



TECH-LED M&A: FROM ART TO SCIENCE



Traditionally, companies that have acquired others or merged have done so to drive synergies, acquiring targets similar to their own organization.

But, digital deals—fast gaining M&A share—are different. In a digital deal, the acquiring company pursues technologies or capabilities it does not possess.

The rise in digital deals indicates many large organizations are realizing organic growth will not give them the rapid rise in digital capabilities they desire. They pursue these capabilities with dogged determination because digital fuels new business growth, the Holy Grail of today's activist shareholders.

Without continued new business growth, obsolescence looms. With it, the sky is the limit.

As companies pursue the acquisition of other organizations for their digital prowess, a second layer to the digital deal conundrum reveals itself. It is not enough just to acquire or merge with digital savvy. Companies must then spread that digital savvy across the broader organization. To make digital acquisitions a success and have them contribute to scaling new business opportunities, digitizing the value chain, or providing digital products and services, companies need to transform their M&A approach. Because a digital deal is different—from size, scope and valuation, to playbook and integration. The true victors in M&A will be those who apply digital technologies to their own processes, giving them a competitive advantage from strategy to playbook, for both digital and traditional deals.

Accenture Strategy research indicates that the disruption and differentiation that digital technology can create will place it at the center of acquisition strategy for the foreseeable future.

In mid-2017, Accenture Strategy surveyed 1,100 C-Suite executives representing 13 industries in seven countries. We explored strategic areas and opportunities where companies are harnessing technology to increase business value.

DIGITAL IS IN THE DRIVER'S SEAT

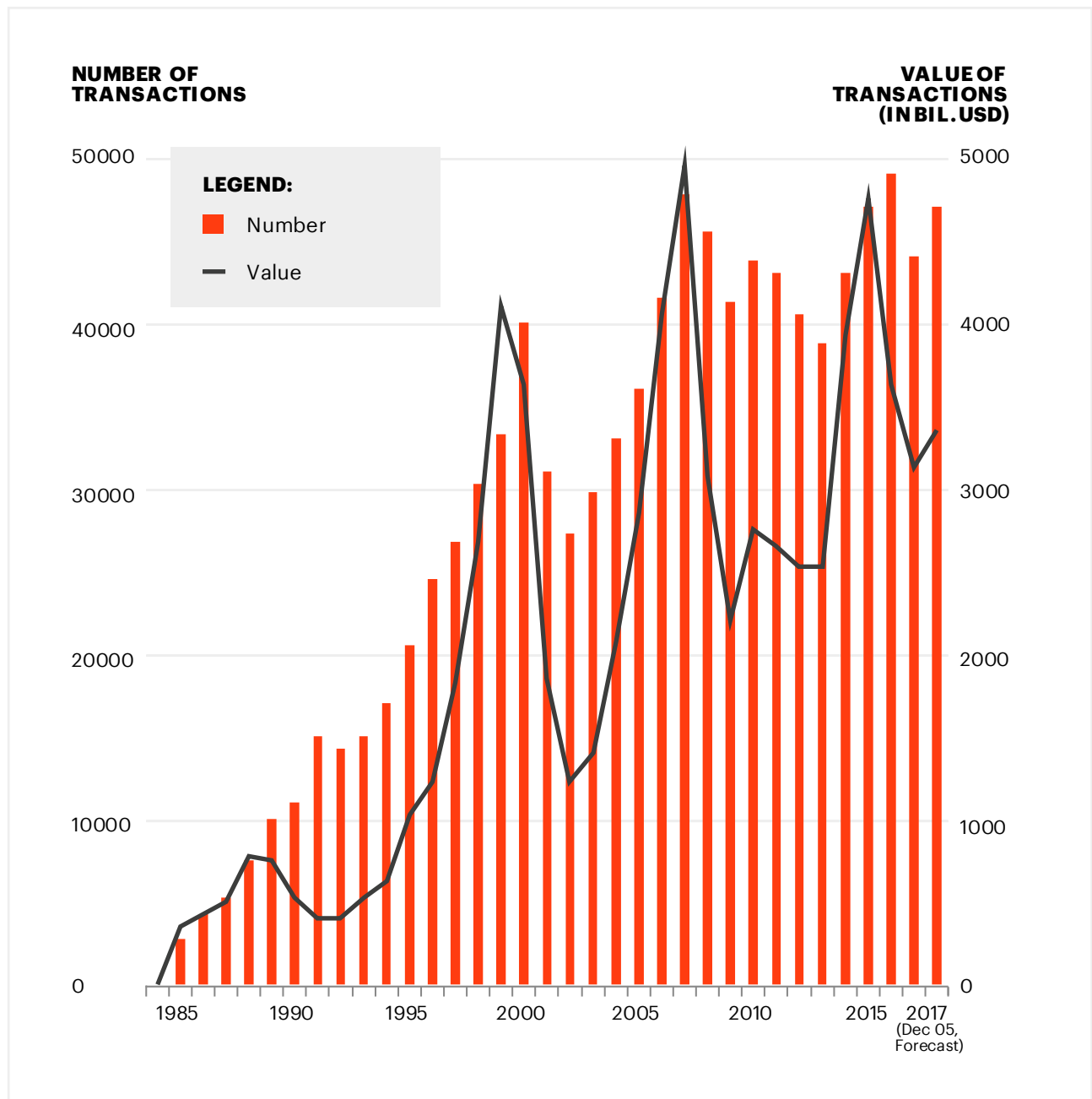


M&A activity overall has trended upward for decades, despite drops here and there (see Figure 1). Accenture Strategy research shows 84 percent of respondents indicate their firm acquired another company in the past two years, while a third acquired five or more companies.¹

The rush for digital capabilities is a major contributor to recent increases. Nearly one-third of companies logging M&A activity describe themselves as traditional companies acquiring digital companies or assets. Of the most active companies those who completed five or more deals in the prior two years more than half of their acquisitions were related to gaining digital capabilities.

These findings are supported by myriad examples ripped from business headlines. For instance, Siemens has invested US\$10 billion in software companies since 2007 to help fulfill its digital strategy.² As a result, in fiscal 2016, Siemens' digital business generated around US\$4.6 billion, 12 percent more than the prior year—with double digit growth predicted through 2020.³

FIGURE 1:
MERGERS & ACQUISITIONS
WORLDWIDE, 1985 - 2017⁴

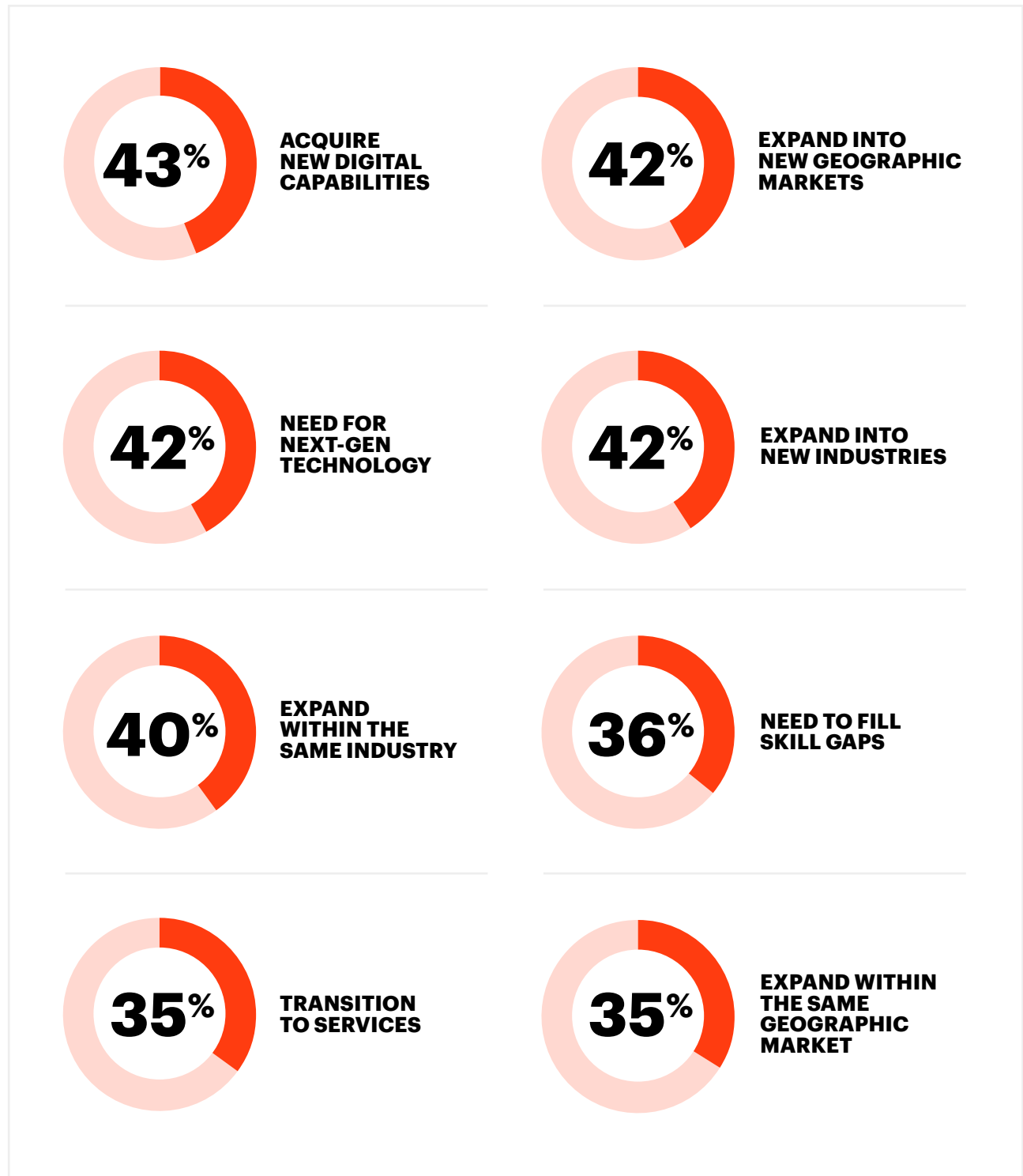




Ausgrid, the largest electricity network in Australia, bought the country's largest digital metering business, saying the "acquisition provides a solid platform to grow [its] significant metering footprint."⁵ The marketing industry saw a 20 percent jump in the number of deals involving digital marketing capabilities in the first half of 2016—with cumulative deal value skyrocketing 288 percent.⁶

It's not that companies are no longer acquiring for the traditional business reasons those deals will always have an important place in M&A. It's just that digital needs are fast rivaling traditional reasons in spurring M&A events. Our research shows that acquiring new capabilities (43 percent) and the need for next-gen technologies (42 percent) are on par with traditional triggers such as expanding into geographic markets or industries (both 42 percent: see Figure 2).

FIGURE 2: WHAT TYPICALLY TRIGGERS AN M&A EVENT FOR YOUR COMPANY?



STANDALONE STATUS INCREASINGLY COMMON

Of the companies that have already acquired a digital company, almost two-thirds kept the acquisition as a standalone business. As one Consumer Packaged Goods senior executive put it in a 2017 Accenture roundtable:



Our new acquisition is a rock star. Growth through the roof. An agile culture without a lot of cumbersome policies and procedures. It obviously has worked well for them but is nothing like our culture. Part of the deal made was that we would keep our Large Established Company hands off their culture. So, we have to ‘integrate’ them without really integrating them. They’re easily a tenth of our size—but we’re learning from them.

An increasing number of acquiring executive teams are realizing that harvesting the digital and cultural DNA of agile upstarts without making them conform to the legacy culture is of value. However, as acquiring companies begin to look for ways to acquire multiple digital entities, stringing them together to create a new capability and meld the best of all cultures could create a competitive advantage.

A TRADITIONAL M&A APPROACH DOESN'T WORK FOR DIGITAL



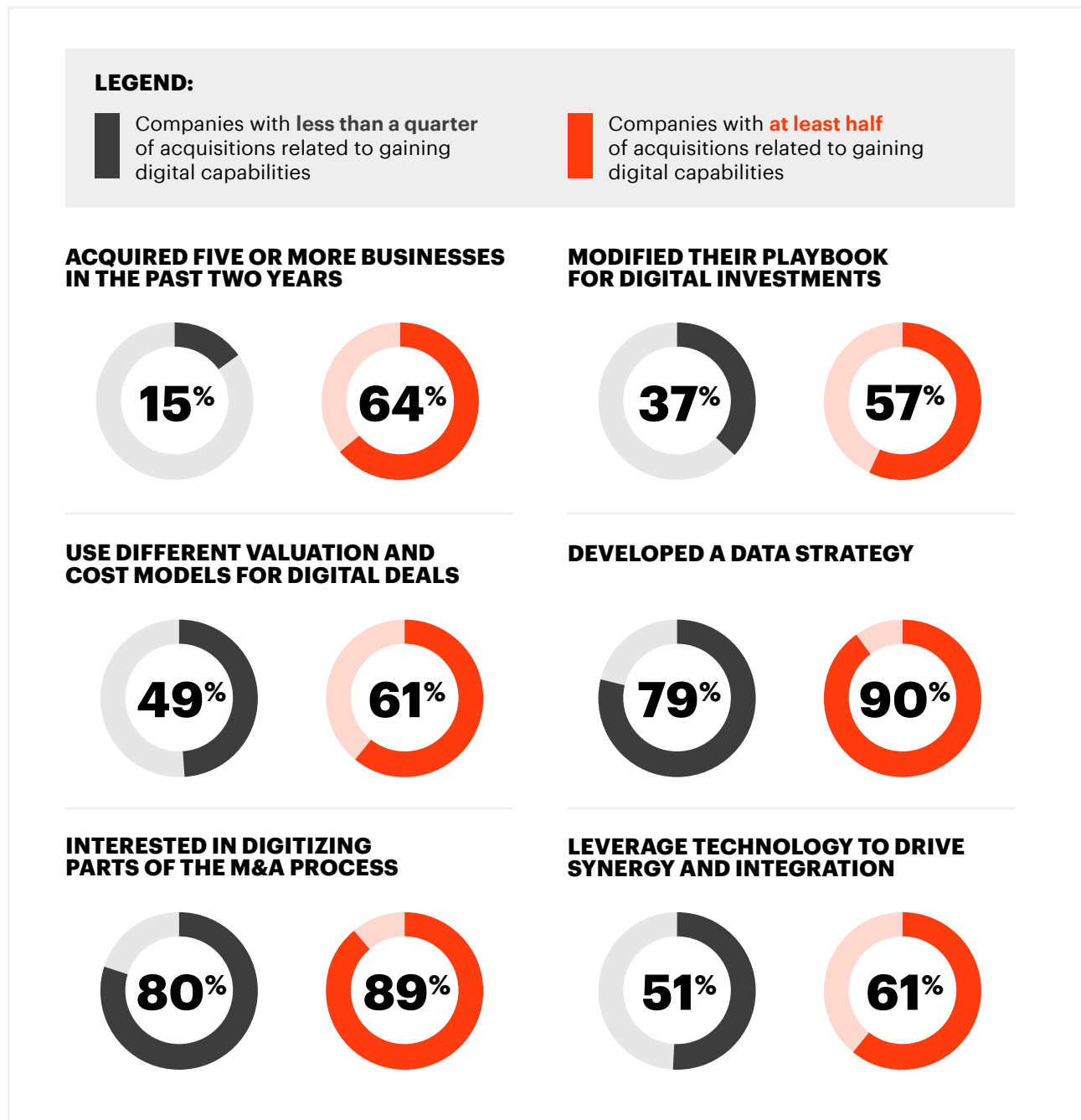
Despite companies' best efforts, many M&A deals do not bring the hoped-for results. Technology can make a significant impact, from enabling an accelerated and better-informed deal process to improved post-merger integration. Company executives are recognizing this, with 84 percent agreeing the CIO should have a seat at the M&A table.

Of the companies Accenture Strategy surveyed, the learning curve seems to be fast and steep for digital mergers and acquisitions. Already, 61 percent use a different pre-deal team and evaluation criteria for M&A investments, having recognized a need for such. (See “The Dynamic Duo.”) More than half (56 percent) follow different valuation and cost models from their traditional M&A toolset. Forty-nine percent use a different playbook. In addition, 58 percent say technology is already allowing them to achieve targets and capture value faster in their M&A deals.

It's not just the tools that must differ for digital deals. Three out of four executives (78 percent) agree or strongly agree that companies cannot rely on their current M&A capabilities for digital deals and must hire digital leaders into their M&A organizations to succeed.

FIGURE 3: EXPERIENCE COUNTS

Companies that had a strong focus on acquiring digital capabilities in the past two years have a first-mover advantage. They are better prepared for further digital investments:



THE DYNAMIC DUO

Analytics and artificial intelligence (AI) play a key role in helping human deal analysts sort through vast amounts of data—from financials, to company communications, social media and customer sentiment.

Not to mention that these technologies have forever changed due diligence. Eight out of 10 survey participants agree or strongly agree their business would benefit from digitizing the target screening process. They also agree or strongly agree with using AI to aggregate and analyze social media, as well as public and private sources. Companies that use AI for M&A can reduce due diligence time by 30 to 90 percent.⁷

The legal field has been using AI to its advantage for M&A. Wolters Kluwer Legal & Regulatory US is combining AI and attorney curation to streamline M&A document drafting.⁸ Additionally, in mid-2017, Baker McKenzie announced it would initially employ new AI tools across three continents as part of a worldwide rollout plan, with the goal of allowing faster, more comprehensive contract review on M&A work.⁹

INTERNAL DIGITAL CAPABILITIES AS THE SWISS POCKETKNIFE



If the traditional M&A toolbox is no longer sufficient for digital deals, it must be expanded and changed. But, applying digital to the ins and outs of a deal is only part of the equation for success. Companies must become more digital themselves to integrate newcomers as rapidly and effectively as possible—doing so provides them all the benefits of digital in a Swiss pocketknife effect.

Applying digital to pre-deal processes helps firms competitively, but gains erode quickly if they 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. But, 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.¹⁰ Seventy-one percent take between four and nine months.¹¹ Survey participants told us technology integration (71 percent) and the maintenance of the target's innovative culture (62 percent) determine the success of progressive company acquisitions.

Many acquiring companies are undergoing their own digital transformations, but most have not digitized completely. For instance, 57 percent say they have a platform in place to enable new businesses and systems to rapidly integrate, as well as digital expertise to support the integration. Surprisingly, it is often M&A that pushes companies to digitize more broadly; 85 percent of executives surveyed agree or strongly agree M&A activity has forced their company to develop a data strategy. Because of a merger or acquisition, they were forced to look across functions to ensure data compatibility—and a data strategy was born. The more digital is applied to internal M&A processes before deals multiply, the better able organizations are to reap the benefits for digital deals and traditional acquisitions alike.



AN EMERGING SCIENCE

Applied effectively, digital technologies help C-Suite leaders transform M&A from an art to a science, to increase its capabilities as a driver of innovation and business growth. Leaders are already making some important changes:

TREAT DIGITAL DEALS DIFFERENTLY


Leading companies develop a distinct process that best suits digital investments. From target screening to valuation, discovery and negotiation, leaders see a modified playbook as an advantage.

SPREAD THE JOY

Successfully acquiring a digital disruptor is just the starting point. The parent company must determine the appropriate level of integration to leverage the acquisition's full value potential. Leading companies are then able to spread that digital savvy across the broader organization and scale new business growth. As serial digital acquisitions become more common, a holistic integration strategy becomes more complex, but also more necessary.

GREENLIGHT DIGITAL INTERNALLY

Forward-thinking companies leverage analytics and applied intelligence to vastly improve their end-to-end capabilities for all acquisitions—traditional and digital. This allows them to generate better insights faster, run a smoother process and extract more value from their M&A.



M&A activity related to gaining digital capabilities will only continue to increase. Those who recognize this and move quickly to bring their own company into the new with digital technologies are best placed to reap the rewards.

Successful M&A teams already bring art to the deal in a way only humans can. Complementing that art with the science of analytics and applied intelligence only bodes well for the future of M&A.

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In mid-2017, Accenture Strategy surveyed 1,100 C-Suite executives representing 13 industries in seven countries. We explored strategic areas and opportunities where companies are harnessing technology to increase business value.

NOTES

¹ All data is sourced from the Accenture Strategy 2017 study, “Tech-Led Change in M&A,” unless otherwise noted.

² <https://www.siemens.com/press/en/pressrelease/?press=/en/pressrelease/2017/corporate/pr2017030247coen.htm>

³ Ibid.

⁴ <https://imaa-institute.org/mergers-and-acquisitions-statistics/>

⁵ “AGL Sells Digital Metering Business to Ausgrid,” by Cole Latimer. The Sydney Morning Herald, November 6, 2017.

⁶ “Acquisitions of Digital Agencies, Ad-Tech and Analytics Firms Surge,” by George Slefo. AdAge, August 10, 2016.

⁷ “Artificial Intelligence – An Authentic Opportunity for Mergers and Acquisitions,” by Mark Burdon. The Deal Room, August 17, 2016.

⁸ <http://wolterskluwer.com/company/newsroom/news/2017/07/wolters-kluwer-launches-ai-enhanced-ma-clause-analytics-to-streamline-merger-agreement-process.html>

⁹ <http://www.bakermckenzie.com/en/newsroom/2017/08/ai-to-enhance-ma-and-transactional/>

¹⁰ Accenture Strategy M&A research, October 2016.

¹¹ Ibid.

ABOUT ACCENTURE

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