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 **Value Creation in Mid-Market M&A:**

**an IT Perspective**

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# INTRODUCTION

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n the last 10 years there has been an explosion of new and sophisticated technology that is enabling radical transformation in nearly every global industry. More and more we see the application of these tools in every corner of a business from better Sales predictions, to optimizing warehouse locations and inventory, to scheduling and deploying service technicians. Conventional wisdom says one of two conditions are typically precursors to successfully launching and realizing the fruits of such “Digital Transformation”. Either you are a (1) a start-up building from a clean sheet of paper and applying new tech at the core of your business model or (2) you have the existing scale, reach, and financial resources to figure it out on your own. For those of us in the Mid-Market and active in the M&A space, where does that leave us? How can we participate in the promise of Digital Transformation amid the chaos and challenges of ownership change, carve-outs and TSAs? Hint: we can’t do it alone.

# High Expectations

When our firm was founded 10 years ago a fundamental premise was established: we must drive operating improvements in the business to realize our investment goals. That simple notion has grown to embrace IT and Digital Transformation - areas that many corporate strategists would have downplayed or largely avoided just a few years ago. Fortunately, these disciplines are now on the map, given the high profile successes of early adopters. It is now incumbent upon IT Leadership in every industry to set and achieve ambitious goals, just like every other business function, to play its part in the Enterprise Value creation formula.

In our investment framework we set four strategic goals for IT at the front end of every investment. Each of these goals plays a specific role in Enterprise Value creation, faces their own set of challenges, and requires a tailored response that considers factors such as inherited IT staff/skills, timing of Transfer of Services Agreements (TSAs), the business growth and productivity strategies, and the anticipated hold period. In every instance we seek out partners from our proven ecosystem that possess the skills, experience, and urgency we require. Importantly, in the mid-market we must be conscious of the traditional trade-offs between financial investments and derived value. This often leads to a headset of compromise between cost and suitability for a job. A promising development is the emergence of platform and services companies who are looking to credibly fill the more strategic roles that critically often define a direction and can lock in long term consequences. Having a trusted and experienced partner who is engaged very early in your lifecycle can help you avoid the risks lying around the corner. With our focus on chemicals/materials, manufacturing, and distribution we often are naturally drawn to SAP as a platform company but are encouraged that their focus on the mid-market is leading to the creation of a more engaged and integrated ecosystem who can more effectively participate in the higher level and more strategic elements of positioning and architecture.

The integrated ecosystem referenced here is known as the SAP M&A Ambassador Program. SAP’s M&A Ambassador Program is a consortium between SAP and their ecosystem partners, built to drive value for Private Equity funds and portfolio companies. An example of how this program has created value during an M&A event was evidenced during a recent carve out of a chemical company, which had complicated processes that didn’t fit the new business operating model.

Since no TSAs were offered for this investment, an aggressive SAP deployment was required to fit in the Sign to Close period of 5 months. To deliver this outcome, I relied on an extensive set of consultations and services offered by members of the Program. Additionally, I saw the benefit of incorporating a known data model and following SAP Best Practices for Chemicals. The SAP M&A Ambassador program gave me the ability to find and select a system integrator and deploy a modern ERP system, SAP S/4HANA.

## Position the Company as a Digital Innovation Leader

From a top-down perspective there is nothing more attractive than to have your company viewed as an innovator. You attract great people, have partners begging to work with you, and often enjoy superior margins. Goal # 1 in our IT Transformation is to identify and deliver digital transformation, or targeted digital enablement, that positions our firms as digital leaders. Given these are central to the future of the business, IT must find ways to effectively introduce the potential of applying these new technologies. In the mid-market, and especially in carve-outs where senior IT leadership may not convey with the deal, we leverage partners like PwC and EY who bring the industry knowledge, executive presence, and credibility we need to open those doors. Their strategic engagement with SAP through the M&A Ambassador program is a strong plus since they can help vet the realism for such advanced, tech-centric strategies. SAP will at times also call on internal strategic consulting resources who are an integrated part of the M&A Ambassador program offering.

## Position IT as a Value-Creation Engine in the Business

A second crucial component in successfully delivering on the promise of digital is to effectively position IT as a value creation engine. IT has been chasing this elusive goal for years and to be sure there are many success stories. Figure 1 depicts the journey many IT organizations have started. Intentionally migrating their focus from a Tech-based service provider to a value creator creates new opportunities for business, customer, and industry-based opportunities. The biggest challenge in this space is to get IT to see itself through a lens of value creation then build the disciplines of measuring and realizing customer value. In these scenarios we often look to our own IT service providers including SAP and NTT Data Business Solutions for inspiration and best practices at quantifying and delivering business value.



Figure 1. Re-Positioning IT for Value Creation

## Establish an Enterprise Architecture that can support a Dynamic Operating Model

A third key objective for IT is to design and deploy an Enterprise Architecture that empowers today’s highly dynamic Operating Models. Our reference approach, titled “Smart Operations”, leverages core transactional, analytical, planning, execution, and process management platforms in a highly integrated architecture. Our biggest challenge here is simply the breadth and depth of expertise and experience required across multiple disciplines. In many mid-market scenarios, we don’t inherit the IT experience base to lead such a complex program and it is critical to leverage a network of leading partners. Here we routinely engage best-in-class players like NTT Data Business Solutions and AspireHR, both part of the M&A Ambassador program, who bring a rich experience base along with the partnering attitudes that lead to added focus on strategic elements of the IT journey. Critically, our network of leading practitioners routinely work with us to identify and realize opportunities to optimize the IT operating model and cost structure.

## Select and Deploy Platforms and Services that Scale

Finally, IT must build out, operate, and optimize the platforms and capabilities necessary to deliver robust digital services. As we all know security, reliability, and cost effectiveness are the calling cards of today’s operations. Well beyond those qualifiers, we also look deeper into the “how” our potential partners deliver continuous improvement, implement outcome-based contracting, and respond to the urgency our programs require. Of special note the speed factor is especially important to (1) exit expensive TSAs and (2) accelerate the focus on value creation.

 Within the context of building out our intended solutions, we look hard at partners who offer rapidly tailorable methodologies and existing cross-partner relationships. We see those attributes as a strong signal of their commitment to customer success. In several instances SAP itself, along with its Partners in the M&A Ambassador program, was invaluable in meeting very ambitious timelines.

# Looking Forward

IT has a nearly unbounded opportunity to step forward and play a major value creation role for its business. Recognizing that several mid-market dynamics are in play we believe IT must necessarily and proactively address each by defining and executing robust plans.

 We further believe that partnering is a critical competency. Engagement with leading practitioners, who each wear a bigger hat, will be a tremendous accelerator to realizing IT’s full potential as a value creator and improvement in overall business competitiveness. The SAP M&A Ambassador program was built with the PE investment lifecycle in mind beginning from due diligence, sign to close, close to strategy lock, TSA exit and eventual investment exit. This program is an exciting development in market that is anticipating needs and moving to create new capabilities, customer entry points, and competitive pricing for the ever more strategic needs of our businesses.

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