Positon

May 18, 2023

Why Buy-side should be in control of the M&A workflow

Abstract

Mergers and acquisitions (M&A) continue to be a key strategic way companies grow and maintain competitive advantage. The world executes $2 trillion and more in M&A per year, with a 70%-90% failure rate in realizing intended value. Consultants have warned that 88% of corporate acquirers consider poor efficacy and efficiency in due diligence the most common reason for deal failure. Additionally, we see that deals are becoming more complex and time to close has significantly increased. Overall, M&A success can be tied to three main areas: due diligence performance, M&A team performance, and enterprise M&A performance. Each area has multiple factors that connect directly to deal success, making it abundantly clearer that Buy-side control of the M&A process is most important. In this paper, we summarize a quantitative and qualitative analysis addressing the impact of due diligence delays, inefficiencies, and the associated cost on deal success, as well as the role Positon plays to alleviate these pain points.

Introduction

Mergers and acquisitions are strategic decisions taken by companies to consolidate, expand or diversify their business. They involve one company buying, merging, or partnering with another. On a global scale, the M&A market is enormous with approximately $2 trillion or more in transactions taking place annually. However, M&A is not a guaranteed path to success. Statistics suggest a surprisingly high failure rate of 70%-90%[1].

The high failure rate is often attributed to inadequate due diligence, a process of thorough investigation into a potential investment or purchase to confirm all facts, including reviewing all financial records, past company performance, existing contracts, and anything else deemed material to risk and opportunity assessment. In this context, consultants warn that around 88% of corporations that acquire other businesses believe that efficacy and efficiency

[1] Christensen, et al, "The Big Idea: The New M&A Playbook," https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook

of due diligence is the most common reason for the failure of these transactions[2].

In recent years, M&A transactions have been noted to be becoming more complex in nature[3]. This complexity might arise from various factors such as increasing regulations globally, differences in business cultures, or integrating technology systems. As a result, the time required to finalize these transactions, known as "time to close", has seen an increase[4].

Analyzing M&A success, it can be segregated into three key areas. The first is due diligence performance, which emphasizes the importance of a comprehensive investigation of all aspects of the business prior to deal close. Secondly, the performance of the M&A team that includes the efficiency and effectiveness of the people who plan and execute these transactions often at neck-breaking pace. Lastly, enterprise M&A performance pertains to how well the entire organization handles multiple transactions and their aftermath execution and value extraction, including integration of systems, culture, operating models, as well as governing their performances

Each of these areas contains multiple facets, underlining the complexity of M&A transactions. Across all of these, the importance of control from the buying party, also known as the "Buy-side", clearly comes to light. This emphasizes that the entity making the acquisition must have a strong grasp over the entire process, from the initial due diligence to the final integration after the acquisition. Such control can greatly affect the overall success of the transaction.

Due Diligence Performance

Poor due diligence is the chief suspect associated with lower M&A performance[5]. At the same time, to do a good job in due diligence can extend time to close, and we also know that longer time to close is associated with lower M&A success[6]. This leaves executives in what seems like a Catch-22 - a problem whose solution is prevented by the problem itself.

---

[2] Reuer, Jeffrey J., and Arkadiy V. Sakhartov. "Economies of scope and optimal due diligence in corporate acquisitions." Organization Science 32.4 (2021): 1100-1119.

[3] "Navigating Complex M&A", KPMG

[4] Gartner:https://www.gartner.com/en/newsroom/press-releases/2018-10-15-gartner-says-the-average-time-to-close-an-manda-deal-has-risen-more-than-30-percent-in-the-last-decade

[5] Wangerin, D. (2019), M&A Due Diligence, Post-Acquisition Performance, and Financial Reporting for Business Combinations. Contemp Account Res, 36: 2344-2378. https://doi.org/10.1111/1911-3846.12520

[6] Thompson, Ephraim Kwashie, and Changki Kim. "Post-M&A performance and failure: Implications of time until deal completion." Sustainability 12.7 (2020): 2999.

What if due diligence could be truly optimized, conducted in a way that enabled all the information to be exchanged that is necessary to success, but in a way that supported timely closure? This can be done with Buy-side control and the right tool.
Considering typical team and deal sizes as in the table below, we show how different aspects that can be optimized directly impact the deal cost and time to close.

Deal Size	Deals are categorized based on their financial value into Small (<$500M), Medium ($500M to $5B), Large ($5B to $25B), and X-Large (>$25B).
Days to Close	This denotes the estimated time taken to close the deal, depending on its size. Smaller deals take less time, while larger ones take more, with the range growing exponentially from an average of 38 days for small deals to 279 days for transformational (X-Large) ones.
Resources	The number of resources (people) required to work on the deal will vary and be a blend of fractional contributions from corporate development, various business functions such as legal, finance, and HR, and subject matter experts. The average headcount (HC) in the Corporate Development team within an enterprise is about 10 people with different levels of coverage per deal size and type. In addition, there are 10-14 cross-functional leads on the buy side.
M&A Team Costs	A blended salary is considered across personnel with different roles from corp dev to M&A leads - an average of $250k/year/HC.
Deals per Year	The number of deals the organization is carrying out - typically about 3 for enterprises.
Complexity Delay	A delay in the deal closure due to its complexity, expressed as a percentage. According to Gartner, this increased by 31% over the last decade[7].
Delay in Days	The estimated additional number of days required to close the deal due to its complexity. Depending on

[7] Gartner:https://www.gartner.com/en/newsroom/press-releases/2018-10-15-gartner-says-the-average-time-to-close-an-manda-deal-has-risen-more-than-30-percent-in-the-last-decade

	deal size this has increased in past decade from 9 to 66 days, approximately.
Cost of Delay	The additional cost associated with the delay per deal ranges from $32k to $500K based on the deal size and type.
Other Factors	3rd party and program (except data room) costs are not included in this analysis and are considered significant.

The table provided below gives an overview of total cost and the cost caused by the delay for different scenarios, each involving different sizes and quantities of deals:

	Scenario A	Scenario B	Scenario C	Programmatic Scenario*
Deals Per Year	*3x S*	*S+M+L*	*S+L+XL*	*7x S*
Cost	$416K	$2M	$4M	$14M
Delay Cost	$99K	$573K	$913K	$3M

Let's go through each scenario:

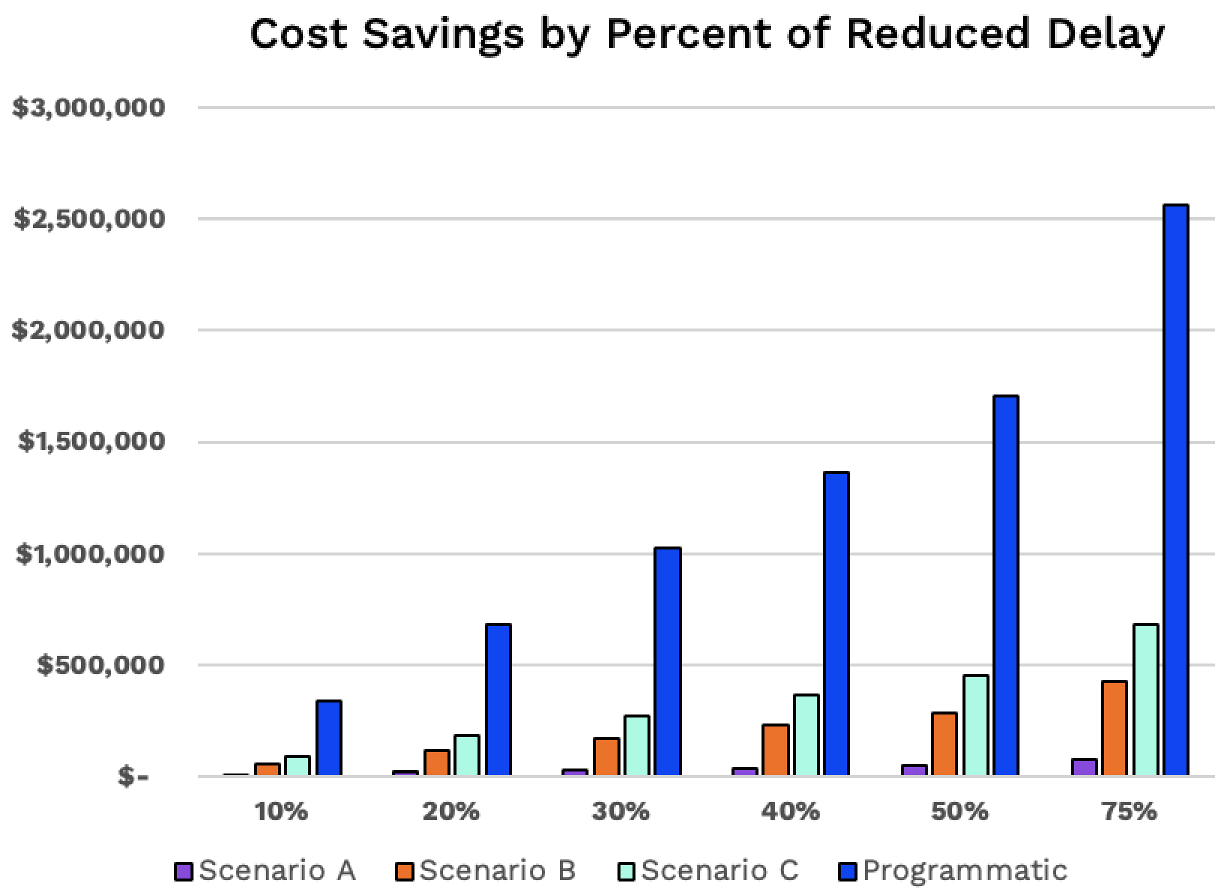
Scenario A: This scenario involves three small (S) deals per year. The total cost is $416,438 of the resource for year to execute the deals. And, the delay cost is approximated at $98,546 for the year. The delay cost would represent additional expenses due to complexities and inefficiencies.

Scenario B: In this scenario, there is one deal of each size: small (S), medium (M), and large (L) per year. The cost significantly jumps to $2,421,918 with a delay cost of $573,126. This increase is expected as the size of the deal has a direct impact on cost and the time it takes to close the deal but should not be accepted.

Scenario C: This involves one deal each of small (S), large (L), and extra-large (XL) per year. The cost here jumps further to $3,857,078 with a delay cost of $912,744. Again, this increase in costs and delay costs is due to the presence of an extra-large deal.

Programmatic Scenario: This scenario involves seven small (S) deals per year. In this scenario organizations doing beyond the average amount of deals per year require additional headcount to execute the deals. The cost is the highest among the scenarios at $14,416,438, with a delay cost of $3,411,523.58. This suggests that, while each individual deal is small, managing multiple deals simultaneously can lead to increased costs and potential delays due to the cumulative complexity.

From these scenarios, we can clearly infer that as the size and number of deals increase, so do the costs and potential delays. Managing multiple small deals can be just as, if not more, expensive and complex as handling a few larger deals. Therefore, companies must consider both the size and quantity of deals they plan to undertake in a year while assessing the potential costs and delays. Enterprises should also focus on improving their M&A processes to reduce complexities and avoid unnecessary delays, thereby minimizing costs and deal risk.

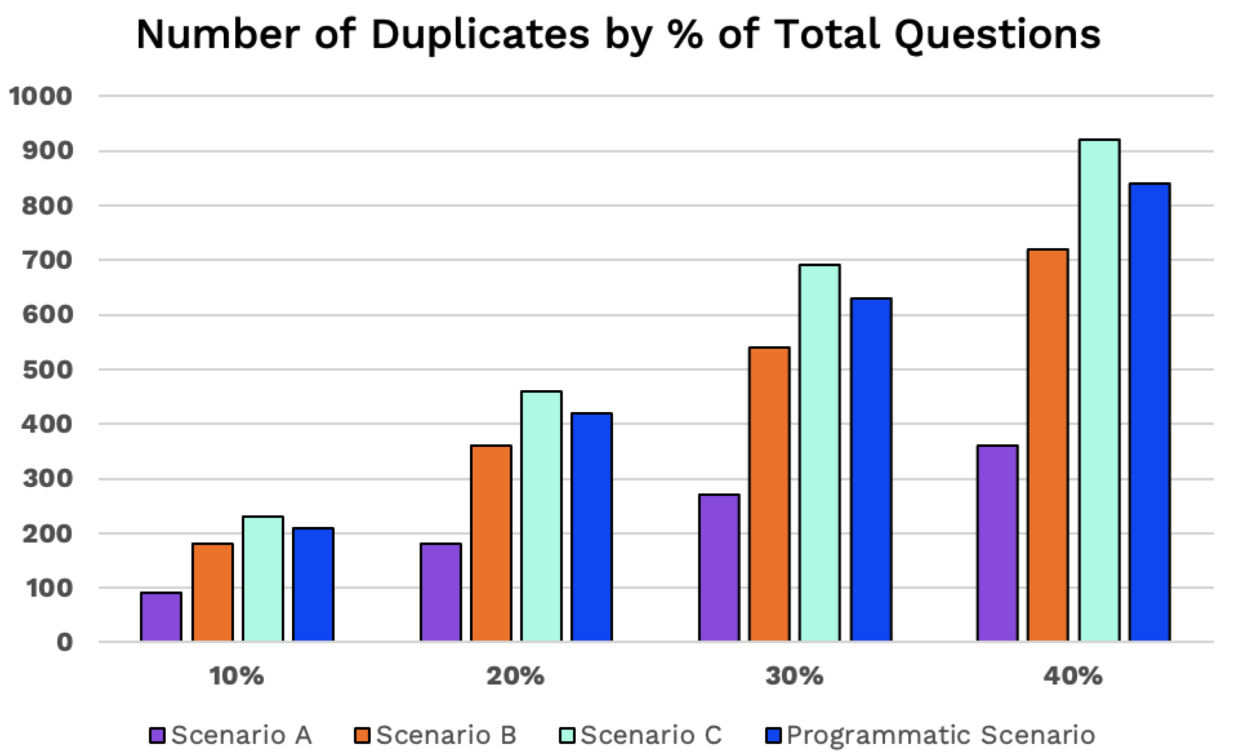


From this analysis, it is clear that reducing delays in M&A due diligence can lead to significant cost savings and implied risk. The bigger the deal size or the higher the number of deals, the more impactful the delay reduction becomes. Therefore, focusing on efficient due diligence can be a key strategy to reduce these delays. It highlights the importance of having a skilled M&A team capable of managing the complexities of the deal efficiently enabled by the right tool.

It's up to you, the more you focus on due diligence and reducing delays, the more cost savings and reduction in risk to closure.

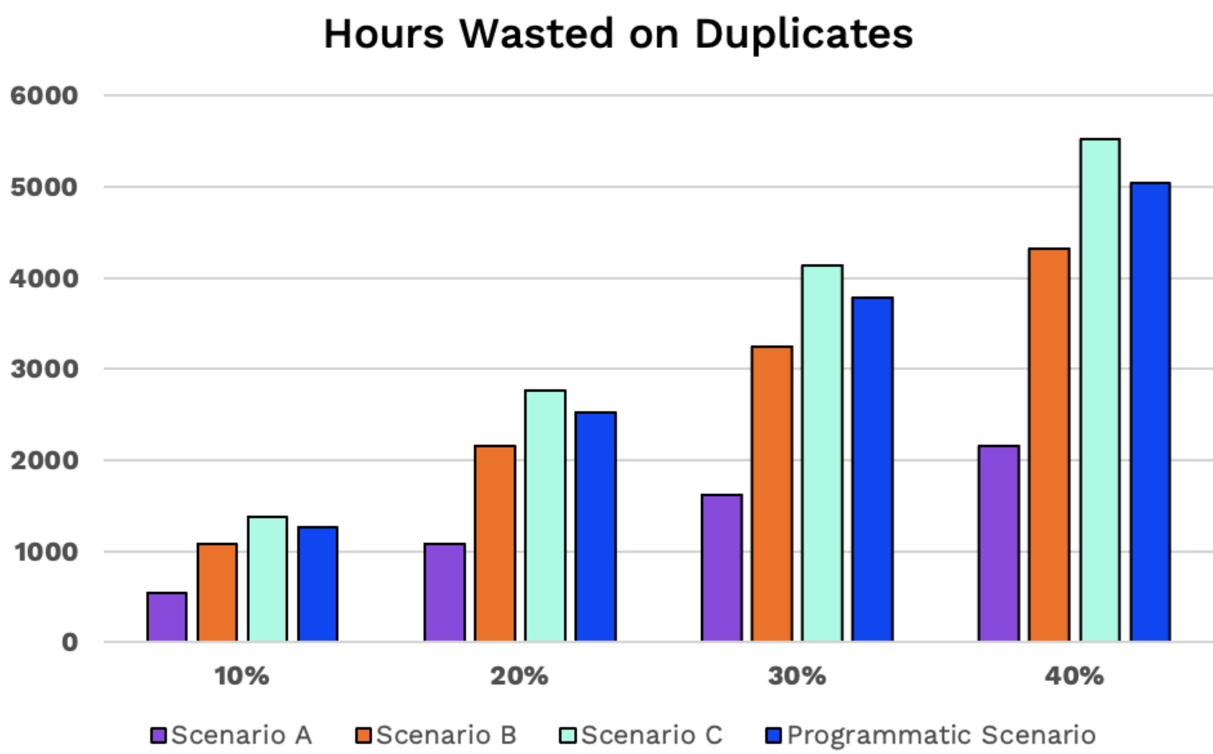
DEDUPLICATION USE CASE

The two charts below focus on the issue of duplicate questions in the M&A due diligence process and the resulting impact on the time required to close deals. The first chart shows the number of duplicate questions under different scenarios (A, B, C, Programmatic) for various scales of duplication (10%, 20%, 30%, 40%). In Scenario A, if 10% of the questions are duplicates, there would be 90 duplicate questions. This number increases linearly with the percentage of duplication - at 40% duplication, there would be 360 duplicate questions. Similar patterns are observed for Scenarios B, C, and Programmatic, with more duplicates due to the larger scale or complexity of the deals.



The second chart quantifies the time it takes to handle these duplicates. It assumes that each duplicate question takes 6 hours to resolve.

In Scenario A, if 10% of questions are duplicates, this would translate to 540 hours spent addressing duplicate issues. This time increases linearly with the percentage of duplication - at 40% duplication, 2160 hours would be spent addressing duplicates.
Again, similar patterns are observed for Scenarios B, C, and Programmatic, with the time commitment increasing due to the larger scale or complexity of the deals.



This analysis indicates that duplication in the M&A due diligence process can significantly increase the time and effort required to close deals. This inefficiency could delay the process and potentially increase costs. Thus, it's crucial to streamline the due diligence process to minimize duplication and improve efficiency. This could involve better coordination among team members, the use of a centralized system for information sharing, and an AI-powered tool that automatically detects potential duplicates before initiating inquiries. Improving the quality of due diligence can lead to better deal outcomes, maintain trust between parties, and reduce costs and time spent on each deal.

M&A Team Performance

There are many aspects to assess in the performance of the M&A team. The table below breaks down some rudimentary activities involved in the deal-making process, along with the time each activity takes and its associated risk to the deal's closing. The risk levels are denoted by '+' signs, with more '+' signs indicating greater risk.

Key Activities	Deal Time	Risk to Close
Governance & resource allocation	2-3 days	+
NDA Draft, Send, & Execute	3-5 days	++
Data Room + Access	5-7 days	+++
Compile DDQs List	1-5 days	++
Track & Poll DDQs	Daily	++

Governance/Resource Allocation: This activity involves setting up the governance structure and allocating the necessary resources to execute each deal. It typically takes 2-3 days and poses a low level of risk ('+') to the deal's closing. This suggests that while these activities are fundamental, they're typically well-understood and can be efficiently managed with proper planning. However, this deal coverage starts to break down rapidly, as enterprises engage in additional transactions, requiring 3rd party support at additional cost.

NDA Draft, Send, and Execute: Drafting, sending, and executing a Non-Disclosure Agreement (NDA) for each deal generally takes 3-5 days. This activity has a moderate level of risk ('++') as any misunderstandings or disagreements regarding the NDA can lead to delays or even halt the deal process.

Data Room + Access: This involves setting up a secure data room for storing and sharing sensitive information and providing access to relevant parties. This activity typically takes 5-7 days and poses a high level of risk ('+++'). This is because the data room is essential for due diligence and any issues regarding data security or access could significantly impact the deal process, including setting up M&A team access and permissions.

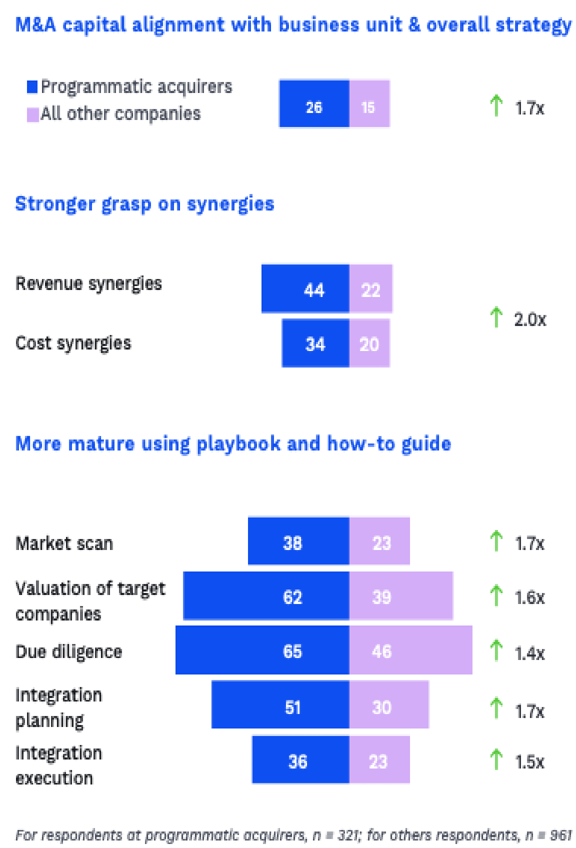
Compile DDQs List: Compiling a list of Due Diligence Questions (DDQs) usually takes 1-5 days and poses a moderate level of risk ('++'). This suggests that, while the DDQs are vital for understanding the deal, the task of compiling the list may seem straightforward but can take time and effort to coordinate based on deal size, type, and segment.

Track & Poll DDQs: Tracking and polling DDQs is an ongoing task that happens daily and has a moderate level of risk ('++'). This risk is because this task requires active management and coordination, and any miscommunication or misunderstandings can lead to delays or issues in the deal process

Based on this analysis, the activities that typically pose the highest risk to deal closing are those that involve sharing and managing sensitive information (like the Data Room + Access), and ongoing tasks that require continuous coordination and communication (like Track & Poll DDQs). Companies involved in M&A can mitigate these risks by controlling a secure data-sharing platform, with built-in NDA and policies, and open and efficient communication channels.

Enterprise M&A Performance

We take this assessment from the lens of M&A industry findings about the most efficient way for enterprises to carry out M&A strategy and realize the most value. Adopting a programmatic approach to M&A can lead to value creation and increase the odds of strategic success[8]. For companies looking to improve their M&A success, they can consider enhancing their M&A capabilities by rethinking resource allocation, upgrading the M&A infrastructure, and developing and adapting playbooks.



Alignment with Corporate Strategy[9]: Programmatic acquirers align their M&A strategy with their broader corporate strategy. They regularly reallocate M&A capital to business units that align most with the overall company strategy. This consistent alignment can be achieved more effectively and efficiently with the use of a comprehensive M&A SaaS platform.

---

[8] Rudnicki, Jeff, Kate Siegel, and Andy West. "How lots of small M&A deals add up to big value." *McKinsey Quarterly* (2019).

[9] *Practice makes perfect: What sets programmatic acquirers apart - McKinsey*

Estimating Synergies[9]: Programmatic acquirers estimate revenue and cost synergies at several points during the M&A process, which aids in planning for integration. An M&A SaaS platform could further streamline this process by providing tools for estimating and tracking synergies, reducing the time and effort required to manage this complex process manually.

Use of Playbooks[9]: They are more likely to use playbooks at each phase of the deal process. These playbooks help ensure that best practices are passed along and well-defined for future deals. These playbooks can also be created and automated in a SaaS platform to ensure that different business units follow established processes and criteria, develop integrated business cases, carefully analyze synergies, and intentionally plan for integration.

Conclusion

A programmatic M&A SaaS platform, like Positon.ai, can offer significant cost and time savings in each of the areas discussed above. Positon and partners achieve this by streamlining processes, increasing efficiency, reducing redundancies, and improving communication and coordination. Let's break it down:

Reducing Complexity Delay: Positon.ai leads other SaaS platforms by incorporating advanced AI and analytics technologies to handle complex tasks efficiently, thus reducing delay. It also provides analytics and visualization tools to simplify understanding and decision-making.

De-duplication and Quality: Positon DDQ dedupe helps identify duplicate questions and tasks in real-time, eliminating redundant effort. AI capabilities can help to improve data quality by identifying and suggesting corrections to errors or inconsistencies.

Deal Activity Management: Using the Positon.ai platform, you can easily track and manage deal activities, ensuring they are completed in a timely manner. This improves efficiency, reducing time spent on each deal, and ultimately reducing costs.

Governance & Resource Allocation: Positon.ai also helps with resource management by clearly outlining tasks and responsibilities, preventing overlapping effort and improving efficiency. It also enforces a governance structure that ensures efficient communication and decision-making.

NDA Draft, Send, & Execute: Positon.ai streamlines the process of drafting, sending, and executing NDAs (and other policies) by way of automation and implementation for each deal. This not only saves time but also minimizes potential legal risks.

Data Room + Access: The Positon.ai platform provides a highly secure and easy-to-use virtual data room worthy of calling it a true information exchange. It allows controlled access, preventing unauthorized viewing and data breaches.

Compiling and Tracking DDQs: Positon subscribers can easily compile, manage, and replicate their list of DDQs and track responses in real-time. Positon.ai also helps in optimizing DDQs and templatizing them based on deal size and type, making the process more efficient.

By leveraging advanced technology, such as the Positon.ai platform, enterprises can transform the traditional, labor-intensive M&A process into a streamlined, efficient, and more effective one. It enables teams to focus on strategic tasks rather than getting caught up in process and data management, thereby increasing the success rate of M&A deals.

Rabie Zahri CEO & Co-Founder
Zaheer Ali COO & Co-Founder

Positon