

Making M&A pay

Short-term actions with long-term results



Accenture Strategy

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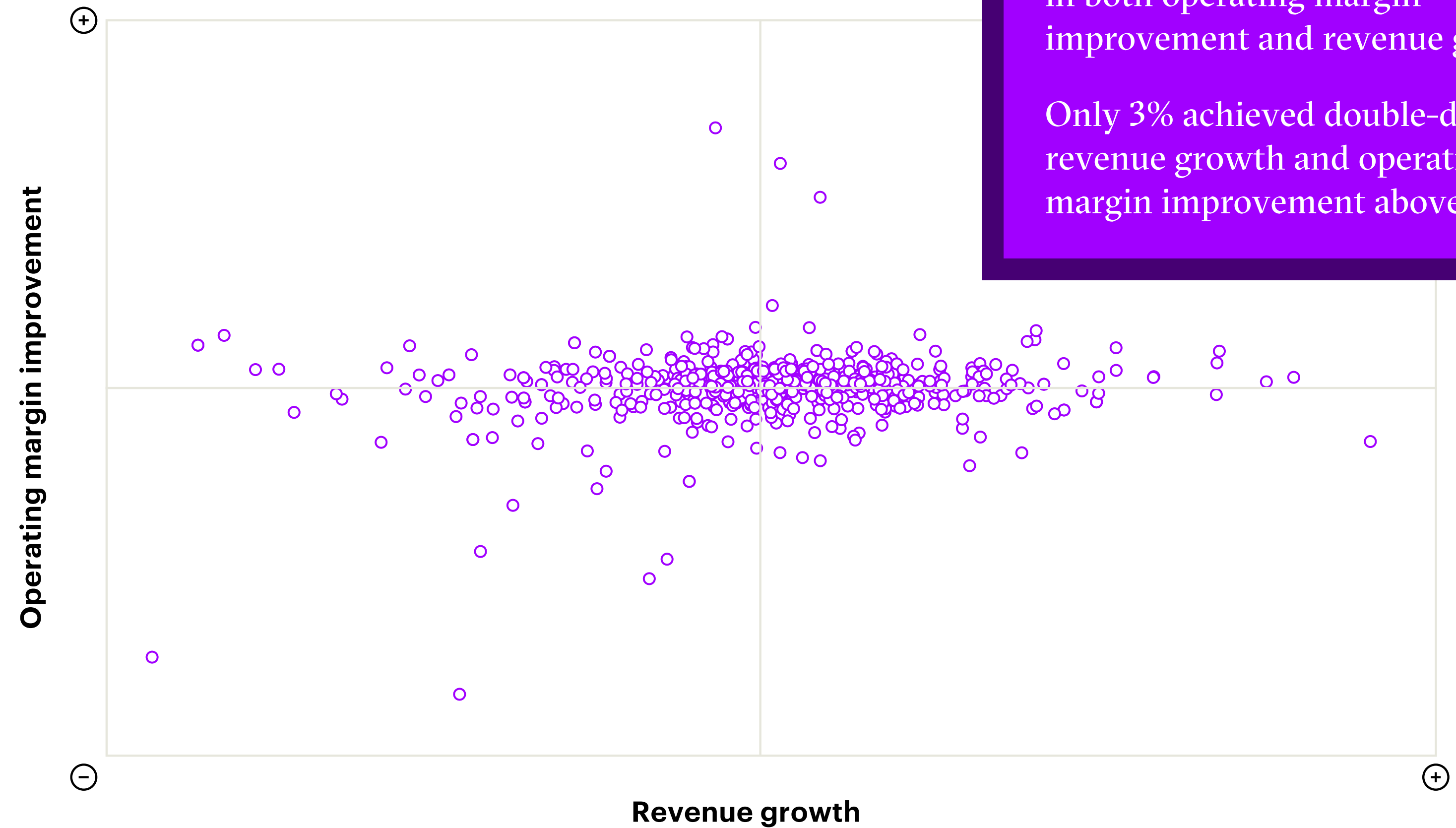
Outmaneuver uncertainty

As companies optimize for the new global reality, it is more important than ever that mergers and acquisitions (M&A) show value beyond the deal.

Accenture Strategy analysis found that a minority of deals hit that sweet spot. Just 27% resulted in both operating margin improvement and revenue growth.¹

We evaluated 800 transactions globally with a deal value of \geq US\$1 billion that closed between 2012–2017, by examining revenue growth rate and operating margin improvement over a three-year period post-deal. Just 27% of transactions resulted in both operating margin improvement and revenue growth. Even fewer (3%) stand out as high performers with double-digit revenue growth and operating margin improvement above 5%.

Figure 1: Revenue growth and operating margin improvement post-deal



27% of transactions resulted in both operating margin improvement and revenue growth.

Only 3% achieved double-digit revenue growth and operating margin improvement above 5%.

We delved further to determine what helped drive the long-term success of these deals, and uncovered two main factors.

01

Prior to deal close leaders created a long-term blueprint for the intended synergies and the operating model.


02

The M&A team ensured executive with financial expertise remained involved post-deal close to ensure the company achieved the expected financial value from that blueprint.

While these may sound like actions all companies would follow as a matter of course, in reality, many don't. M&A is a fast-paced, high-stress environment and in the heat of a deal—or the flurry of integration activity post-deal close—these areas are often overlooked.

Tomorrow never comes

It is understandable that companies are focused on Day One readiness and short-term imperatives during post-merger integration. They may consider long-term goals, but it is rare that they execute on them.



More often, many fold an acquired company into their existing inefficient processes, systems and operating model—missing the chance to reinvent for the future. The result is usually weak bottom-line synergies and anemic topline growth.

Our research of large deals over a five-year period showed that more than half of companies (54%) examined improved revenue growth in the three years following the deal. Only 27% saw improvements in both operating margin and revenue growth.²

For instance, a multinational consumer goods company decided to fold a US\$5 billion acquisition into its existing operating model. Like many operating models, it was inefficient—and adding a new company into it only magnified those inefficiencies. So, while revenue grew more than 5% after the deal, margins actually decreased for the acquired business because of the rise in costs.

This company is not alone. For example, while 45% of [software deals are transformational in nature](#), many executives are inclined to put off transformational initiatives just to get the deal done.³ Across industries, almost half of deals (47%) miss their synergy targets due to operating philosophy, while another 41% cite management practices as the issue.⁴

Companies that take a long-term view set themselves up to leap these hurdles more effectively.



Catapult to long-term value

A longer-term perspective helps leading companies use M&A transactions to leapfrog performance.

Instead of folding a new entity into the status quo, leaders build an intelligent enterprise, a dynamic organization that is built for agility, resiliency and growth.

They focus on differentiated outcomes across the new combined company, spurred by the opportunity for innovation. The right blueprint focuses on long-term value, a mix of combined efficiencies and new capabilities that exceed what either company had prior to the merger or acquisition.

For example, one oilfield services company struck a major, US\$8 billion deal. In the two years following the acquisition, they improved revenues and margin by more than 40%. How? Across the combined organization, in more than 80 countries, the M&A team took a bird's eye view to value over the longer term. The team focused on many areas, but three were particularly instrumental to the improved financials. They changed:

- **What work was done**, eradicating duplication across the company to be more efficient.
- **Who did the work**, better utilizing ecosystem partners where it made sense.
- **How the work was done**, automating where it made sense to do so.⁵

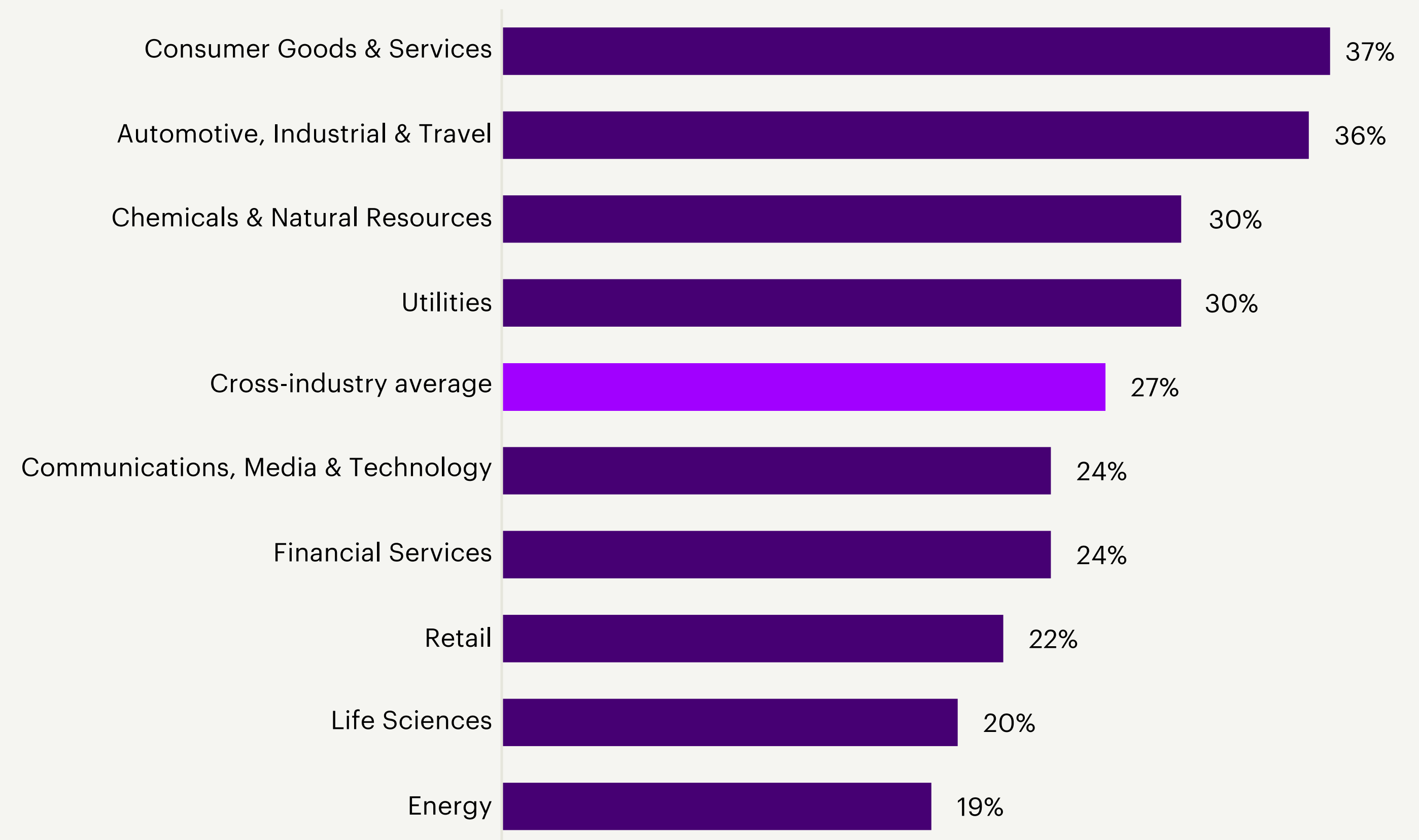
Predictive analytics can help companies during and after a deal because it makes it so much easier to balance short-term requirements with long-term actions. Through [scenario modeling and data insights](#), they can get to value faster even in an environment that remains uncertain. We have seen companies design combined organizations twice as fast, leveraging a suite of analytics techniques.⁶

They can also adjust course as needed, in a far more agile way than without using applied business intelligence.

Consumer goods and industrial equipment lead the way

Some industries fare better than others in creating long-term value from their M&A.

Figure 2: The percentage of deals by industry that resulted in both revenue growth and operating margin improvement.



Source: Accenture Strategy analysis of 800 transactions globally with deal value \geq US\$1 billion, 2020.

Money talks. Let it.

Just 3% of the companies we analyzed achieved double-digit revenue growth and improved their operating margin more than 5% through their M&A.⁷ Finance can play a pivotal role.



Our M&A experience with companies indicates these outcomes are more common when finance is not only involved pre-deal to guide pricing of the transaction, and to develop and sign-off on synergy goals, but also plays a leading role in integration, accountable for topline growth and realizing synergies.

We see many large companies utilize their Chief Financial Officer (CFO) and finance team for number crunching during a merger or acquisition. But again and again, our client experience shows that after the deal closes, they rely less heavily on CFO involvement.

Deals that bring more value in the long term generally broaden and lengthen CFO involvement, capitalizing on financial expertise that can help guide actions from Day One. In addition to being involved pre-deal in pricing the transaction and developing synergy goals, CFOs should be accountable for post-merger value creation.

A senior finance officer playing a leading role in integration—as the Chief Integration Officer or in conjunction with one—makes a key difference in long-term value from the deal.




The perfect fit

One large, specialty retailer expanded its portfolio through a series of rapid acquisitions without tightly integrating them. Changes in customer expectations and the rise of eCommerce—a change only accelerated by the pandemic—meant that the company faced increasing cost pressures.

In response, the CFO along with other C-suite members engaged Accenture to conduct a strategy assessment, and identify and extract additional synergies from its acquisitions. Driven by an intelligent enterprise mindset, the company is undergoing an enterprise-wide transformation that has already delivered in excess of US\$500 million in cost savings and margin improvement.

In the process, the company has optimized its management structure, designed and implemented simplified and standardized global processes, built critical capabilities and created a new culture of collaboration to sustain and enable future growth.

Source: Accenture Strategy client experience, 2020.

A group of four business professionals are gathered around a table in a meeting room at night. A man on the left is pointing at a tablet. A woman in the center is gesturing with her hands while speaking. A man in the foreground is seen from the back, looking towards the woman. A woman on the right is also looking towards the center. There are laptops, glasses of water, and a coffee cup on the table. The background shows a window with city lights at night.

Smart moves that last beyond the deal

As companies chart their best courses to profitable growth, their need to maximize value from a merger or acquisition has intensified. The margin for error is tighter than ever.

To help ensure value beyond the deal, keep in mind the following smart moves:

01

Use technology to avoid near-sightedness

Analytics capabilities and insights accessible via cloud platforms help your team simultaneously focus on short-term Day One activities and a long-term vision for the combined organization.

02

Leverage the merger or acquisition to leapfrog the status quo

An M&A deal offers the opportunity for new capabilities. You have the chance to create an intelligent enterprise, reimagining the way work is done and transforming your workforce for the future. As part of your integration planning, create a roadmap for the next 24-36 months, keeping deal intent top of mind. Prioritize tasks by business value and complexity.

03

Bring financial savvy to the table post-deal

Ensure the Chief Integration Officer has the required financial expertise, or have your CFO lead the integration charge—regularly reporting on value realization to the Board and investors.

04

Review your ecosystem strategy

Acquisitions and mergers change capabilities, which means your ecosystem should change accordingly. Often, those ecosystem partners are key to your synergies. Don't try to forge new ground without the right partner in place.

A giant leap forward

Utilizing technology to its fullest for a long-term value perspective and keeping finance talent involved after a deal is done can help your company get more benefits out of its M&A activities. Doing so will help the combined company become the intelligent enterprise it needs to be for future success.

At a time when realizing value over time is more vital than ever, we can help you catapult your company to its full potential.



**Reach out to our authors
if you would like to explore
how M&A can help
catapult your company
to its full potential.**

Get in touch

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