Making M&A pay

Short-term actions with long-term results
As companies deal with the economic impacts of COVID-19, with revenue and profitability under extreme stress for some, it’s more important than ever that mergers and acquisitions (M&A) show value beyond the deal.

Accenture Strategy analyzed 800 global M&A transactions, finding that a minority of deals hit that sweet spot. Just 27% resulted in both operating margin improvement and revenue growth.¹

We delved further to determine what helped drive the long-term success of these deals, and uncovered two main factors. First, prior to deal close leaders created a long-term blueprint for the intended synergies and the operating model. Second, they ensured an 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’s 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’s 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. But 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.³

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.⁴ Across industries, almost half of deals (47%) miss their synergy targets due to operating philosophy, while another 41% cite management practices as the issue.⁵ Companies that take a long-term view set themselves up to leap these hurdles more effectively.

M&A during the COVID-19 crisis

COVID-19 is overwhelming in its humanitarian and economic impact. Understandably, the M&A market contracted rapidly in its wake. Deal value dropped 49% in the first half of 2020, with deal volume down 22% from the year before.⁶

But it’s clear this is no ordinary downturn: Fundamental changes in consumer behavior, supply chains, and routes to market are knocking companies off balance.

Current and future viability depend on C-suite action now. We all are facing a cycle of near-term actions for stability, coupled with strategic moves that will create new futures for companies and industries. M&A will move at different paces by sector and geography, depending on how severely each is impacted by the crisis. By repositioning through M&A, leaders can help outmaneuver uncertainty and outperform those less prepared. Readiness now determines resilience later.

About the research
We evaluated 800 transactions globally with a deal value of ≥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%.

In this report, we focus on some key lessons that can be drawn from these leading companies.

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

27% of transactions resulted in both operating margin improvement and revenue growth.
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, company 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, they took a bird’s eye view to value over the longer term. They 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.⁷

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.⁸ And they can 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. The percentage of deals by industry that resulted in revenue and operating margin growth is shown below.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Consumer Goods &amp; Services</td>
<td>37%</td>
</tr>
<tr>
<td>Automotive, Industrial &amp; Travel</td>
<td>36%</td>
</tr>
<tr>
<td>Chemicals &amp; Natural Resources</td>
<td>30%</td>
</tr>
<tr>
<td>Utilities</td>
<td>30%</td>
</tr>
<tr>
<td>Cross-industry average</td>
<td>27%</td>
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<tr>
<td>Communications, Media &amp; Technology</td>
<td>24%</td>
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<tr>
<td>Financial Services</td>
<td>24%</td>
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<tr>
<td>Retail</td>
<td>22%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>20%</td>
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<tr>
<td>Energy</td>
<td>19%</td>
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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.9

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. But changes in customer expectations and the rise of eCommerce—a trend now only accelerated by COVID-19—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.10
Smart moves that last beyond the deal

As companies navigate COVID-19 impacts, 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:

1. **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.

2. **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.

3. **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.

4. **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 set 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.
Making M&A pay: Short-term actions with long-term results
To help our clients navigate both the human and business impact of COVID-19, we’ve created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions that can be taken **now**, what to consider **next** and how to outmaneuver uncertainty and emerge stronger in the **never normal**.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

VISIT OUR HUB HERE
References

2. Ibid.

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