M&A, CARVE-OUTS AND SAP
A PRACTICAL MINI-GUIDE

XMATERIA
DATA-LED SAP TRANSFORMATION

INTRODUCTION

Of all the reasons you might transform an SAP system – such as a move to the cloud, or a reorganisation – there's probably none more high-pressure than carving out a business entity as part of an acquisition. This short guide explains what makes M&As so special – and offers five actionable tips for delivering carve-outs on time.

THE EXCEPTIONALLY HIGH STAKES OF A CARVE-OUT

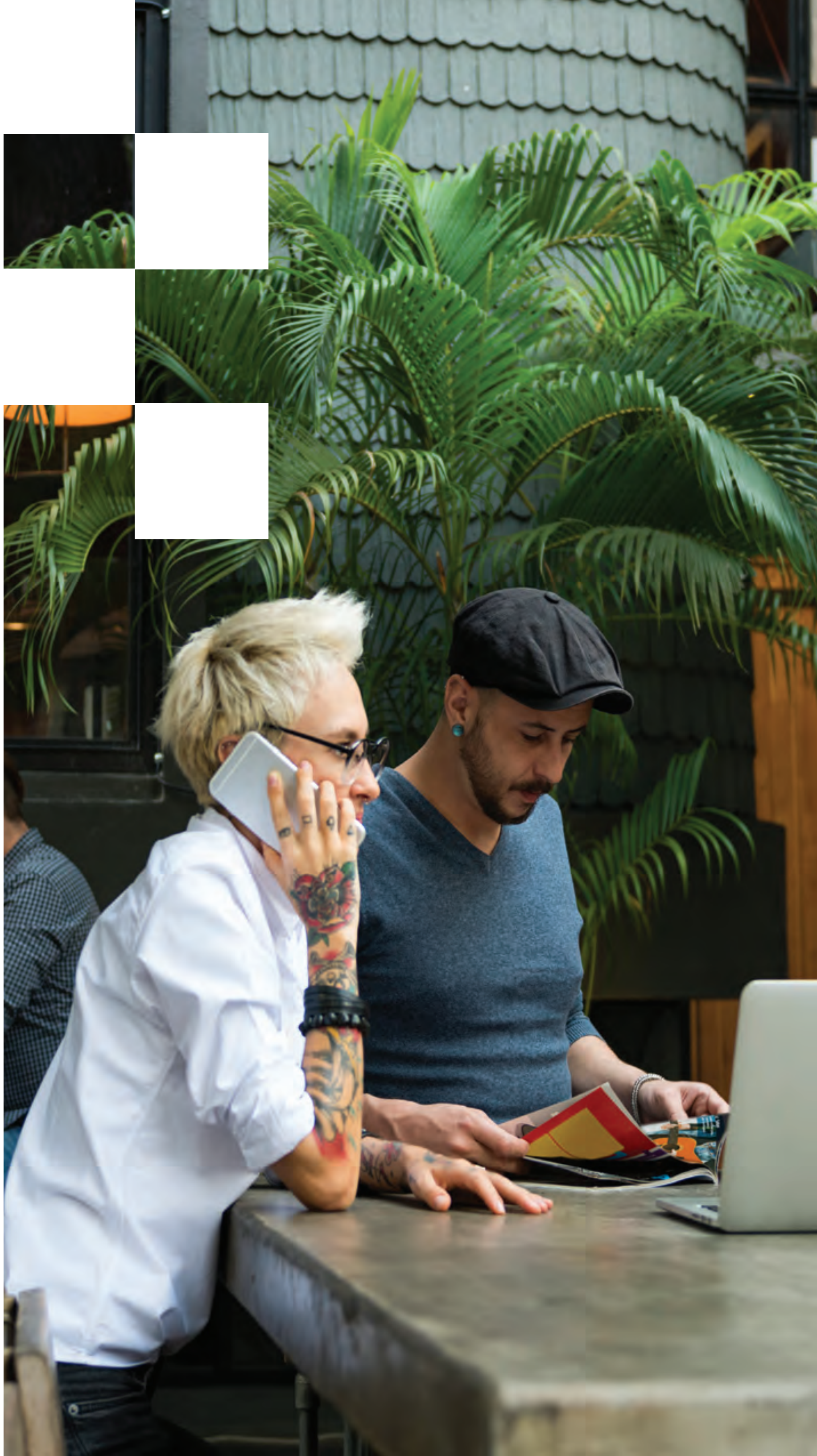
If you've read our Data Discovery Guide that we published earlier this year, you'll know that we believe that business data holds business value; and that understanding what data you've got as early on as possible will hugely simplify, guide, and speed up your transformation project. We won't repeat the argument here – do download the guide if you'd like to learn more – except to say:

We can't think of any type of SAP transformation project that's more high-drama than a carve-out. Nor of one that illustrates how much the commercial and strategic success of a project lies in the hands of highly technical people. After all, you're basically performing open-heart surgery, on a live business, to a tight deadline.

In the context of M&As, the term "carve-out" is used in two ways: by commercially minded people to refer to the separation of the divested business; and by SAP teams talking about the technical separation and migration of the divested business's data to a new system.

This short guide is about bringing those two worlds together. It's a largely jargon-free introduction to M&A from a data perspective that we hope will help all parties involved understand each other better and avoid some of the most common pitfalls in a carve-out project.

Ready? Let's go.



HIGH DRAMA: THE KEY PLAYERS AND CONCEPTS

Trust us: a carve-out is stressful for everyone involved. Whether you're the buyer or the seller, on the business side, or working in the SAP team, this short overview will help you understand the pressure the other parties are under – as well as the key dynamics at play during a carve-out.

The buyer

This might be another business, perhaps even a competitor, or a private equity firm. They may want to run the acquisition on its own or merge the entity into an existing system. While the business data that's relevant for the carve-out sits in the seller's system, it's often the buyer's job to carve it out.

Their key objective will be to drive value (revenue, profitability, innovation...) from their acquisition as soon as possible. Any complication means that there'll be a delay in achieving these goals.

The seller

An organisation that's selling a part of their business. The business data sits in their system and will have to be surgically removed from it. There are two important things to understand about the seller:

- **They're financially driven:** they've decided to sell the business because it makes commercial sense for them. They're keen to make the deal happen as soon as possible, usually within the current – or coming – financial year.
- **They're also divesting emotionally:** once they've sold the business and the transition deadline has passed, they really don't want to be involved anymore. Their teams move on to other priorities. For buyers this means that if they miss the deadline, they can expect sellers to become a lot less cooperative.

The new business entity that comes into existence

This could be a stand-alone company or become part of an existing business. Think of it as alive and kicking – the moment it's cleanly separated from its past organisation, it has to hit the ground running: with fully functional data and processes that generate business value.

From a commercial perspective, it's important to know that the new business entity normally pays, meaning that it bears the full cost of the carve-out and transformation project (and no buyer wants to start a new business with a loss-making operation).

The Transition Services Agreement (TSA)

This is the agreement that defines the terms and deadlines of the entire business transition. Among other things, it sets out terms of the technical migration, including the deadline, i.e. the day at which the carve-out needs to be complete; and the penalties that are due if it isn't. These are usually substantial and it's very much in the buyer's interest to avoid having to pay them.

In addition to penalties, if the divested business keeps running on the seller's system for longer than agreed, the buyer will have to compensate the seller for the use of resources – i.e. even more costs.

As you can see: responsibilities and motivations vary widely, but everybody involved has serious skin in the game of an M&A project.

5 TIPS FOR A SUCCESSFUL CARVE-OUT

So how to best approach a carve-out? We've worked on so many carve-outs and, while every single one is different, over the years we've been able to abstract a few principles that will improve any M&A project. This list is, of course, not comprehensive, so if you've got other useful tips, we'd love you to share them.

1. A carve-out is a joint IT and business project

There often comes a moment, when the commercials have been agreed on and the ink on the agreements is dry, when it can look like the carve-out is now a purely technical exercise and an IT job. This is often where complications arise and delays happen. Make sure that there is clear communication and ownership throughout the project, on both the IT and business sides. You may be doing a highly technical thing – migrating data – but you're also standing up a whole new running business, with all the opportunities that entails.

2. Speed is of the essence: work backwards from your deadline

If any other IT project runs over, it's annoying and may cost your business money – but that trouble usually remains in-house. Not so with a divestment, where delays and complications can lead to serious knock-on effects for all parties and cause penalties and financial losses. So try to understand as much as possible about the shape of the existing business, ideally before you agree on the terms of the TSA, and build a project timeline that's realistically achievable. Consider this deadline set in stone.

3. The data is the business

If you were to take away only one thing from this guide, we'd want it to be this: **in a carve-out, the business data is synonymous with the business**. The data package you carve out from the existing system contains all the relevant information, current and historical, that makes up the value of the organisation that's being moved over. That's not of course to discount the contribution of the employees, of IP, of customer relationships, etc – but to underline how all of these valuable elements are inscribed in the data.

And the better and sooner you understand what data there is (don't forget, we're talking about huge volumes here), the more reliably and safely you can migrate it, and thus ensure that your new business keeps running on the Monday after the transition weekend. And that, again, is why we're such proponents of early data discovery, because it helps you assess the size of the challenge early – and plan for it accordingly.

4. Keep it simple

When you're working to a tight deadline, it's in nobody's interest to overcomplicate things. Avoid building complex requirements into the carve-out. It needs to be quick, surgically precise and predictable. For instance: when you're buying from a large organisation, chances are that the system you're migrating from is more complex than you need it to be in the future. Don't expect the seller to indulge your desire to simplify, streamline and optimise as part of the carve-out. The more repeatable processes and automation you can leverage to get the carve-out done in time, the better. You can optimise later, when it's cleanly separated and all yours.

5. It's a collaborative effort: help each other out

If you're on the sell-side, you might think it's ultimately the buyer's job to secure what data they need – but don't forget that any complications will affect your own teams and resources, too. That's why we'd advise not just buyers, but also sellers, to run a data discovery exercise early in the project. Sellers could even consider carving out the business entity themselves, ahead of time. That way they'll ensure a clean separation, reduce their risk, and give confidence and certainty to the buyer.

A secret weapon: the value of data discovery for sellers

While we don't often see this done, we really think businesses are missing a trick if they're not doing data discovery on entities they're thinking of divesting. That's because assessing the exact size and shape of the separation project beforehand gives you a superpower: you'll be in a much better position to negotiate the terms of the sale and set realistic deadlines for the TSA.

It's a low-cost exercise considering the typical deal size of an M&A and will signal to potential buyers that you're transparent about the business, and ready to talk.

CONCLUSION

We hope this short guide has helped you see the 'other side' – whichever that might be for you – of a carve-out. Ideally, we hope it may help you reduce the drama of such a project.

If we missed anything or can answer a question you have around M&A and data migration: do drop us a line at hello@xmateria.com. We'd love to hear from you.

This guide has been brought to you by Xmateria

We're SAP data migration specialists. We have helped countless SAP organisations maximise the value and minimise the disruption of their business transformation using a highly evolved approach to data migration.

We combine decades of SAP data migration experience, proprietary discovery software, tech-agnostic migration advisory, and battle-tested delivery teams. And if that means anything to you, then we'd love to chat.

Get in touch
hello@xmateria.com

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hello@xmateria.com

Soho Works, 180 Strand, Surrey Street,
Temple, London WC2R 1EA.