Deloitte M&A Views podcast:
Data-driven deals: M&A analytics

Transcript

Greg: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions (M&A). I'm Greg Jarrett. And today we take a look at the role of data analytics in M&A. Every M&A decision is driven at least in part by data. In the past, you may not know the real story behind the numbers until your business was in the trenches in post-deal transition. Today you have M&A data analytics. Within the tight time frame of most deals, they enable you to go deep into the data and help you ask and answer smarter questions throughout the M&A lifecycle. Today, we're speaking with Brian Bird, managing director, and Andy Wilson, partner, with Deloitte & Touche LLP.

Greg: Brian and Andy, thanks for taking the time to talk with us today. And why don't we start with you Andy. And let's start at the beginning because I think with data analytics, it's important for us to start at the top. Let's talk about the current digital business environment and how it's impacting M&A and M&A decision-making, Andy.

Andy: Thanks Greg. I think the key to—whether it's M&A decision making or any decision making—but the key to data analytics today is just the sheer quantity of data that's available now that wasn't available five, 10 years ago, you know. We're in a period of time, kind of like Moore's law was, with regard to chip speed, where fields—like the amount of data that's created every year—is growing at an exponential rate. And that's been the case for a number of years.

So, when you look at it from an M&A environment, what you see is that the sheer quantity of data provides the ability of companies to assess businesses differently at a much more granular level. And that's really where our focus area can be of diligence and of people's valuation models and their assessments of a business.

Greg: You know, I was thinking about Moore's law when we started talking about data analytics and just how much information is available out there in virtually every field, whether it's news where we used to have three or four outlets, to current times when you can go on the internet and have 5,000 different sources of information. Can you share an example of the kind of granularity of detail that wouldn't have been available in M&A just five years ago?

Andy: When you look at the kind of data that's available out there, a lot more data that means a lot deeper insights. And a good example of that is around the effectiveness of a company's sales force. It's an area that often doesn't get a lot of focus, traditionally in diligence just because of the timeframe. But given the depth of data that's available, it can now yield a lot of information. Where sales were the product segment and so on, now with the amount of information that's available, you can look at individual transactions for individual sales people and really have an assessment of their conversion rate, the margin that sales people are driving, and what's distinguishing some sales people's effectiveness from other sales people.

That's just one snapshot of one area where doing an acquisition in this data-rich environment can be done differently and can yield a whole different view of what's important in the company during that initial diligence phase which, 10 years ago, you wouldn't have been able to do.

Greg: Brian, let me ask you this next question. Just what is the environment out there right now around using analytics in M&A? Are you seeing certain companies or particular industries really embracing and integrating data analytics?

Brian: Some industries definitely lend themselves to the use of analytics better than others—retailers, companies in the consumer business segment have certainly been, I think, trained to use it better in their operational effectiveness on a daily basis. They have a paradigm within their organizations where they can look at that information already. So, the fact of the matter is, almost every any industry can extract a tremendous amount of value by applying similar sort of processes that they do in a day-to-day business in connection with the M&A process.

The trick really is being able to deploy those processes and knowledge centers, in the timeframes that an M&A transaction forces you to do that. So being very, very nimble in the deployment of those, is really the trick in the M&A process.

Greg: Andy, what would you have to add to that?

Andy: I think that's right on, from the standpoint of, some industries have done it. But I think the real point is that we're seeing adoption just as the level of data is growing, you know, exponentially, the reality is that we're seeing more and more adoption of this by companies when they are looking to buy or sell. They are a little hamstrung at times by their ability to deploy their own internal tools and processes, how they look at data analytics within their company, from an operational perspective, out into a target environment.

But the expectation is growing from leadership of clients and businesses that are looking to make investments. Leadership is expecting deeper insights—whether from their own people or from advisors such as ourselves—that deeper insight has to be done through data analytics. And I think that's a key area that's going to just continue to grow. We are seeing, you know, the number of clients, the number of deals that deal with big data is significantly higher today than it was a year ago, two years ago, three years ago. We see that growth continually.

Greg: Brian, it sounds like a no-brainer to use data analytics whether you're major league baseball, whether you're a big tech company. Is there any reason that some companies may resist this change? How do the benefits outweigh any obstacles?

Brian: In order to deploy analytics, really it's forcing individuals to rethink how they're organizing their teams and their business development teams from the simple point of view that, you know, historically teams would ask for, individual components—whether it be operational diligence, financial diligence, or commercial diligence. They would ask for similar types of information but each team would ask for the information separately. Whereas now, if you think about the application of the analytics, it requires teams to work more in a collaborative fashion and be laser focused on the types of questions and the process that they want to run.

And that the resistance to change really isn't to the change itself, it's really in, in the changing their organizational behavior on how they look at the transaction and how they want to tackle the problem, either in a unified manner or still in a more silent approach.

Greg: Seven years ago, if you had a group of potential M&A participants sitting around the table, I would think there was a fair chance that at least half of them would want to rely on their experience more than this thing called data analytics. Andy, is it swaying to a point where now more and more people at the table will automatically ask about data analytics and just use their experience as a guideline?

Andy: It is. You know, experience has real value, but the reality is, the data and the amount of data and the value and insights that that data can drive is starting to outpace some levels of experience. And so, you always need the judgment to be able to assess what's important, what’s not important, and what the data is presenting to you and telling you. But the reality is that, you know, there isn't a good way to buy a business with gut feel anymore because you may buy it with gut feel. You may buy it thinking that this is the right decision but somebody else is bidding or passing on the business—based not on gut feel but based on hard data.

And the depth of data that's available is giving them the opportunity to make better decisions than you might if you just relied on your experience.

Greg: Brian, have you experienced this particular move toward data analytics away from just that gut feeling that we just heard about? And how fast has it been?

Brian: It's been pretty fast over the last year, I'll tell you that. In a recent transaction we had, a client that did have a gut feel on a couple of items—and because we had the available information, they had the foresight to ask for a certain very detailed data set. We were actually able to confirm one, their gut feel, and two, actually help them put together a plan to mitigate what they thought was a massive risk, price that into their deal model and actually feel extremely confident because they were able to triangulate what the risks were as opposed to going with their gut feel of what they thought the risk was and how to value that risk.

Greg: Can we break this down any further, Andy? Are there, for example, any key metrics, data points that companies should consider?

Andy: Yeah, I think it's important that companies think about how they are going to operate the business—what's going to be important to them once they own or integrate the business into their existing lines of business. And so, the keys are much the same, as one would expect. It's around growth, it's around margin, it's around cost mitigation, cost reduction—those metrics. And the ability to manage those metrics and get an understanding of those metrics in a detailed way is really important.

Sometimes it's just as simple as thinking differently about the availability of data. You know, for as long as I have been involved with M&A, which is almost 20 years, it's been—we look at the top 10 or top 20 customers.

Understanding that, slicing and dicing in it in different ways because the data is there, it's available. We can use tools and processes to do it in a time effective way and it really provides an understanding of the business in a way that maybe looking at only those biggest customers may skew. And that's been how we've done diligence and the M&A process has been built on that at most companies for a generation.

And we are now at the changing point of that. It gives us an opportunity to really look at things differently.

Greg: Brian and Andy, are there any final takeaways that you'd like to share with our listeners? Andy, let's start with you.

Andy: Yeah, I think it's the individual's assessment and coming to understand just where we stand today with regard to the amount of data, and the types of data that are available. And, and as I started down my own process of getting a deep understanding of data analytics and the tools that are available to assess that, it opened my eyes to the fact of what we've been doing as a business from an M&A perspective—whether you are a client, whether you are a buyer, whether you are a seller, whether you are a service provider—for the last 15 plus years really needs to change. And it is changing, but it's going to change very rapidly. And those people who don't accept and understand the speed and rapidity of change in this area are going to get left behind.

They’re not going to have the information to be competitive in deals.

Greg: Brian?

Brian: Thanks, Greg. Just to follow up with what Andy was mentioning, the fact is that we are seeing, the sharing of vast levels of data from a target company to a buyer. And, sort of not understanding that making that part of your deal process and a part of your normal data request list, you are missing a real opportunity to get information at a much more granular level where you can make key tactical decisions about how you may look at a business from a macro perspective on evaluation. But then also from a much more micro and tactical perspective of your first hundred day operating plan.

Greg: I’m Greg Jarrett, thanks for listening to Deloitte M&A Views, sponsored by Deloitte’s M&A Institute. We release new podcasts regularly, and if you subscribe, you won’t miss a single one. To stay connected and receive more information on Deloitte’s M&A service offerings visit www.deloitte.com/us/MAsubscribe and follow us on Twitter at @DeloitteMnA. Until next time…

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