Old tools, new discovery

TREASURERS HAVE NOT TRADITIONALLY ENGAGED IN THE M&A PROCESS UNTIL JUST BEFORE THE DEAL IS DONE. PAUL DEIGHTON SAYS THERE IS OPPORTUNITY TO ADD VALUE DURING DISCOVERY

The prize of new capabilities and know-how, shared overheads and instant access to new customers and markets can be irresistible; down the line, however, it is a common view that most M&As do not deliver anticipated benefits.

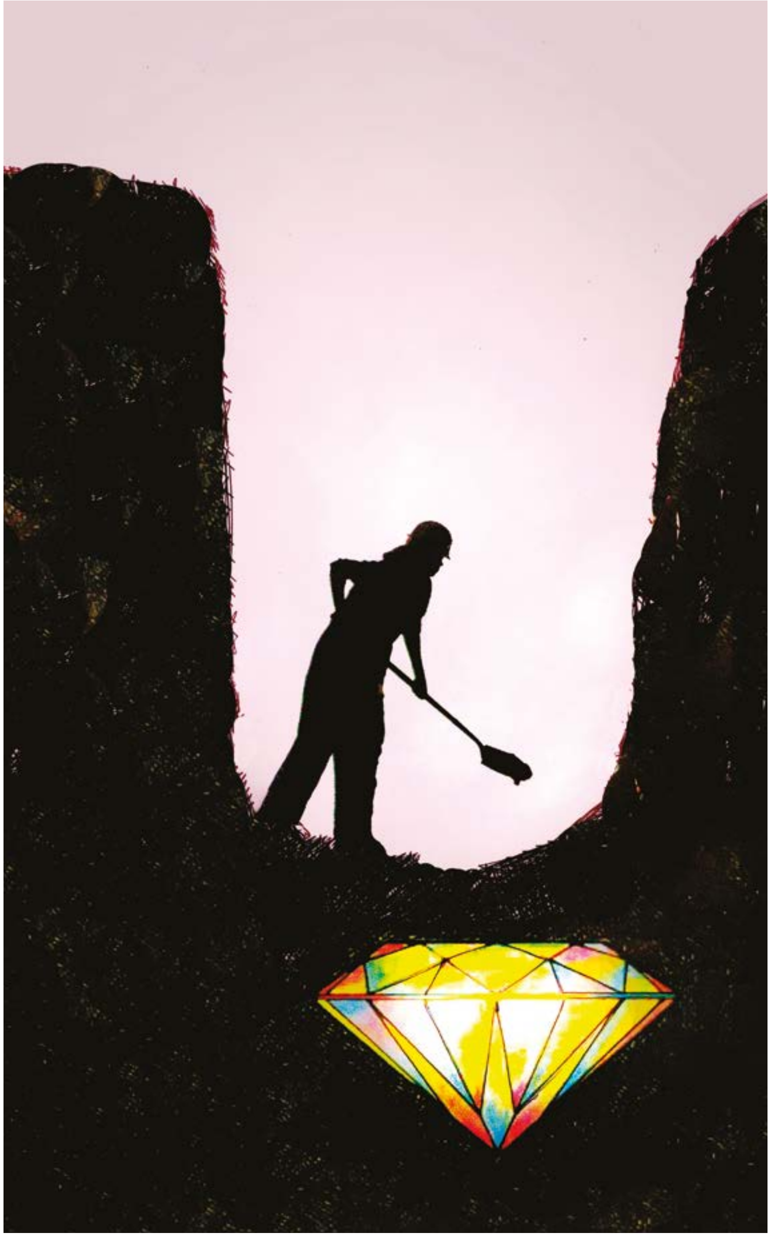
There are many contributory factors to success and failure, much beyond the scope of this article. Fundamentally, however, the quality of decision-making depends significantly on the quality of information gathered through discovery and due diligence. Meaningful insights into the target's capability to win competitive business and contribute to a new single top line are often lacking.

While predicting and managing post-M&A cash flow, setting up new banking structures and performing other tactical and operational treasurer activities all add value, as likely the only member of the M&A team with corporate financial responsibilities, treasurers should also be asking strategic questions about how the target feeds its top line; in doing so, adding increased value to the team and enhancing professional capabilities.

The ability to win competitive business is the primary determinant of growth, profitability and long-term shareholder value. A review of the target's sales pipeline and historical order intake, however, may actually provide very little insight. Pipelines are notoriously unreliable and history is often less useful than an insight into a target's agility and adaptability. As part of a more rigorous analysis, treasurers should be asking six key questions about how the target feeds and sustains its top line:

1. Strategic leadership or tactical management?

High-maturity targets have an executive, who brings the voice of the customer to the boardroom, influencing corporate vision, mission, strategy and business planning.



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They will be the executive sponsor for major sales opportunities and will build collaborative relationships with their customer counterparts and their board colleagues. They will remove corporate roadblocks and have the authority and courage to disqualify sales opportunities that are either unwinnable, unprofitable, or both.

Low-maturity targets have no such board-level presence and tend to rely on middle managers to tactically manage individual sales opportunities. They generally lack the authority to disqualify sales opportunities and consequently tend to allow the development of too many, lower-quality tenders. From a treasury perspective, these behaviours will increase average cost of sales and will restrict average contract value.

2. Trusted advisers or suppliers?

Targets that develop excellent senior customer relationships and work as trusted advisers before formal tendering begins are much better placed to understand the customer's business and develop winning value propositions. Trusted adviser organisations win bigger deals and may avoid private-sector competitive tendering completely, reducing cost of sales.

Low-maturity organisations react to customer requirements that may already have been influenced by a competitor. They are unable to gather meaningful business intelligence and fail to develop meaningful customer relationships with executive decision-makers;

they often find themselves negotiating with customer middle managers as suppliers.

3. Winning teams or superheroes?

Although improving, it is still commonplace for business-winning competences to be undefined or limited to affable personalities and the possession of a good network; however, in today's global and highly competitive economies, such competencies fall far short.

Successful business-winning organisations define critical business, behavioural and technical competencies as a basis for recruitment, career development and succession planning (incidentally, as does the ACT). While charismatic leadership is always an asset, a reliance on heroes is a liability.

4. Managed or ad-hoc processes?

People typically don't enter into business-winning roles because they like processes, but while individuals may indeed win smaller deals, the type of deals that can transform an organisation's balance sheet are invariably won by multidisciplinary teams. Winning teams have winning strategies, executed through disciplined processes, balancing both delivery and opportunity risks.

Lower-maturity targets fail to harness their full corporate capabilities. Their ad-hoc and sometimes chaotic approaches burn cash and waste resources. Treasurers, as part of the M&A team, should be able to characterise the target as part of risk management and integration planning.

5. Knowledge management or scattered information?

Effective business-winning targets have a knowledge-management infrastructure that can provide opportunity, customer, competitor and historical pricing intelligence, as well as supporting corporate knowledge management and learning. Lower-maturity targets tend to store information on local hard drives, with no realistic possibility of sharing or learning, destined to repeat mistakes and incur repeated, but avoidable costs.

6. Sustainable or a transient capability?

When successful business-winning methods are truly embedded, they are less likely to be abandoned at times of pressure or stress. The target's ability to sustain performance is key, particularly when high-performing sales staff are often headhunted during the M&A process. Sustainable capability leads to sustainable order intake and predictable cash flow.

Incisive reporting

Although supported by comprehensive reports, the overall characterisation of the target on a 1 to 5 maturity scale is a critical single insight. Increasing maturity levels represent increasing desirability as an M&A target.

Level 1: Initial; ad-hoc, sometimes chaotic approaches; success depends on individual heroic efforts. Highest cost of sale, lowest contract values.
Level 2: Managed; reactive approach to customer requests; basic project management and quality-control processes in place and some ability to repeat earlier successes.
Level 3: Defined; proactive approach to customer engagement via a tailored standard business-winning process; learning is shared across the whole organisation. Leading win rates and contract values.
Level 4: Quantitatively managed; effective customer-relationship management supported by fact-based decision-making; performance is quantitatively managed and other business functions contribute to business winning.
Level 5: Optimising; innovative and transformational culture; piloting, refining, and adopting new approaches and business models driven by customer needs.

Targets exhibiting Level 1 behaviours will need significant attention during integration planning; Level 2 targets will be reactive and may struggle to integrate with the acquirer's approach; Level 3+ organisations will be attractive M&A targets from a business-winning perspective.

MATURITY LEVELS

Maturity level	Win rate	Capture ratio
5. Optimising	>60%	>80%
4. Quantitatively managed		
3. Defined	>50%	>65%
2. Managed	<50%	<50%
1. Initial	<25%	<25%

Supporting integration planning and execution

As part of the M&A team, treasurers recognise that customers need special attention during the transition, reassuring them of continuation of service, and describing the benefits to them of the deal (not just restating the benefits to you). Earlier planning leads to better outcomes.

The M&A team should have the information available to identify the most mature business-winning process from the two parties, which should be deployed across the new organisation rather than trying to conflate two approaches. Opportunities will exist for each former organisation to cross-sell existing services to new customers; this will need to be carefully planned and communicated by customer-relationship managers to realise order intake and cash benefits.

Relationship between maturity levels and KPIs

Two key business-winning key performance indicators (KPIs) are win rate (tenders won/tenders submitted) and capture ratio (value of tenders won/value of tenders submitted). While there are many factors influencing business-winning success (not least of which is having a desirable product or service), there is evidence (see 1 and 2 below) to suggest, all other factors being equal, that there is a positive correlation for complex sales and the top line.

Level 3+ organisations engage with the customer earlier and at a more senior level, allowing them to access larger budgets and add more value; they are attractive M&A targets when considering top-line performance.

1 *Benchmarks in World-Class Proposal Writing Capability* (Business Development Institute International, 2008); *Metrics to Manage Business Development Results* (Business Development Institute International, 2015)

2 *Benchmark Study* 2002 (Association of Proposal Management Professionals)

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Paul Deighton is the client solutions director at Shipley Limited