

A Forrester Consulting Thought Leadership Paper Commissioned By IntraLinks

# Trends, Challenges, And Technology Use In A Changing M&A Environment

M&A Management Tools — The Missing Link To Institutionalize M&A

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**FORRESTER**

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## Executive Summary

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Mergers and acquisitions (M&A) represent a key vehicle to obtain growth for many companies. Given the importance of M&A and the complex challenges that organizations face in their M&A endeavors, it is surprising that the approach to M&A is so unstructured. Integrated technologies can transform an unstructured process by facilitating all dimensions of the M&A process including defining strategy, organizing a deal, and executing a transaction.

In March 2010, IntraLinks commissioned Forrester Consulting to analyze M&A trends, challenges, technology use, and the satisfaction associated with the use of those tools. The objective was to identify the criteria for successful, structured processes and the capabilities required by next-generation M&A management tools. For this purpose, Forrester Consulting conducted an online survey with 219 M&A professionals from corporations and advisory firms worldwide.

## Key Findings

Forrester's study yielded six key findings:

- **The global economic recession has fundamentally changed M&A.** The recession led to a significant drop in global M&A activity while changing the underlying approach to conducting transactions. M&A professionals are demanding more dedicated structure and process in an environment that has become increasingly volatile.
- **The pre-deal phase is the most challenging to manage.** This is true for M&A professionals on both the buy and sell side. Effectively and efficiently gathering and assessing information about buyers and sellers is a major impediment to success.
- **Performance measurement, collaboration, and communication are key issues.** M&A management challenges include effectively measuring performance in terms of costs and synergies, as well as ensuring effective and efficient collaboration and communication with both internal and external parties.
- **A successful M&A “system” encompasses four functional components.** A higher M&A competence is strongly correlated to improvements in transaction activities in terms of quality and quantity. Four components evolve in this context to institutionalize a successful M&A system required for a strong competence: strategy, organization, process, and technology.
- **Technology use and satisfaction differ across deal phase and company types.** Financial content platforms and virtual deal rooms (VDRs) dominate the pre-deal and transaction phases. In the integration and operation phases, generic project management software and collaboration solutions are seeing the highest use. However, the satisfaction scores show room for improvement for all technology solutions.
- **The next-generation M&A management tool has a broad and integrated set of capabilities.** Deal professionals require a broad and integrated set of capabilities in an M&A management tool. Project management and collaboration capabilities are the top priority, followed by email management, workflow management, business intelligence and analytics, and content and market data capabilities.

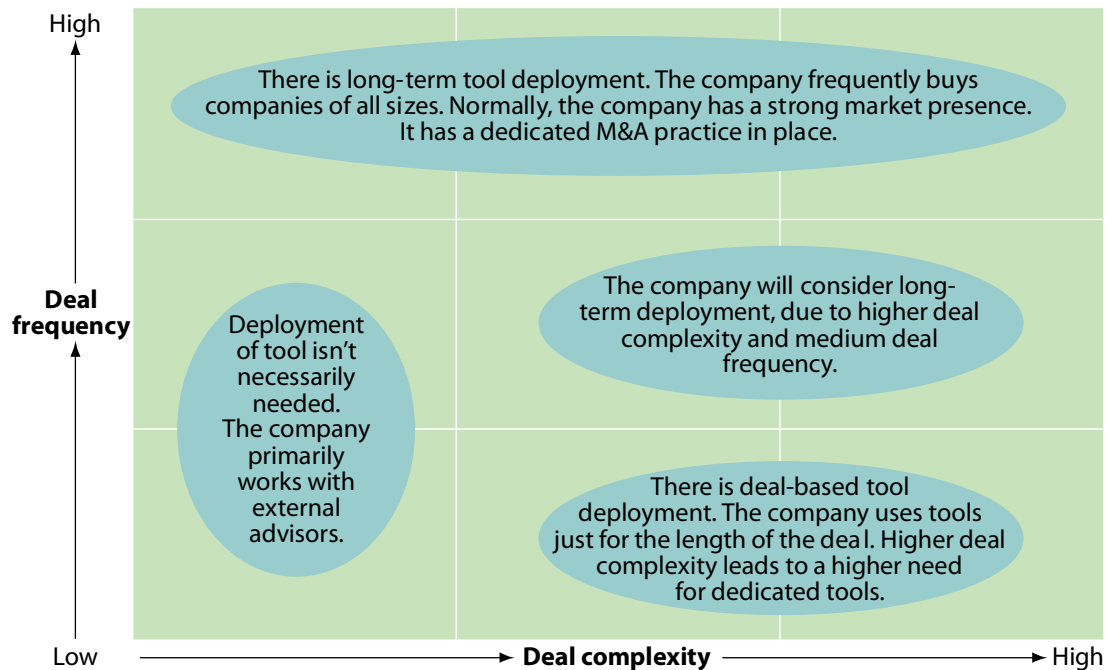
## The M&A Management Tools Market Is Still Nascent

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While growth through M&A is a key priority for many companies, a structured and repeatable approach for managing these transactions is frequently missing. Today, most operational processes are managed by dedicated technologies such as finance and accounting packages, enterprise resource planning (ERP), customer relationship management (CRM), and supply chain management (SCM). However, for the M&A process, the market for dedicated solutions is still nascent. M&A professionals from corporations and advisory firms are primarily leveraging generic point solutions to track, monitor, and facilitate their transactions or projects.<sup>1</sup> Over the past couple of years, however, Web-based solutions have evolved to specifically support the complex challenges within the M&A process. Key findings of Forrester's research into this market are:

- **Virtual deal rooms (VDRs) and M&A project management tools (PMTs) are the two subsets of an emerging market.** The M&A tools market is framed by two categories of technologies. On one hand, secure Web-based virtual deal rooms were introduced to complement or replace the physical paper-based deal rooms used to conduct due diligence. However, a VDR is also often used as a central repository for secure document management and information exchange between internal and external stakeholders. On the other hand, PMT solutions track and monitor activities throughout the M&A process primarily for task and progress reporting in the integration phase.<sup>2</sup>
- **Adoption of dedicated M&A tools primarily depends on deal size and activity.** In 2009, Forrester surveyed 17 M&A tool providers to size and forecast the M&A tools market. The VDR market was \$378 million, and the PMT market was \$29 million. Forrester estimates that the total market will reach nearly \$1 billion by 2013 at a compound annual growth rate (CAGR) of 29%. Adoption of tools depends primarily on deal size and activity. The more complex the deal is, the higher the requirement is to leverage dedicated tools. Highest adoption exists for large and mega deals (with values of more than \$1 billion) at 80% to 90%. However, these make up just approximately 3% of overall deal volume. Predominant buyers of tools are large corporations, followed by investment banks and legal firms. From a geographic perspective, the US leads in terms of adoption, followed by Western Europe and Asia Pacific.<sup>3</sup> Forrester identified four profiles of buyers depending on deal frequency and deal complexity (see Figure 1).
- **Innovation is the key to unlocking the full potential of this market.** M&A tools are only scratching the surface of their potential. The markets of VDR and PMT are already commoditizing, as more players want to grab share of a fast-growing market. While the value of using VDRs is apparent for most companies, clients are struggling to see the value of PMTs. These are being used primarily by M&A departments at large corporations and consulting firms for their integration services with clients. Enabling M&A professionals (at both corporations and advisory firms) in supporting and executing their full M&A life cycles remains a white space in the market. This pushes all types of providers to innovate new solutions and capabilities over the next few years to become an inevitable part of the M&A process.

**Figure 1**  
Buyer Profiles For M&A Management Tools



Source: "The Emerging M&A Management Tools Market," Forrester Research, Inc., September 9, 2008

## Trends And Challenges In A Changing M&A Environment

The global economic recession led to a significant drop in M&A activity, nearly 30%, in 2009. Limited access to cash and rising uncertainty across markets made it extremely difficult to engage in these transactions. As companies have become more wary of the challenges and risks associated with investments and divestments, they realize the need to improve their competence to better manage the eclectic challenges along the M&A life cycle in times of volatility. Still, too many companies handle M&A rather opportunistically and leverage primarily external advisors for their deal activities.<sup>4</sup> Patterns of M&A are changing, as our survey confirms: 62% of respondents agreed that the global economic recession has fundamentally changed the way of conducting these transactions. In terms of other trends and challenges, the M&A survey revealed that:

- Companies understand that they must approach M&A more strategically.** The recession changed all major aspects of M&A behavior (see Figure 2). A greater demand for a strategic approach as well as due diligence ranked the highest, with 76% of respondents agreeing to both. In addition, more than two-thirds of professionals said that the M&A department requires greater visibility at the executive management level. This is in line with Forrester's observations that although the M&A function is established at many corporations, its responsibility and level of influence within the organization is low. Many of the concerns in terms of strategy and the M&A department are around the organizational structure for M&A, but M&A professionals are also seeing an increase

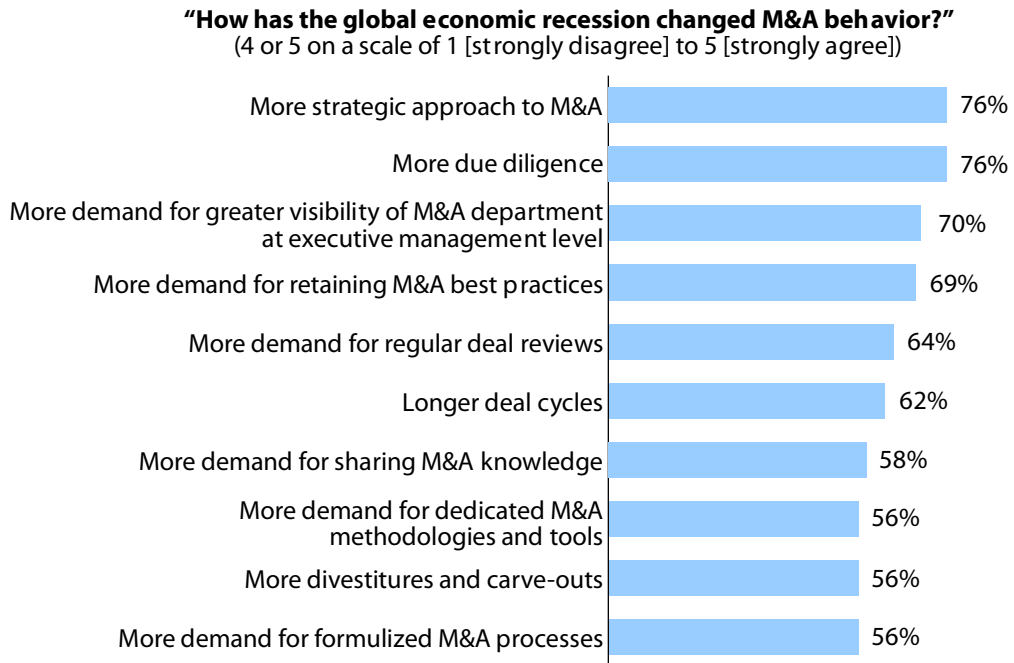
in demand for more process-oriented components such as M&A best practices, deal reviews, knowledge sharing, and dedicated methodologies and tools.

- **Identifying appropriate targets/buyers is the top challenge for M&A professionals.** The main challenges for professionals on the buy and sell side pertain to the pre-deal phase. The top challenge for the buy side is the identification of appropriate acquisition targets (35%). For the sell side, the main struggle is identifying appropriate buyers (46%) (see Figure 3). Other top challenges on the buy side include due diligence, financial valuation, and setting and executing the M&A strategy. While executing integration is often cited as a critical success factor for M&A, it is actually only ranked seventh on our list of 10 in terms of those who find it to be a challenge. On the sell side, deal professionals primarily struggle with information gathering and evaluation, such as managing and evaluating indications and bids; gathering asset, company, and market information; and understanding the context and history of potential buyers.
- **M&A performance, collaboration, and communication are the key issues in M&A management.** In M&A management in particular, 56% of survey respondents said that their No. 1 challenge is the effective measurement of performance (see Figure 4). Many companies do not have a systematic approach for cost and synergy management and are not tracking the impact of M&A in the long term or even midterm. Forrester observations indicate that only one-fourth to one-third of acquirers are measuring their long-term performance. Just one review, one year after closing, is a very common approach among companies. Further key challenges pertain to effective and efficient collaboration and communication between internal and external stakeholders, which is difficult to manage for more than 40% of respondents.

**Figure 2**

The Recession's Top 10 Effects On M&A Behavior

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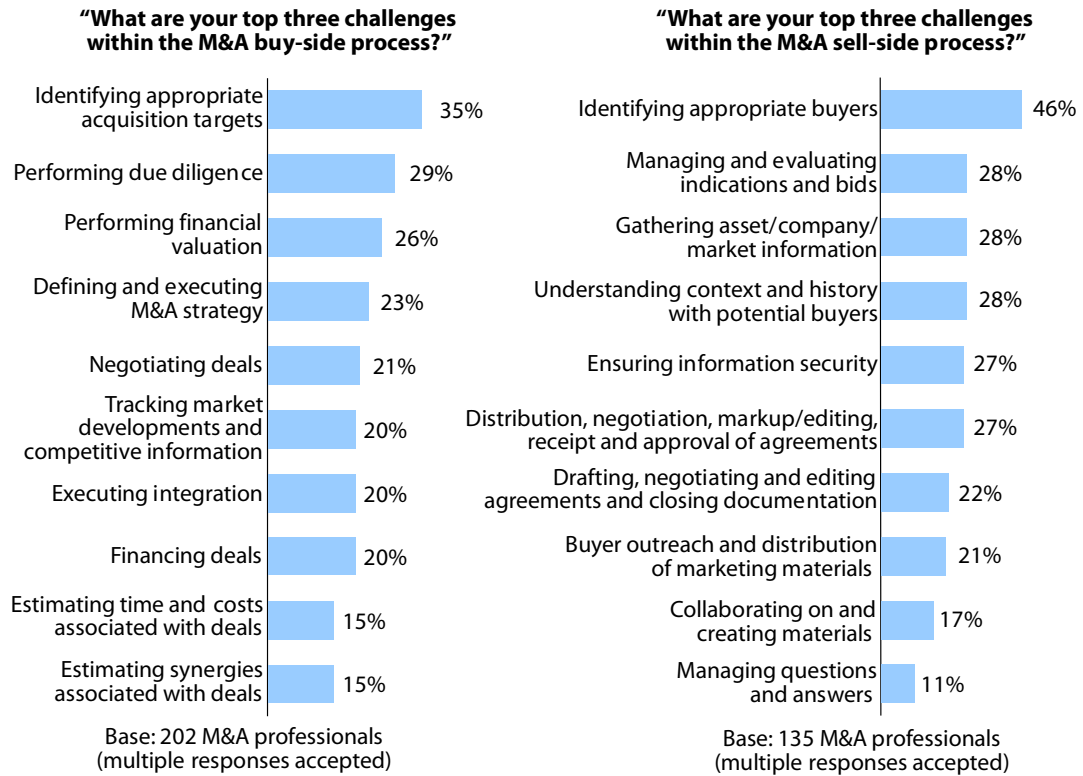
Base: 219 M&A professionals  
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

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**Figure 3**

Top 10 M&A Buy- And Sell-Side Challenges

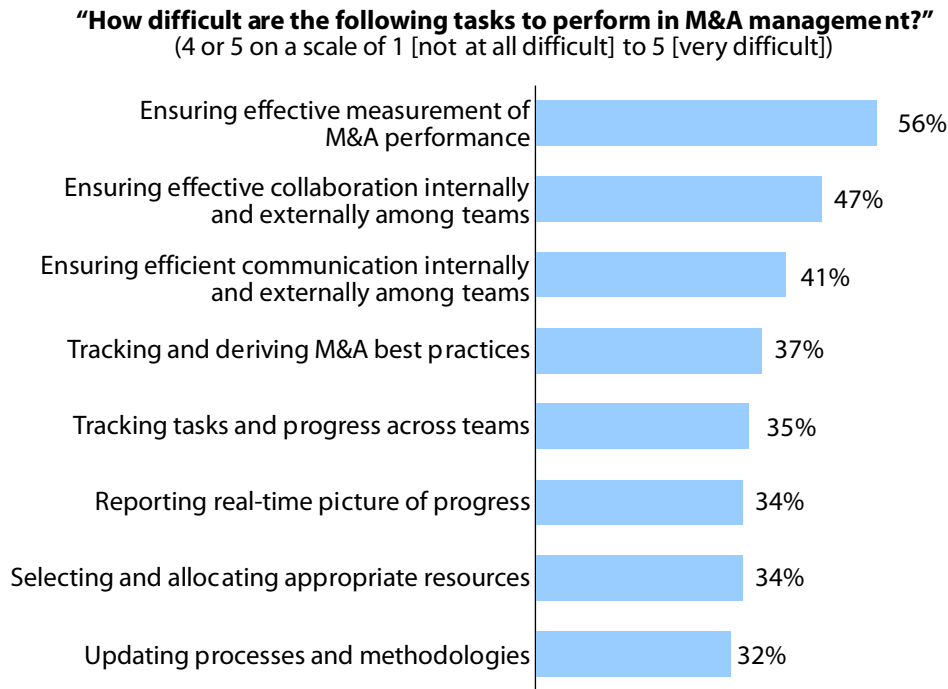


Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010



**Figure 4**

## Top M&amp;A Management Challenges



Base: 219 M&A professionals  
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

## Criteria For Successful Corporate M&A

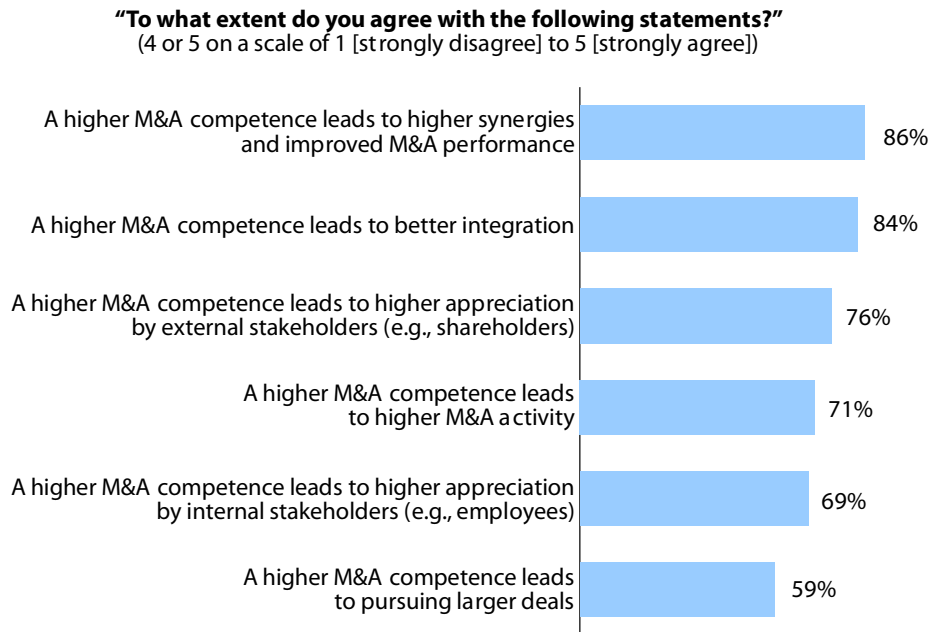
Rising numbers of companies are investigating ways to embed M&A more strategically into their organization. Executives are particularly interested in how to implement and govern deal processes successfully. How to establish a successful M&A engine or how to foster an M&A learning organization are the types of questions that many executives are asking. For 86% of our respondents, the primary value of having higher M&A competence lies in higher synergies and improved performance; 84% feel that the value is in better integration (see Figure 5). In addition, more than two-thirds of professionals agreed that higher M&A competence leads to higher appreciation by internal and external stakeholders, as well as greater transaction activity. This means that there is a natural correlation between the level of M&A competence and the quantity and quality of M&A for deal professionals. To build and sustain high M&A competence, companies must institutionalize M&A. For Forrester, institutionalization is a revolutionary, not an evolutionary, approach. It requires a companywide change, which needs a systemic rather than a selective approach. The four components to institutionalize M&A are:

- **Strategy.** Any strategy fails without executive commitment. This is especially true for M&A, where strategy must be a vital part of the overarching corporate strategy — still not the case at many companies. Forrester argues that the lack of strategic approach is one of the main reasons why M&A fails in too many instances. The majority of the M&A professionals involved in our survey feel that having a defined M&A strategy is the No. 1 criterion for successful corporate M&A (see Figure 6).
- **Organization.** Companies must establish dedicated functions and roles responsible for overseeing and operationalizing M&A strategy. A dedicated M&A department and executive role is critical for success, according to, respectively, 63% and 72% of M&A professionals. Just 53% of the surveyed corporations have a dedicated department, with North American companies slightly ahead of Europe and Asia (see Figure 7). At 57% of the companies, the number of employees working full-time in these departments is between two and 10. Results of this study indicate that larger companies (10,000 and more employees) or publicly listed companies tend to have more departments and personnel than smaller or privately held firms.
- **Process.** Strategy and structure are, however, useless when companies haven't defined distinct processes — not only for the M&A project itself, but also for governance and deal management. Forrester's observations show that most companies have a too-narrow process in place that only deals with the tasks for the actual M&A project. This very focused approach must be replaced by a holistic one that embraces the entire deal life cycle. Dedicated processes for deriving M&A best practices, performing regular deal reviews, collecting related intellectual property (IP), or identifying M&A experienced employees either are less sophisticated or just simply do not exist. However, these elements are critical for successful M&A, as our survey data indicates. Regular performance reviews ranked as the second most important item at 77%, closely followed by the need to identify people organizationwide with M&A experience, at 76%. Finally, a system for continuously improving M&A processes is critical to keep processes and tools current, which M&A professionals ranked as the fourth most important criterion for M&A success.
- **Technology.** Technology's role in M&A should be to act as the connector and facilitator among the three components above. The complexity of each component and their interdependencies require supporting technologies. These technologies must allow the components to become a sustainable system to build and maintain a strong M&A competence. However, as Forrester's research into the market for M&A tools reveals, the technology component is by far the least mature compared with the components previously outlined. Technology is the missing link to help companies institutionalize M&A. To date, Forrester knows of no integrated technology or suite of technologies to help companies with this challenge. M&A professionals must rely instead on a portfolio of different solutions.

**Figure 5**

Value Of Higher M&A Competence

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Base: 219 M&A professionals  
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

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**Figure 6**

Top 10 Criteria For Successful Corporate M&A



Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

**Figure 7**

Demystifying The M&A Department At Corporations

		Yes	Base
Companies with dedicated M&A department		53%	110
By geography	North America	55%	60
	Europe	48%	31
	Other	53%	19
By number of employees	1,000 to 10,000 employees	45%	73
	More than 10,000 employees	68%	37
By type of company	Privately held company	44%	50
	Publicly listed company	60%	60

Base: 110 M&A professionals at corporations

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

## Technology Use And Satisfaction In M&A

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Based on Forrester's experience with M&A professionals, we identified the portfolio of technologies used throughout the M&A process. We analyzed the level of use of and satisfaction with these technologies. In particular, we focused on how use varies during the different phases of M&A and how corporations' and advisors' practices differ. The technologies surveyed included general tools such as email, the Internet, and collaboration solutions, as well as dedicated technologies such as VDRs and PMTs. Key findings include that:

- **Technology use differs across deal phases and company types.** Financial content platforms and VDRs represent the top two technologies in the pre-deal and transaction phase for advisory firms and corporations. The Internet also sees high use by both types of companies in the pre-deal phase. While in the transaction phase, investment banks and legal firms leverage intranet solutions and portals, as well as generic project management software; consulting firms and corporations primarily use collaboration solutions. Generic project management software is the top technology being used by corporations in the integration and operation phases, followed by intranet solutions, portals, and collaboration solutions. Advisors use the same technologies as corporations to a high degree in the integration phase, but in a different order, with collaboration solutions receiving the highest level of use. For the operation phase, advisors primarily leverage intranet solutions and portals as well as other technologies, namely VDRs and PMTs (see Figure 8 and see Figure 9).
- **Satisfaction results show room for improvement for all technologies.** While use indicates how technologies are leveraged throughout the M&A life cycle, it does not reveal user satisfaction. Only email and the Internet received high satisfaction results from both advisors and corporations. Generic spreadsheets also returned a high satisfaction score, but only from advisors. However, with some exceptions in the pre-deal phase, these three familiar yet generic technologies are not among the most frequently leveraged technologies during the M&A process. Generic project management software, for example, which is the No. 1 technology used in the integration and operation phases of corporations, is only in the moderate satisfaction range. This is also true for other technologies, including collaboration and intranet solutions. In addition, the survey results revealed that corporations are less satisfied with technologies than are advisors: Less than 50% of corporate respondents are satisfied with financial content platforms, VDRs, instant messaging solutions, and PMTs (see Figure 10).

**Figure 8**

Heat Map Of Technology Use In M&A: Advisory Firms

**8-1 Heat map of technology use in M&A: investment banks and law firms**

Ranking of tech use by phase

	Ranking of tech use by phase			
	Pre-deal	Transaction	Integration	Operation
Email	8	8	7	6
Internet	4	5	10	9
Generic spreadsheets	4	6	7	10
Generic project management software	2	3	5	7
Collaboration solutions	7	7	1	3
Intranet solutions, portals	10	3	4	2
Financial content platforms	1	1	5	7
Virtual data room/virtual deal room (VDR)	2	2	2	1
Instant messaging	4	8	9	3
M&A project management tools (PMT)	9	8	2	3

**8-2 Heat map of technology use in M&A: consulting and other advisory firms**

Ranking of tech use by phase

	Ranking of tech use by phase			
	Pre-deal	Transaction	Integration	Operation
Email	4	1	7	9
Internet	2	10	9	10
Generic spreadsheets	9	8	4	7
Generic project management software	7	7	3	1
Collaboration solutions	10	1	1	5
Intranet solutions, portals	5	6	2	2
Financial content platforms	1	4	10	7
Virtual data room/virtual deal room (VDR)	3	1	7	4
Instant messaging	8	5	6	6
M&A project management tools (PMT)	6	9	5	2

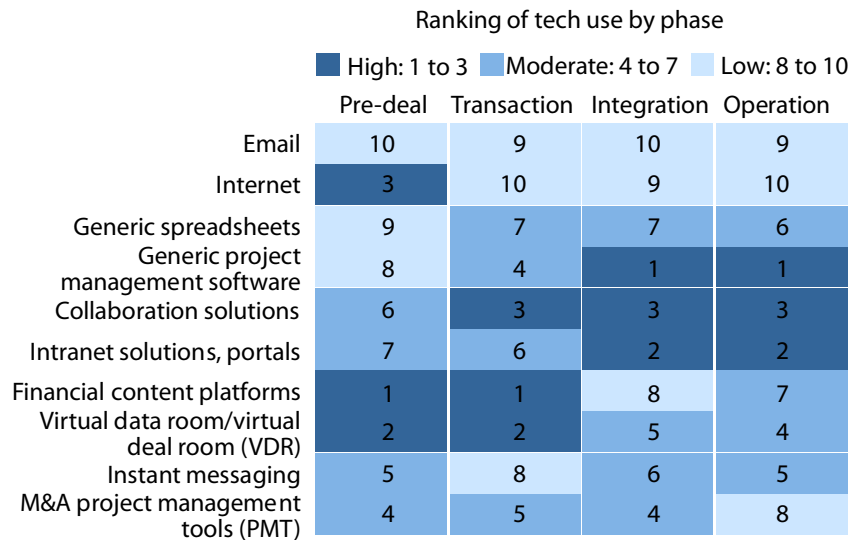
Base: 109 M&A professionals at advisory firms

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

Note: Technologies that returned the same score in use were also ranked at the same level.

**Figure 9**

Heat Map Of Technology Use In M&A: Corporations

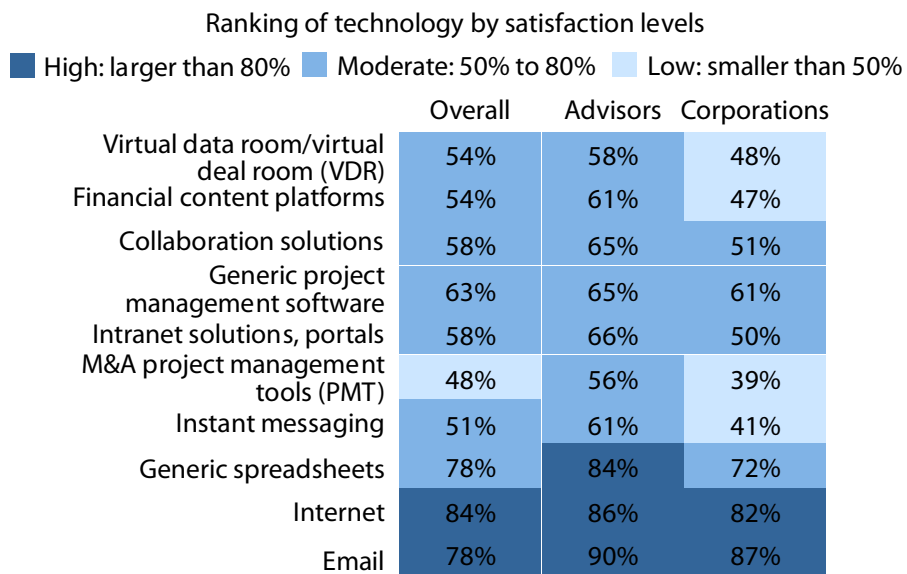


Base: 110 M&A professionals at corporations

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

**Figure 10**

Heat Map Of Technology Satisfaction In M&A



Base: 219 M&A professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

Note: Order of technologies is based on their overall use.

## Capabilities Of The Next-Generation M&A Management Tool

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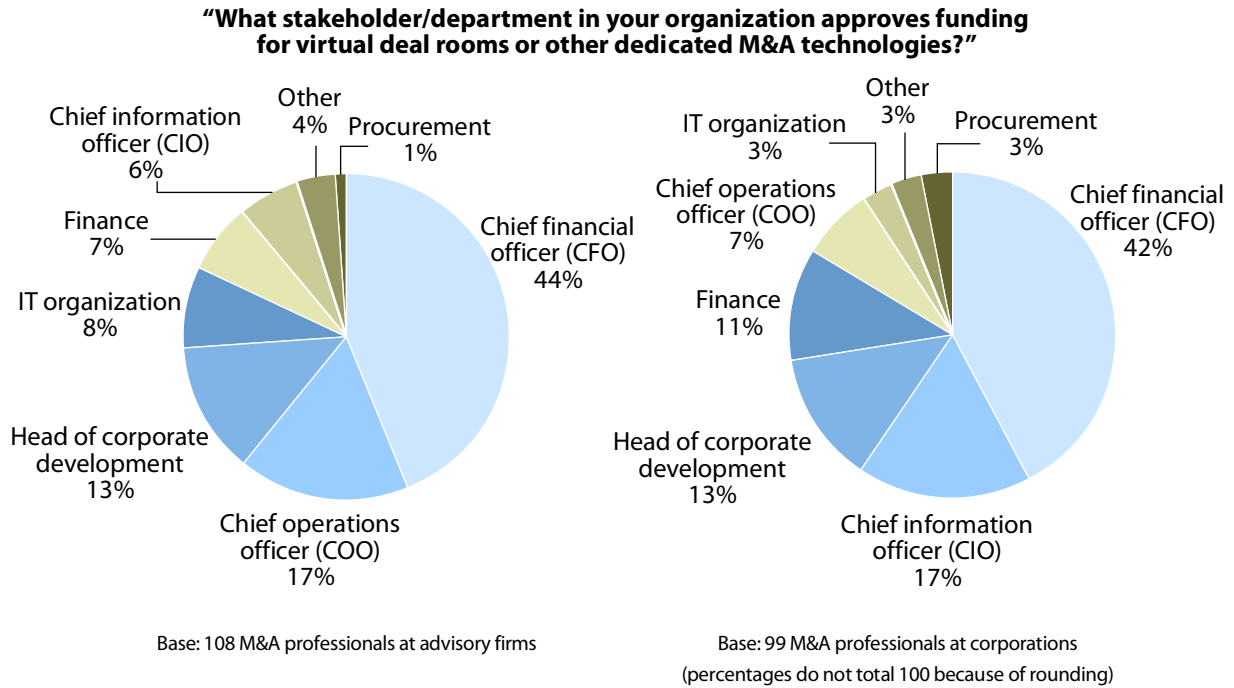
As there are no integrated M&A management tools available yet, some companies have developed custom systems to facilitate and manage their M&A activities. However, these systems are generally unsophisticated and are focused only on the actual M&A project and not on the broader initiative, which includes governance and management of the entire life cycle. Another issue is the confusion regarding who in the organization would approve funding for a comprehensive M&A management tool, if there were one (see Figure 11). In this study, we found that at more than 40% of both advisory firms and corporations, the chief financial officer (CFO) is the prime stakeholder for approving funding for M&A tools. In advisory firms, after the CFO, the chief operations officer (COO) and head of corporate development are the key stakeholders. In corporations, the most important stakeholder for the tools budget after the CFO is the CIO. Forrester found that a next-generation M&A tool should offer:

- **A broad and integrated set of management capabilities.** Forrester asked M&A professionals which capabilities they would find useful in an M&A tool (see Figure 12). As some of the other findings in this study already indicated, more than 80% of respondents would find project management and collaboration capabilities useful. However, the other four capabilities — email management, workflow management, business intelligence and analytics, and content and market data — all returned high results. In particular, the last two items would better track and compare M&A performance. The high ratings across capabilities indicate that professionals are not looking for specific point solutions; they are instead looking for an integrated portfolio of capabilities.
- **New M&A-specific capabilities.** Building upon the key findings of this study, demand for new M&A capabilities emerged. Pre-deal support is one important area, as this is one of the most challenging phases for M&A professionals. Gathering and evaluating information from internal and external sources in a more integrated and automated fashion could help optimize (or streamline) pre-deal phase activities, such as the tracking of market developments. Another example for a new capability is closely linked: embedded templates and tools. Today, for instance, the templates used by professionals for due diligence are typically generic and can't be dynamically created within a Web-based environment for considered cases within one solution.



**Figure 11**

Stakeholders Who Approve Funding For M&A Tools, By Type Of Company



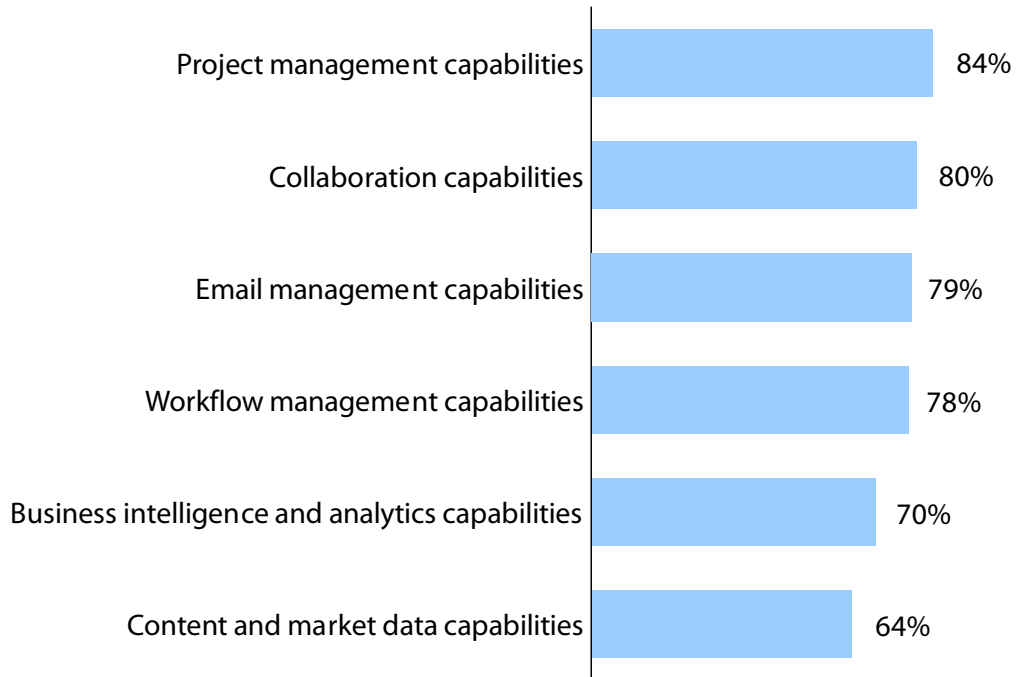
Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

**Figure 12**

Example Capabilities Of A Next-Generation M&A Management Tool

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**“How useful would you find the following capabilities of an M&A management tool?”**  
(4 or 5 on a scale of 1 [not very useful] to 5 [very useful])



Base: 207 M&A professionals  
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

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## KEY RECOMMENDATIONS

While M&A patterns are changing, companies must realize that it is time to take M&A to the next level of sophistication. Given its importance for growth and corporatewide impact, it is surprising how much less developed the M&A competence is at most organizations. M&A failure does not, in Forrester's opinion, start at negotiation or integration — it starts from the company's self-conception, which is reflected in its corporate strategy. Hence, deal professionals should take a step back and fundamentally rethink their approach to M&A. Creating an M&A competence requires systemic thinking: Only if all components that create and nurture the system around M&A are well configured and working seamlessly can the institutionalization of M&A occur. In this setup, transactions are no longer ad hoc, but strategic — even in an opportunity-driven scenario. Technology plays a prime role in keeping the system working. Deal professionals must take the following steps to institutionalize M&A:

- **Define your M&A strategy.** The decision to advance the M&A competence of a company must be a key priority on the executive agenda. Only full executive buy-in will drive this initiative, as the M&A strategy must be a dedicated part of overall corporate strategy. Clear key performance indicators (KPIs) and incentive schemes must be put into place to facilitate this transformation and make it last. The balanced perspective of shorter- and longer-term priorities to move incrementally along the stages of competence maturity is important in this context.
- **Create an organizational support structure for M&A.** Once the strategic framework for M&A is in place, the organizational support structure for operationalizing it must be created. Allocating the responsibility across existing units and roles is not effective. A dedicated function and role must be created with a clear mandate and be empowered to drive the organization's M&A strategy.
- **Establish three sets of M&A processes.** On the process side, M&A professionals must be aware that the existence of one discrete M&A process is not sufficient for achieving institutionalization. Companies must also take a holistic perspective on the process front and establish three sets of M&A processes for: 1) governance and management; 2) the M&A life cycle; and 3) continuous improvement. This step of institutionalization is only fulfilled if all three sets are in place.
- **Implement integrated technologies to enable the institutionalization of M&A.** Point solutions and generic tools are not an effective means of managing the entire M&A life cycle. Only through an integrated portfolio of technologies will companies be able to constantly advance their M&A competence.

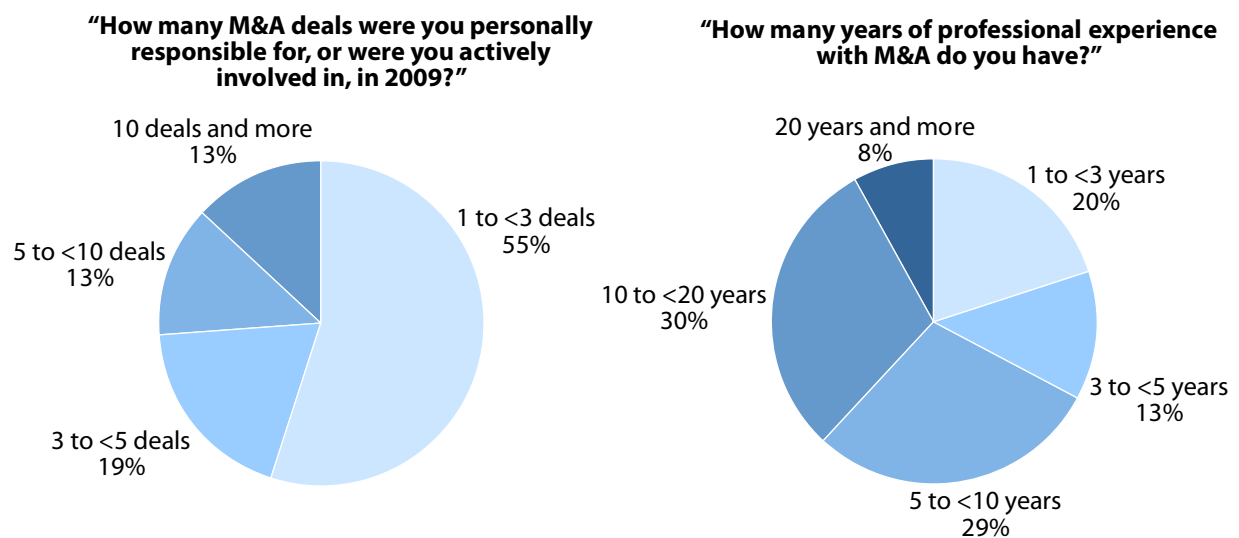
## Appendix A: Methodology

For this study, Forrester conducted an online survey of 219 M&A professionals in Brazil, Canada, China, France, Germany, Mexico, the UK, and the US to evaluate trends, challenges, success factors, as well as technology use and satisfaction with M&A. Survey participants included M&A professionals with more than one year of M&A experience at advisory firms with more than 500 employees (investment banks, consulting firms, law firms, as well as tax, auditing, and financial advisory firms) and corporations (corporate function of IT vendor/service provider and any other company) with more than 1,000 employees. The study began in March 2010 and was completed in April 2010.

## Appendix B: Demographics

**Figure 13**

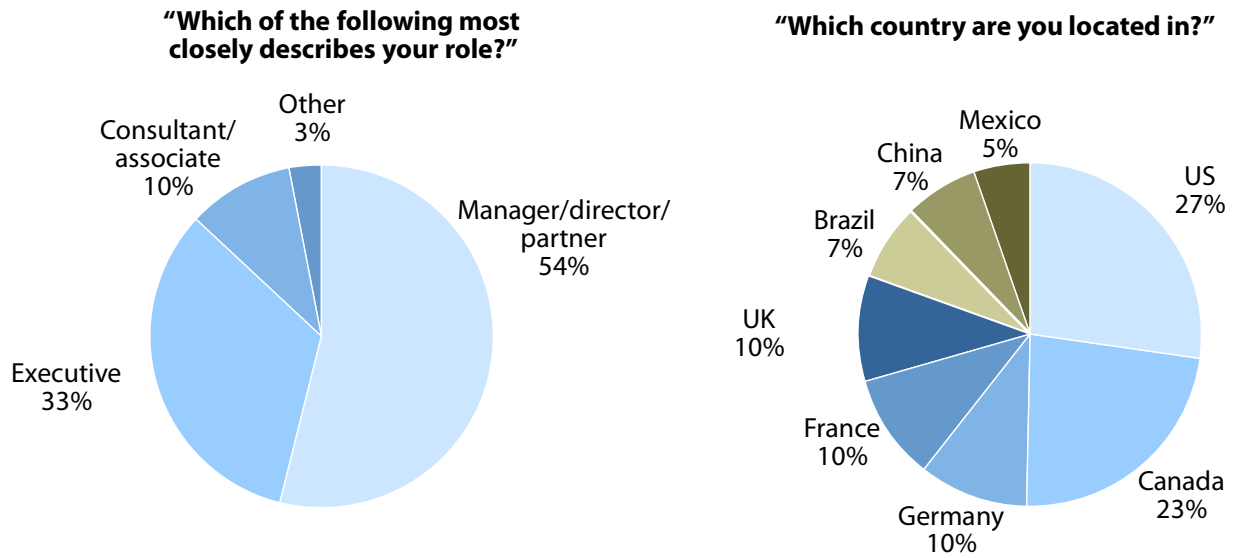
M&A Experience Of Respondents



Base: 219 M&A professionals

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

**Figure 14**  
Role And Geographic Distribution Of Respondents

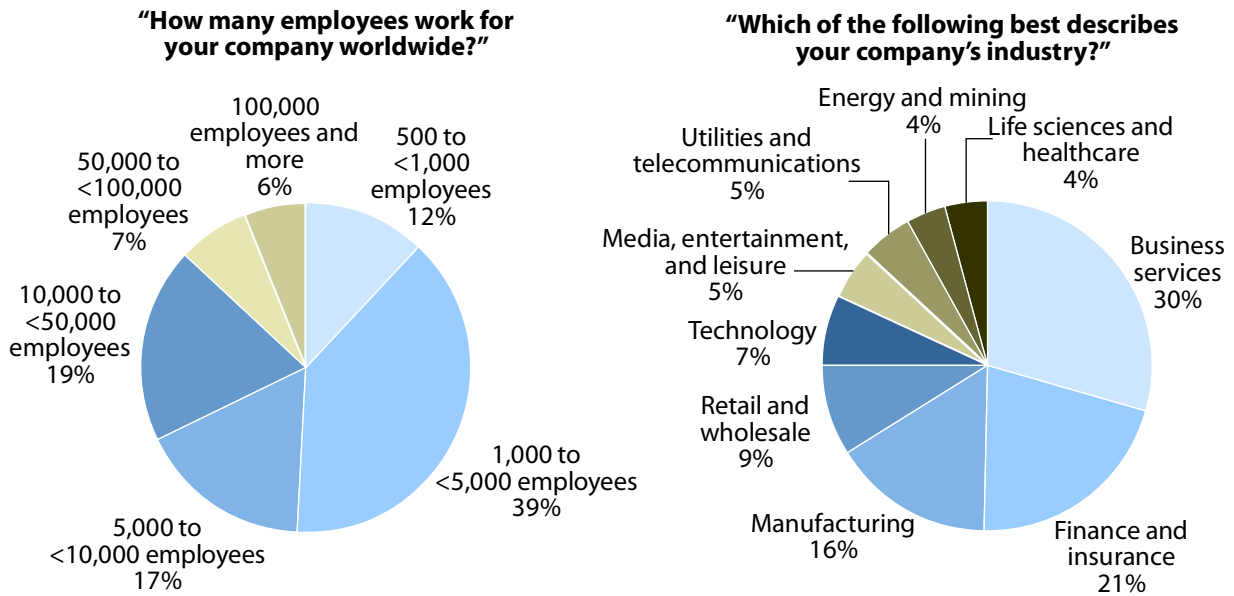


Base: 219 M&A professionals  
(percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

**Figure 15**

Sizes And Industries Of Surveyed Companies



Base: 219 M&A professionals  
(percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of IntraLinks, March 2010

## Appendix C: Supplemental Material

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### Related Forrester Research

“Market Overview: The M&A Management Tools Market In 2009,” Forrester Research, Inc., April 10, 2009

“M&A Management Tools Continue To Thrive As The Recession Changes Corporate M&A Behavior,” Forrester Research, Inc., January 27, 2009

“Understanding The M&A Services Market,” Forrester Research, Inc., October 15, 2008

“The Emerging M&A Management Tools Market,” Forrester Research, Inc., September 9, 2008

## Appendix D: Endnotes

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<sup>1</sup> While the use of automated tools is well advanced for operational processes such as supply chain management (SCM) or customer relationship management (CRM), the market for solutions that support mergers and acquisitions (M&A) is still nascent. This is mainly due to the fact that corporate acquirers view M&A as an event rather than a structured process. The technologies that M&A professionals typically use in this context include: simple spreadsheets for keeping lists and tracking people, tasks, and costs; generic project management tools for tracking project progress and timelines; and corporate intranet sites for storing and sharing information. In addition, they use paper-based M&A playbooks as a source of general best practices for planning and executing M&A projects. Source: “The Emerging M&A Management Tools Market,” Forrester Research, Inc., September 9, 2008.

<sup>2</sup> For M&A management, Forrester differentiates between two types of tools: virtual deal rooms (VDRs) and M&A project management tools (PMTs). These tools are now more critical than ever for dealing with the following key issues: reducing time and costs; improving collaboration; and enhancing deal transparency and compliance. Source: “M&A Management Tools Continue To Thrive As The Recession Changes Corporate M&A Behavior,” Forrester Research, Inc., January 27, 2009.

<sup>3</sup> M&A management tool providers are growing at rapid rates. This strong growth of M&A virtual deal room (VDR) and project management tool (PMT) providers will continue despite the current economic turmoil and fall in the M&A market. The market for such tools was \$283 million in 2008 and will reach a total market size of nearly \$1 billion by 2013 at a compound annual growth rate (CAGR) of 29%. Source: “Market Overview: The M&A Management Tools Market In 2009,” Forrester Research, Inc., April 10, 2009.

<sup>4</sup> The provider landscape for M&A services is extremely heterogeneous in terms of players and fragmented in terms of service offerings. Management consultancies, tax and auditing advisory firms, systems integrators, and IT outsourcers all claim to be able to act as strategic partners to their clients throughout the M&A life cycle. Source: “Understanding The M&A Services Market,” Forrester Research, Inc., October 15, 2008.