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Deloitte M&A Views podcast: Finance transformation: Driving value to your enterprise [Part 2]

Greg Jarrett: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions. I'm Greg Jarrett. And today, part two of our two-part podcast on how M&A can act as a catalyst for finance transformation. We're joined again by Eric Capron, principal with Deloitte Consulting LLP, and Justin Sullivan, senior manager, Deloitte Consulting LLP. When we left off on part one of our two-part podcast series, we were talking with Eric about how transformation drives incremental value in the context of M&A, and I'd like to follow up, Eric, and find out how executives are approaching the sequencing of transacting and transforming.

Eric Capron: Yeah, it's a good question, and I think my clients are spending a lot of time thinking about this, but first and foremost, the, the priority always has to be getting the transaction completed successfully while managing risk. I mean, you don't want to overly complicate a transaction getting that value of completing the deal confused with a broader transformation set of objectives. You need to be first and foremost focused on getting the deal achieved. But there are some instances where, again, as you're going through that transaction, you need to have an eye towards transformation.

And I think the executives that we're working with are thinking about transformation when, number one, actually completing the deal requires some level of transformation. And what I mean by that is, there are some instances that our clients have where simply closing the deal, getting the transaction done, getting the acquired company basically integrated requires some level of transformation just to actually be able to do what was required or expected of the deal.

And that's just due to the fact that the acquiring company's infrastructure, for example, may not scale, the financial systems might be outdated, and therefore, trying to integrate and bring an acquired company onto that platform just won't work, and the company would shut down. So in instances like that, executives are looking at more of a transform-while-you-transact approach, because they have to, just to actually accomplish completion of the deal.

And that's increasingly coming up as something that has to get thought about at the beginning, the sequence of doing things simultaneously, because of what I said there at the beginning. Just given the complexity of and size and scale of a lot of the recent deals, you're having to transform because the transactions themselves just can't be executed using existing as-is capabilities, particularly in finance back-office processes and in organizations. If you kind of get through that level of prioritization or thinking about how to address the transact versus the transform piece of an acquisition or a divestiture, then you really have to just jump into what is really the cost and the benefits of doing broader transformation.

Now, a lot of people, historically, would look at finance transformation and just look at it in terms of "What's the cost for me to do this transformational thing, and how much cost is it going to take out of the finance organization for me?" That's probably something that we're not seeing everybody who's really thinking about this the right way do. Instead, what they're thinking about is, once they've solved for what they have to do to get the transaction close, then they're thinking through "What capabilities do I need to make sure the finance organization has that can actually give me the information, the reporting, the insights into this new combined or divested business to help me actually manage and grow the business the way that we strategically intend to?"

So that becomes the second lens in terms of thinking through what things can we do to make sure finance has the right information. And we're looking at the benefits associated with that transformational investment. It's not only a cost reduction of finance, but it's also looking at what you are enabling by doing so in parts of the other organization. And then, of course, beyond that, that's not to say that you're not going to look at ways to drive finance costs, efficiencies, and effectiveness and sort of enhancements to the service delivery model, but that would sort of be the third thing.

So first and foremost, look at transform-while-you-transact when you have to; secondarily, prioritize things that finance can do that enhances the information availability of an insight into the business; and then look at things to help you set a good foundation for a good service delivery model that's efficient and effective in the provision of finance services. That's how they tend to look at it, and I think, certainly, that sequencing will vary, and I think the only last thing I'll leave you with here is, to the extent you can, look at those three buckets and find opportunities that help you get two-for-one or three-for-one benefits, where a transformation helps you achieve the transaction, gets you better information, and then simultaneously helps you shift and build a better service delivery model or finance organization underneath it.

Those are the best things to prioritize, because you're doing them once and getting multiple benefits, and there's lots of places and lots of examples of where we see clients trying to do that and successfully leapfrog a number of different initiatives, or years of initiatives, by just sort of doing it once and getting multiple benefits along the way.

Greg: So, Justin, what would be the key considerations when evaluating transformation initiatives in the context of mergers and acquisitions?

Justin Sullivan: So first, let me acknowledge that excavating today's complex transactions can be extremely cumbersome, requires a significant amount of resources and focus from finance leadership teams. And as Eric mentioned, the success of the transaction and the enablement of the combined organization should be the top priority. Oftentimes, when we get into the transactions, the execution phase up to the first hundred days after transaction is absolutely critical for finance. When you look at all of the key activities that have to be completed from structuring the transaction—funding the transaction, completing your first external financial reporting cycle, potentially your first quarter close—all of those items are absolutely critical, and you don't want to do anything that would unnecessarily disrupt or distract from Finance's obligations as part of that cycle.

Now, regarding true transformational initiatives, if there are initiatives that enable the completion of the integration, they should be prioritized and included as part of the transaction. So if we carry the example from earlier, referring to cross-selling, if the combined organization is prioritizing that as an opportunity, finance should be at the forefront enabling the analysis, the identification, the tracking, the reporting of those opportunities.

Now, in my experience, that might not be something that's enabled on day one or the first day of the transaction close, but it should be prioritized in the near term and included in the transformational initiative and, obviously, in the integration plans. As we start to set our sights further beyond the first 100 days, one of the exercises that we've found incredibly valuable is to host a visioning session with a CFO and their finance leadership team to align on a couple of things.

One being the targeted level of in-state integration, but also the vision for the future-state combined finance function. As part of this, the objective is to define where you're going as a finance leadership team and what success looks like. You're going to go through and define your vision for the new combined finance organization. You'll clearly outline your strategic objectives or key priorities or initiatives that are going to get you there, taking a very pragmatic approach, and you're also going to cover, often, the governance structure, what is needed from a leadership support perspective to achieve your goals.

A couple of key considerations when you start to explore those transformational finance initiatives longer-term, just from our experience: Oftentimes, finance teams have existing in-flight initiatives, and those would likely occur in each of the respective legacy organizations. It's important to get all of those out on the table. It's important to evaluate these and to prioritize them against your new combined vision and strategic objectives.

You should also consider deprioritizing, descoping, or sunsetting some of these initiatives that don't align or don't enable you to achieve your vision or strategic objectives. We have seen that in the past, and I think that organizations that are successful in achieving their vision quickly typically make those hard decisions early on and very quickly. I think the second key consideration when you start to evaluate transformational initiatives, especially ones that are a little bit longer-term, is to be honest about what it's going to take to achieve them. Identify the resourcing needs and the leadership support or governance structure to be able to achieve the initiatives, onboard your respective key members with the right capabilities. Oftentimes, these are great learning or stretch roles or opportunities for high-performing individuals.

Lastly, again, don't lose focus on the integration and the achievement of the integration milestones early on. A lot of times, you can use those integration accomplishments to build momentum and set the foundation for your longer-term transformational initiatives and longer-term transformation success.

Greg: Everyone seems to be searching for a bottom line, maybe hoping for a bottom line. Eric, I'm going to ask you first and then go on to Justin. How should we think about M&A as a catalyst for finance transformation?

Eric Capron: Sure. As the impacts of COVID-19 become more clear, deal activity will likely begin to accelerate, or at least pick up a bit. But beyond opportunistic asset deals, transactions will remain complex, putting increased pressure on the finance functions to really do more than just get the transaction done, but to also look for opportunities where they can drive efficiency, generate more insights, and really respond to the demands of a more flexible operating model and increased demands and expectations that these more complex types of transactions are going to place on the finance organization. Of course, that's just my perspective, and, Justin, curious to see what you're seeing at your clients with how M&A is catalyzing finance transformation with companies that you serve.

Justin Sullivan: Yeah. Thanks, Eric. I think, in today's environment, it's really important to reinforce a focus on critical integration activities, generally through the first 100 days, especially with the complexity that comes with virtual work. Example: Successfully executing your first combined close virtually. Then there's a shift of focus on a vision for the combined finance organization and the prioritization of strategic or transformational initiatives that are going to enable you to get there. Today's large, complex transactions are offering an opportunity for finance to transform delivering efficiency and enabling achievement of enterprise goals through advanced tools to support analytics, insights, and enhanced business partnering, especially during a period a significant uncertainty like we're experiencing today.

Eric Capron: Yeah. Thanks for that, Justin; that's a great point. And I think the bottom line here is that we are seeing that finance transformation has the potential to unlock substantial incremental value during M&A, and perhaps even give you an opportunity to kill two birds with one stone while you execute the transaction and build new finance capabilities at the same time. And while we don't know exactly what the economic landscape will look like six months from now, we do know that when finance can take advantage of opportunities like this to drive transaction activity while simultaneously transforming, it will increase its overall value to a company and will continue to be a key driver of value during any kind of M&A activity or event.

Greg: Thanks, Eric, and thanks, Justin. You've provided a lot for us to consider in part two of our two-part podcast on how M&A can act as a catalyst for finance transformation. I'm Greg Jarrett, and thanks for listening to Deloitte M&A Views sponsored by Deloitte M&A Institute. And if you'd like to read more about finance in a digital world, visit www2.deloitte.com/us/en/pages/finance-transformation/articles/finance-digital-transformation-for-CFOS. This podcast contains general information only and Deloitte is not by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advisory services.

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