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How social media is changing M&A

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80%

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83%

had Twitter accounts with a tweet posted in the last 30 days – a 6% increase on the previous year.

Source: 2014 report from the University of Massachusetts Dartmouth Center for Marketing Research

55%

More than 55% of dealmakers use an online deal network to help with deal sourcing.

Source: Intralinks

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The use of social media has increased rapidly over the last decade. But how is business responding? How are companies using these tools? And how effective can social media be in deal situations?

Business leaders are scratching their heads about how to take advantage of one of technology's biggest opportunities: social media. The ability to share information, build brand awareness and create special-interest groups is changing the way many companies do business.

Retailers including Marks & Spencer, John Lewis, Toys R Us and Kmart have harnessed social media channels, such as Twitter, Tumblr and Facebook, to launch advertising campaigns and to create a buzz around their brand. But it's not just consumer-facing businesses that can benefit from social media. Tools such as LinkedIn are helping businesses and executives connect, share ideas, make new contacts and keep in touch.

By bringing together communities that share the same values or aims, social media can also be used to achieve specific goals. One example of this is Wessex Water. The UK utility company has signed up to Neighbourly, a platform designed, in the words of Neighbourly's Executive Chairman Luke McKeever, "to allow organizations with a conscience to donate time, money, surplus food, etc, to charities that need help," he says. "The idea is that we can match available resources to need."

In Wessex Water's case, the aim is to protect and improve the water environment around Poole Harbour in the UK. The company uses Neighbourly to connect with local businesses, councils, residents, charities and associations and to attract funding and organize volunteer support.

Barak Ravid, Co-Leader of Technology, Parthenon-EY, says the impact of social media on business process has accelerated rapidly: "To realize how pervasive [social media] is, all you have to do is look at the major software

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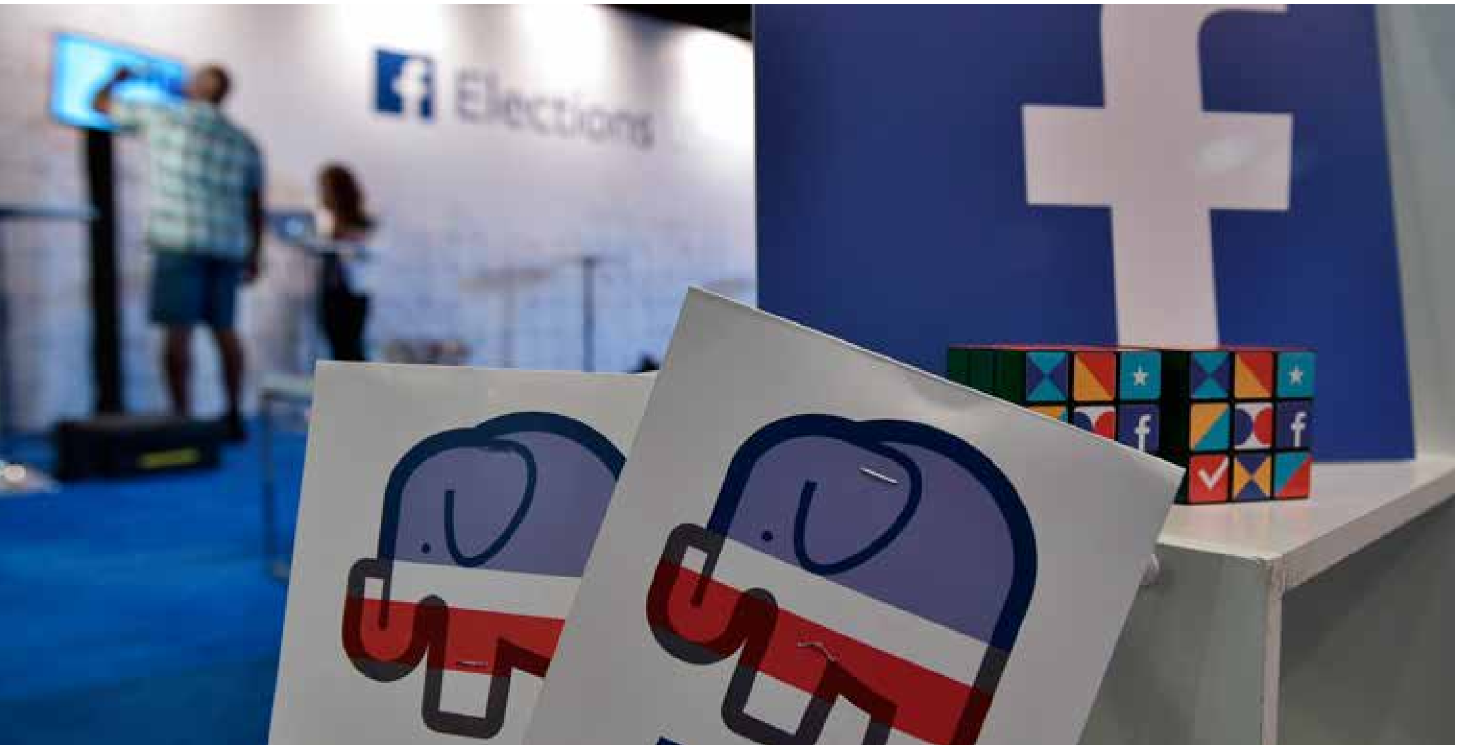

Top five social networks worldwide by user numbers

1.35b
Facebook
(as of Dec 2014)

629m
Qzone, China

343m
Google+

332m
LinkedIn

300m
Instagram

Source: Statista

and Enterprise Resource Planning players: all have social media analytics platforms built into what they are doing. Some of the earliest cases are around customer relationship management, monitoring customer behavior and reacting to that, but now it's grown broader, moving more into operations and compliance, and obviously marketing."

Who is using social media?

Just how pervasive social media has become was highlighted by a 2014 report from the University of Massachusetts Dartmouth Center for Marketing Research. It revealed that 31% of Fortune 500 companies had corporate blogs; 83% had Twitter accounts with a tweet posted in the last 30 days – up 6% on 2013; and 80% had a Facebook account – up 10% on 2013. The survey also revealed increases in the use of local search and recommendation website Foursquare (up by 42%), content-bookmarking website Pinterest (an increase of 27%) and photo-sharing website Instagram (which rose by 12%). Ninety-seven percent of the Fortune 500 have a LinkedIn account.

One development of the social media phenomenon that is taking corporate finance by storm is crowdfunding. Although not all companies have been successful, some have raised significant amounts. Earlier this year, US-based WobbleWorks, which developed the world's first 3D-printing pen, the 3Doodler, raised more than US$1.5m in just weeks.

"[Crowdfunding] has come into its own in an environment where companies are seeking out alternative financing to bank funding," says Simon Toms, Corporate Finance Partner at UK-based law firm Allen & Overy. "[It] opens up new pools of capital and provides a platform for companies to access capital from a wider range of investors."

How is social media affecting M&A?

Social media is being employed by companies to help plan and execute their M&A strategies. According to a 2013 survey by global technology company Intralinks, more than 55% of dealmakers use online networks for deal sourcing.

The survey also found that among those using such services, half on the buy side and 40% on the sell side had closed a deal sourced on an online network. The survey's respondents ranked Twitter and LinkedIn as the top two platforms for use in M&A – both on current use and on expected future use.

One such deal network, Intralinks DealNexus, currently has 7,000 registered dealmakers. The idea, says DealNexus Director Tony Hill, a former investment banker, is to provide a matchmaking service between buyers and sellers of companies, and so improve the efficiency of deal sourcing. DealNexus also provides a dealmaker network that allows them to keep in contact and share information securely.

"The sourcing [of deals] can be incredibly inefficient," says Hill. "Previously, you had to scour all sorts of databases to find out what opportunities there were out there. Online deal sourcing helps create intelligent deal flow."

How can social media help due diligence?

The wealth of information now available via social media is changing the way that due diligence information is gathered.

John Hopes, Economic Advisory Partner and Global Business Modeling Leader at EY UK, believes that social media can change the M&A landscape. "Dealmakers are starting to use social media – for example, using data on Twitter to understand the market sentiment toward a target company. This adds insight to the commercial due diligence on the deal."

Toms agrees: "Nowadays in the M&A process, due diligence also needs to examine how employees use social media, what company policies exist and how they are enforced," he says. "However, in many instances, social media can be used to look at what employees are saying about their company and how the brand stacks up against competitors. While social media won't tell you everything, it can be used as a sense check for the information you already have."

"Social tools don't tend to work in organizations unless [those tools] have a context and purpose."

Can internal social media help M&A?

Intranets are also increasingly being used by companies in deal situations, according to Nigel Danson, CEO of intranet software company Interact. His company provides an "intelligent social intranet platform" for organizations to engage in "purposeful collaboration."

"Social tools don't tend to work in organizations unless [those tools] have a context and purpose," says Danson. "So if companies are going to use an intranet, it has to be with the idea of, say, increasing productivity or employee engagement. These tools can really come into their own in a deal situation."

According to Danson, collaborative features, such as calendars, in a secure environment can improve efficiency and transparency pre-deal. "You can set up a deal room that's [only] available to certain individuals," he says. "This allows those involved to communicate without email, which is not secure."

Intranet-based social media can be effective post-deal, says Danson. "It can be used very effectively to help create cultural unity between two merged entities. Questions can be answered quickly, CEOs can post blogs explaining changes, staff can be encouraged to post ideas, and knowledge can be unlocked."

"Often it can take a long time for information to be shared between the two merged companies. If documents and ideas can be posted via the company intranet, the benefits of merging can be realized much more quickly."

What are the risks?

While social media can increase the efficiency of the deal processes, there are also associated risks to be managed. One is the potential for leaks: "The issue with social media is that it is meant to be a spontaneous and unstructured form of communication," says Toms. "Yet any statements put out by a company need to be carefully monitored especially during reporting periods or during transactions. So if a company is embarking on an IPO, for example, there have to be the right protocols and guidelines in place to make sure that any public statements, including tweets, are compliant."

A less obvious risk is that a surge of page views could tip off employees about a potential deal, as this activity is easily tracked. "If you think about LinkedIn profiles, for example, you know when someone has viewed your profile," says Aaron P. Rubin, a partner at Morrison & Foerster. "Social media profiles can be a great source of information in due diligence, but you have to review that data in such a way that it doesn't reveal confidential information."

All companies, whether they are in a deal situation or not, should have policies for social media use to help manage the risk of sensitive material becoming public.

But whatever the risks, the rise of social media as a business tool seems unstoppable. If we take deal-sourcing platforms as an example, increased usage could well lead to an increase in M&A activity.

"As more people use this technology, more deals will come to market, because it becomes easier to find a buyer who will pay the expected value," says Hill. "In addition, cross-border and smaller deals will become easier to do, as there is less reliance on little-black-book-type contacts." CI

For further insight, please email **editor@capitalinsights.info**

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(Source: Intralinks)