

CASE STUDY: CARVE-OUT LAYS THE FOUNDATION FOR SUSTAINABLE GROWTH



The RSM team was able to transition the new business in less than half the time, saving the client over US\$10 million in TSA costs.

Transformative integration prepares airline support services joint venture for takeoff

Overview

Highly complex carve-out transactions call for prowess in managing critical integration points and risk factors while laying the foundation for sustainable growth. Such was the case when a \$50 billion U.S. airline carved out its ground handling services subsidiary to create a US\$500 million joint venture with a private investor whose portfolio included complementary companies in the aviation space. Their goal: Combine strengths and service offerings to create a premier aviation-handling provider that can deliver an elevated experience to airline customers in the United States and abroad.

The deal positioned the new business to expand the breadth and quality of its service offerings while continuing to operate at its same airport locations. As the majority partner, the private investor would provide operational oversight and funding toward improvements while the airline company maintained visibility and input. As part of the transaction services agreement (TSA), a transformational integration needed to occur within 36 months. RSM was brought in to help navigate financial, operational and reporting considerations, culminating in a substantial collaboration to transition the business by means of:

- Speeding up the TSA exit to 13 months
- Shortening the month-end close to five days
- Modernizing talent management with better-quality data
- Automating the accounting process
- Integrating global tax compliance for 150 locations

Approach

Beginning with the end in mind

Understanding that speed of play was critical, RSM recommended a sprint assessment to quickly uncover integration requirements before designing a potential operating model for consideration. The client agreed; the process took less than a month to complete and revealed significant risk and unidentified opportunities across the finance, information technology (IT) and human resources (HR) functions. RSM then presented a road map to transform these key areas.

"RSM's sprint process allowed our cross-practice, cross-functional subject matter professionals to obtain the deep knowledge needed to build the right approach and teams," said Joe Ring, mergers and acquisitions director at RSM. "The continuity from diligence, to the sprint, then to the planning phase into the execution saved the client from having to re-explain everything, and the knowledge transfer across the board kept the momentum going through the execution."

Another advantage of the sprint process was its accelerated business continuity planning to prepare for Day One. Through RSM's integration management office (IMO), the team oversaw the execution of solutions across finance, HR and IT to resolve latent issues from gaps and legacy systems requiring constant support. They operated as the consolidation mechanism to bring all of the services to bear on the integration while providing complete visibility to the client so that management could anticipate problems, respond quickly and drive profitability. This helped ensure a smoother execution and sped up the time needed to exit from the TSA.

Addressing business processes

Key to standing up the new organization was implementing new technologies to perform month-end close, reporting and asset tracking, among other core business functions. RSM's management consulting practice assembled multiple workstreams and collaborated with sales and operations to determine viable solutions and validate process design before transitioning the project to RSM's NetSuite implementation team. By designing business processes with functional requirements, time spent on analysis was reduced considerably. To communicate the strategic vision to management, tools were provided to outline business processes and define roles and responsibilities within the new organization.

The finance transformation was notable, as it included an integrated systems-centric solution that increased the accuracy and reduced the time of the month-end financial close to five business days. Equally significant were fully automated payables and receivables and a direct connection to the Airline Clearing House for inter-airline business. Additionally, an integrated tax solution was put in place to accurately calculate

and report on taxes for the operations at approximately 150 locations inside and outside the continental United States.

"The value of modernization was felt immediately. We heard from across the business about efficiencies being gained because of the new finance systems," Ring said. "We were told by team members that it gave them back valuable time to focus on their work, and when the functionality was pushed out to the field workers the adoption rate was immediately maximized."

Going lean from scratch

RSM's technology consulting practice worked simultaneously to create a strategic IT environment that would serve as the foundation for implementing new technologies, including the enterprise resource planning (ERP) system, a corporate performance management tool, business intelligence applications and other ancillary applications. It would also support leading-edge capabilities, such as data analytics, cybersecurity, automated processing and integration with third-party systems.

RSM understood the client's priority was to be lean, so the right solution needed to be modern and flexible while requiring only minimal operational management. Adding to the challenge, the acquired entity was to remain in its existing office space but no longer had access to the seller company's network. The teams essentially had to build a completely new digital enterprise inside a legacy IT environment, requiring a massive collaboration among 14 separate workstreams.

"We started with a service-based architecture, which meant that instead of using traditional information technology—servers, storage arrays, etc.—to implement systems that provide services, we opted for cloud-based alternatives to provide the same services with increased efficiency," said Doug Miller, an RSM director who led the technology consulting efforts.

From the enterprise network to the phone system, every solution the team recommended balanced client needs and wants with costs and savings. The result was a customized, end-to-end solution set utilizing Microsoft Office 365 and Azure services that integrated with the other enterprise systems: Meraki, ServiceNow, Cisco Security, 8x8 and 5thColumn. By leveraging on-demand services, this modernized IT function will continue to create value for the enterprise by potentially saving millions of dollars in annual costs while providing the flexibility to grow and innovate.

"We came in early on the schedule, under budget, and were able to come up with creative solutions to really challenging problems by demonstrating RSM's 5 Cs," Miller added, referring to his team members' focus on being caring, curious, collaborative, courageous and critical thinkers.

Innovating for tighter integration

Meanwhile, the carve-out's HR function was also ripe for innovation. Results from the RSM sprint revealed outdated HR systems and a lack of formalized policies and processes, along with a growing urgency for organizational change management due to leadership transitions. While it is common to bring in a third-party HR group to manage these types of issues, RSM was able to offer the client a fully integrated HR organizational function possessing deep subject matter experience, which eliminated the need for an outside vendor.

RSM's subject matter professionals set out to innovate a modernized HR operating model through tighter integration of systems, processes and people. Their cross-functional interaction with finance and IT workstreams helped ensure the HR transformation occurred as efficiently as possible by coordinating the dependencies and requirements of all programs.

The outcome was an optimized HR function featuring increased data integrity, improved systems interconnectivity and enhanced executive visibility to aid strategic decision-making and proactive management of the organizational culture. Next on the list is a learning management program, which RSM will implement and configure, having already designed the business process within the HR model. RSM will also provide training and deployment.

In the end, the combined efforts to stand up the finance, IT and HR functions of the business involved a massive collaboration among more than 20 workstreams and upward of 100 team members operating in Canada and the United States. Serving as one RSM, the teams were able to transition the new business in less than half the time, saving the client over US\$10 million in TSA costs.

+1 855 420 8473
rsmcanada.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM Canada LLP, RSM Alberta LLP and RSM Canada Consulting LP, and their affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM Canada LLP is a limited liability partnership that provides public accounting services and is the Canadian member firm of RSM International, a global network of independent audit, tax and consulting firms. RSM Alberta LLP is a limited liability partnership and independent legal entity that provides public accounting services. RSM Canada Consulting LP is a limited partnership that provides consulting services and is an affiliate of RSM US LLP, a member firm of RSM International. The firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmcanada.com/aboutus for more information regarding RSM Canada and RSM International.

RSM, the RSM logo and The power of being understood are registered trademarks of RSM International Association, used under license.