

CHASING
RABBITS

VERSUS

STALKING
MAMMOTHS
IN M&A

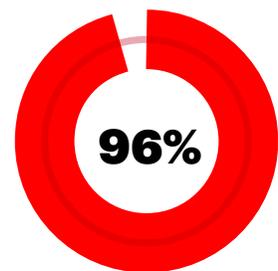
As digital disruption continues to upend all industries, large companies are stepping up their efforts to gain new digital capabilities that can generate long-term competitive advantage and business growth. Sometimes, companies opt to build these capabilities in-house. But in a growing number of cases, they're looking to mergers and acquisitions to acquire what they need.

According to Accenture Strategy research, over the next three years nearly three-quarters of companies plan to acquire five or more “progressive” companies—non-traditional companies that are innovative, digital, technology-driven and often act as industry disruptors.¹ Virtually all large companies (96 percent) believe such investments are a central part of their corporate strategy.²

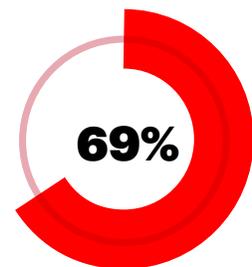
But despite fully believing they need to acquire, many companies face a fundamental challenge: They don't understand digital technologies well enough to know precisely which digital capabilities they should buy. Nearly two-thirds of companies in Accenture Strategy's research said deep expertise in assessing new technologies is among the areas with the greatest potential to improve their progressive company acquisitions.³

The challenges don't end there. Companies also struggle to find and secure the right targets, execute their transactions more quickly, and effectively integrate new acquisitions into the parent organization.

The fact is, acquiring progressive companies is a much different ballgame than traditional M&A. Large companies must develop a new M&A strategy—across target screening, transaction and integration management—that's more in tune with how progressive companies do business if they hope to keep pace with digital disruption.



96%
of large companies believe investments in progressive companies are a central part of their corporate strategy



69%
of companies say identifying the right technologies is one of their biggest challenges

FINDING AND SECURING **THE RIGHT TARGETS**

Even if they know which digital capabilities they need, companies often find the “hunting” process problematic. Two of their biggest challenges in target screening, according to Accenture Strategy research, are identifying relevant technologies and dealing with the fast-changing universe of potential targets.⁴

The problem is that most large companies try to use their traditional M&A strategy to identify valuable acquisition targets in the digital space. Existing approaches to screening are effective in hunting large, slower-moving targets—the “mammoths.” But they don’t help the company find a different type of target—the “rabbits,” or the smaller, faster-moving, and more agile startups with the digital capabilities buyers want and need.

For example, it’s easy for a big company to recognize when another big one is ripe to be bought. The latter’s financials have been negative for some time, it may have mentioned publicly its intention to sell, or an investment banker may have been hired to shop the company around to potential buyers. In the digital arena, most attractive targets are not going to be brought to potential buyers by investment bankers or, in fact, may not even be thinking about selling. Thus, it can be difficult for large companies to know which potential targets are out there with the digital capabilities they need. But it’s critical for companies to have direct contact with startups at an early stage to understand their business models before they attract the attention of other bidders.

THE SOLUTION?

Play where the rabbits play

There are three ways companies can identify and chase potential targets. One way is to continuously and frequently screen startup networks, and cultivate relationships with network members by acting as a sponsor, speaker or co-organizer. A second way is to explore alternative screening approaches such as venture capital (VC) funds and accelerators which can be essential to finding the right targets.



Screen startup networks and cultivate relationships



Explore venture capital funds and accelerators



Go beyond with open innovation

A third way to get in contact with progressive companies is open innovation. An example is GE, whose commitment to open innovation brings entrepreneurs and startups to its front door. In the process, the company gets to know who's making waves in the startup community.

Companies can keep tabs on rabbits either by adding screeners to the existing M&A team or by creating a separate specialized group—such as Daimler has done. The automaker has established a dedicated team who are solely responsible for monitoring the digital space for important trends and technologies.

Importantly, the M&A department should begin thinking as early as possible about their growth and integration strategy plans for the target, which will influence their ability to woo the target successfully.

CONDUCTING A DEEP TECHNOLOGY ASSESSMENT AND

ACCELERATING

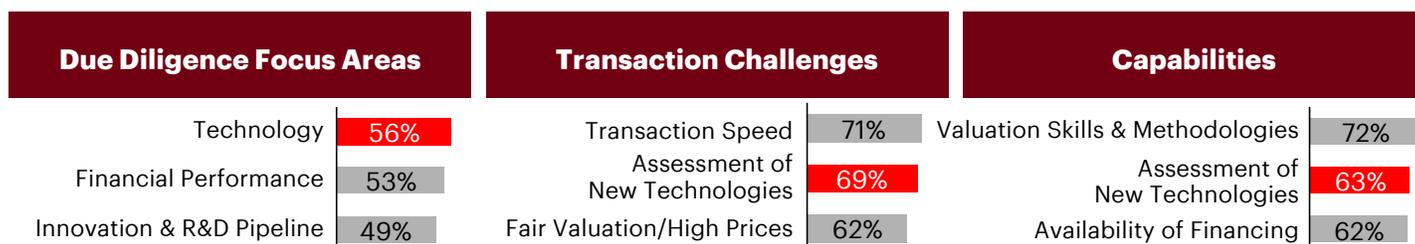
TRANSACTION SPEED

Once they identify a target, companies need to get better at capturing it. And when dealing with rabbits, that means assessing targets more deeply from a technology perspective, as well as moving far more swiftly in getting the deal done.

Typically, when a company identifies a promising target, it deploys a large team of legal and financial advisors to conduct due diligence and value the target, submit its bid, negotiate with the seller, and ultimately finalize the purchase.

The same process is still applicable when pursuing progressive companies. However, it should be less financial and legal driven, and more informed by technology knowledge—which is now the number-one area for due diligence, according to Accenture Strategy research (see figure below). Deep technology expertise and assessment skills—whether provided by internal experts or external technology specialists—are vital to determining not only the future viability and costs of a technology, but also whether a target fills a significant gap in the company’s digital capabilities.

TECHNOLOGY AS ONE OF THE MAIN DRIVERS AND CHALLENGES IN NEW M&A APPROACHES



Source: Accenture Strategy M&A research, October 2016.

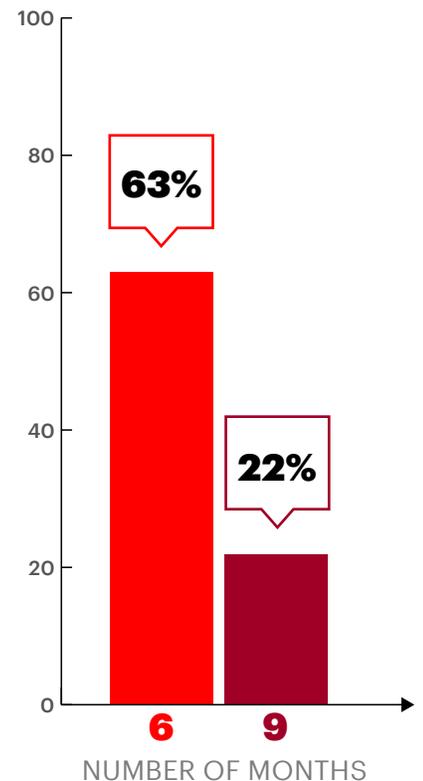
If the target is deemed worthy of pursuit, the company must move quickly to close the deal—something many companies struggle to do. Accenture Strategy research found that 63 percent of large companies take longer than six months to complete a transaction, and nearly one-quarter need more than nine months.⁵

One way to cut transaction time is to streamline the deal approval process. It's not uncommon for a large company to hold only monthly executive or board meetings to review new deals. If an M&A team misses a meeting, it's forced to wait another month—giving a competitor precious time to woo the target away.

COMPANIES NEED TO ACT QUICKER AND BE MORE FLEXIBLE IN DEAL MAKING, to match the speed at which their targets operate.

If that's not possible, another option is to delegate some deal decision-making responsibilities to an M&A person with the right technology knowledge and deal experience.

In most cases, a company can increase target certainty and accelerate its transaction speed within the context of the traditional M&A organization by adapting existing M&A processes and making a small team within the larger organization responsible for digital deals. But a company with major ambitions in the digital arena may find it makes sense to establish a larger, separate digital M&A group. In either case, an army of hundreds isn't necessary to pursue progressive targets. Just a few savvy business people with deep technology knowledge, supported by agile transaction processes, will suffice.



63 percent of large companies take longer than six months to complete a transaction, and nearly one-quarter need more than nine months

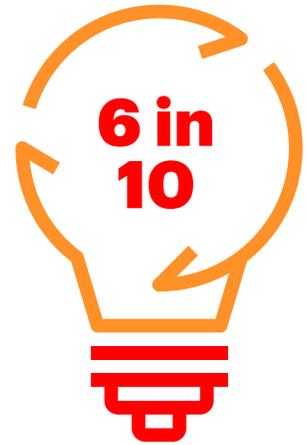
BRINGING AN ACQUISITION ABOARD

A company could excel in the first two areas yet still not fully benefit from its progressive acquisition—or worse, destroy value—if it mishandles integration.

Absorbing an acquisition into its operations is effective when like companies are involved: large entities with similar cultures and operations. But the typical M&A integration playbook—converting the acquisition to the acquiring company’s standard processes, systems, and policies and procedures—is incompatible with smaller, agile and innovative startups. It can suffocate the acquisition and dilute or destroy its innovation potential. It’s also a sure-fire way to drive away many of the people who played a key role in the startup’s success.

To unlock digital capabilities and innovation, companies need to tailor how they blend an acquisition’s business with the parent company’s. In particular, they need to look very carefully at the acquired company’s operating model as a whole to determine what level of integration is necessary to leverage the acquisition’s full value potential. Some elements of the operating model are not differentiating like back-office functions such as finance. These can be standardized. Other elements such as brand, innovation capabilities, people and certain technologies make the acquisition’s business distinctive and should be preserved and nurtured.

COMPANIES ALSO MUST APPRECIATE THE IMPORTANCE OF A TARGET'S CULTURE, A KEY ASSET. Accenture Strategy research found that six in 10 companies felt maintaining a target's innovative culture as much as possible is one of the biggest success factors for integration.⁶



Doing so will help keep key employees motivated and inspired, preserve a fertile environment for innovation, and enable the parent company to reap maximum benefits from the deal.

Several examples illustrate how some companies have changed the way they integrate acquisitions to maintain the flexibility and culture of acquired progressive companies.

In the media and entertainment industry, a hotbed of digital M&A, video game company Activision Blizzard has acquired smaller, promising digitally-oriented companies to expand market share in mobile, online and gaming communities. The company often maintained the design and development studios' independence to retain the talent base and creativity, while integrating other areas such as sales, marketing and distribution.

Daimler concentrates acquired progressive companies under its mobility service subsidiary Moovel, managing them with an operating model that's different from the one underpinning its automobile manufacturing. This has allowed Daimler to pursue new lines of business in ride sharing (through RideScout) and taxi sharing (through the mytaxi booking app). Daimler also combines acquired companies with its own digital business models, like the Moovel app and car2go.

Another good example is Accenture's acquisition of Fjord, a digital design firm. Rather than apply its standard operating model used to manage other acquired companies, Accenture treated Fjord in a way that acknowledged and celebrated its uniqueness. Accenture integrated Fjord's leadership team with the broader company, but allowed them the freedom to grow Fjord's business. Key to that freedom was preserving Fjord's culture (including its own local studios), unique and globally recognized brand, and general operating model.

KEEPING PACE WITH DIGITAL DISRUPTION

There's no doubt many challenges make digital acquisitions difficult, and many large companies still find M&A success elusive when innovative, fast-moving targets are involved. But digital is becoming increasingly central to every company's strategy and competitiveness—and ultimately, its ability to compete and grow.

The only way larger companies can keep pace with digital disruption and stay ahead of the competition is to create a dedicated M&A strategy for progressive acquisitions. This will enable them to more effectively identify the right targets, quickly execute transactions, and be more flexible in integration to preserve the acquired company's most valuable assets.

While large companies will always stalk the mammoths, being more adept at bagging the rabbits will increasingly define their competitiveness in the digital era.

JOIN THE CONVERSATION



@AccentureStrat



www.linkedin.com/company/accenture-strategy

CONTACT THE AUTHORS

Sven Wahle

Munich, Germany

sven.wahle@accenture.com

Takashi Yokotaki

Tokyo, Japan

takashi.yokotaki@accenture.com

CONTRIBUTORS

Nicolas Frech

Berlin, Germany

nicolas.frech@accenture.com

Kei Osada

Toyko, Japan

kei.osada@accenture.com

Chris Wölffer

Stuttgart, Germany

chris.woelffer@accenture.com

NOTES

¹ Accenture Strategy M&A Research, October 2016.

² Ibid.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 394,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

ABOUT ACCENTURE STRATEGY

Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise-wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership helps drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy.

Copyright © 2017 Accenture
All rights reserved.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.

This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.