLs.

Logistics can include elements of warehousing, transportation management, reporting and analytics, forecasting, freight rate negotiation, and more. In support of a corporate divestiture, an experienced chemical logistics provider can offer a myriad of benefits, including:

- Immediate expertise and support in areas where a divested company has lost talent and insight
- Valuable carrier relationships and advanced knowledge for optimizing supply chain performance
- Input on best practices based on experience with similar transitions with other shippers
- Assistance with rapidly evolving shipping requirements, domestic and international
- The potential opportunity to convert a significant portion of operating costs from fixed to variable

While each of these benefits makes a 3PL or 4PL valuable, an experienced provider’s most valuable asset is a keen awareness of the service requirements needed across the entire supply chain. This industry intelligence helps ensure a divested company has accounted for all workforce needs before, during, and after the transition. This, combined with the ability to quickly and effectively fill gaps, is what maintains a seamless and high-performing operation – making support from a 3PL or 4PL critical from day one.

# The CLX Logistics Guide to a Successful Divestiture Rollout



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## STEP 1

### **Conduct a Frank Assessment of Needs, Requirements, and Capabilities in Your ‘New World’**

The quicker a divested company recognizes that previous methods may not work anymore, the faster and smoother the transition will be. The right 4PL eliminates the need for “capability scoping” to set an overall divestment strategy. A thorough assessment identifies the critical capabilities that the newly divested company needs to account, which may include functions such as procurement, purchasing, accounting, and supply chain operations. Key considerations at this step of the divestiture include:

- Which systems and processes will remain in place under the Transitional Service Agreement (TSA)
- Confirming all existing arrangements with customers and suppliers
- The divestiture’s impact on both established manual and automated systems
- Keeping staff inspired and motivated throughout a stressful divestiture
- Which critical areas will benefit the most from a 4PL partnership

A proactive approach allows divested companies to uncover and fill capability holes before it’s too late, by tapping into the capabilities of its 4PL provider. The company will not only benefit from its providers’ expertise, but also from the ongoing upgrades and best-in-class improvements in which leading 4PLs regularly invest. This approach also helps define career trajectories for the company’s existing workforce and jumpstart the critical process of either retaining existing people or redefining functions. A reported<sup>1</sup> 93% of surveyed executives noted that maintaining employee morale within the business unit being carved out, was a significant issue.

## Capability Assessment for the ‘New World’

Consider these four areas of concern for a newly divested company in its ‘new world’ and the functions that must be maintained, either by the new company or with the support of a 4PL.

AREA OF CONCERN	KEY FUNCTIONS
<b>Operations</b>	<ul style="list-style-type: none"><li>• Operational planning and staffing</li><li>• Facility readiness</li><li>• Material handling and transportation</li></ul>
<b>Technology</b>	<ul style="list-style-type: none"><li>• IT Infrastructure</li><li>• Transportation Management Systems (TMS)</li><li>• Warehouse Management Systems (WMS)</li><li>• Finance &amp; Accounting Systems</li></ul>
<b>People</b>	<ul style="list-style-type: none"><li>• Job transitions for existing or outsourced employees</li><li>• Communications to customers about situation</li><li>• Engagement with vendors to commence a new relationship</li></ul>
<b>Project Management</b>	<ul style="list-style-type: none"><li>• Workflow coordination</li><li>• Budget, performance and measurement</li><li>• Scope and timeline coordination</li><li>• Transfer of processes</li></ul>

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## STEP 2

### Leverage the Support of a TSA

A properly utilized TSA benefits newly divested companies with a faster close, smoother transition, managed costs, and a cleaner separation. Overreliance on a TSA, however, is a common mistake that's easy to make. Made between a buyer and seller, a TSA sees that a parent organization provides support to the divested company over a defined period after the separation. This support may include central services such as accounting, logistics, IT, procurement, and human resources, but can cover nearly any activity. When companies rely too heavily on a TSA, they may miss out on opportunities to establish the services and activities they'll need to take care of themselves once the TSA ends.

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## STEP 3

### Develop a Customer-Centric Supply Chain Model

Upon assessing your needs and properly leveraging the TSA, a 4PL can help the divested company develop and implement a new and detailed supply chain model. This effort not only accounts for the company's updated demand signals with different volumes and order patterns but establishes a realistic implementation timeline for transitioning from receiving additional support to independent status.

Consider these key questions when assessing your supply chain:

- How have your supplier and customer networks changed with the divestiture?
- Have you lost network synergies after separating your supplier base from a former parent company?
- What is the status of your contracts, rates, and relationships with logistics service providers?
- What have you communicated about your new supply chain to key customers?
- What specific expectations or concerns do your customers have about it?
- What is the growth trajectory for the divested company in the next 1-2 years? 3-5 years? 5+ years?
- What key performance metrics do you have in place for tracking supply chain performance?

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## STEP 4

### **Integrate New Model, Review Progress, and Improve Performance**

Just as crucial as starting on the right foot is establishing a process early on for assessing progress, measuring results, and making necessary adjustments. Even the best plan that rigorously follows these first three steps is not going to remain unscathed by the vagaries of real life. So, it's crucial to have several mechanisms in place to track performance.

One of those areas is Key Performance Metrics (KPIs). The only way to know the state of operations is consistent measuring. Useful metrics are specific, unambiguous, and related to business goals.

Another important aspect of checking progress is to conduct regular, deliberate reviews. Representatives for critical processes and functions, whether they're internal resources or an outside 3PL or 4PL, must meet regularly to review integration progress. Taking sufficient time to review what is working and what isn't is the only way to ensure you're on the best course.

Lastly, setting challenging but achievable goals is essential to keeping everyone aligned. A divestiture comes with a raft of expectations. It requires a set of goals that address the near- and long-term objectives to turn those aspirations into results. Those goals should be subject to assessment through both metrics and regular reviews.

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**“As the M&A market continues to see significant stimulation, it's important to credit divestitures, when managed correctly, for serving as a vital asset optimization strategy. This tactic of 'letting go' is how companies are growing and even thriving. It's an opportunity for a revival, and ensuring its success is what a 4PL does best.”**

David Vieira, CEO of CLX Logistics, LLC

## Ensure Reliability and Efficiency with 4PL Support

### BENEFIT

### PATHWAYS TO SUCCESS

#### Optimize Performance with Market Intelligence

- Use the 4PL knowledgebase to assess carrier rates against the market, in order to determine if the divestiture creates risk of increased costs
- Determine where specific functions should best reside in the new organization. Centralized? Decentralized? Performed by 4PL? What is best practice? What are your competitors doing?

#### Bolster Organization with Top Talent

- Leverage the knowledge and experience of logistics management professionals
- Gain access to a large group of engineers, analysts and IT specialists
- Utilize well-qualified supply chain operators to handle your day-to-day tasks

#### Transition Costs from Fixed to Variable

- Lead a cross-functional initiative to tackle cross-cutting opportunities such as shared-service and outsourcing operations
- Identify elements of the supply chain that can be performed effectively by the 4PL and which can be tied to volumetric measures as transaction costs
- Consider developing a shared savings model with the 4PL as incentive to bring forward creative cost improvement ideas

## Conclusion

The strategic nature of any divestiture, merger, or acquisition means there's time to prepare. As such, chemical supply chain leaders can ensure a seamless and high-performing supply chain before, during, and after a divestiture occurs by proactively embracing the keys to a successful transition:

- Conduct a comprehensive situation assessment versus new requirements
- Utilize transitional service agreements wisely and have an exit strategy
- Detail and implement the new supply chain model
- Review and continuously improve performance
- Leverage the guidance, expertise, and support of a 4PL provider

These steps not only set up an organized support structure and spinoff for a successful transition but allow both organizations to achieve their divestiture goal: **to focus more strategically on high-growth assets.**

## About CLX Logistics, LLC

CLX Logistics, LLC, the world leader in chemical supply chain solutions, is a seasoned provider of global transportation management, technology, and supply chain consulting services. With a unique set of regulatory and security concerns, chemical logistics requires a careful mix of expertise, solutions, management, and tracking. Our specialists help supply chains of all scopes and sizes overcome the challenges they face every day. More than a transactional 3PL provider, we provide comprehensive 3PL and 4PL services, proudly delivering economic value to your entire supply chain and true value that accelerates success within your company and your expectant customers.

1. Corporate Divestment Strategy Survey, Deloitte, 2017

2. 2020 Third-Party Logistics Study, Penn State Smeal College of Business, 2020

3. 3 Ways to be Successful in Merger & Acquisition Activities with Supply Chain Design, Llamasoft, 2018

