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Deloitte M&A Views podcast:
How finance technologies are transforming M&A deals

Rob: Last episode, you discussed some bold predictions for what the finance function might look like by 2025. And in previous podcasts, you've explained how an M&A transaction can be a catalyst for transformation of the finance organization, including how adoption of state-of-the-art digital technologies can help an organization execute a transaction or be ready to serve a newly combined organization as it emerges from the transaction. I want to encourage people to go back and listen to those, but let's jump into some new topics. I'll start with you, Eric, and welcome. As finance executives begin to shift their focus from strategy and screening and diligence activities, what are their priorities? And how should they be thinking about technologies that can enable or accelerate their priorities for day one and beyond that?

Eric Capron: Thanks, Rob, and great to be back and excited to dive into this topic. There's really been a lot of innovation and thinking as of late on tools that can make the deal go smoother. Most notably, a CFO's management team has a lot to consider as they approach day one. As stewards of the business, they have obligations to do things like fund the transaction, retain talent, stay compliant, and minimize business disruption, just to name a few. However, as strategists and value creators, management teams will also be looking to minimize one-time costs, accelerate value capture, ensure good visibility and control over operations, and put their organization in a position to close quickly.

Both of those lines of thinking and goals ultimately boil down to the need for a few key buckets of technology. And a team will likely find that they need three things: tools to execute the transaction, like run the transaction, manage the carve-out financials, et cetera. They're going to need tools to analyze linkages and understand how to either integrate or separate things by going through hundreds, if not thousands, of contracts and trying to figure out how to do that more systematically. They're going to need tools to understand how they fit together, the puzzle of their ERP and their systems landscape. All of those things need to fit together and be thought about as you're thinking about a deal and how you pull all of that stuff together.

Historically, what we've all done to get to a flawless day one while making sure we're hitting the operational and value objectives was just to throw a lot of people at the problem. And that was always the standard practice, but no more really today. There're a lot more levers that can be pulled and quite a bit of technology that's helping accelerate both the planning and the closing of the deal, and then ultimately driving the transformation of things that often follow and come right after that.

Dean Hobbs: Absolutely agree, Eric. While not all deals demand the same set of tools and technologies, most organizations we find benefit from a few things. First, the M&A process itself. There's an increasingly well-developed set of tools to help manage that. Things like tracking and communicating, escalating the activities that get you to a successful close. But also value tracking, managing the financials, reporting transparent progress, and making things auditable. Secondly, beyond that, today we see more ambitious, often larger organizations using the deal cycle itself to build strength and habit at using emerging technologies to get the deal objectives streamlined. One example would be things like natural language processing. Eric, you mentioned earlier just conducting an inventory of the contracts themselves, but then understanding among that inventory, what are our abilities to assign, translate, or transfer? What are the subsequent impacts on things like deferred revenue that those actions can have? All those things can be automated and a great deal of efficiency can be added. Third, in addition to those more targeted technologies, there's a whole smattering of technology out there that's made it easier to map and link ERP together. This can create lateral visibility across the legacy orgs a lot earlier in the cycle, but it can also speed the first close cycle itself and the financial statements that go along with that.

Finally, not on everyone's radar, there are many offerings that are consumed as a service out there that can accelerate getting something stood up without having to draw up TSAs, and by the advent of that, facilitate a lot faster integration, divestiture, et cetera. So from the core to the edge of that whole tools and technology landscape, many leading companies are applying a pretty progressive approach and they're benefiting from the efficiency and speed that that results in.

Rob: There's a lot of situations where the management team during a deal can put on the technology hat and think through how they're going to manage the transaction. Let's talk for a second though about the key considerations or risks that you have to bear in mind when that's what you're doing. I'll start with Dean here.

Dean Hobbs: There're really two buckets to think about here. One is considerations for tools you want to use to execute the transaction, so things that get you to a successful day one.

Two, considerations for the technologies and the investments you want to make beyond day one, those things that get you down the road toward the transformation and progress toward capturing your value case. But not all transactions, and not even all finance organizations, are created equal. As a result, special considerations need to be made for things like the maturity of the function itself, size of the organization, the complexity of that systems landscape that we talked about a little earlier, the type of deal, among many other things.

Rob: Eric, do you want to weigh in there, too?

Eric Capron: Absolutely, Rob. Really well said, Dean. The dependency or the specificity on what you do is really going to depend on the desired level of integration you want to achieve, and of course, how much time you have to do it. Or if you're in a divestiture situation, how do you want to separate? And what are the buyer's requirements around standing up the business? All of those things play into it. On larger deals where time is more available, for example, organizations are probably a little more likely to adopt an all-in approach and use the transaction like we've discussed before as really that catalyst to adopt more digitally enabled tools and/or to embrace larger top-tier solutions from places like SAP, Oracle, et cetera, complemented by integrations with leading analytics and forecasting solutions to create a more fully automated and transformative approach to either the integration or stand up that really drives and unlocks more economic benefit from the transaction overall.

You can contrast that to another situation you might be in, is where maybe you're doing a smaller or a mid-sized deal. In those situations, we often see the driver really be focused more on speed or TSA minimization. And in those instances, you might not go with the all-in approach and really focus more on more flexible SAS-based, preconfigured and stackable sets of tools that help you get things put in place quickly, but still don't limit you all that much on capabilities because they still have access to fairly advanced analytics reporting and visualization technologies. So, it really comes down to what kind of path you need to follow, what kind of approach you want to take to an integration or divestiture and what you're trying to do ultimately over the long-term.

For example, what if you're more of a serial acquirer and you're really, really mature there, you actually may anticipate doing lots more deals, in that situation, you may want to use the transaction as an excuse to get on more of a modernized ERP system and platform that could be hugely valuable on future and subsequent deals, especially when you consider the tools like SAP, Central Finance, or Oracle Super Ledger or other similar types of things, as Dean mentioned before, have really eased the mapping of how you bring in an acquired company's information. You can do it at a high level, but still have access to a meaningful level of detail on your financial reporting. Making an investment like that if you're planning to do lots of deals and lots of integrations in the future, it gives you some flexibility.

But again, the main takeaway here is, think about the situation you're in, think about the goal of your integration or divestiture, and think about going a little bit beyond just the typical adopt and go or clone and go approaches that we've done in the past, and the extra bodies that we've thrown at things like we've done in the past and use this as an opportunity to think through where the newer technology may set you up in the future for a great deal of success.

Rob: Well, great. Are there any thoughts you want to add just to finish out or round out the conversation here?

Dean Hobbs: Sure, Rob. The reality is that across that core to edge systems landscape that we've been talking about, increasingly sophisticated technology is at the core of everything finance does. That theme will only grow as we see more of the bold predictions we discussed during our last episode together. And as those organizations mature, their ability to transact at pace and with a scaled cost profile will be more and more determined by the degree to which they've kept pace with that change and the organizations and competitors around them. The good news is that combination of the technologies, both inside the footprint of an organization and consumed as a service, are increasingly plug and play.

And for those that aren't, there's generally a well-developed consensus about how to enable them to take advantage of their benefits in a way that makes more dollars and cents. The biggest opportunities are when companies are able to enable capabilities and significant transformations by the advent of a deal. And you can use the deal cycle to usher in both of those things when you allow decisions made during the deal process to spill over and permanently infect and improve the way that you run your commercial operations and finance.

Rob: Eric, Dean, thanks so much for joining us and thanks for your time. It was great having you on today.

Dean Hobbs: Absolutely. Thank you, Rob.

Rob: Yeah, same here. Really enjoyed the time, Rob, and looking forward, Dean, to doing the next one.

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