

Divestitures: Mastering Transition to Accelerate Business Growth

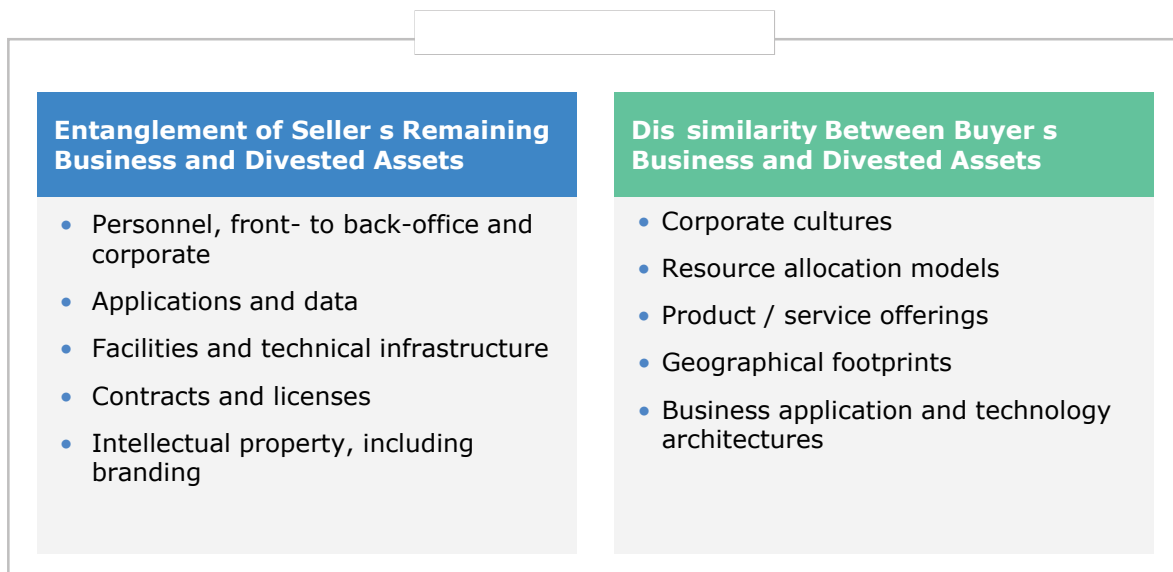
Abstract

In an era where speed is paramount to maintain competitive sustainability, business restructuring through agile divestitures (and mergers and acquisitions) is increasingly a differentiating capability. Transition service agreements (TSAs) are often a 'necessary evil' that both transaction partners must endure to ensure business-as-usual while separating and integrating sold business units or other assets. Anticipating TSAs early in the pre-deal phase and drafting 'likely TSA plans', even before a buyer is sought or found, can safeguard against unwanted divestment costs and operational distractions to the remaining company. Leveraging a new breed of managed services vendors in the design and execution of TSAs can further reduce these risks as well as create new opportunities for more and better divestments.

This paper details how companies can master TSAs, including avoiding them altogether with a Divestment Factory approach, to achieve successfully the strategic, operational, financial, and cultural goals of business reformation for the digital age.

Today’s business demands agility like never before. For many companies, divesting underperforming and non-strategic business units is a way of life in order to position themselves for new business opportunities. For others, acquiring a complementary business unit can provide a quick way to add scale or expand into new markets and geographies.

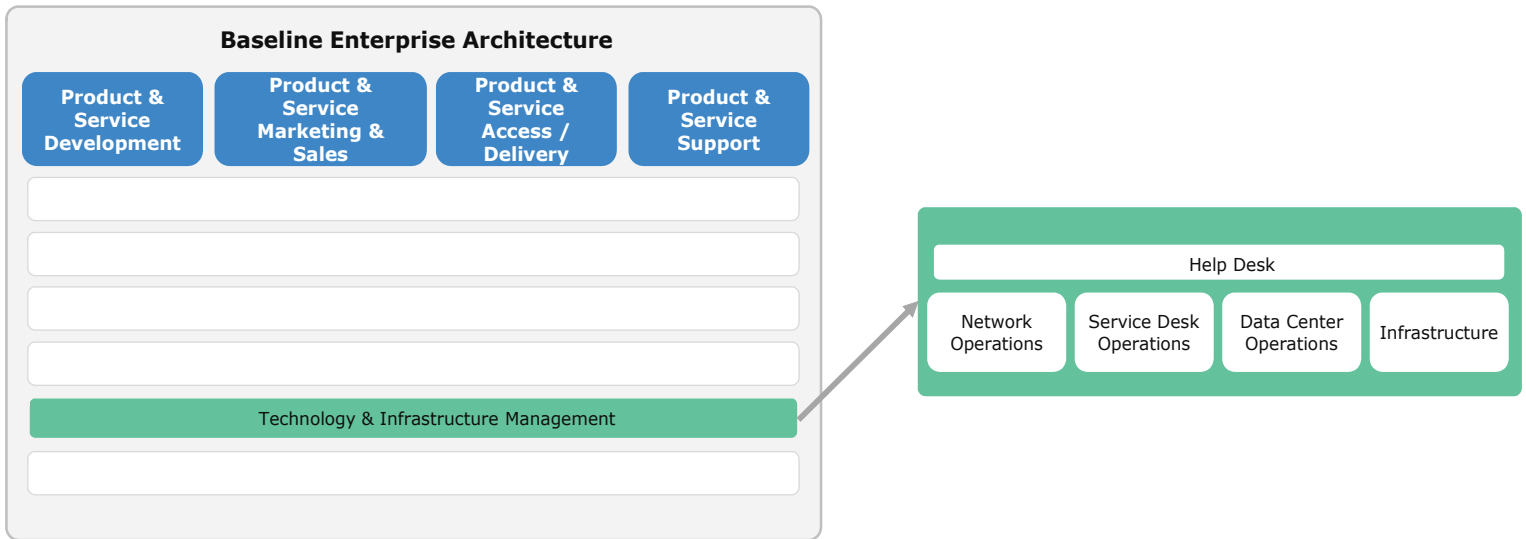
Despite their popularity, divestitures continue to pose considerable challenges driven by how entangled and dissimilar the divested assets are respectively with the seller and to the buyer (see chart below):



Separating and carving out sometimes decades-old business structures, processes, and systems often creates sizable distractions to a management team already taxed with the challenges of achieving near-term performance targets. Even just inventorying what is in place today and doing ‘your day job’ often poses a considerable challenge. This is particularly true when the divestiture involves disentangling multi-country business units where systems, operating models, and regulatory requirements vary.

Today, little difference exists between business processes and the technologies that enable them. Divesting a business unit generally means divesting the IT systems and assets that supports its operations. For most divestitures, TSAs are needed with the divesting company to provide temporary operational support until the acquiring company is fully able to assimilate the business unit into its operations. The scope of TSA services often includes various business and IT domains, both core and non-core capabilities (see graphic below).

Possible Capability Scope of TSAs



For a divesting company, providing TSAs is an ongoing distraction from its strategic mission and future success. For an acquiring company, TSAs can be expensive and are often limited to a ‘least common denominator’ set of services and support levels that the divesting company is willing to provide. For both divesting and acquiring companies, minimizing the TSA scope and accelerating the TSA delivery timeline is in their mutual best interest.

Acceleration by Design

The typical TSA lifecycle consists of four phases: Due Diligence, Planning, Execution, and Close-out (see graphic below). The first step in accelerating the TSA is to move up the planning effort. While TSA planning is most closely associated with the Transaction and Preparation phase preceding ‘Day 1’, much of the information needed can be gained during the Pre-deal, or Due Diligence, phase. While limitations exist about information sharing during Due Diligence between the divesting and acquiring companies, the magnitude of complexities for disentangling business processes and their enabling technologies usually becomes apparent.

TSA Management Along Divestiture Lifecycle

Day 0:
Letter of Intent
Signed

Day 1:
Change in Legal Control
Completed

Day 2:
Change in Operational
Control Completed

Pre Deal	Transaction Preparation	Transition	Operation
Manage Divestiture Program			
Conduct Due Diligence	Prepare for Day 1: Evaluate and Plan for Transition	Seller Separates & Buyer Integrates <ul style="list-style-type: none"> • Operations • IT • General & Administration 	Optimize / Operate Steady State <ul style="list-style-type: none"> • Operations • IT • General & Administration
TSA Due Diligence	TSA Planning	TSA Execution	TSA Close Out

For the acquiring company, creating a ‘likely TSA plan’ as a result of initial fact finding enables early planning of what additional capabilities would need to be built and early conversations with possible third-party service providers. Continually fine-tuning the TSA plan as additional facts are discovered enables the acquiring company and its service providers to refine major service and contract tenants as they are discovered which shortens the interim support duration covered by the TSA.

For a divesting company, conducting its own disentanglement assessment and likely TSA planning even without an acquiring company in place enables early discussions about what services and levels it is willing to provide and what it will charge for those services.

Minimizing TSA Scope

Today’s business operating models are rapidly evolving into ecosystems – networks of suppliers, distributors, customers, competitors, and government agencies involved in the delivery of specific products and services through cooperation. The ecosystem concept challenges traditionally held beliefs of what a business contributes to the customer value chain, what differentiates it from its competition, and what capabilities it must retain to enable its long-term sustainability. In a business ecosystem, all non-differentiating functions and systems are delivered by third-party suppliers at a lower cost point and generally with a better level of service. IT services and non-strategic business functions easily fall into this category. And leveraging vendors that deliver these services through the cloud provides new levels of business agility where operating scale is easily adjusted based on business demand.

TSA's are essentially short-term contracts with a 'less than optimal' ecosystem vendor (the divesting company) for services that are not its core competency or are optimized (or incented) to deliver. The longer the duration of the TSA, the greater risk of potential service issues. Minimizing the scope of the agreement with the divesting company is in the best interest of both companies.

An alternative to a TSA with the divesting company is to skip the TSA altogether and contract with a managed services firm for accelerated transition and ongoing service management. While many managed services firms have the scale and global presence to deliver at an attractive price point, most are structured for multi-year delivery contracts and not equipped to quickly respond within the window needed by the divesting or acquiring organizations.

A new breed of managed service vendors are emerging that provide the TSA-ready advisory and platform services that accelerate the entire TSA lifecycle (Due Diligence through Close-out) resulting in considerable cost savings over TSA services provided by the divesting company. The risk of potential service issues is considerably lower as well.

For serial divestors, partnering with a TSA-ready, managed services vendor to create a 'Divestiture Factory' of Playbooks, pre-configured solutions, and migration services can reduce the time for divestiture from months to weeks (see sidebar). Even in cases where a buyer has not yet been identified, disentangling and setting up operating agreements with a TSA-ready, managed services vendor can make the business asset even more attractive to potential buyers.

For serial acquirers, acquisitions of any size usually involves some level of divesting to meet regulatory requirements. A Divestiture Factory (and an 'Acquisition Factory') can have a dramatic impact on the divestiture (and integration) timelines.

It's All About the Playbook

Regardless of whether an acquiring company chooses to partner with a TSA-ready managed services firm, creating a Playbook will accelerate the TSA lifecycle. Most companies have developed some elements of a Playbook resulting from previous M&A deals. Because these deals are generally an infrequent occurrence for most companies, often Playbooks are incomplete, out-of-date, nor provide the management

Divestment Strategy for Speed

In preparation for one of the largest mergers of 2016, a pharmaceutical and life sciences company decided to proactively separate multiple product lines, with the intent of sell-off if needed for regulatory approval of the larger merger transaction. The exact required divestitures were unclear at the beginning of the divestiture program, but the business case for being able to quickly eliminate any overlapping areas of concern outweighed the preparation effort and associated costs for the merging entity. Other concerns to be managed included the amount of employee involvement required to support the divestiture program to allow for their focus to remain on the merger preparation. The solution was to develop a carve-out factory model with heavy leverage of cloud-based applications, outsourced infrastructure, and a full-suite of business process services. The approach included 'on demand' data migration factories that could be tuned to the finalized scope of product lines to be divested. Applications, Infrastructure and Operations were all delivered as managed services to minimize any employee engagement in both the program and the divestiture itself. This complete separation allowed the enterprise to offer for sale standalone, fully-operational, TSA-free businesses.

guidance needed to adequately guide the analysis, planning, and transition process. This is particularly true for TSAs where minor oversights can have considerable cost and duration implications.

The TSA chapter of the Playbook should describe the mechanics for discovery, evaluating options, and constructing the agreement, ideally with samples and templates to jumpstart the effort. At a minimum, the TSA chapter should include the following:

TSA Chapter Sections for Playbook		Description
Description of Business & IT Services ('Services')	Services in Scope	Details the business services and/or enterprise technology support to be provided by each party to the other to ensure 'business as usual' during the transition period, i.e., time between Day 1 and Day 2
	Geographic Coverage	Lists the business locations receiving the provided services
	Service Recipient Obligations	Outlines the conditions that must be met by the services recipient in order for the Services to be delivered as agreed
	Service Levels ("SLAs") and Performance Metrics	Defines the key performance indicators, if any, to be put in place to confirm the services are being delivered as agreed
Special Requirements		Describes prerequisites or conditions needed to deliver the services as specified in the TSA, such as those that relate to access and unique resources
Service Governance	Service Management	Covers such items as issue management, communication protocols, and reporting requirements
	Roles & Responsibilities	Details the tasks to be performed by the services provider and receiver to ensure fulfillment of the TSAs agreed terms
	Service Deficiency Reporting & Mitigation	Describes the escalation and mitigation path to follow when the services are not provided as agreed
TSA Exit Terms		Specifies length of the agreement and exit requirements
Service Cost and Invoicing		Breaks down the fees for services, the invoicing schedule, and payment terms

Speed Wins

Time is often the most important factor in the success of a merger, acquisition or divestiture. The speed of transition from decision to the new steady state generally determines who will capitalize on new market opportunities and who will be impacted by them. Accelerating the TSA process and leveraging a TSA-ready managed services partner can transform the transition time from months to weeks while reducing the cost and risk. No speed limits exist in the business world. Future success depends on how quickly decisions can be put into action.

"Speed is the new currency."

Marc Benioff, *Chairman and CEO, Salesforce.com*

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Randy Mabie is the global leader of TCS' M&A Services, applying over 25 years of professional services, enterprise software, and IT operations experience. With a focus on the business advisory discipline, Mr. Mabie supports executives and leads teams in the delivery of the full value chain of strategic planning, design, and implementation of transformation programs, including TCS' end-to-end M&A Business-in-a-Box solution for completing M&A integrations and divestitures faster and with less risk.

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