CEO's Briefing

Guide to Strategic IT for M&A or Exit

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UK M&A activity progressively increased during 2017 and is forecast to grow further during 2018. With growth in most economic regions forecast to continue, total global M&A during 2018 is expected to reach a staggering £2.4 Trillion.

Many of our clients are planning growth through M&A or exit and strategic IT is vital in delivering their plans. Even where there are no specific M&A plans, clients often approach us on the basis that they want to create conditions that would enable a transaction in the medium or long-term.

But, actually, the issues that would be assessed during due diligence are important points for all companies. Put simply, M&A due diligence criteria are a convenient basis for CEOs to assess their own company's IT strategy, regardless of any M&A plans.

By looking at your own business through the eyes of a prospective buyer or lender, you can more clearly see your own systems efficiency and scalability, digital plans and risk exposure.

Minimise Lock in

Of course, ensuring good value for money is vital for any business. IT can be costly, so negotiating good prices from suppliers and efficient utilisation of internal staff is always good, basic "hygiene". Different suppliers charge wildly different amounts for the same product or service and higher prices often don't equate to higher quality.

Optimising IT spend starts with getting the IT strategy right, setting the right insource/outsource strategy and selecting and managing suppliers effectively. For more information on these issues, see our CEO's briefing on Supplier Management.

However, during due diligence, a competent external party will often take the view that poor cost-management is an opportunity since it can be fixed to yield new value. A company that wastes money will be undervalued, and the new owner can reduce the waste, gain the benefit, and have the last laugh!

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So, from this point of view, the more serious problem is "cost lock in". For example, multi-year supplier contracts with no exit clauses. Or key staff with critical knowledge they don't like to share. Obviously, you may have implemented these arrangements for good reason, but from an external due diligence point of view, these are major red flags.

Frequently we see opportunities to renegotiate new contracts are missed because renewal dates are not carefully tracked or the time it takes to renegotiate or retender is underestimated. So there is no time left when the renewal date looms and the only practical option is to just sign up for another 3 years! It is central to good supplier management to have a schedule of renewal dates and to have a managed approach to renegotiating renewal of each service.

More subtle lock ins will also be highlighted during due diligence. For example:

- unusual operations that cannot be supported by standard systems
- capital locked into hardware or license investments
- use of obscure tools, technologies or niche skills and suppliers
- bespoke software which doesn't have viable long-term support.

These are difficult and costly problems for a new owner to fix and will damage a company's valuation as a result. If a business has highly non-standardised processes and systems that do not integrate well then they might need a complete overhaul which will take time and money and require significant involvement from senior management. To break out of this kind of lock-in may mean re-engineering parts of your operation and this is best done long before any due diligence.

In simple terms, due diligence will always favour:

1. standardised processes
2. modern, off-the-shelf software and systems
3. mass-market, commodity IT
4. standard suppliers
5. cloud services.

These are the boxes to tick!

Ensure You're Ready for Growth

Business operations that are ready for growth are obviously more valuable than those that are "bursting at the seams". Of course this is important if your aim is disposal. But it's also true that if you're looking to acquire an operating business or even to simply acquire products or customers, then your business needs to be a fit platform for increasing scale.

Generally, our experience is that businesses ready for growth have:

1. standardised, secure and well-managed cloud-based infrastructure that can be easily changed or expanded
2. systems and processes that are well structured, fully integrated and can handle more throughput
3. automated routine tasks across the business to minimise the need for experts
4. an effective team of IT suppliers who ensure services work effectively

5. management reports, dashboards and data that are reliable, accurate and legal and used effectively throughout the business

6. a well-developed digital strategy to engage customers, suppliers and partners online using innovative technologies

7. a senior IT leader who cooperates with leaders in operations and sales and marketing to improve efficiency, effectiveness and service and to deliver revenue growth strategies.

This can be a challenge, especially for businesses that have grown and developed over a period of many years. They can be saddled with unusual ways of working that revolve around particular people (and their foibles!) and the limitations of systems or historic arrangements. Although it can seem very difficult to break out of these situations, the potential upsides can be huge.

Proper Compliance & Risk Management

Compliance and risk management are complex areas and we have written separate briefings on these subjects (Risks, Compliance & Security). These are the headlines from a due diligence point of view:

- licenses need to be correct and up to date
- information security policy should be relevant, up to date and complied with across the business
- intellectual property (especially bespoke software) must be indisputably owned by the business
- risk and issues log should be realistic, properly maintained and owned by a member of the Board
- regulatory (eg GDPR or PCI) and contractual (eg confidentiality clauses) requirements should be well understood, there should be clear and sensible policies and full compliance.

Any issues in any of these areas signal danger and potentially high costs. Getting the basics right is common sense, but (like much common sense) it’s less common than you might think!

Focus on Value Multipliers

Businesses can amplify their value by investing in growth areas; points of difference favoured by the market; automation or digital offerings that can scale without proportionate cost increase.

We work with many clients whose traditional business is successful but they also want to pursue new ideas to open up new growth opportunities and often these kinds of initiatives have a large technology component. Here are a few examples:

- We work with many companies to create software they can license (sometimes to their existing clients) so their revenues can scale faster. This is particularly relevant for consultancies and professional services businesses who want to create revenue streams that are not constrained by solely selling days.
- We help our clients in a variety of sectors to use automation and Artificial Intelligence. Often the aim is get value from their existing databases by using technology to draw insight from the data, or just using technology to present the data to people in a simple way so they can draw insight from it.
- Some of our clients aim to break out by offering new products and services directly

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to customers using the web. For example, companies that have traditionally been manufacturers can become retailers. Or expert service providers previously operating in the background can instead create innovative online offerings.

- We have a number of "fintech" and "proptech" clients simplifying and automating backoffice functions that have traditionally been slow and error-prone. Software robots and APIs allow for radically simpler visions of how administration can work.

These kinds of initiatives may not be simple, but then that's why they can be valuable! When our clients use IT to innovate in this way they can present a more attractive "story" and forecast significantly improved profits. They may be able to attract a new, higher multiple and amplify their value significantly.

CEO Summary Action Plan

Addressing all the above points can be a long journey but the following is a simple list that can be used as an agenda for a Board workshop or a 3rd party review.

Does your company have:

1. off-the-shelf software and systems?
2. mass-market, modern, commodity IT products?
3. standard, well-managed suppliers?
4. cloud-based infrastructure?
5. regulatory and contractual obligations that are understood and addressed?
6. appropriate information security accreditation?
7. standardised, simple and integrated business processes?
8. modern line of business systems with in-house experts?
9. routine tasks automated?
10. well managed and reliable infrastructure with no security breaches?
11. management reports, dashboards and data are reliable, accurate and legal and used effectively throughout the business?
12. well-developed digital strategy to engage customers, suppliers and partners online using innovative technologies?
13. a senior IT leader who cooperates with leaders in operations and sales and marketing to improve efficiency, effectiveness and service and to deliver revenue growth strategies?
14. a vision for using IT to create future revenues without proportionate staff increases?

We frequently work with companies planning for M&A or exit in either the short, medium or long-term. If you'd like to discuss your plans and find out how we could help please get in touch via one of the methods below or visit www.freemanclarke.co.uk

Freeman Clarke: The UK's largest and most experienced team of fractional IT Directors, CIOs and CTOs.

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