The Economist Intelligence Unit

BUYER BEWARE
M&A returns in the era of big data

Written by The Economist Intelligence Unit

OdigeO may not be a household name, but the stable of websites belonging to the online travel company will be recognisable to many Europeans looking for some winter sun. The company, billed as Europe's largest online travel group, was formed in 2011 through a combination of Opodo, GO Voyages and eDreams—the respective industry leaders in Spain, France and Germany. Permira Funds and Axa Private Equity, the private-equity architects of the deal, decided to merge their respective online travel firms and then make a bid for a third.

Paul Siegenthaler, an independent adviser on post-merger integration of FTSE 250 companies, says that consultants were brought in to advise on various aspects of the integration. The one area they were not allowed to pry into, however, was the search engine algorithms of the three firms, since this would have revealed how they tapped into the databases of airlines, hotels, car rental companies and other travel service retailers. Each firm believed its search engine gave them a competitive edge in the online travel business, says Mr Siegenthaler, which was based on "pure knowhow" and not patentable.

One option was to take this knowledge into a "clean room" environment: representatives from each company are removed from their regular day jobs and work together in a physical location away from colleagues. To enhance security, Internet access can be cut off, non-disclosure agreements signed by all and security guards posted at the door. But the OdigeO dealmakers decided against it. GO Voyages, eDreams and Opodo only divulged their secrets to each other once the deal was closed.

Caution of this sort is typical in M&A. Sellers will always fret about revealing too much to rivals when there is no guarantee the sale will go through. The problem becomes trickier, however, if managers struggle to identify the strategically important information. According to Mr Siegenthaler, senior executives can be unclear about what really constitutes "commercially sensitive information". This can result in the type of information they hold on to straying into non-strategic areas, costing companies the opportunities to be gained from information sharing.

A prime example, he says, is when companies miss the opportunity to work on how data should be reformatted ahead of a deal being struck. Agreeing on how customers and suppliers are segmented, or the way product groups are organised, will help to smooth the path of IT system integration. But even though risk is minimal—swapping ideas on data structure is not the same as divulging content—there can be detrimental resistance. "Without restated and comparable data, no analysis or decisions can take place in the four to six weeks that follow the close of the M&A deal," says Mr Siegenthaler.

DEALING IN BIG DATA

Two years after the OdigeO deal closed the technology, media and telecoms (TMT) sector may be leading a new wave of M&A activity. Mergermarket, an analyst firm, says that M&A value in the TMT sector shot up by 40% during the first half of 2013, making it the leading sector in all regions except Asia-Pacific (excluding Japan). If this uptick in dealmaking is evidence of a recovery in M&A—idle since global activity peaked in 2007—it will happen against an altered landscape, transformed by "big data".

Iain Fenn, a partner at the law firm Linklaters, acted as an adviser to Vodafone on its US$203bn mega-merger with the German firm Mannesmann in 2000—the world's biggest M&A deal to date. Mr Fenn recalls how customer analysis a decade ago was limited to a few metrics. One favourite was churn rate—the percentage of customers leaving to sign up with a competitor. But buyers today are much more interested in customer behaviour and trends, says Mr Fenn. Understanding why customers leave for a competitor is evidently far more valuable.

As interest grows in this kind information companies have a keen interest in knowing its exact value to them, as well as to any potential buyer. The practice of "infonomics", so-called because it recognises

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information has a distinct value, is growing in popularity: the majority of companies expect to be putting a monetary value on at least some kind of information within the next three years, according to a recent survey conducted by The Economist Intelligence Unit.

Still, the practice is difficult, say executives and advisers. The most likely types of information to be valued are intellectual property, such as copyrights, trademarks and industrial designs: close to two in five companies (39%) in our survey are already attributing a monetary value to this. By comparison, a little over one in five companies have already attributed a monetary value to analysis of customer behaviour and preferences.

This can be problematic for buyers—particularly when the primary asset of the target is information. The rise of M&A activity by private-equity firms in the past 20 years has resulted in much greater scrutiny of financial information, says Andre Sokol, the managing partner of Akira Partners, an M&A financial advisory firm specialising in the TMT sector. But it is far easier to value a mature company, such as Vodafone, than a new media-type of company that lacks a long and detailed financial track record.

"There is a fundamental problem of what does the information mean and how much you can rely on it," says Mr Sokol. "There is a lot of garbage data out there that people are relying on but never should." In other words, there may be lots of data but no way to check it. For instance, there is no neutral body to look into the veracity of key performance indicators (KPIs) on mobile advertising. In this way, big data may be making M&A an even riskier gamble than it already was.