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SWEETENING THE DEAL

DIGITIZING M&A FOR MARKET ADVANTAGE

Gregg Albert | Gerald Duarte | Tim Ziemann

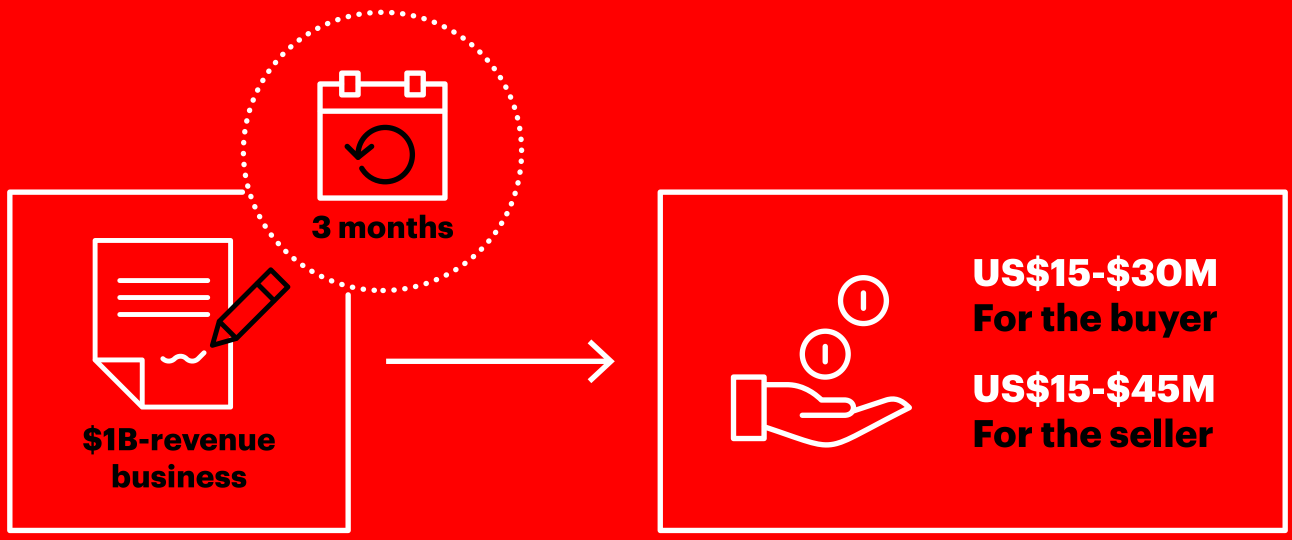
Historically, strategic M&A has been an art. Today's dealmakers, however, are offered a market advantage that can add science to the mix.

Digital technologies, applied correctly, can minimize the disruption that typically occurs in any merger or acquisition. They can not only reduce M&A risk, but also help companies get to growth faster.

Picture this: For a US$1B-revenue business sold at the median industry EBITDA multiple, being able to close the deal three months earlier could generate significant value. We have seen up to US$15-$30M for the buyer and US$15-$45M for the seller.

These are not castle-in-the-sky figures. They are actual advantages savvy companies create by using digital technologies to sweeten deals—adding speed and enabling new M&A business models.

Your company can do the same.



BREAK WITH TRADITION

Many companies continue to apply a traditional M&A approach to deals that are increasingly untraditional.

For example, recent Accenture Strategy research of 1,100 C-suite executives around the globe reveals the reasons spurring a deal are changing. While traditional reasons such as new markets will always exist, acquisitions centered on digital capabilities are on the rise. More than half of companies logging M&A activity (52 percent) described themselves as primarily acquiring digital companies or assets.[1] This is not surprising, given more than a third (37 percent) of organizations are pushing business model transformation to drive projected 2020 growth.[2]

To get to that growth more rapidly, in all deals—but particularly in those involving at least one highly digital party—M&A teams should be thinking beyond traditional closing models.

Companies actively acquiring digital companies are learning that they require different types of closing arrangements and agreements in part because of the competition for digital assets. The speed required to be truly competitive in M&A mandates companies operate within shorter sign-to-close windows.

Gains erode quickly if companies cannot reap the benefits of the merger or acquisition in short order. Digital is the only tool at their disposal that can deliver within the accelerated timeframe today's rapid business pace demands. Many companies fall short in this area currently. One Accenture Strategy study shows only seven percent of respondents are currently able to acquire a progressive target from contact to closing within 120 days.[3]

A joint venture between private equity and a large digital healthcare company purchased a multibillion dollar digital medical device business that spanned 100+ countries from a global life sciences company. Without its own infrastructure to run the business, the joint venture successfully achieved a sign-to-close window of just six months. It accomplished this by a combination of limited liability Distribution Service Agreement (DSA), Interim Commercial Agreement (ICA), Technical Sales Office (TSO) and Secondments.

We believe one of the ramifications of increasingly digital M&A is that lengthy TSAs between a buyer and a seller will be a relic three to five years from now.

The TSA model has inherent disadvantages to both buyer and seller. The seller is saddled with long-term TSAs in operational areas of the sold business that distracts focus on the remaining business. It also delays rightsizing of their organization and brings potentially higher stranded costs.

Driven by the need for shorter sign-to-close windows, lengthy TSAs between a buyer and a seller will be a relic three to five years from now.

While TSAs ensure business continuity for the buyer, they also delay synergies, create higher operational costs—as TSAs generally have markups anywhere from 5 to 20 percent—limit buyer flexibility and increase dependency on the seller.

A chemicals company bought by private equity wanted to introduce new products and go to new markets, but was dependent on the seller to make the relevant changes to IT systems to do so. The buyer's speed-to-market was severely impacted due to the seller's limited ability to move faster than the agreed upon service-level agreements.

Buyers and sellers are looking for different models to avoid such pitfalls while ensuring speedier close time, no adverse impact on business continuity and better financial outcomes. This requires rethinking how companies close the sale of a business or asset.

By replacing the elements of the traditional closing model with more innovative, technology-fueled ones, companies can drive a deal to conclusion faster, reduce stranded costs, achieve synergies faster and minimize cross-company dependencies. The appetite is there—roughly half of organizations cite their capacity and capability for M&A as a barrier to organic growth.[4]

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ELIMINATING TSAS WITH DIGITAL TECHNOLOGY

Transitional Service Agreements (TSAs) are meant to provide business continuity after a deal, giving the new company or buyer time to transition to its own support solution. Within a TSA—typically lasting six months to two years—the seller must provide corporate functions such as back-office administration to the buyer.

While TSAs may appear to be purely administrative, in Accenture's experience they often have strategic consequences for both buyer and seller. Not paying sufficient attention to TSAs increases the risk that players will leave value on the table.

Digital technologies like blockchain and smart contracts allow peer-to-peer data sharing in a secure, distributed ledger. Cloud technology will allow entire infrastructures to be shifted from one company to another quite rapidly, eliminating the need for the seller to maintain legacy infrastructure until the buyer gets up to speed and transfers can be made. Other types of "bridge services" provided by ecosystem players (e.g. distributors) can also reduce the need for TSAs.

Cloud, digital ecosystem players, blockchain and smart contracts make the transfer from one entity to another straightforward and speedy—eventually eliminating the need for TSAs of any nature.

BRIDGE SERVICES FOR SPEED AND SIMPLICITY

Increasingly sophisticated digital technologies mean IT concerns no longer have to slow down a deal.

This should be good news for the 84 percent of executives surveyed who indicate they are interested in ways to industrialize the M&A process.[5] Cloud platforms now allow IT vendors to provide bridge services to M&A parties, while expanding the available closing models. That means companies no longer have to rely on their own in-house IT capabilities to close a deal; a third party can help the acquisition for as long as necessary.

Bridge services allow buyers to execute a TSA with a third party who can minimize the disruption to the existing business. Eight out of 10 executives agree that M&A activities push their company to utilize third-party providers for new technology adoption.[6] One company leveraged third-party driven lean distribution across key markets to make an asset more attractive to private equity buyers. The buyer was willing to pay a higher price than the seller's best-case internal analysis because having the distribution handled allowed it to focus on increasing revenue, aligning the product portfolio and other market initiatives rather than on TSA exit plans. The seller was able to extract approximately $80 million more in price than their internal valuation analysis indicated was feasible.

By eliminating the need for a TSA, one seller was able to extract $80 million more in price than their internal valuation analysis indicated was feasible.

CREATE A NEW DIGITAL CAPABILITY

An increasing number of companies are stringing smaller acquisitions together to create or expand a capability.

Accenture has done just that in purchasing a series of digital and creative agencies. CEO Pierre Nanterme made the end goal clear: ". . . we are now a key player in the agency world. We are gaining massive market share. We're becoming certainly a leader in digital marketing solutions."[7] When doing such string-of-pearls acquisitions, innovative closing models are key to maintaining speed and business continuity.

But while companies acquire more and more to create or buy a capability, they also need to create their own digital M&A capability. Acquiring digital assets to create true market advantage requires scientifically executing against a master plan. A solid capability cannot be created from a smattering of disparate digital assets. Instead, companies need to apply a deliberate strategy to speed time to close—creating a sustainable cohesive capability through an ecosystem of partners. Nine out of 10 executives agree that to be successful, companies must develop new M&A capabilities—specifically those that help them choose when to buy, partner, invest or incubate as they execute digital business models.[8]

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GETTING TO MARKET ADVANTAGE

With the stakes as high as they are—up to US$15-$30M for the buyer and US$15-$45 million for the seller—companies cannot begin soon enough to transform their M&A with digital. We suggest a few things to begin:

Frame buyer responsibilities early

Start to define buyer responsibilities for Day 1 as early as the due diligence phase—even earlier if possible. In tandem, develop a TSA blacklist that breaks down the services essential to close the deal versus those that are off limits. Don't let your organization's current capabilities limit the possibilities.

Embrace the ecosystem, which will be partially tied to M&A value

No one player will be able to provide the full capabilities business model transformation requires. Because of this fact, companies will need to agree on closing models that are more open, flexible and inherently collaborative.

Execute the business model at conference-room scale to test readiness

Set up a minimal viable product that your team can use to simulate a set of transactions. Doing so will allow you to prove whether your model will work or not, clarifying if third-party providers truly have the capabilities your company requires.

SWEETEN THE DEAL

Focusing on the business of your business during and after a merger or acquisition is increasingly crucial due to the increased pace of business in a digital era.

Applying technology to help your company do just that can sweeten the results of any deal.

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CONTACT THE AUTHORS

Gregg Albert
Florham Park, New Jersey, USA
gregg.albert@accenture.com

Gerald Duarte
Amsterdam, The Netherlands
gerald.duarte@accenture.com

Tim Ziemann
Austin, Texas, USA
tim.ziemann@accenture.com

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