

## A debate on how digital transformation processes impact M&A



At a webinar organized recently by ACG, industry experts analyzed the opportunities for accelerating modernization processes and creating value during mergers or acquisitions of middle-sector companies. Of course, they also analyzed the obstacles that may come up.

“At the end of the day, the idea is to add value: it is not a question of creating software just for the sake of building something. Rather, the idea is to see how the product may help grow the value of companies”. This quote from César D’Onofrio, CEO and cofounder of Making Sense, corresponds to the recent webinar Digital Transformation After M&A, organized by ACG experts specialized in mergers and acquisitions. Marketing expert Nicole DeMeo moderated the webinar. D’Onofrio was in the same panel as Gerson Guzmán, cofounder of Ceiba Capital Partners, an investment company centered on the digital adaptation of middle-sector companies, and Paul White, president of Miur Equity, a private equity (PE) investor in the middle market.

“Given the interest of our new equity partners, a bold transformation is usually a key move to increase the company’s value, which very often results in a significant digital change”, White stated. “In our case, this can be achieved in two ways: either through the introduction of a new digital product line, or through a more efficient use of technology to improve operations”, he added.

### Sustaining low risk

D’Onofrio stressed that middle-sector companies are not very prone to taking risks when faced with the need for change. “Investors usually prefer to focus first on the company’s sustainability, and only then on growth alternatives”, he pointed out. “That is why the first step is an analysis of the technologies that were already implemented, of the digitalization waves of the past and of the actual need for growth that arises when fuel is added to a running machine”, he said.

“The mere mention of new technologies in the context of alternative investments makes everybody think of a startup company when, actually, digitalization is already happening and contributing value not just to the finance and accounting departments, which were historically at the heart of all the implementations of the ERP model. Today, the added value has to do with new parameters, such as user experience... and the user can be the client, the supplier or your own human capital”, Guzmán explained.

### The first steps

An M&A is per se an abrupt change for a company’s labor force. A digital transformation would imply a second stressful move. When is the convenient time to move ahead with the idea of transformation? Which are the recommended steps to soften the impact?

As regards the first question, D’Onofrio explained that the right time may be either during the due diligence stage or after the PE operation is complete.

“The labor force very often sees investors as startups who generate resistance with their modernization ideas”, Guzmán said. “That is why the strategy must start with a warm up period: a first approach to communicate the new opportunities that will benefit all those involved and to explain how to push the business forward to establish an indispensable bond of trust”, he added.

“Sometimes, the factor that drives the investors’ interest is the opportunity to increase value substantially or to reach a new market segment with technology they don’t actually know very well. That is why it is important to understand the changes that the implementation will bring about, and what will improve with them”, White explained.

### Discovery as a trigger

D’Onofrio pointed out the importance of the discovery stage in any project. “Discovery is the first phase, a very short period of two to six weeks at most, during which we bring together our best people –UX designers, software architects and business experts– to analyze the company’s potential and to show PE investors what technology can do for them”. The idea, he stressed, “is not to implement just for the sake of implementing, but rather to make sure that every decision taken makes sense”.

“What is important is to understand the needs of clients and, then, to deliver a user-friendly, technology-based solution that is as complete as possible and can be utilized to make the company more successful”, White agreed.

D’Onofrio also mentioned the 80/20 law. “Broadly speaking, only 20% of features are used. That is why it is so important to find out where that small percentage is. Then, with a small investment, a large part of the company’s potential will be unleashed”, he added. He stated that the use of prototypes makes it possible to quickly show decision makers how products work, thus accelerating the discovery of value.

### The pandemic as a cultural change

As a result of the pandemic, digitalization has moved ahead at full speed. According to the IDC data that D’Onofrio brought to the webinar, the US\$ 7 billion that companies were supposed to invest in technology between 2019 and 2025 were used in half that time, so that the new estimate for cycle-end is now practically double the first one.

“Investors wonder about the level of training of the companies acquired when they have to face a new black swan, and how business models should be structured so that they are adjustable and resilient”, Guzmán said.

### The importance of the strategic partner

All the experts agreed about the importance of having a strategic partner in technology that can strike the right balance between business needs, opportunities for creating value and available technologies.

“Every company needs to understand the context, to discover what works and what does not work for the business and to detect what the company can do better than any other company in the market”, White pointed out. “Having a partner like Making Sense is an essential requirement: a partner with a strategic mind focused on the client”, he said. “There is no magic. It is a question of finding the technology tools that will best serve the business”, he added. “Technology tools are available and the data is there, too. It is now time to use them wisely”, D’Onofrio concluded.