July 2019

# To acquire or not to acquire?

## Ask yourself five questions

# Stop. Wait. Think.

Driven by insatiable hunger for growth, and egged along both by their own chutzpah and by the voracious appetite of those who stand to profit from a deal, too many consulting firms pounce to make an acquisition before they've properly thought through what they're doing. The results can be disastrous.

In spring 2019 we spoke to eight key figures from the corporate development functions of Accenture, Capgemini Invent, Deloitte, EY, Oliver Wyman, PA Consulting and Wavestone, to understand how they approach acquisitions and what makes for a more intelligent approach.

Our conversations revealed five questions that every firm should ask itself before it makes an acquisition...

# 1 What do clients need?

1

Much of the conversation consulting firms have been having around their inorganic growth strategy in recent years has revolved around “expansion of geographic reach” or “IP acquisition”. But this is to almost entirely see the world through a firm’s own, internal lens: What does it need? Less thought and effort has gone into what clients need.

The interviews we carried out for this short report, with senior people in the corporate development functions of some of the world’s leading firms, suggest this attitude is changing. Again and again we heard that buying for the sake of ego—yours or your firm’s—clouds the need for absolute clarity about why you’re looking for acquisition, alliance, or anything in between. Clients aren’t especially interested in whether you meet their needs by rebadging old strengths as new capabilities, adding different talents to the pool, building out your ecosystem, acquiring a start-up—the mechanics of delivery sit firmly with the consultant, the client just wants a solution to their problem.

As a result of this recognition, the all-or-nothing approach to inorganic growth, which has characterised the buy-side market in recent years, is now giving away to something more complex and nuanced.

> *For acquisitions, it's very important to be very clear on the strategic intent that we want to deliver in terms of the outcomes. What I see in the market is a fair amount of acquisition activity, but sometimes I'm left unclear as to why they're buying a particular target. We spend a lot of time both at the strategic level and at the end of the acquisition really thinking through who the right acquisition targets or partners are for our business. The clarity of our own thinking is essential.*
>
> Andrew Hooke, PA Consulting

> *No client asks for a strategy consultant, they're looking for the best available mix of individuals, intellectual property, software, services, solutions, a whole range to help them meet the challenges and opportunities for the future. The real challenge for any of the firms in consulting, broadly defined, is nurturing the diversity of talent that's required whether that's through individual hires, acquisitions, partnerships, or alliances.*
>
> Jonathan Goodman, Deloitte

> *Our industry is going to be experimenting for quite a while around whether it's acquisitions or collaborations or subcontracting or something else that delivers the orchestrated combination of talents that our clients need.*
>
> Simon Harris, Oliver Wyman

# 2 Do you need lunch or a friend?

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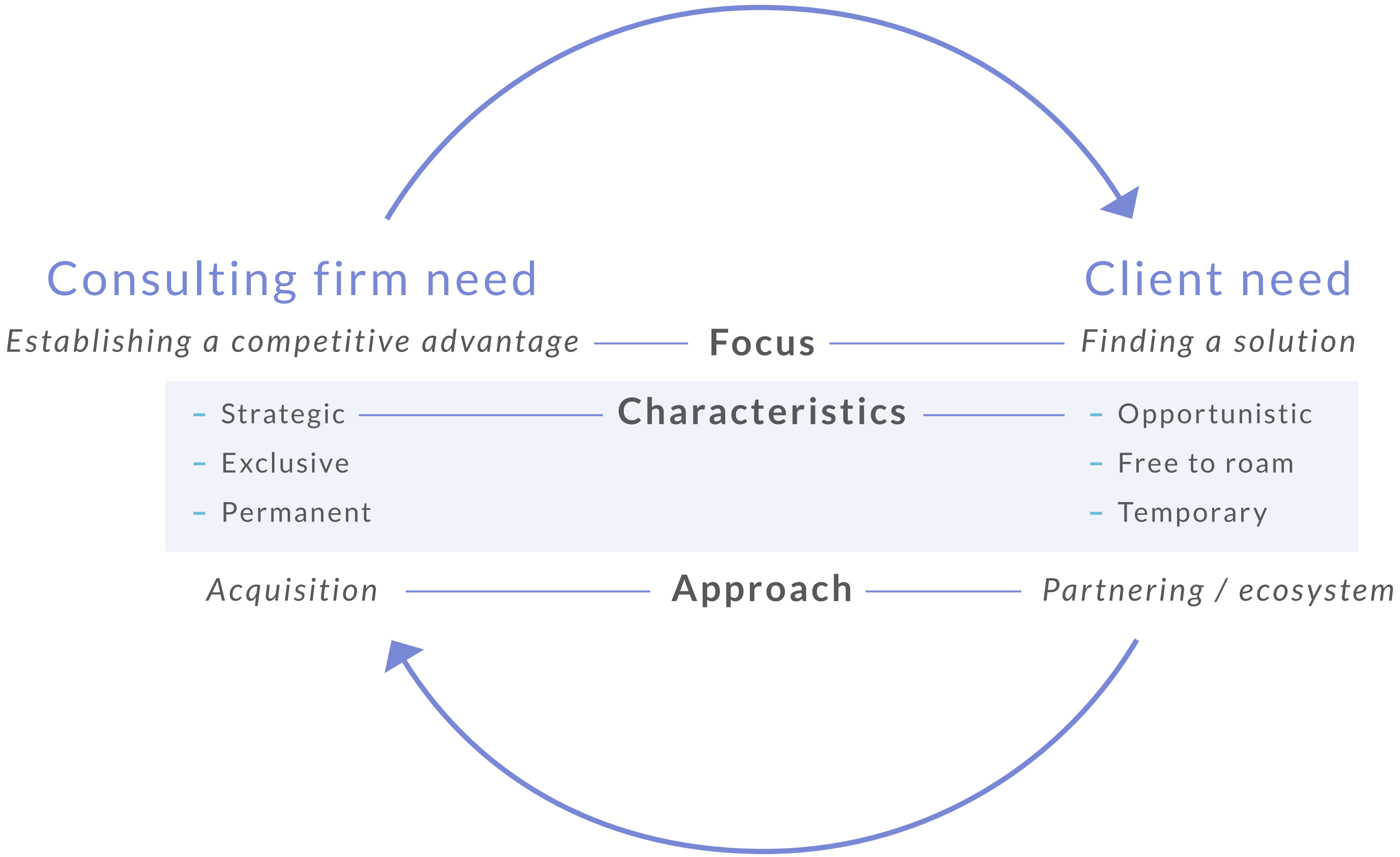
At the heart of the changes in the market lie two factors. The first is that, if you let clients' needs drive your inorganic growth strategy, rather than your own strategic imperatives, then you'll focus on finding a solution, and probably one that's opportunistic, not exclusive and short-term. You'll partner rather than acquire—something we see right across the market at the moment. But, secondly, this isn't an either-or scenario: Many of the firms we spoke to actively employ an approach that combines acquisitions with partnering and ecosystems.



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*Acquisitions tend to fall into two categories. The first are those that are intended to add capability to an existing business or market geography that we're sub-scale in, for example. The second is where we're buying some form of asset, often alongside some capability. These will clearly be in an area where we see an opportunity for growth, but they may also be in completely new areas, where we think the best way to build our brand is to acquire an asset. I'm not sure that a partnering or ecosystem approach works where we're buying a firm purely for the capability it brings, where we're taking one group of people and dropping into another, existing team. Where that approach does come in useful is in experimenting in new areas.*

Adrian Edwards, EY

*Clients are asking for different things, where a single consulting firm can't provide all the expertise as we were once able to. That plays out most clearly and is most relevant when it comes to alliance partners.*

Andrew Hooke, PA Consulting

*Our partnering arrangements tend to take one of two forms. They might be done to be consistent with our overall group portfolio; our alliance with Salesforce would be a good example, as it's a client, but we also work on win-win situations around digital marketing, big ongoing programmes, etc. But the other type of partnership arrangement may be aimed at winning a bigger share of a local market, and which therefore involves partnerships with local players, some of which have been game-changing in the past.*

Jean-Baptiste Perrin, Capgemini Invent

*I don't think hard and fast rules for acquisitions hold water because it's more situational. Obviously you would want to know that there is an opportunity to work together, that there's some cultural fit if and when you make the acquisition, but that's a dynamic scenario.*

Jonathan Goodman, Deloitte

*For an acquisition it's a question of growth, extending our portfolio of services and accelerating our international agenda. We are very clear about why we do acquisitions, and we have very clear strategic targets.*

Reza Maghsoudnia, Wavestone

# 3 Are the right people in the room?

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One of the peculiarities of the process is that those cutting the deal can be disconnected from the team on their own side who'll ultimately work with the target firm. However you come to remedy that situation, presenting a united front that balances the preferences of the dealmaker and the consultant is essential to ensuring that everyone knows what they're getting.

In the founders of a target firm, you're meeting men and women with the entrepreneurial creativity and persistence to have created a proposition that attracts you. Can you honestly promise them a meaningful seat at the table if they want it? Can you show them the world and their firm's new place in it? What are you buying if they walk away?

On top of all this, there's the adage that we find holds most consistently true across all the work we do in this space: The more attractive you find a firm, the less likely they are to be interested in you.

*One of the obstacles that lies in the way of taking a longer-term approach to selecting potential acquisition targets is that most firms have two, quite distinct groups of buyers, each with their own agenda. On the one side, you have the corporate development team, the M&A people who are looking for a deal that's big and relatively easy. On the other, there are the people in the business who have identified specific capability they're looking for. Success depends on how efficient the relationship is between these two groups, and on the way they fine-tune their requirements, because they don't share the same KPIs. Success in terms of targeting lies in having people who can be the go-between, ensuring that the process of identifying and talking to potential targets meets the process needs of the corporate development team while also being grounded and realistic when it comes to finding the people the business actually needs. As a team, we need to make sure that the M&A team is not starting promising things the business can't deliver.*

Jean-Baptiste Perrin, Capgemini Invent

3

*Hard and fast rules for approaching an acquisition in this space are difficult—it depends on the circumstances. You may or may not have the opportunity to partner in order to determine the potential to create value from the different connected service. For example, an old colleague of mine sent me an opportunity in the data & analytics space and that's a case where we might get the opportunity to partner, chat, and see if we're connected. That kind of exclusive, 'getting to know you' environment is very different from one where you know the seller is thinking about and talking to various different players and you've got to do your due diligence.*

Jonathan Goodman, Deloitte

*Acquisitions for us are so much about building up the relationship and the trust with the management team of the target company. The way we work is that every deal has a business sponsor and the Corporate Development lead, the kind of two in a box model. It's about continually balancing building sustainable relationships and getting the deal done at a fair price and on fair terms. In the banking and corporate development world, it's populated with some pretty aggressive dealmaking people who are of the 'I win—you lose' type of mentality in negotiations. We try to be very thoughtful about that because we realise that you could win in a negotiation over some technicality or you could play hardball and so on, but, in the end, the people that you're dealing with are also the people we then want to be leaders and future leaders in Accenture and people who want to feel good about being part of the firm. The experience they get in the dealmaking process is so very important to us—we know that carries over into the integration and long-term delivery phases.*

Stuart Nicoll, Accenture

# 4 What happens after the deal?

4

“What you're buying is people and charisma—to be honest, in consulting, IP is not that much separated from human beings... Acquisitions in consulting are a challenge from the valuation perspective but also the integration perspective. If you try to overdo the integration, then you've just destroyed the ecosystem of what you just bought.”

Nowhere were our contributors more unanimous than in emphasising the importance of handling the integration of a new partner or acquisition with incredible care and consideration: you’re not a conquering army and you’ve got new colleagues rather than new subjects.

Unsurprisingly, this is the topic around which our interviewees were most guarded. That’s not just because they’re in the midst of their own integrations, but also because this is the bit that most commonly goes wrong. Nevertheless, this is something that can be given serious consideration well in advance of the deal—are you trying to reinforce your existing culture or inject something new and different? Does it matter that your new colleagues have previously enjoyed bare brickwork and a dog-friendly office?

Compensation packages and integration frameworks can only achieve so much in this context; the forging of new relationships doesn’t happen institutionally, but thanks to individuals on both sides offering their own goodwill—that is something that you can foster well before anyone signs on the dotted line.

4

*Consulting firms are, at their heart, people businesses. When you're going through an acquisition process from either side, you are absolutely giving consideration to the nature of interaction between individuals and what the spark is for the people who are part of the acquired company. When we talk about things that sit around strategy in the customer innovation space, we're talking about intellectual property but that twins with individuals. There's no version of being successful as an acquirer that doesn't take into account the needs and motivations of the individuals that come along and how supportive environments are established... There was a lot of hard work and thinking that went into how to sensibly integrate Monitor into Deloitte, create Monitor Deloitte, and then have a strategy practice within a much larger professional services firm that is at the same time distinct but connected. That's really important: If you have connected but absorbed, you lose distinctiveness; if you stay distinct but not connected, you're not getting the benefit of the acquisition. So, you've got to find a way to maintain, if not elevate, the distinctiveness whilst creating and encouraging the connectedness which then gets the best of both worlds.*

Jonathan Goodman, Deloitte

*We expect the companies we buy to operate within the PA operating model and systems, but we're actually bringing in these companies to strengthen our culture. We've always been an entrepreneurial company, but these acquisitions push our boundaries a little bit more towards a more adventurous culture and one that's more digital. It's about both companies adapting so that you get something that is genuinely better than the sum of the two individual parts.*

Andrew Hooke, PA Consulting

*During the acquisition process, there are lots of meetings where we discuss and negotiate how things will work with the senior leadership team and these are all important interactions for determining our fit. From time to time, we ask to engage not only with the current shareholders but also with the key people of tomorrow within the firm.*

Reza Maghsoudnia, Wavestone

# 5 What will you be doing in 10 years?

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Ecosystem may be a buzzword but it's not a bad word for trying to sum up the diffuse, disaggregated, and diverse landscape that our interviewees foresee.

This progression is the natural consequence of the rise of new managed services which places a renewed weight on the combining of technology and experts, but it's also a negotiation of the challenges of mass consolidation. As the big firms get bigger, the start-ups look even smaller and the prospect of acquisition without destroying what you wanted most dwindles.

However you conceptualise your non-acquisitive relationships—as constellation, orchestra, web—there is a need to think now about how they will meet clients' need for genuinely responsive solutions, even if the fully realised manifestation of an interconnected network of firms is some way off. The relationships that will underpin those networks are ones that can and need to be developed and considered strategically well in advance, keeping a weather eye on the emergence of small start-ups that, on this model, don't need to be big before they have something to offer.

*I see three things coming together where acquisitions are concerned. First, there's a shift away from the conventional consulting approach of telling clients what the problem is, towards instead solving that problem for them. Managing change and developing bespoke technology will be fundamental to this. Second, a lot of start-ups don't give enough thought to solving problems in a business context: The most productive alliances will occur around the intersection of technology and business. Third and finally, we're living in an era of shared IP—the idea of one firm controlling an all-important patent is increasingly hard to imagine, because technology is being used in ways we couldn't imagine.*

Ram Sarvepalli, EY

5

*We're in a world now, where acquisitions, alliances, partnerships, joint ventures of various different sorts are a part of our business. And that means that across the consulting world there's a greater number of each: We're making acquisitions, we're actively establishing and nurturing various types of partnerships and alliances. All of these are in the service of what we each believe is better able to serve our clients and create impact with them.*

Jonathan Goodman, Deloitte

*In the future, we expect to see many more ecosystems between smaller partners who are specialists in their own areas and who will combine to meet a client's needs. In other words, there's going to be a lot more collaboration in the consulting industry. There will still be a place for large-scale, generalist firms, but we need to recognise and play to the strengths of that business model, while avoiding the pitfalls. Department stores offer customers huge convenience, plus the safety of a well-known brand, but they rarely stock leading-edge, innovative products. Moreover, there's a danger that the big firms, like the big department stores, will be disintermediated by firms such as Amazon. You can now put together a shopping list of products from specialist suppliers on Amazon, which is the best of both worlds.*

Adrian Edwards, EY

*We should expect to see all the major players in the consulting industry continuing to boost their businesses through inorganic growth, in the form of both acquisitions and partnerships. However, I also think that those who want to be acquired will become more vocal about what they want, which means that both sides will need to be careful when it comes to fixing the objectives. We'll have to ensure the new acquisition is creating new opportunities in the market and raising the quality of work we do, but we will also need to respect their culture and keep what's important to the people we're acquiring so that we don't destroy the value that they see as being fundamental to their business. We should also recognise that we're acquiring people who will be the stars of our business going forwards and that means nurturing their contribution and the acquisition's next generation of leaders, while also not underestimating the extent to which our existing employees can feel alienated. Triangulating these three pillars by clarifying objectives, protecting value, and building engagement on all sides will be critical.*

Jean-Baptiste Perrin, Capgemini Invent

# Think.

That’s where we come in. We have the data, knowledge and experience to help you assess whether you should be making an acquisition, forming a partnership, building an ecosystem, or doing nothing.

Of course, if you decide to go ahead, we can help you to conduct an intelligent scan of the market that’s based on a deep understanding of the landscape, the players, and the direction of travel, so that you end up with the shortlist that’s actually right for you.

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