

# Merging M&A and cloud journeys

 **accenture**

Accenture Strategy

## About the authors



### **Nikhil Iyer**

Senior Manager, M&A –  
Accenture Strategy

Nikhil works with C-suite executives to define their future state operating model for technology, organizational design, cost reduction as well as process improvement. He is experienced in strategic planning, management and execution of M&A lifecycle—including due diligence, divestitures, Day One preparation, synergy realization and post-merger integration. Nikhil is based in Houston.



### **Olga Nissen**

Managing Director, IT M&A Lead,  
Europe – Accenture Strategy

Olga leads the Accenture Strategy IT M&A practice in Europe. Working with some of the world's largest companies, she advises business leaders across multiple industries on mergers and acquisitions, digital transformation, data analytics and large-scale operating model transformations. In addition, she has a passion for helping organizations achieve new heights in inclusion and broader diversity. Olga is based in Copenhagen.



### **Martin Kay**

Managing Director, Innovation  
and Growth – Accenture Strategy

Martin and his cross-skilled team partner with clients to invent, incubate and scale new revenue streams and new business. In most cases these new opportunities are enabled by the cloud. Martin spent 10 years as an investor and entrepreneur in transformational early-stage digital technology companies. He continues to serve on the boards of various start-ups. Martin lives in Boston.



### **J. Neely**

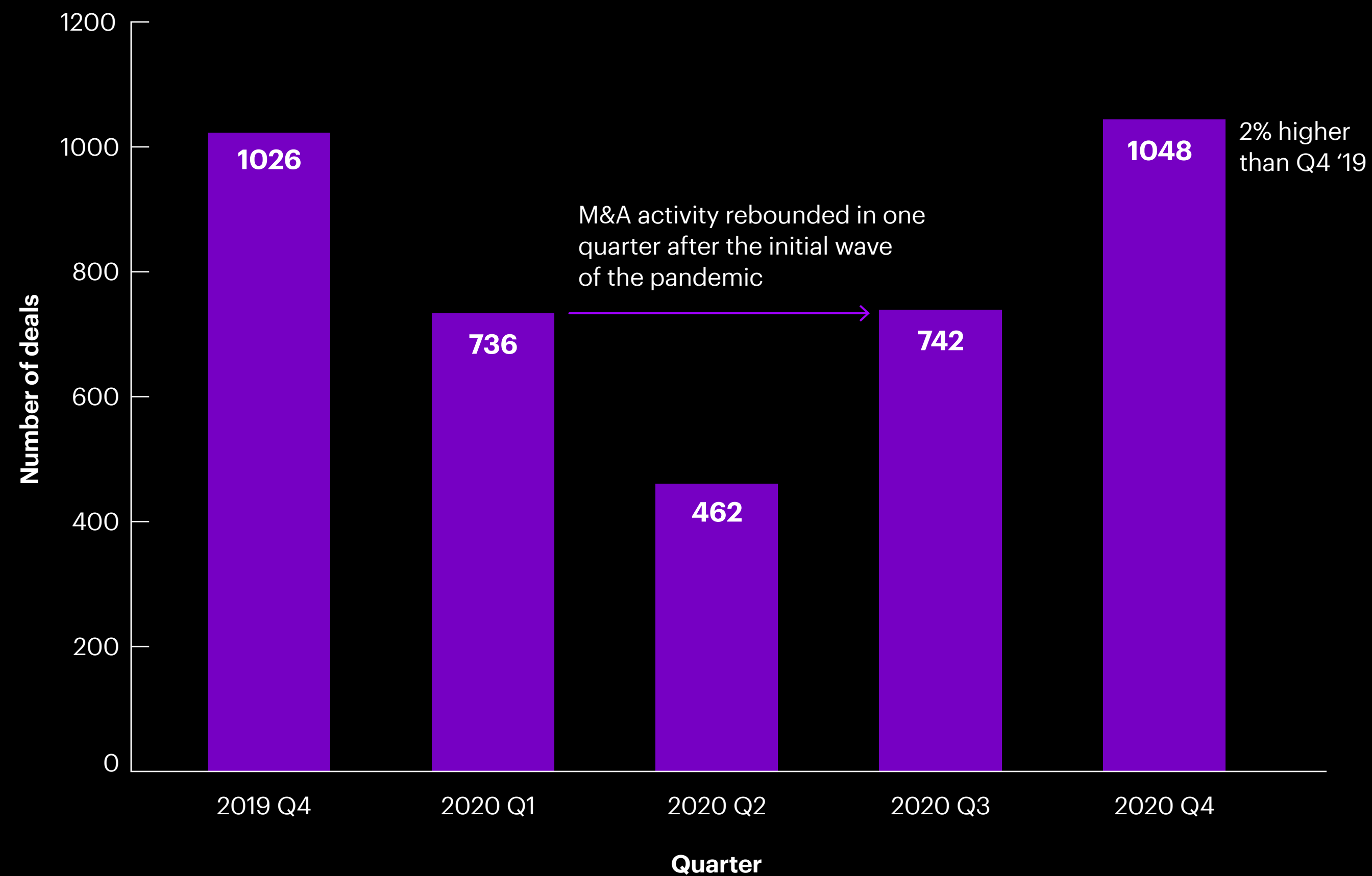
Managing Director, Global M&A  
Lead – Accenture Strategy

J. has 20 years of strategy experience, being the global M&A transformation lead, specializing in M&A and restructurings in consumer, retail and industrial sectors. He has supported transactions in fast-moving consumer goods, healthcare, durable home goods, building products, home building, specialty retailing and automotive sectors. J. is based out of our Cleveland office.

# Companies around the world have weathered a year of M&A extremes.

Despite a sharp decline initially as the pandemic struck, mergers and acquisitions rebounded very quickly back to pre-COVID-19 levels, down only 10% year over year (See Figure 1).<sup>1</sup> For many C-suite executives, accelerating M&A is crucial to meeting their growth goals.<sup>2</sup> We are entering a period where M&A activity is rebounding before many economies do.

**Figure 1:** Following the initial wave of the COVID-19 pandemic in the second quarter of 2020, M&A activity rebounded quickly.



Source: Accenture Strategy analysis of S&P CapitalIQ data, 2021.  
Data shows the number of deals globally with a deal size in excess of US\$100 million.



Just 27% of M&A transactions resulted in both operating margin improvement and revenue growth.

**Achieving shareholder returns becomes more than a mantra in economically challenging times. It's nothing less than an imperative, as boards increase scrutiny. With revenue and profitability under increased pressure, C-suites are also.**

With that pressure in mind, Accenture Strategy analyzed 800 global M&A transactions over a five-year period. We found that only 27% of them resulted in both operating margin improvement and revenue growth.<sup>3</sup> The more successful deals, though, shared a key trait. Leaders in those deals [created a long-term blueprint](#) for intended synergies and operating model prior to deal close.

**Technology is a cornerstone of the long-term blueprint for any merger or acquisition. In some cases, it's a deal enabler, as in acquisitions by private equity firms. Regardless of the situation, many organizations are turning to cloud technologies to both smooth and speed deal making and integration.**

While this is a wise move that can help with deal return, forward-thinking leaders are keen to capture an even greater value opportunity—one that can be capitalized on simultaneously. Nearly six out of ten executives surveyed (58%) expect accelerated transformation to digital business and operating models to be an outcome driven by the use of technology in the M&A deal process.<sup>4</sup>

Instead of applying technologies like cloud computing to a deal in a vacuum, savvy C-suites are merging their company's cloud journey with their M&A journey.

That merger helps create a more strategic long-term blueprint for success that moves far beyond any one deal, by creating a platform for future acquisitions.

Integrating cloud and M&A journeys can help C-suites leapfrog value in their cloud capabilities overall—a welcome boost given technology leaders are expected to grow revenue 46% more than laggards by 2023.<sup>5</sup>



Instead of applying technologies like cloud computing in a vacuum, savvy leaders are merging their company's cloud journey with their M&A journey.

**A merger or acquisition is an opportunity to cover significant ground in a compressed time period. It's all about value at a faster clip. Companies that treat it as such, from a cloud perspective, are reaping the benefits.**

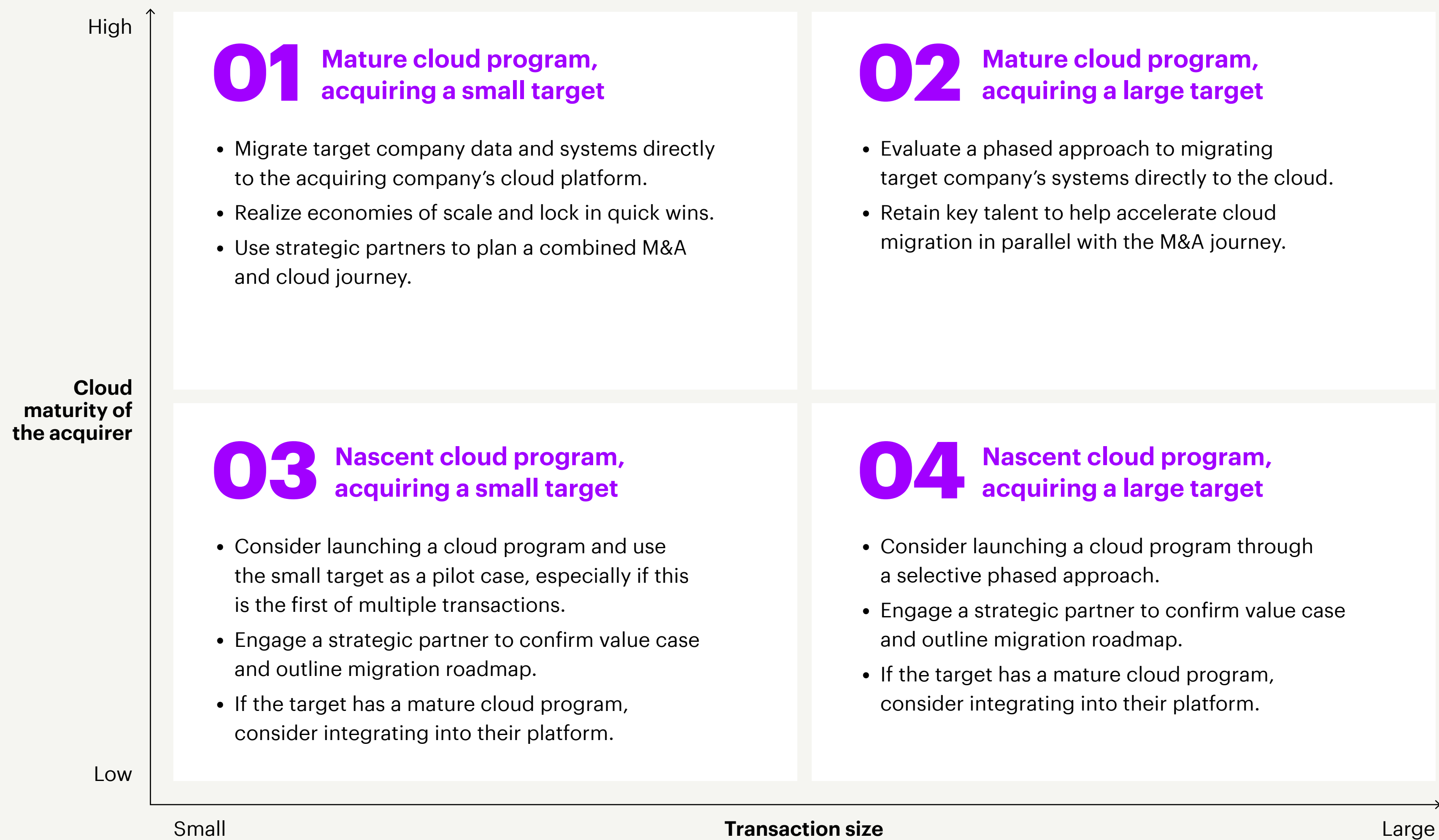
For example, a recent merger in the oil and gas industry prompted a cloud journey. As a result, company leaders saw a 30% reduction in technology infrastructure costs at a significant return on investment (ROI): For every dollar in one-time investment, they reaped a dollar in recurring savings.<sup>6</sup> This is significant considering that technology savings typically require a 2-7x investment for every dollar of recurring savings.<sup>7</sup>

# Every journey has its advantages. Capitalize on yours.

Maintaining M&A and cloud as separate journeys slows both on the road to value. Integrating them makes sense, but there is no one-size-fits-all solution. Much depends on the maturity of the acquiring company's cloud program, as well as the size of the acquisition it's making. No matter where a company is on its journey, merging M&A and cloud benefits from experience.







**Figure 2:** Tailoring the approach according to your cloud maturity as an acquirer and the size of the transaction.

## 01

### **Mature cloud program, small target.**

This scenario is the most compelling case for moving a target's data and systems directly to the cloud. It takes advantage of the progress the acquirer has made in its technology journey. Companies with a mature cloud program can dramatically accelerate integration and the realization of synergies, shaving months—even years—from the schedule. In one recent integration, the acquirer set a goal for integrating the small target's enterprise resource planning (ERP) system into its own within six months of deal close.<sup>8</sup> Despite multiple major in-flight initiatives, they were able to do so, turning what could have been months of little progress into a quick win.

## 02

### **Mature cloud program, large target.**

A large target without a real cloud program can be tricky, as it generally comes with various attempted digital transformations, incompatible architectures and more. This situation will be among the most time-intensive for any acquirer to address. A large target with a mature cloud program, however, is usually a boost to the acquirer's own mature program and cuts down on integration timelines dramatically. For instance, a global company was wrapping up its own major ERP cloud transformation program when it acquired a large pharmaceutical target. On the heels of its own transformation, the acquirer brought the target's ERP system directly into the cloud. In the process, the acquirer was able to reduce costs and accelerate the migration timeline for the target's major markets to less than 24 months after closing the deal.<sup>9</sup>

### 03

#### **Nascent program, small target.**

If the target has a mature cloud program, the acquirer should consider integrating it into their platform. It will take careful planning, while a common attitude in this situation is: “Let’s just get the deal done.” Company leaders are hesitant to add more risk. But that hesitancy generally causes them to leave money on the table. With serial acquisitions becoming more common, complex integrations can drag on for some time. In that case, if that small target is part of the serial acquisition strategy, the acquirer might consider investing in a separate cloud-based platform, one it will use to consolidate its acquisitions. Executives who develop a clear value case for cloud transformation as part of integration—and use fact-based analysis to underpin that plan—will usually emerge ahead of those who don’t.

### 04

#### **Nascent program, large target.**

In this situation, if the target has a mature cloud program, it may be wise for the acquirer to merge into the target’s platform—it may have even been part of the impetus for the deal. In this scenario, we see many executives push the cloud agenda to post-integration. Measuring twice and cutting once applies here. Select the right set of pilot programs, develop a value case, execute, and track the value through the use of analytics. Then, it becomes a “wash, rinse, and repeat” cycle—and a migration roadmap for success in our experience.



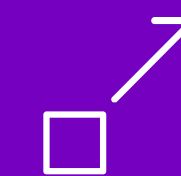
# Greenfield beats a lift-and-shift approach

A complex technology estate can impede the joint M&A and cloud journey. A greenfield approach can be the answer in such situations, especially during divestitures and carve-outs.

**A greenfield approach adds value to any M&A asset. Taking a divestiture or acquisition out of an over-engineered corporate IT environment and into its own new cloud environment is a leapfrog in value.**

Beyond cost efficiency and eliminating unnecessary IT “weight,” it enables innovation in a way pure integration won’t. This holds true no matter where the acquirer is on its path to the cloud. Furthermore, a greenfield approach moves beyond IT benefits into business benefits, enabling a new business model, a flexible way of operating and faster time to market. Increasingly, we see financial investors like private equity firms utilizing greenfield to their advantage when they need to create an IT landscape for an acquired entity.

Especially in deals where there are clear growth ambitions along with performance and security concerns, a greenfield cloud transformation can be a good solution. Creating a software-as-a-service-based technology footprint early allows a company to lock in the benefits of modern IT architecture. For example, a private equity firm buyer cut its Transitional Service Agreements (TSA) period from 36 months down to 15 months by implementing a cloud-based greenfield IT system. In the process, they reduced their dependency on the seller, while providing more strategic freedom and reducing costs.<sup>10</sup>



**Taking a divestiture or acquisition out of an over-engineered corporate IT environment and into its own new cloud environment is a leapfrog in value.**

# Indirect benefits of cloud for M&A

Companies reap clear benefits of cloud migration for future M&A:



**Speed.** As an acquirer, having a mature cloud program can dramatically decrease the time it takes to realize benefits/synergies. Cloud, blockchain and smart contracts make the transfer from one entity to another straightforward and speedy—we believe they will eventually eliminate the need for Transition Services Agreements (TSAs).<sup>11</sup> For the time being, cloud helps reduce TSA costs, at the very least. It also allows faster time to market and a more flexible business model.



**Improved financials.** From reduced operating expenses to lower capital requirements, cloud helps create a leaner balance sheet. Beyond the obvious benefit of low selling, general, and administrative expenses (SG&A), a lean IT organization can be an attractive proposition for a prospective buyer.



**Resource allocation.** Cloud shifts attention to strategic activities that add ROI, such as integration or transformation, versus a focus on operational activities like maintenance or asset refresh.



**Improved security.** Overall security standards can be an attractive proposition for prospective buyers, especially in regulatory-heavy industries.

# Modern & agile: Cloud helps mitigate cybersecurity risks

Cybersecurity used to be viewed purely as risk management in mergers and acquisitions. No more, though. In a modern approach to M&A, leading companies treat cybersecurity as a capability that adds real value.



Developing cybersecurity muscle allows it to be flexed quickly and impactfully during a merger or acquisition.

**Some cross-border deals that might have been considered too risky in the past are now more feasible with cyber-diligence. That means companies that have the cyber-diligence to decrease risk have a strong competitive advantage.**

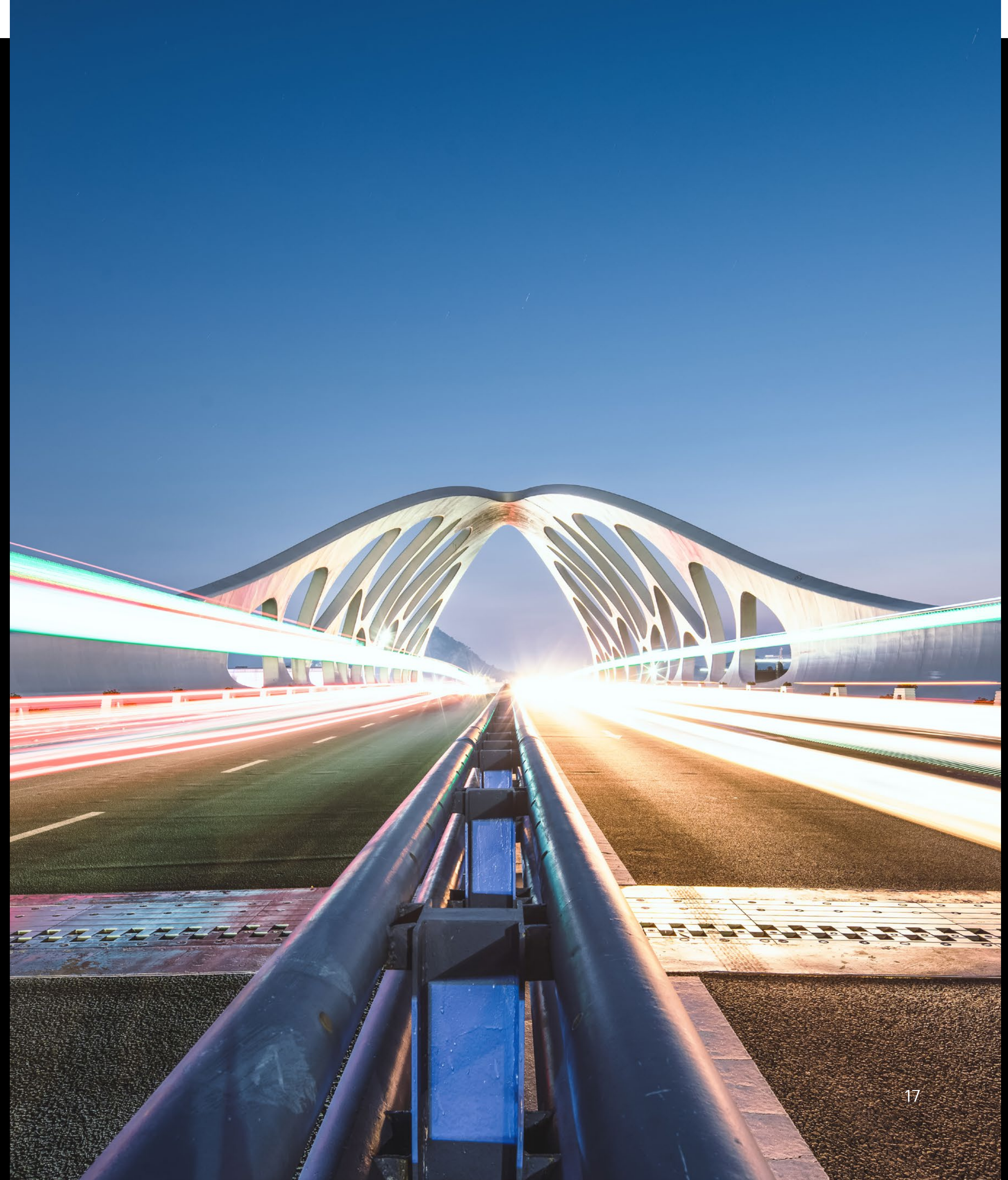
As companies build their cybersecurity capabilities to support international deals, they can use that as leverage to remove friction from their M&A operations. After all, one of the top barriers to achieving full value from a merger or acquisition is misalignment between IT and the business, with 41% of surveyed C-suite executives citing it as a barrier.<sup>12</sup> A strong cybersecurity capability can help ensure IT is supporting the business goals of a deal, for example through data access management and compliance.

Cloud computing provides a more secure operating environment. That's beneficial to companies across industries, but particularly those that are heavily regulated from a privacy and compliance perspective. Developing cybersecurity muscle outside of M&A activity allows it to be flexed quickly and impactfully during a merger or acquisition. Put simply: cloud gets you there quicker, more securely and with more value.



# Shared lane, shared success

Merging cloud and M&A journeys creates a shared success that moves companies far beyond what they can accomplish with serial journeys. We are helping organizations around the world create more value, faster, using this approach.





**Merging M&A and cloud journeys can be complex, but taking the following actions will help smooth the road ahead for companies as deal activity continues to pick up pace:**

**01**

**Involve your Chief Technology or Information Officer early and often**

We see the most value achieved from senior M&A executives and senior cloud executives working in concert. Siloes can impede progress.

**02**

**Streamline wherever possible**

A single-vendor, full-stack approach makes sense and should be strategized as part of deal integration. The more vendors and dependencies the deal team adds, the more they slow down integration and decrease potential for innovation.

**03**

**Take cybersecurity from afterthought to top of mind**

Most companies place a premium on cybersecurity. But an astonishing amount still think of it as an add-on to a deal rather than a competitive capability that can enhance value. Developing a true capability as a matter of course and incorporating it into deals from the start will place your company ahead of competitors that treat cybersecurity as an afterthought.

# Using M&A as a catalyst to broaden and deepen your cloud journey makes competitive sense, but it must be done with a long-term strategy.

Accenture Strategy research shows that companies who place early, significant emphasis on technology during a merger or acquisition are delivering greater shareholder returns.<sup>13</sup>

That's always a positive, but even more so in 2021 as company leaders seek to emerge from a global crisis and rebuild not only themselves, but the economies in which they operate. A trusted partner who has done this for other entities will typically realize greater deal value synergies while increasing speed to value.

We're here to help.

## References

- 1 Accenture Strategy analysis of S&P CapitalIQ data for deals >US\$100 million, 2021.
- 2 Accenture, CXO pulse survey of 4,051 C-suite executives, December 2020.
- 3 Accenture Strategy, [Making M&A pay](#), 2020. 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.
- 4 Accenture, CXO pulse survey of 4,051 C-suite executives, December 2020.
- 5 Accenture, [Future systems: Full value, full stop](#), 2019.
- 6 Accenture Strategy M&A client experience, 2020.
- 7 Accenture Strategy, Want more M&A value? Focus on technology, 2021.
- 8 Accenture Strategy M&A client experience, 2020.
- 9 Ibid.
- 10 Accenture Strategy, [Sweetening the deal](#), 2020.
- 11 Ibid.
- 12 Accenture Strategy merger integration study of 300 C-suite executives, 2018.
- 13 Accenture Strategy, Want more M&A value? Focus on technology, 2021.

This document makes reference to marks owned by third parties. All such third-party marks are the property of their respective owners. No sponsorship, endorsement or approval of this content by the owners of such marks is intended, expressed or implied.

Copyright © 2021 Accenture. All rights reserved.  
Accenture and its logo are trademarks of Accenture.

## About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services—all powered by the world’s largest network of Advanced Technology and Intelligent Operations centers. Our 514,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.

Visit us at [www.accenture.com](http://www.accenture.com)

## About Accenture Strategy

Accenture Strategy works with boards, CEOs, and C-suite executives to create 360° value for all stakeholders by defining and answering their most strategic business questions—including growth, profitability, technology-driven transformation, mergers and acquisitions (M&A), operating models and sustainability—with insights from AI and data science, combined with deep industry and function expertise.

For more information, visit [www.accenture.com/strategy](http://www.accenture.com/strategy)

## Join the conversation

[@AccentureStrat](#)

[www.linkedin.com/company/accenture-strategy](http://www.linkedin.com/company/accenture-strategy)