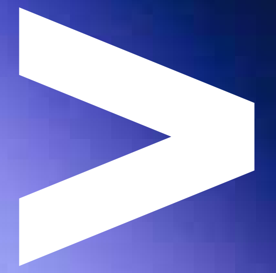
A new playbook for today's M&A

Keeping up with the evolution of M&A value



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Mergers and acquisitions (M&A) can be the fastest and most effective way for companies to gain the capabilities and reach they need to grow profitably in a digitally-driven world.

Indeed, as industry boundaries blur and new markets emerge, more companies are seeking deals to access new capabilities and technologies. To capture this tremendous value potential, however, companies need to update their M&A playbook. New research by Accenture shows how it's done.

Growth-oriented acquisitions are on the rise

Increasingly, companies are pursuing M&A as a faster way to innovate across industry boundaries.

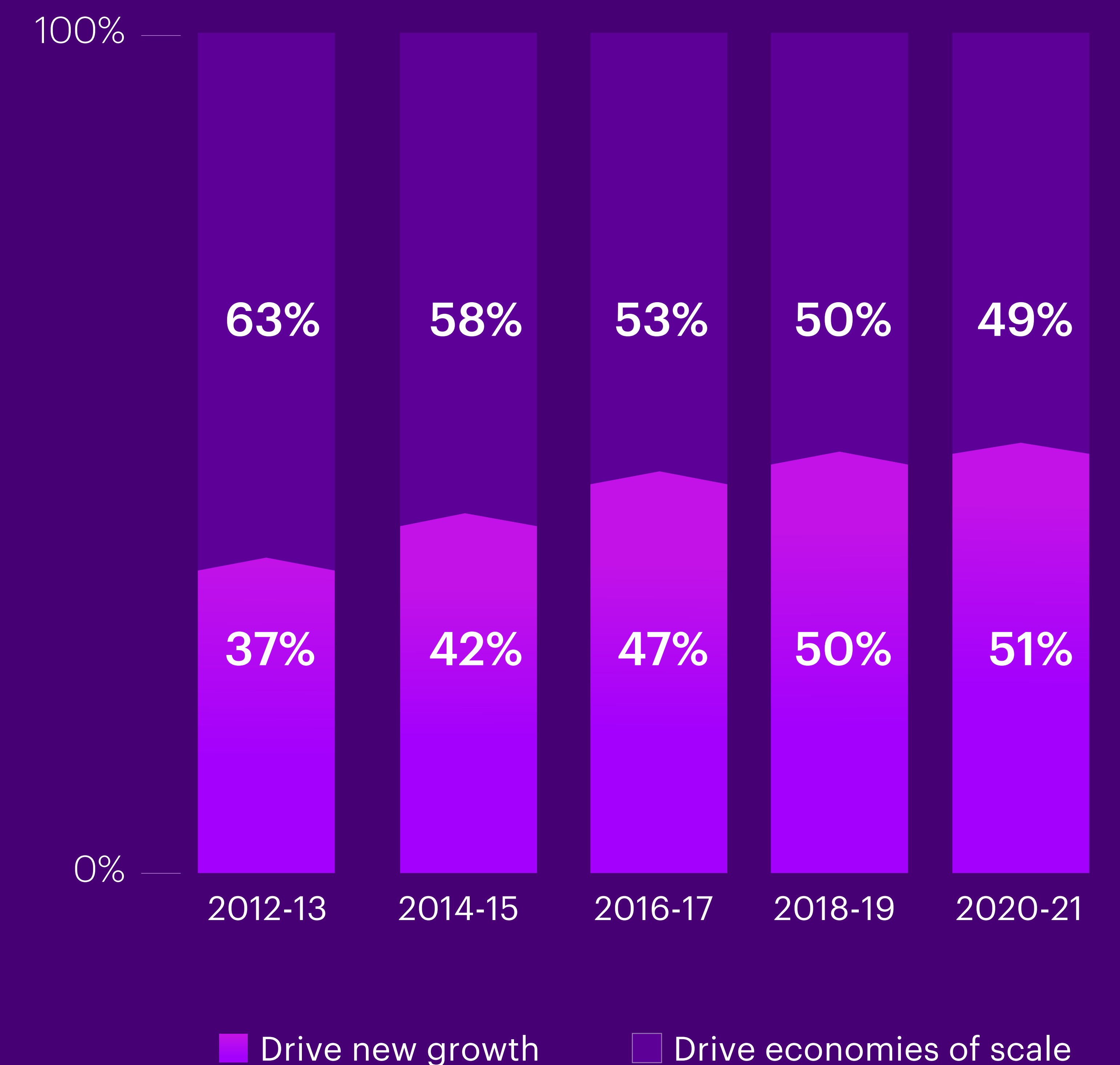
Companies' rationales for pursuing a merger or acquisition are as varied as the deal types themselves. To capture economies of scale and increase their competitiveness, businesses pursue horizontal acquisitions. To secure supply chains or get closer to end consumers, companies seek vertical acquisitions. To build presence in fast-growing or high-margin adjacencies to their core industry, firms make category-expansion deals. And to build presence in strategic end markets, businesses seek targets that give them greater geographic reach.

Success in each case depends on effective execution. For these types of M&A deals, the corresponding playbooks are well understood. Increasingly, however, forward-looking companies are pursuing M&A activities to build the scalable platforms and ecosystems they need to grow. With these deals, organizations are seeking faster ways to innovate across industry boundaries and pre-empt disruptors.

This orientation towards growth shows in the numbers. Accenture analyzed 5,335 M&A transactions in eight industries that took place across a ten-year span. In 2012–13, just 37% of M&A activities were primarily driven by a desire to accelerate growth. By 2020–21, more than half of mergers or acquisitions (51%) were growth-oriented (Figure 1).[1]

While these kinds of deals have quickly become more important, they also call for a new playbook. One that many companies don't have. Accenture's latest research into the evolution of M&A value offers insights into what this playbook should contain.

Figure 1: More M&A deals are motivated by a desire to drive new growth (Main motivation for M&A deals, as % of total)



Source: Accenture growth pathways M&A research, 2022.

Percentages were calculated as an average of the results for each industry included as part of the research, with equal weight given to each industry.

Ecosystem deals are providing a pathway to growth

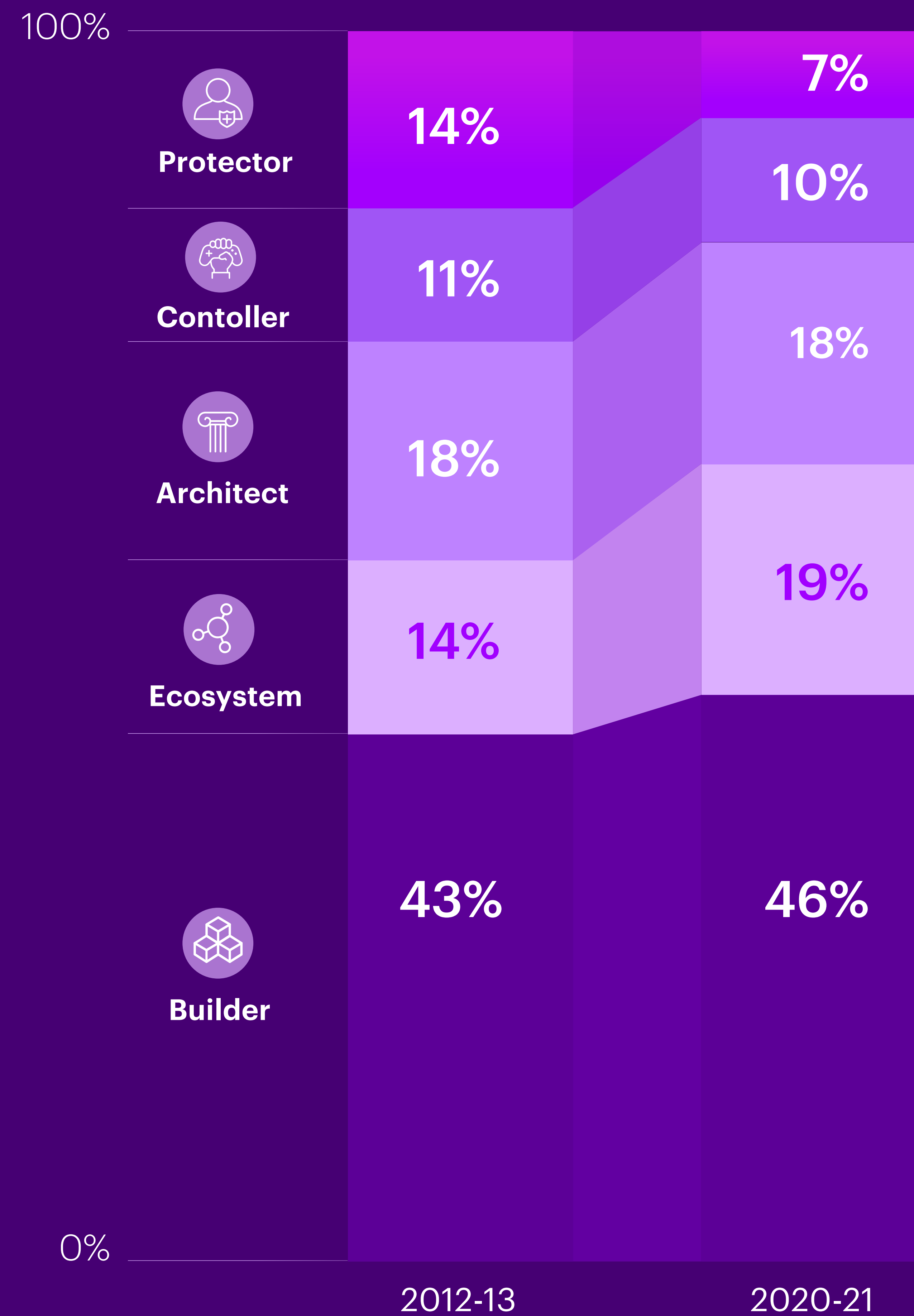
We see a sharp rise in ecosystem deals, where acquirers are looking to gain access to assets from outside their core business.

Inorganic growth should be clearly targeted and focused on creating value. History shows that mergers and acquisitions that don't prioritize these objectives usually produce disappointing results.[2] Accenture's AI-driven research of M&A approaches sheds light on five distinct "pathways" that companies pursue through their deals:

- **Builder:** Build onto a portfolio of products and services, through full integration of the target.
- **Ecosystem:** Extending the business outside the core, including experimenting in new areas of growth.
- **Architect:** Gain long-term capabilities that affect existing and future revenue.
- **Controller:** Seek to control another entity for supply or finances, often at arm's length.
- **Protector:** Defend the current portfolio through full integration.[3]

The builder pathway remains the most frequently used. However, we observed a sharp rise in ecosystem deals, where acquiring companies target firms outside of their core business. The aim: gain access to customer-facing technologies and the ecosystems that support them. Figure 2 shows how these growth-oriented ecosystem deals have become more common over the past decade.

Figure 2: Growth-oriented ecosystem deals are now the second most common M&A "pathway" (Type of M&A deals as % of total)



Source: Accenture growth pathways M&A research, 2022.

Consumer goods leaders, for instance, are investing in disruptive startups beyond their core. L'Oréal's capital investment fund, BOLD, acquires minority shares in disruptors who can accelerate innovation and growth objectives. Through BOLD, L'Oréal invested in Carbios, a pioneer in bio-industrial solutions which is reinventing plastic biorecycling. Similarly, Reckitt is expanding its consumer health insights with an investment in pre-primary care hub Your.MD. Through this, Reckitt is growing its own self-care platform, Healthily, which delivers better self-care access and tools for consumers.[4,5]

Health players are likewise expanding their services. They are seeking new ways to connect with patients and deliver cost-effective healthcare. For example, through M&A activity CVS Health now combines its retail pharmacies and pharmacy-benefits manager businesses with Aetna's health-insurance business. The motivation was to build a more integrated healthcare platform that creates better outcomes for patients at lower costs.[6]

The energy industry, for its part, is making early-stage investments in startups and collaborating across industries in support of the energy transition. The Longship project, developed by Gassnova, for example reflects the Norwegian government's ambition to develop a full-scale, carbon capture and storage value chain in Norway. As one of the world's major energy producers, the hope is to spur others to follow this ambitious approach.[7]

In addition, corporate venture capital is gaining traction as a way to gain access to pre- or early-revenue innovators. These investments provide another avenue to reach high-growth startups at an early stage and open the door for future ownership. All these efforts reflect an increasingly popular, growth-driven, ecosystem-focused M&A pathway that requires a custom playbook for capturing value.

Technology is a leading motivation for acquirers

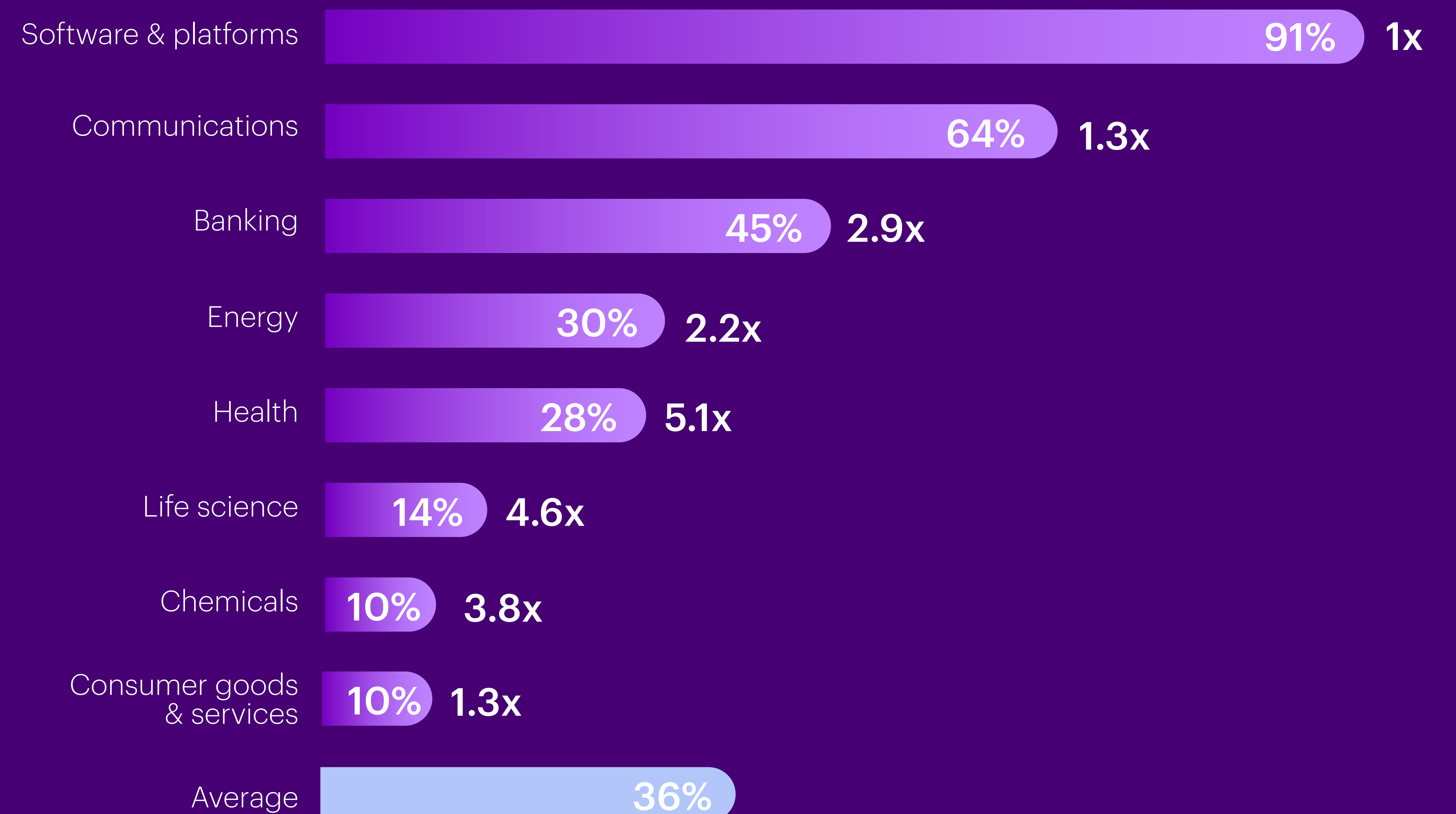
The prominence of technology-driven M&A deals has sharply increased for many industries.

A decade ago, the desire to acquire innovative technology was the main motivation for fewer than one in four acquisitions. By 2020–21, that figure had risen to 36% of M&A deals (Figure 3).[8] The increase is most visible in industries where new technologies are changing how companies interact with and serve customers.

Take the banking industry. Here, the use of decades-old, mainframe-based IT systems and code is still prevalent. In 2020–21, 45% of all M&A deals were driven by a desire to acquire technologies that make core banking operations more flexible, resilient, and customer-friendly. This is up from just 16% of deals ten years ago.

The healthcare industry saw a similar shift. Last decade, only 6% of M&A deals were technology driven. Now, this has increased to 28% of deals. For acquirers, such deals provide access to the tech that allows patients to access their health records online, view their lab results and benefit/payment summaries, or engage in video consultations with doctors.

Figure 3: In many industries, the prominence of technology-driven M&A deals has sharply increased (% of technology-driven deals as part of total deals in 2020-21, and their increase in prominence—as a multiplication—compared to 2012-13)



Source: Accenture growth pathways M&A research, 2022.

Yesterday's playbook is a poor guide

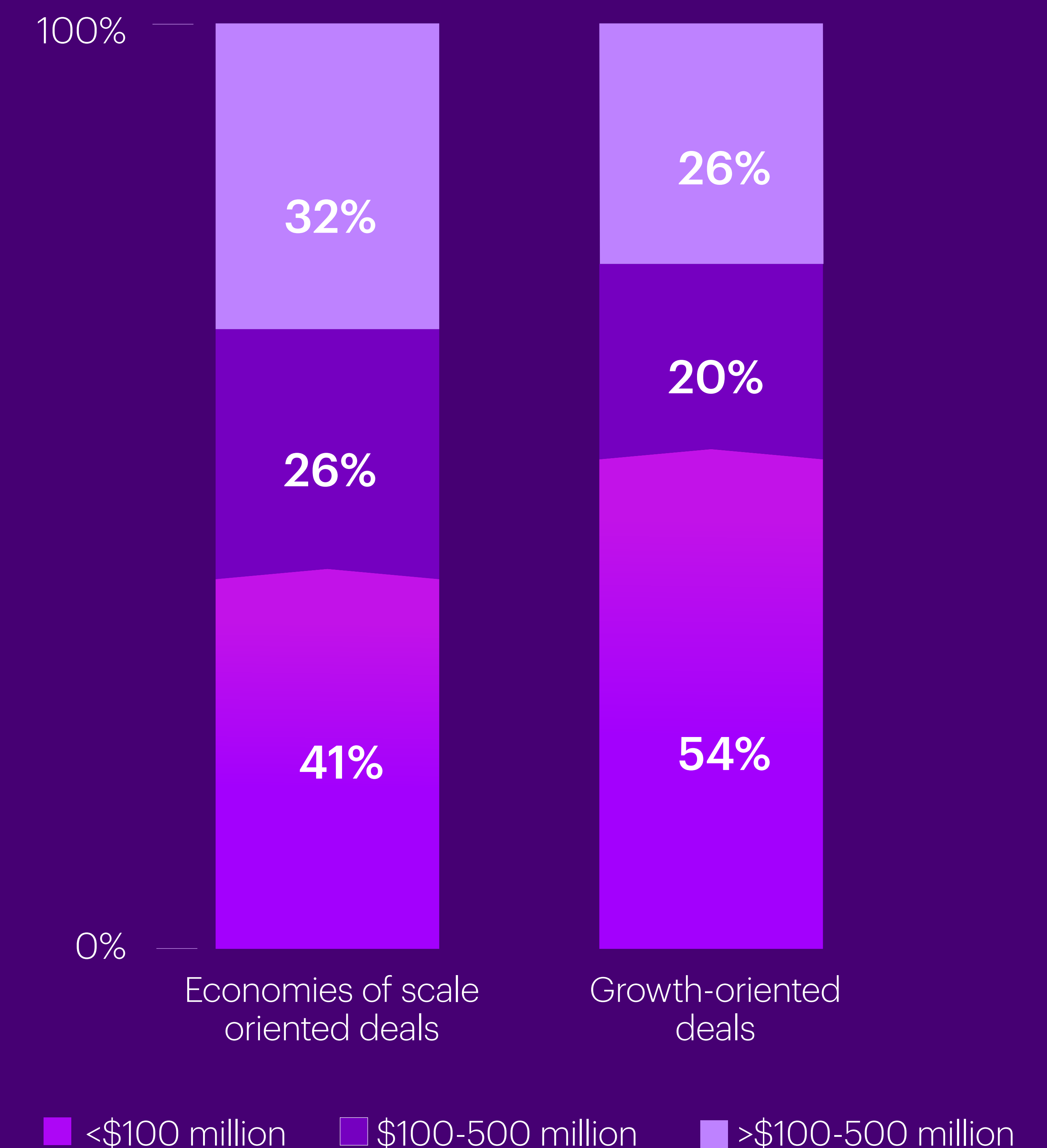
The changing nature of today's deals means the traditional M&A playbook is increasingly dated.

The old M&A playbook encouraged acquirers to pay less attention to innovation and growth, while they focused on the challenge of integration and achieving economies of scale. This was with good reason, too. The completion of a single deal—usually centered on generating cost savings or filling the product pipeline—was often expected to achieve the acquiring firm's long-term strategic objective.

But the changing nature of many of today's M&A deals means that the traditional playbook is increasingly dated. In the shift toward the desire to build new capabilities or ecosystems through M&A, "string-of-pearls" deals are increasingly common. A series of smaller deals is needed to achieve the strategic goal. For these ecosystem-driven deals, the objective is often to create a strategic advantage that no single member of the ecosystem could have mastered on its own.

Not only are deals more often taking place in rapid succession. Our research also shows that the target firms in growth-oriented M&A tend to be smaller—in their employee headcount and customer base—than targets in deals focused on economies of scale (Figure 4).

Figure 4: Growth-oriented deals tend to be smaller than deals focused on economies of scale (% of M&A deals by value, 2020-21)



Source: Accenture growth pathways M&A research, 2022.

Take the energy industry, for example. In 2020-21, nine out of ten transactions that focused on growth were under US$100 million in deal value. Meanwhile, for more traditional deals focused on economies of scale, only 35% of deals were under US$100 million.

In 2020, for instance, Neste, a leading provider of renewable diesel and sustainable aviation fuel, invested in Sunfire, a maker of electrolyzers. The deal—and the technology that comes as part of it—will help Neste as it reinvents itself as a supplier of renewable energy in the years ahead.

We find that these growth-oriented deals tend to have other distinguishing traits, too. Target companies are more likely to be privately held, which means they can be harder for outsiders to scrutinize. They tend to have an entrepreneurial culture and may look to move at a faster pace. And they are at greater risk of assimilation, where a successful organizational culture can get lost as they integrate with the acquiring firm.

In all, growth-focused M&A deals present unfamiliar challenges.

These deals—especially when ecosystem driven—are often struck in quick succession. Negotiating with startup founders and early-stage investors, conducting due diligence, and effective integration all require capabilities and approaches that differ from what is needed in the case of, say, a horizontal "mega-merger." The fact these investments often take place outside one's core industry boundaries creates yet another hurdle.

The bottom line: as more acquirers pursue M&A deals geared towards new growth,such companies increasingly lack the expertise to assess a target's capabilities and market potential, as well as the ability to realize the full value potential from their deals. This calls for a much-needed update to the M&A playbook.

Four behaviors that support the new M&A playbook

Many companies are struggling to realize the expected value of their M&A activities. In 2021, an Accenture study of 800 global M&A transactions found that just 27% resulted in both operating margin improvement and revenue growth.[13] Our research suggests that four behaviors are critical to the success of today's growth-focused deals.

01

Invest in an "always on" M&A capability

These days, it often takes multiple, smaller, deals to achieve one's strategic M&A goals. To do this, companies will look to invest in an always-on M&A capability that allows them to handle and integrate more acquisitions in a shorter time-frame.

Ironically, such a capability requires having a long-term vision that goes beyond industry barriers. This helps firms identify the right targets, by regularly reviewing their portfolio with an eye to the more distant future. Combining that farsighted vision with the right business capabilities—like intellectual property, talent, product offerings, and geographic reach—successful acquiring firms are able to identify opportunities before a competitor does.

Creating an always-on capability also requires building an operating model specifically designed for M&A. Such a model, for instance, will establish and "feed" dedicated resources (beyond traditional corporate-development experts) to lead the integration after closing a transaction. It also supports in capturing any lessons learned for the next deal.

The model should have a comprehensive M&A framework that offers the flexibility to combine different operating models, ways of working, cultures and teams. All too often, ecosystem deals are hurt by an overly strong acquirer thinking that the acquired company will be run the same as the core business. A serial acquirer can complement the organization's internal M&A expertise and capabilities with external suppliers, as needs arise.

Accenture: A call for change

Continued rapid changes in technology and our industry drive the need to swiftly adapt our offerings and capabilities to best serve our clients. One of the strategic levers we use to enable those frequent pivots is M&A. On our journey to becoming a successful serial acquirer, we moved from being a small corporate development group to a state where M&A knowledge is institutionalized across a broad swathe of Accenture business leadership.

We reached this state by industrializing our approach end to end, with a comprehensive digital and data-led approach. We became very focused on proactively originating the right acquisition targets to further our corporate strategic priorities. To enable value creation, we also developed a deep capability for properly integrating companies whilst maintaining and even accelerating their business momentum through growth synergies.

As a result, today Accenture is acquiring between 35 and 45 new companies a year, with an average annual capital spend of around $3B. Accenture's M&A journey will not stop here. The needs of Accenture clients continue to evolve and Accenture's acquisition priorities, and the way we originate, execute and integrate acquisitions continues to adapt and change to keep pace.

Read Accenture's acquisition advantage to learn more.

02

Accelerate speed to value through technology

Technology is a cornerstone for any merger or acquisition. As a result, many organizations are turning to data analytics and cloud technologies to both smooth and speed dealmaking and integration. A recent study by Accenture of M&A-focused executives, for instance, found that nearly six out of ten expected an acceleration to digital business and operating models to be an outcome in the deal process. Indeed, another Accenture study found that in 80% of transactions that beat their sector averages, dealmakers placed significant emphasis on technology.

However, instead of applying technology like cloud computing to a deal on a one-off basis, savvy C-suites are leveraging their company's cloud journey throughout their M&A journey. These executives create a long-term technology blueprint for success that moves far beyond any one deal, by creating a platform for future acquisitions.

For example, a recent merger in the oil and gas industry prompted a cloud journey. As a result, the merged company saw a 30% reduction in technology infrastructure costs at a significant return on investment. For every dollar invested, the company reaped a dollar in recurring savings. This is a significant benefit, with technology savings typically requiring a 2x-7x investment for every dollar of recurring savings.

Companies should also consider the integration and impact of platform technology. The increasing popularity of platform-centered deals for growth brings questions of scalability, reliability and vulnerability to the forefront since the tech is the business. Enterprise technology in these deals is often much less important. What really matters is how to create inter-operability and data exchange across workflows that may ultimately cut back and forth across the acquired company and the acquirer.

03

Consider an Agile integration approach to focus on collaboration and innovation

Traditional approaches to M&A integration tend to freeze innovation. That's because most post-M&A integration activities initially focus on merging systems, divisions, or functional areas such as finance and accounting. Innovation gets pushed to the bottom of the priority list. Considering that larger transactions can take 12 to 36 months to complete, a business risks having no—or severely reduced—innovation for an extended period while competitors surge ahead.

An Agile integration method enables continuous innovation to take place during the integration. An Agile approach is flexible and highly iterative. Activities are tackled in short sprints, each focused on immediate priorities. Agile approaches are also highly collaborative, with fast decision-making as a key characteristic.

Two European utilities, for example, recently used Agile methods to carry out critical post-M&A integration activities aimed at customer retention. Multi-disciplinary teams from both organizations came together to quickly prioritize and test scenarios for keeping churn in check.

Not all trials at the merged company were successful. Nor were they expected to be. The Agile approach allowed the team to fail, learn, and move forward at speed. The approach ensured that innovation remained front and center during the integration. It also reduced risks by identifying issues early on. People felt heard and valued in the new organization, while the merged entities' churn rates beat expectations.[18]

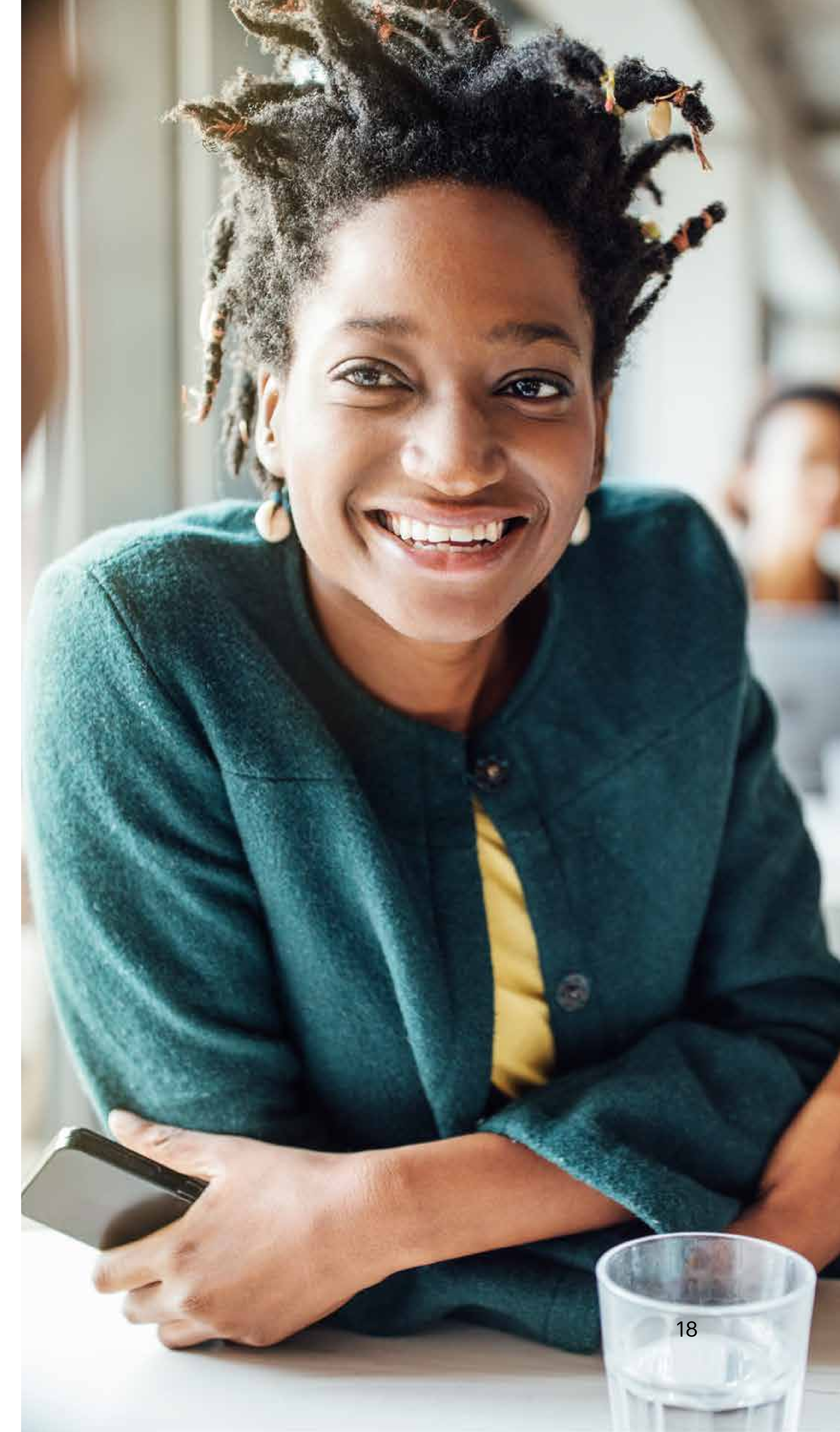
04

Create the space for talent and ecosystems to flourish

In addition to prioritizing innovation, successful growth-focused deals also prioritize organizational structures and roles that allow their talent to flourish. Indeed, successfully addressing the talent side of the equation as a deal progresses is a key to maximizing M&A value.

For example, a consumer-goods giant acquired a promising beverage business. After the deal was finalized, the former sought out ways protect and nurture the capabilities and brand power of its acquisition, while leveraging the breadth and scale of its own operations to catapult growth.

Careful consideration was given to retention of key talent to preserve the strong innovation culture of the beverage company. Thanks to such efforts, talent largely stayed in their incumbent roles, with opportunities also offered at the acquiring company for those who wanted to extend their experience and grow. The departure of talent in ecosystem deals is often a primary cause of the failure to meet M&A objectives. The good news is that much of this attrition is preventable with a more nimble and thoughtful approach.



Rewrite your playbook

Growth-oriented M&A deals have enormous potential. They can give companies a decisive edge over competitors. As more firms recognize this reality, relatively few are adapting their playbooks to tackle the unfamiliar challenges these growth-driven deals present. By mastering the four key behaviors described in this report, firms can position themselves for sustained success.

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