Overcoming Tech Challenges in Logistics M&A

Companies have long used mergers and acquisitions (M&A) as a strategy to increase operational efficiency and market presence, especially within the transportation and logistics (T&L) industry. As technology continues to evolve, methods for data collection and system integration have become an area of focus for all transactions. Logisyn and Switch aim to provide valuable insights and practical strategies for overcoming technological challenges encountered in an M&A process within this sector.

Technology plays a central role at every point of a successful M&A process. These transactions often involve challenges, such as system incompatibilities, data migration issues, and security/confidentiality risks. Proactively addressing technology-related issues is essential for unlocking a deal's full potential and ensuring that the merged entity operates seamlessly.
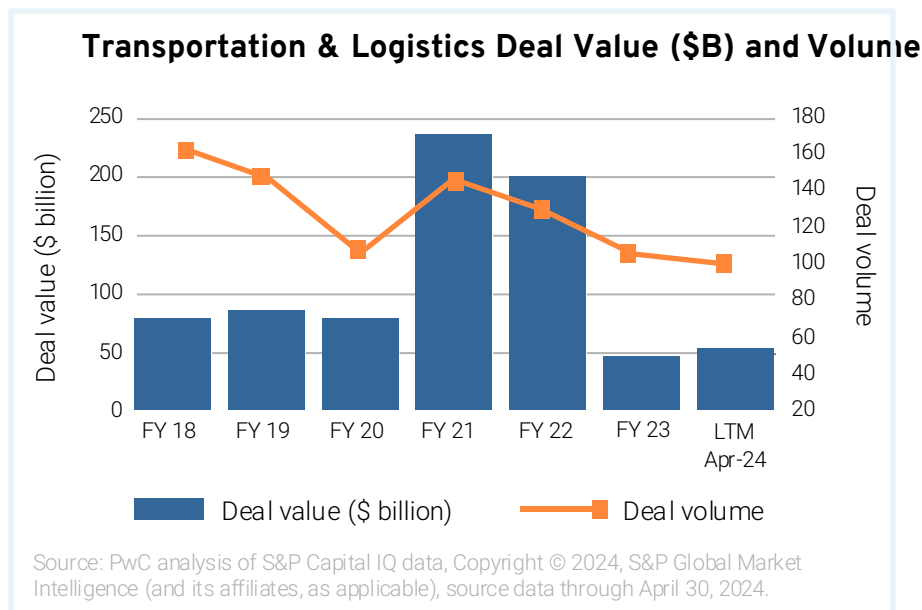
M&A in the Logistics Industry

The Transportation and Logistics (T&L) industry is the cornerstone of our economy, especially in a post-pandemic environment where businesses rely on the global supply chain now more than ever. While current M&A activity can be primarily attributed to strategic investors, deal flow is likely to increase as private equity becomes more active with the decreasing cost of capital.

There continues to be strong interest in deals that enhance supply chain visibility. In many cases, investments in technology have enabled companies to achieve cost efficiencies—especially operators whose margins are already squeezed by increasing operating costs and low freight rates.

Many companies are advancing by modernizing legacy systems and leveraging AI to automate manual tasks and reduce human error. As M&A advisors, some of the most common challenges that slow the due diligence process include outdated technology, inability to integrate financial and operational data, incomplete or inaccurate data, and lack of data security.

Transportation & Logistics Deal Value ($B) and Volume

Source: PwC analysis of S&P Capital IQ data, Copyright © 2024, S&P Global Market Intelligence (and its affiliates, as applicable), source data through April 30, 2024.

Why Do Companies Engage in M&A?

M&A transactions occur for a variety of reasons, and every situation requires a unique approach.

- Create synergies that boost efficiency and reduce overhead by leveraging each other's strengths.

- Vertical/horizontal integration and increased market share (e.g., expanding geographic footprint or service offerings).

- Approaching retirement without a solid succession plan.

- Disputes or burnout among owners over strategy or management.

- Life events (e.g., health or family issues) to gain liquidity and allow for more personal time.

- Increased capital requirements for upgraded I.T.

Technology Due Diligence in M&A

Technology intersects the M&A process at several points and can create obstacles that derail an otherwise successful transaction. As a seller, due diligence (DD) is often the heaviest lift and generally the stage that causes the most deal fatigue. As a buyer, it is imperative to understand the target company's value proposition, including infrastructure, finances, clientele, and synergies.

1 • Identify Shortcomings Early

Technological roadblocks should be addressed as early as possible, given the long lead time for changes and the potential to disrupt the process. The buyer's DD request list can be exhaustive, and having the proper systems in place can be the difference between either party walking away or a successful close.

2 • System Migration

Companies that have grown through acquisition frequently have a patchwork of legacy systems rather than a uniform operating system. Acquirers will expect similar reports and granular data, and sellers who struggle to compile and aggregate operating data will have difficulty providing what is needed promptly.

3 • Reporting Capabilities

Sellers should pressure-test their reporting capabilities, understanding that their financial and operational KPIs may not align with the buyer's. While there is time to compile reports before a buyer is fully engaged, a seller will fall behind in DD if they cannot generate reports at the rate at which new requests come in.

4 • Bring in Experts

Companies should consider bringing in a consultant if they identify gaps in their processes, potentially a Transportation Management System (TMS) expert for operational data or a Quality of Earnings (QoE) provider for any financial issues. Once a sales process starts, activate the right people immediately.

5 • Tech Due Diligence

Buyers must thoroughly evaluate the target company's IT infrastructure, systems, and processes to identify potential risks and ensure compatibility with the acquiring company's technology landscape. This is especially important for integration planning.

6 • Early Integration Planning

Buyers that plan early have the most success post-transaction. They must anticipate potential challenges and risks with system integration/compatibility, data migration, compliance, and aligning teams from both companies when creating a well-structured integration plan.

Concepts in Action

Situation   Company Z had several operating systems and a general ledger that could not integrate data.

Impact   This significantly slowed down the material preparation and due diligence processes. Simple data/buyer requests were time-consuming, and data became stale more quickly than new requests could be completed. For example, by the time the seller was ready to share Q2 data, the buyer needed Q3.

Result   As a workaround, Logisyn's deal team analyzed financials from a bulk data dump provided by the seller to compile key information and answer buyer requests.

Key Takeaway   Companies should address these types of issues before going to market, however, sellers may not have the time and/or capital to do so. While these types of challenges are not ideal, working with an expert team can alleviate some of these pressures so the seller can focus on running their business. Having an M&A advisor who is an industry expert is crucial to running a smooth process.

Common Challenges and Effective Strategies for Systems Migrations

System and technology migration during M&A is a significant undertaking. Companies must adopt best practices to manage this critical phase and avoid potential pitfalls or costly mistakes.

Problem ⊘	Solution ⊘
Integrating different systems (e.g., SAP vs. Oracle) can be highly complex.	Use middleware or custom solutions to bridge incompatible systems.
Merging data from different sources can lead to data loss or inconsistencies.	Implement data mapping and validation tools to ensure an accurate and secure transfer.
Migrations can cause significant downtime and operational disruption.	Use a phased migration approach to minimize risks and ensure continued operations.
Integrating systems can increase the risk of cyberattacks.	Implement and monitor robust security protocols throughout the migration process.
Aligning IT teams with varying processes and approaches.	Establish clear communication channels and leadership alignment.

Technology Maturity Assessment

Assessing a non-tech company's technological maturity involves understanding its current capabilities and readiness for advancements. This assessment is essential to identify gaps and opportunities for improvement that can drive operational efficiency and competitive advantage.

Evaluate Technology and Track Progress

1 Establish quantifiable and measurable metrics focused on operational efficiency, customer satisfaction, and innovation.

Technology Audits

2 Examine existing technology infrastructure, including hardware, software, networks, data management, IT policies, and governance, to identify weaknesses.

Process Automation and Integration

3 Evaluate automation in business processes and integration capabilities by using enterprise resource planning (ERP) systems.

Innovation and Adaptability

4 Organizations should consider their track record in embracing technological changes and fostering a culture that supports continuous improvement.

Industry Comparables

5 Benchmarking technology practices, capabilities, and spending can help organizations identify areas of opportunity.

Developing a Technology Roadmap

Technology roadmaps ensure alignment between technology initiatives and the organization's overall business strategy. Without a clear roadmap, companies risk investing in technology solutions that do not support their strategic goals, leading to wasted resources and missed opportunities. A well-structured roadmap also helps organizations identify potential risks early in the adoption process and develop contingency plans. This fosters a collaborative environment where different teams understand how technology initiatives contribute to business objectives.

1 Define Strategic Goals
to ensure objectives are understood and aligned.

2 Assess Technology Landscape
to evaluate existing infrastructure and identify gaps.

3 Identify Technology Initiatives
based on potential impact and resources required.

4 Develop Implementation Plan
to outline execution (i.e. timelines, resource allocation, etc).

5 Communicate To Stakeholders
and regularly monitor progress and update changes.

Helping Companies Overcome Tech Challenges During the M&A Process

Overcoming technological challenges in M&A requires a proactive and strategic approach. As the industry evolves, understanding the complexities of tech integration is vital for successful M&A outcomes. By leveraging the expertise of specialized advisory firms like Logisyn and technology partners like Switch, companies can navigate these challenges to ensure a smooth transition.

Logisyn's goal is to keep the M&A process as smooth and painless as possible — we run the process while you run your business. As a global M&A advisory firm that caters to the logistics sector, Logisyn helps companies of all sizes in this industry find the right strategy for their ownership and teams.

- Buy-side advisory for companies looking to grow through acquisition, sell-side advisory for entrepreneurs looking to exit and capitalize on the businesses they've built, and enterprise valuation services for managers looking to better understand their business's value.

- Our team understands the market, the different technological systems, and solutions to effectively parse through data even when systems may not communicate efficiently.

- Our experts help outline your current infrastructure for potential buyers while analyzing and processing the information provided during the preparation and due diligence processes to create clear and realistic expectations for both parties.

- Cutting-edge Virtual Data Room (VDR) technology and secure NDA process protect your company's sensitive information throughout the deal process with enhanced cybersecurity to avoid risks of data breaches.

Switch, as a software services and consulting company, is pivotal in helping logistics companies navigate the complex technological landscape of M&A. Our comprehensive suite of services, including end-to-end development, IT staffing, dedicated teams, and specialized Studios that operate as centers of excellence, ensuring ongoing expert support, provide a secure foundation for organizations to enhance their development capacity and effectively address tech challenges.

- Seamlessly merging IT infrastructures and applications from different organizations.

- Developing or enhancing software solutions to streamline workflows and reduce costs.

- Combining data from multiple sources into a unified view to ensure consistency and accuracy.

- Addressing data security and compliance by implementing robust security measures.

- Leveraging cloud-based solutions for scalability, flexibility, and cost-efficiency.

- Offering expert guidance and specialized tools for planning and executing migrations.

- Identifying and mitigating potential risks, such as data breaches or system failures.

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