



Digitizing M&A

How digital technologies can help
reduce risk and create value faster



Accenture Strategy

About the authors



Gregg Albert

Managing Director,
Accenture Strategy,
Mergers & Acquisitions

Gregg works across the M&A deal cycle from portfolio rebalancing analysis to deal execution, with expertise in maximizing deal value, accelerating value capture and minimizing transaction costs. He has more than 15 years of experience in venture capital, corporate development and consulting advisory through 125+ transactions in 35 countries. Gregg is based in New Jersey.



CoCo Chalfant

Senior Manager,
Accenture Strategy,
Mergers & Acquisitions

CoCo works with business leaders globally on how to optimize business value through M&A. She has worked across the deal cycle, including carve-out strategy and management, pre-merger planning, and post-merger integration. CoCo is based in Atlanta.



Gerald Duarte

Managing Director,
Accenture Strategy,
Mergers & Acquisitions Lead,
Benelux and France

Gerald advises private equity and corporate leaders on how to enhance their business portfolios, manage operations, and achieve the greatest value from their M&A initiatives. With nearly twenty years of experience, he specializes in business carve-outs, post-merger Integration, commercial and digital due diligence, and operational transformation. Gerald is based in Amsterdam.



Dominik Krimpmann

Managing Director,
Accenture Technology
Strategy & Advisory, Mergers
& Acquisitions Lead, Europe

Dominik's professional mission is to help global companies think today about which innovation will impact them tomorrow, while simultaneously guiding them to implement successful technology-driven strategies from start to finish. He is a specialist in Tech M&A, executing large transactions with state-of-the-art technologies. Dominik is based in Düsseldorf.

Historically, planning for and executing transactions such as mergers and acquisitions (M&A), divestitures, joint ventures and alliances has been an art.

But today's dealmakers are offered a market advantage that adds 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 risk, but also help companies to integrate—or disentangle—and create value faster.

Picture this.

For a US\$1 billion revenue business sold at the median industry EBITDA multiple, being able to complete a transaction three months earlier can generate significant value.

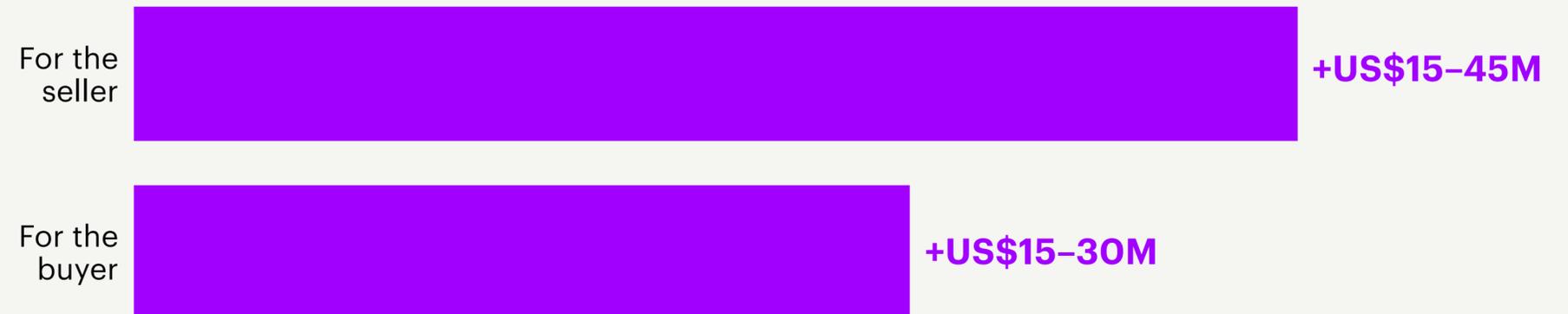
We have seen up to US\$15–30 million for the buyer and US\$15–45 million for the seller.

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

Your company can do the same.

Figure 1: By digitizing their M&A capabilities, companies can increase their speed and reduce transaction costs, obtaining more value from their deals.

M&A value increase



Break with tradition

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



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%) described themselves as primarily acquiring digital companies or assets.¹ This is not surprising, since 85% of executives are not very confident that their current operating model can meet shifting strategic priorities. The need for innovative technologies and the talent that fuels them is real.²

To get to that growth more rapidly, in all deals—but particularly in those driven by the need for new capabilities—M&A teams should be thinking beyond traditional deal planning and execution.

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. For example, software deals the majority of which involve buyers from outside the sector on average close a third faster than non-software deals.³ 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.



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.



The drawbacks of TSAs

We believe one of the ramifications of increasingly digital M&A is that lengthy Transitional Service Agreements (TSAs) between a buyer and a seller will be a relic three 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.

While TSAs ensure business continuity for the buyer, they also delay synergies, create higher operational costs—as TSAs have markups up to 10% with an escalating pricing premium over time⁴—limit buyer flexibility and increase dependency on the seller.

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.



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.

Shortening TSAs with digital technology

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 three 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 buyer and seller alike. Not paying enough attention to TSAs increases the risk that both players will leave value on the table.

Especially Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS) solutions can make a significant difference to the TSA length. Accenture experience shows that companies can shorten the TSA period of the “longest tentpole”—ERP or infrastructure-related service elements—from 24-36 months down to 9-12 months.

Instead of cloning existing systems to then either carve these out for the buyer or integrate them from a TSA service, an entirely new, cloud-based system is deployed. While this requires some involvement from the business, it brings the added benefit of accelerating both automation and process standardization.

Furthermore, digital technologies like blockchain and smart contracts allow peer-to-peer data sharing in a secure, distributed ledger. Other types of “bridge services” provided by third parties can also reduce the need for TSAs.

As-a-service solutions, third-party providers of bridge services, blockchain and smart contracts all help to eliminate lengthy TSAs—making the transfer from one entity to another speedy and straightforward.



A software platform company was carved out from a multinational software conglomerate to be sold to a private equity (PE) investor.

The PE firm decided to not take the existing IT landscape but instead implemented a cloud-based, greenfield IT system. As a result, the TSA period was cut by more than half—from 36 months down to 15 months—reducing the dependency on the seller while providing more strategic freedom, reduced costs and a state-of-the-art IT landscape for the buyer. In addition, this move brought efficiencies through process automation and standardization resulting in a 30% IT cost reduction.

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% 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 need 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 US\$80 million more in price than their internal valuation analysis indicated was feasible.**



8 out of 10

executives agree that M&A activities push their company to utilize third-party providers for new technology adoption



Speed is today's currency

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

Accenture has done just that, making a series of digital acquisitions in recent years. Speed is of the essence, with companies and brands experiencing massive disruption as consumers shift to online channels at an unprecedented pace. **When doing such string-of-pearls acquisitions, innovative closing models are key to maintaining speed and business continuity.**

While companies acquire more and more to create new capabilities, 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.⁷



9 out of 10
executives agree that to be successful, companies must develop new M&A capabilities

Getting to market advantage

With the stakes as high as they are—up to US\$15–30 million 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:

01

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 service list 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.

02

Embrace the ecosystem

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

03

Utilize as-a-service alternatives

Instead of cloning IT systems, consider using proven as-a-service solutions to rapidly shift entire infrastructures from one company to another. This eliminates the need for the seller to maintain legacy infrastructure until the buyer gets up to speed and transfers can be made.

04

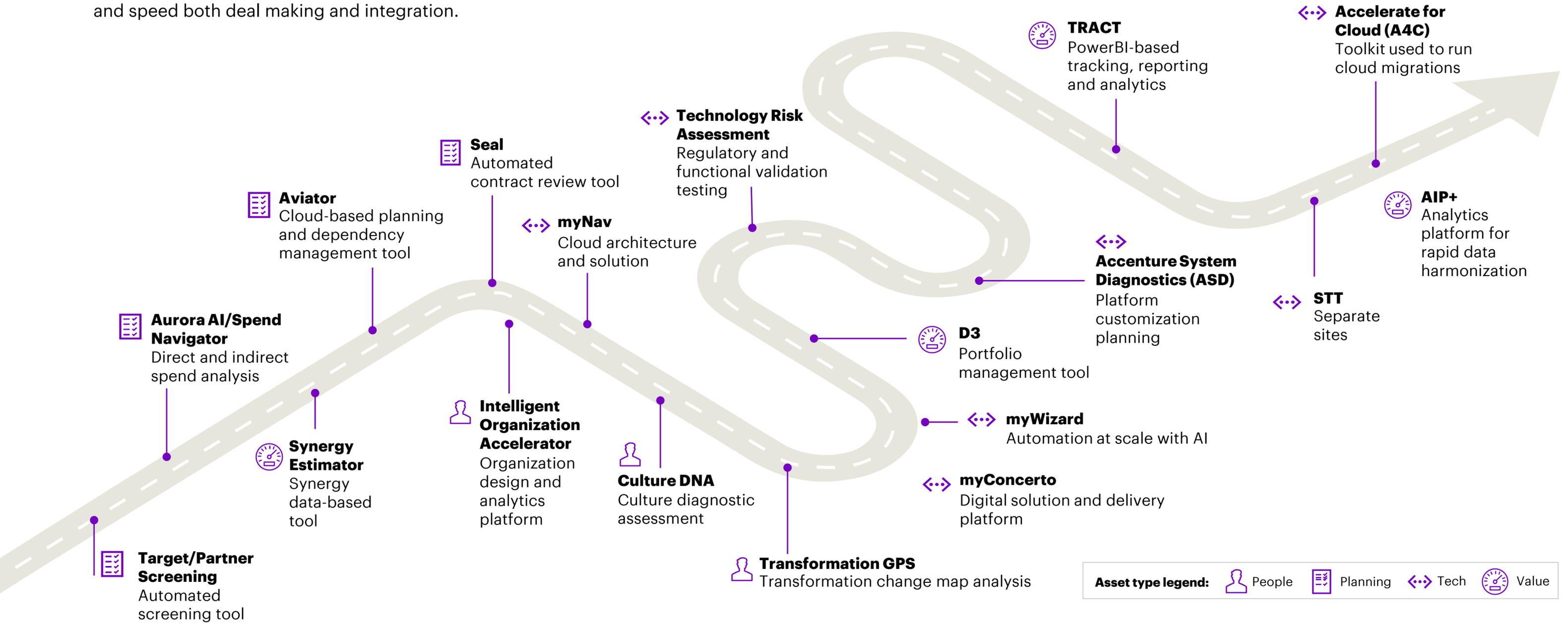
Test the business model at conference-room scale

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.

How we can help catalyze the deal

Applying technology can help your company derive greater results from any deal. Accenture supports client M&A agendas globally, having served thousands of M&A transactions across the deal lifecycle. With unparalleled functional scope and scale, and powered through innovative technologies, we can help you obtain more value from your deal with speed and certainty.

Figure 2: Many technologies exist to smooth and speed both deal making and integration.



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