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Advisory ecosystems: harnessing the power of collaboration?

In the rapidly-evolving Private Equity landscape, the due diligence process, its components, and focus are under increasing pressure to spot red flags, reveal insights and identify value – and fast. But it's also under pressure to transform.

Categories Value creation, Value creation, Mergers & Acquisitions

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The historical view of due diligence (DD) as an 'audit' is, thankfully, long gone, however the majority of DD exercises still see collective expert advisors prepare highly subject-specific reports. These flag risks and recommendations from their own professional perspective, but with little opportunity taken (or given) to reflect on the findings or commentary from other advisors. This approach continues to place heavy reliance on the ability, time and knowledge of PE firms' deal teams to synthesise multiple complex streams of expert recommendations and risks. The increasing complexity of investments, the focus on driving value creation, and the exponentially growing importance of technology in growth, is only dialling up the pressure on these teams.

This can introduce risk, with not all deal opportunities and interdependencies becoming visible, or the cross-functional impact of recommendations being fully unpacked.

In DD at Waterstons we've always taken as holistic a view as possible, leading with a focus of what the business is looking to achieve, set against the backdrop of where they are now, with technology considerations following closely behind. Having conducted due diligence in M&A for over 10 years, we've regularly identified opportunities where technology or new business systems can be used, not only to remediate risk, reduce technical debt or manage vulnerability, but provide the opportunity to significantly improve business productivity and create value in the deal. However, these opportunities inevitably require a timeline for implementation and investment, and will no doubt have impact on other operational plans, available resources, access to data, legal, insurances and the cash needed to deliver transformation, all impacting on the projected deal performance.

An integrated approach to due diligence allows for a more comprehensive and holistic contribution to investment opportunities by all advisors, and offers a number of clear key benefits such as:

1. **Comprehensive assessment of value potential**: Integrated due diligence focuses on strategy, operations, and commercial excellence. The analysis isn't siloed into separate efforts but synthesised into a single, unified assessment of value potential, helping the firm avoid operational projections divorced from strategic considerations and vice versa.

2. **Informed decision making**: Enabling the buyer to understand how the company is managed and run, thus providing advance knowledge to plan around opportunities and challenges to maximize profitability, should the deal go ahead.
3. **ESG considerations**: An integrated approach helps a company consider any potential impact of the merger or acquisition on their sustainability strategy, and the long-term value of the combined entity. This includes understanding any major ESG-related opportunities or risks as part of the initial target identification process.

4. **Understanding complex interrelationships**: In industries like software, traditional approaches may miss key indicators of risk and value creation inherent in software-based targets. An integrated approach can help understand the complex interrelationships among diligence disciplines innate to such transactions.

5. **Future fitness check:** Understanding whether the target's products and services appear to be compatible with future market trends can be vital when considering value creation.

An integrated approach isn't new or hugely innovative, with many of the 'Big 5' consulting firms already working in a not-so-dissimilar manner by better connecting the resources they have under the same roof, however there is real opportunity for the independent advisors, to form and grow 'Advisory Ecosystems'.

These ecosystems, formal or informal, have the benefit of being able to offer the client entirely unbiased and independent recommendations, driven by true subject matter expertise, while facilitating better and more efficient sharing of pertinent insights within the deal team's closed walls.

This approach - and seeing the other deal team advisors as 'clients' of your insights and recommendations - has the potential to accelerate decision making, reduce snowballing costs from looping discussions, and ultimately reduce the load on client deal teams. This then allows them to focus on the investment proposal and leveraging greatest value from their advisory team.

Collaboration and doing all we can to be recognised as a trusted advisor to our clients is at the centre of what we do at Waterstons, and we are always keen to invest time in building relationships with likeminded companies.

Has the concept of advisory ecosystems, sparked an interest? If so, we'd love to talk to you about how we can collaborate and collectively create value for our clients. Drop a line to bruce.watson@waterstons.com