10 TOP TIPS TO MAKE A TELECOM ACQUISITION WORK FOR YOUR TECH COMPANY

TELECOMS OFFER A LOT OF OPPORTUNITIES FOR TECH COMPANIES, IF YOU KNOW HOW TO GET THE RIGHT ACQUISITION DEAL.

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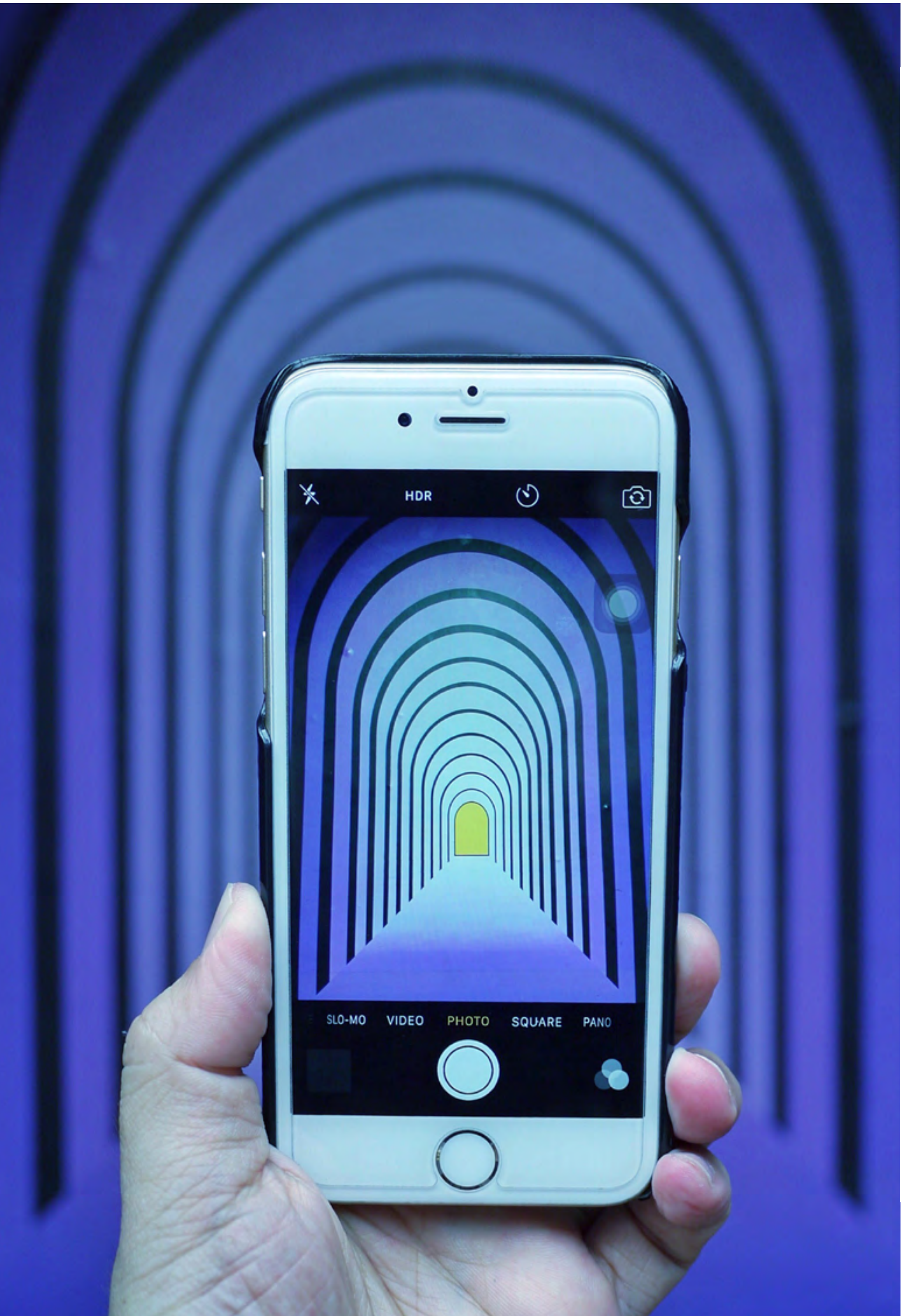
TELECOMMUNICATIONS COMPANIES ARE ACQUIRING START-UPS AND TECHNOLOGY COMPANIES AT BREAKNECK SPEED

For technology companies, such deals can lead to many new opportunities. However, increased growth, innovation boosts, access to new customers, and practical business synergies risk being balanced out by challenges that can arise before, during, and after an acquisition process.

Insights about what to expect from an acquisition, how to optimize the acquisition process, and how to get the result that you are hoping for are crucial.

BDO follows the telecoms and technology sectors closely. We advise companies in both industries on a wide array of business, audit, and tax-related issues, including mergers and acquisitions. Our industry experts have extensive expertise on how to negotiate and structure deals, as well as practical experience from working in both sectors. They know the thought processes, tactics, and granular details of what it's like to sit on either side of the negotiation table first hand.

Here, they present 10 tips for a technology company to get the best out of an acquisition by a telecom company.



1. KNOW WHAT TELECOMS ARE LOOKING FOR

A key aspect of understanding your company's value and laying the foundation for a good acquisition negotiation process is knowing telecoms' acquisition trends, strategic focus, and business targets.

These trends are good news for many technology companies, as telecom companies are increasingly looking outside of their traditional sphere of interest when pursuing acquisitions. This includes everyone from smaller telecoms to giants like Verizon and AT&T. The strategy seems to be, "the best defense is a good offense"—especially when it comes to the technology industry, which has been snapping up market share from telecoms via online streaming and Voice over IP (VoIP), for example, like crazy..

Telecoms are focused on technology companies in a variety of sub-industries. One trend is acquiring companies that have managed to bring complementary or competing products or solutions to market faster than them. A second is acquiring companies whose solutions benefit their strategic focus.

An example of the latter is Telstra Ventures' acquisition of IT implementation company Company 85. While a relatively minor deal, it augmented Telstra's IT integration capabilities and created a host of synergies across the company.

Companies that have relevant software, automation, and virtualization solutions—especially in connection with networks—are currently also very high on the wish list of telecoms trying to take advantage of business opportunities tied to the networked economy.

Another focus area is companies that enhance the so-called 'quad-play' services, where broadband internet, television, wireless, and landline phones are offered to customers as bundled deals. Some companies are busily moving beyond quad-play into content by acquiring media companies. Big data and data analytics is another area of great interest to telecoms that have vast stores of customer data but have so far struggled to leverage it for business insights and new services.

2. KNOW YOUR VALUE PROPOSITION AND WORTH

Knowing telecoms' acquisition strategies and ongoing business goals is a starting point for formulating your strategy and goals for an acquisition negotiation. Knowing your value proposition—and what your company is likely worth—are other cornerstones of the process.

The first step is finding answers to questions like how your products or services can solve telecoms' current challenges and improve their market position; what benefits does a telecoms gain from acquiring you; and why should they acquire you over one of your competitors.

Insights like these, along with recognizing how the market landscape looks to the party you are negotiating with, are crucial. Understanding why your capabilities are of strategic and propositional value to the telecom company also forms part of the foundation of setting realistic targets for the negotiation process. Furthermore, it helps you figure out how to make your company look as appealing as possible to a telecom company and provides valuable arguments for the negotiation process.

While it may sound simple, a clear, well-defined value proposition includes an analysis of many different business areas, including your current services and products, on-going R&D, legal situation, intellectual property rights, employee contracts, potential claims and liabilities, third-party reliance for services, cash-flow, warranties, compliance, and tax issues. Each part of this non-exhaustive list has many sub-parts.

Thankfully, such an analysis serves several purposes, including helping you figure out what your company is likely worth to a telecoms. Your value calculation should also include projections of future earnings and growth potential, and what synergies, efficiencies, and new opportunities your services and solutions create for your acquirer.

A good yardstick to help determine your company's worth is looking at previous similar deals. However, it is important to note that each negotiation process and situation is different.

Finally, when determining your value proposition and worth, it is important to realize that some of your good selling points can be double-edged swords in a negotiation process. If you, for example, have highly skilled, key employees that had helped you gain the upper hand on your direct competitors, telecom companies may identify a high degree of reliance on them as a risk, as they could potentially leave you during or after the acquisition process.

Telecoms will, naturally, look to minimize expenses in an acquisition and may use various negotiation tactics to reach their goals. If you have identified your value proposition and set a realistic target, you will be able to more easily discern what are negotiation tactics vs. what are real areas of concern. This will also ensure that you don't start the negotiation process with unrealistic goals that could get in the way of a deal being finalized.

3. KNOW WHAT YOU CAN EXPECT TO GAIN FROM A TELECOM COMPANY

When considering whether an acquisition by a telecom company is the right move, it is vital to know what your company can expect to gain.

The list of potential benefits is long. Telecoms can leverage a vast organizational and contact network, in-house expertise, and more to help your company reach the next level.

If your solutions or services are customer-facing, the most obvious advantage is telecom companies' huge existing customer base. The size of most telecoms means that an acquired technology company can gain access to potentially millions of customers. Many telecoms have a strong international profile and customer base, which means easier access to markets that could otherwise have been too expensive and difficult for your company to pursue.

Telecoms' vast experience of operating in these markets can also help your company, along with their knowledge of how to engage potential customers. Telecoms also have a lot of experience with what works and what doesn't. That applies to both technical aspects of your current solutions, as well as ongoing R&D and business areas such as marketing, sales, and customer interaction. Another potential benefit is related to data. Most telecoms have vast troves of customer data, which can potentially be of benefit to your company post-acquisition.

It should be noted that there can be a lot of T's to cross and I's to dot before gaining access to said expertise, data, or customer base. Telecoms adhere to strict compliance and data protection regulations and are generally forced to move at a somewhat more pedestrian pace than most technology companies are used to.

In the meantime, both parties in a tech—telecom acquisition can leverage other synergies to streamline business processes and lower costs in areas like marketing and sales.

Many technology companies considering potential acquisitions are looking for ways to take their company—or solutions—to the next level. In such a case, telecoms provide an excellent alternative to traditional funding alternatives like VCs. Telecoms, for example, will often value ongoing R&D over short-term profitability.

4. KNOW WHAT YOU WILL—AND WON'T—GAIN ACCESS TO

While there is great business potential associated with an acquisition by a telecom company, you should not assume that you will be handed the keys to the kingdom—at least not straight away.

Telecom companies need to balance opportunity and risks concerning business decisions that can affect other parts of their organization, as well as compliance with current and upcoming rules and regulations. BDO's 2018 Telecommunications Risk Factor Survey shows that changes to regulations remains one of the most significant risk factors identified by telecoms, with the new European GDPR laws providing an excellent example of how new regulations lead to data protection challenges.

The perceived risk may, in turn, affect how quickly—and how much—access to data your company can be granted. That being said, one of the main reasons behind many telecom acquisitions of technology companies is their desire to better leverage and take advantage of their vast troves of data. In other words, you can generally count on access—just a little slower than you may be expecting.

Similar issues can affect other parts of your company. Post-acquisition, you become part of a large organization with many more interconnected parts that need to be considered. For example, a quick roll-out of your new product or solution could mean lower revenue in other parts of the business—a situation that, in turn, could lead a telecom company to delay roll-out or limit your solution's access to specific markets or internal resources.

Being part of a big organization also means that there will be competition for available resources and expertise. While your company may, for example, look at your post-acquisition strategy and identify the goal of quickly gaining access to sales, marketing, and PR expertise to push into a new market, you may find that you will be at the back of a long queue of other departments that want access to the same resources.

An acquisition negotiation process is an opportunity for your company to detail what you are looking to gain access to (and when) post-acquisition. Detailing best and worst-case scenarios of your situation post-acquisition and how they can affect your ability to reach your goals will help you identify negotiable and non-negotiable targets for the acquisition in relation to access to resources. You do, however, need to be realistic and know that the telecoms' other business considerations may make some wishes unattainable. The same applies to the timeline of access to various business areas, such as sales, marketing, and PR professionals, as well as data, post-acquisition.

5. KNOW HOW TO DO TWO THINGS AT ONCE

A deal negotiation is a time and labor-intensive process, which can last months—and in some cases, even years. Maintaining focus on negotiating the deal and running the daily operations of a business can be a daunting, draining prospect.

Groundwork and preparations should begin well in advance of sitting down at the table and starting negotiations. Part of your preparation is figuring out which areas a telecom company will focus on during due diligence and contract negotiation. Many companies, including technology start-ups, should start planning out the process and necessary documentation at least a year in advance of any negotiations taking place. It may be a good idea to ally yourself with an outside consultant who not only knows what needs to be done before negotiations begin but can help speed up the process at the negotiation table. A consultant will be able to assist in the process of sounding out potential buyers, thanks to their extensive network of business contacts.

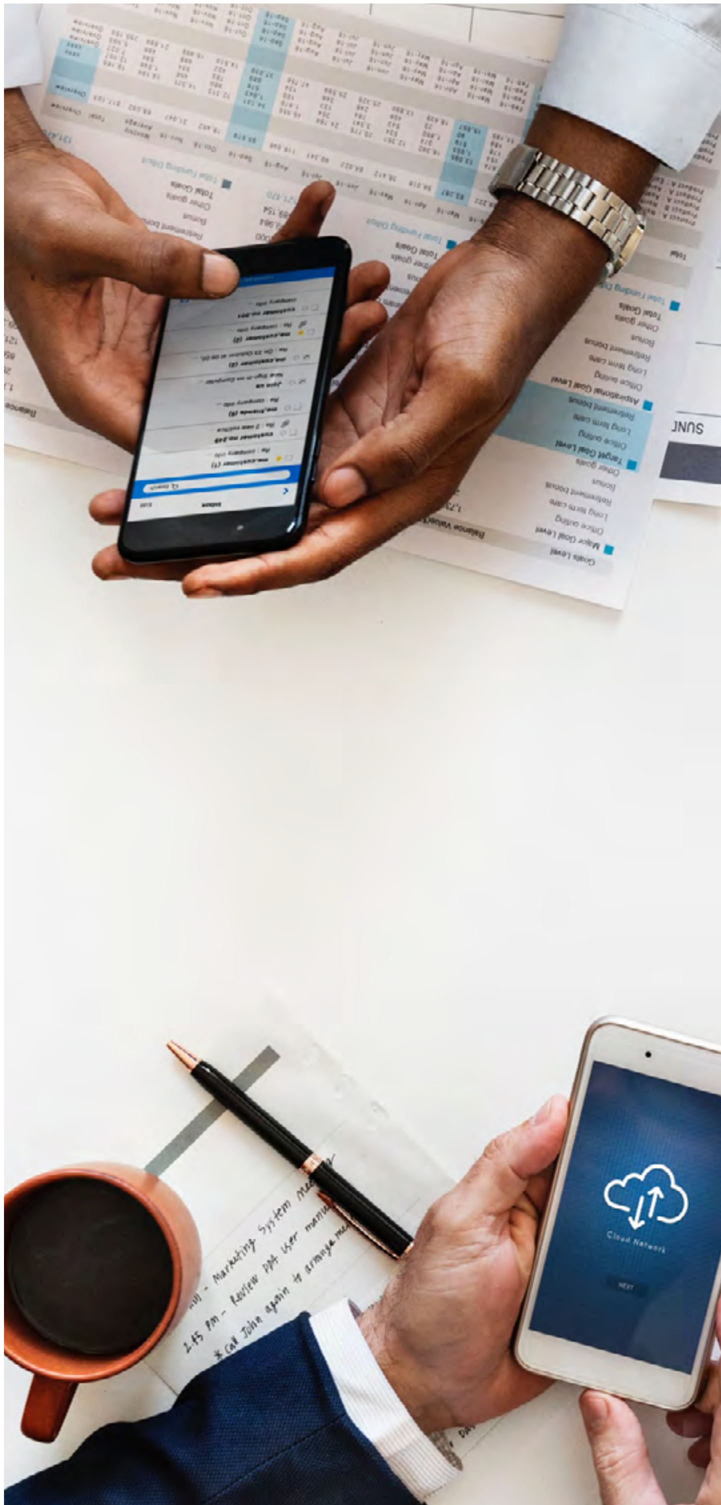
Even if your company takes all of these steps, there is a lot to prepare.

Navigating propositional and contractional negotiations; evaluating client and product risk; documenting your business' compliance with laws and regulations; creating and managing documentation; and updating it during due diligence and subsequent negotiations is an immense undertaking whose parts are interconnected. Changes in one area will likely lead to work in others.

In short, your company needs to be prepared if it is to achieve its goals for the acquisition, while simultaneously keeping operations running smoothly.

Leading up to a possible acquisition process, a technology company may want to look at ways of dividing and delegating responsibilities for the day-to-day running of the business to parties that won't be directly involved in the negotiations.

Employees may also be affected by ongoing negotiations, which could affect their future. Finding ways to allay any fears and worries will be essential to continue running as usual. One useful tactic is to engage your employees in open communication about the goals of the potential acquisition, as well as continuously updating them with what is happening and how it may affect their situation.



6. KNOW THE POSSIBLE RISKS AND CHALLENGES

In most cases, a telecom company is a very different kind of organization than a technology company.

The department hierarchy, tiers of decision makers, and need for extensive cross-departmental documentation and approval may seem cumbersome and laborious to tech companies. However, they are in place with good reason. That said, telecoms' structure and seemingly pedestrian pace when implementing new strategies and developing solutions may be viewed as a risk by some technology companies that have traditionally relied on moving at a brisker pace.

Losing focus on the day-to-day business of running a company and making sure that you are not at a disadvantage if the acquisition process ends without an agreement is another important risk area to consider. Companies need to work with a regularly updated Plan B of what to do if negotiation breaks down.

Once you become part of a telecom company, there are other risks to consider—for example, that your team may be split up. Some key employees may be moved to other projects or departments. Another risk is that your company may be wholly subsumed into existing organizational structures, meaning that you may no longer have control over certain decision-making processes.

Becoming part of a larger organization may also, in extreme cases, mean that your product or solutions could be temporarily shelved.

While your new, disruptive solutions may be why a telecom company chooses to invest in you, it may also threaten existing revenue sources. Sometimes telecoms will look at their overall business revenue and assess whether your technology is a threat to existing revenue streams. If so, your technology or solution risks being put in the slow lane, or in extreme instances, even cancelled.

Other risks include a lack of necessary resources to handle the merger and post-merger processes; unrealistic targets and short-term goals; and/or a lack of funds or organizational focus. These can hinder you from reaching your targets and spur potential uncertainty and dissatisfaction among employees.

Each risk mentioned above can, to a degree, be mitigated during deal negotiations. For example, it is advisable to ensure that your buyer agrees that any budget and staff cuts that will be carried out are made as soon as possible to minimize uncertainty among employees. Setting realistic, long-term goals and targets during the negotiation process may also help minimize some post-acquisition uncertainties.

7. KNOW THE DOCUMENTATION REQUIREMENTS

Many technology companies will be surprised by telecoms' reporting requirements, which will likely also apply to them post-acquisition.

Compared to life before the acquisition, decision makers in the technology company will likely be spending a lot more time documenting and seeking approval (in writing) from other departments than they were expecting.

It is not necessarily something unique to telecoms but a feature of most large organizational structures.

The same goes for many other formal requirements of a large telecom that may come as surprises. There may be an increase in meetings, as well as compliance requirements that extend beyond decision makers. Programmers, for example, will more often than not also be required to produce increased amounts of documentation regarding the work they do on specific products and solutions. The same may apply to other staff groups.

For a small technology company, this can be a bit of an eye-opener and something they should prepare for ahead of the integration process—a process that, in its own right, involves a lot of documentation work.

For technology company founders, this is perhaps something that needs to be a focal point during an acquisition process. Certain things need to be clarified between the parties with regard to what needs to be documented, how the documentation is supposed to be completed and by whom, and who is responsible for oversight and compliance and how often.

It may also be a good idea for a technology company to look into whether the increased documentation requirements necessitate adding additional staff before or after the acquisition.

8. UNDERSTAND THE CULTURAL DIFFERENCES

Telecoms and technology companies often have very different business cultures.

The classic Silicon Valley maxim of “move fast and break things” does not always work well within a telecom company. Technology companies need to make sure they are prepared for the cultural changes that will invariably take place post-merger. At the same time, they should ensure that the unique aspects that foster innovation and enable fast growth are not lost.

Both parties have to ensure they don’t risk stifling the other party. If that happens, the business culture, which is often a central part of what makes a company tick, could be lost, as well as the innovative drive and work satisfaction of employees.

If you are an R&D-intensive company, it may be a good idea to ensure that you will be integrated as a separate department with clear goals and deliverables—an approach that will likely be met with approval from the other side of the negotiation table. Telecoms are acutely aware of the cultural differences and don’t want to lose your innovative spirit so will often be interested in finding ways to maintain it post-merger.

Before a potential acquisition, a technology company should try to clearly define what its culture is, what parts of that culture makes it successful, and how it can best maintain those parts after an integration.

That process can be used as a starting point for a negotiation with the telecom company about how best to merge the two cultures. One possible way of achieving this is by setting a list of targets or integration goals; identifying key strengths, as well as similarities and differences; and making joint decisions on how to integrate the two business cultures without losing the best qualities of each.

9. KNOW YOUR POST-MERGER GOALS AND TARGETS

Before sitting down for negotiations, a technology company needs to be very clear on what it, as a seller, wants to get out of the acquisition—and how best to achieve those goals.

Are you entering a deal that can take the company to the next level? Are you selling to cash in on all your hard work and get an earnout? Or do you want to start a new company? These relatively simple questions have a lot of variables. What is the timeframe for reaching the next level, for example? What defines the next level? How long of an earnout are you willing to accept? These are just a few initial questions that need answers. Otherwise, both you and your company risk a deal negotiation that will be more laborious and time-consuming than necessary.

During the negotiation process, it is important to clearly outline what your roles, responsibilities, core offerings, and targets will be post-acquisition. One of the key areas is to identify and detail expectations and targets for your services and products post-merger. Pricing and KPI targets, as well as how to measure them, should be agreed upon during negotiations. While it may sound relatively straightforward, the exact nature of selling products and services within a larger organization is something that will take some getting used to for tech companies. Without attention to detail, the pricing of your company's services and solutions within the organization can become very opaque.

Lack of clarity for how things like costs, sales, and performance are measured will, in turn, affect your ability to reach your targets—including your potential earnout target. Setting clear goals for an earnout based on performance can be very hard to calculate once you are subsumed into the wider organization, as can renegotiating goals, KPIs, and targets. Making sure these aspects are addressed during a negotiation process is the first step to avoiding later complications and disappointments.

10. KNOW THAT THERE'S HELP TO BE HAD

This guidance is by no means exhaustive, and each point mentioned needs a separate set of recommendations.

The key takeaway for technology companies is that preparation is vital. The sales process often needs to begin at least a year in advance of any actual negotiations taking place. The same goes for setting clear goals. Once you have made the decision to sell, you need to spell out what your role and responsibilities will be post-sale. Otherwise, you will end up in a process that is unnecessarily frustrating and challenging for both sides.

While telecom companies are very interested in technology acquisitions, BDO's 2018 Telecommunications Risk Factor Survey also highlights how they are acutely aware of risks such as fluctuating interest rates and access to finance. Both can influence their willingness to meet your demands during an acquisition process, especially if it becomes unnecessarily prolonged due to inadequate preparation or unrealistic goals.

While an acquisition process usually takes time and involves many tasks, the good news is that there is little reason to undertake all of it on your own. You should find a good advisor to consult with during the entire process. Even if you have sold a company before, consultants have gone through the process many times and can help you navigate the challenges with a more objective eye. In a perfect scenario, your collaborator will have experience with not just the negotiation process, but also with how telecoms work and think. Insights such as these are vital in every step of the deal.

In short, a consultant will be able to draw on vast experience and expertise to help you overcome many of the obstacles that may arise during a sale and post-merger integration process.

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