Insight overview

masonadvisory

Landing Safely: Transition Service Agreement (TSA) Management

Conducting the TSA Orchestra - Sound practices for safe separation

Industry

Private Equity

Services

Delivery

As day one of a Merger & Acquisition (M&A) journey begins, the buyer now owns a promising new asset ready for strategic utilisation, while the seller enjoys a substantial influx of capital, ripe for reinvestment. However, amidst this excitement, attention must turn to the Transition Service Agreement (TSA) that both parties have signed. This contract stipulates that the seller will provide, and the buyer will receive, essential services such as IT, finance, HR, real estate, and payroll, ensuring the smooth continuation of the divested business.

The TSA is more than just a contract—it's a critical framework for maintaining business continuity during the transition. If not carefully managed, the TSA can lead to conflicts, breaches of contract, and costly legal proceedings. This not only strains relationships but also causes delays, escalates costs, and jeopardises reputations. In this article, we will delve into best practices for managing the TSA effectively to avoid these pitfalls and ensure a successful transition for both parties.

As highlighted in the previous article "TSAs: The bridge from Day 1 to full separation – Ensuring a safe transition", TSAs are double edged swords; neither the buyer nor the seller wants them, but they are a necessary evil to get the deal over the line and achieve full separation. The buyer sees it as a very expensive service contract, and the seller sees it as a distraction from business as usual.

Similar to any contract, managing the TSA is very important to ensure the services meet expectations, the contract always reflects reality, and the provider is paid on time. So how best to manage your TSA:

Roles: Firstly, agree on who will own and manage the TSA within your organisation. This is typically the Separation Management Office (SMO), the Separation Integration Lead (SIL) or for very large transactions a TSA PMO may be formed. The seller's side should have also identified the owner. Meet with them and agree on a governance model and a two-in-a-box structure.

Responsibilities & Accountabilities: There are likely to be several service lines within the TSA, each with a functional provider and recipient. Ensure that all parties from the functional actors through to the deal leadership team and sponsors, are all clear on their role in managing the TSA.

Governance: Design a governance model that considers the obligations of the legal agreement and has robust controls yet is agile enough not to cause delays. Agree on this model with the other party and communicate it widely with your organisation.

Governance Standards: set the TSA management process standards, communicate them to all parties, and ensure they are strictly adhered to.

Performance: Monitor TSA service delivery and validate that performance is consistent with agreed targets.

Change Management: The TSA has two parts; the Legal agreement and the service schedules. Whilst the legal agreement is usually a static document, the schedules are living documents. They must be kept up to date to reflect services that have ended / removed, added services, scope, cost, and duration changes, etc. The change management process must be robust yet agile. Changes to services could have a drastic impact on synergy targets, so it must be designed to ensure change impacts are understood before approval.

Financial Management: Financial structures of TSAs can range from simple fixed-cost per month models all the way to complex per-transaction or metered charging models. Either way, it is important to ensure that service consumption is monitored and the provider is paid in a timely manner. Experience has shown that there will be many disputes to resolve along the way; late payments should not be one of them.

Dispute Resolution: Design a dispute resolution model that empowers the lowest levels in the services (usually the providers and recipients of the service) to resolve issues among themselves and has enough levels of escalation before they reach top echelons of the organisation. Ensure this model is communicated widely and adhered to.

Risk Management: Whilst the integration teams are busy dealing with the integration issues and plans, remember that the TSA is where the service cost sits. Any decision they take or risk they identify will eventually impact the TSA service fees and possibly the synergy target. The TSA itself will have inherent risks. Monitor all integration activities and regularly assess/update the risk profile.

Communication & Reporting: Put in place clear lines of communications with the Integration / Separation Management Office, sponsors, functional users of the services, finance and legal teams. Regularly report progress on the TSA, changes to it, disputes and risk status.

In any transaction, numerous players contribute to the process: separators, integrators, providers, recipients, synergy trackers, Integration Management Office (IMO), Separation Management Office (SMO), sponsors, and more.

ensures a smooth and graceful separation.

Our consultants have extensive experience in managing large and complex TSAs, and would love to join you on your journey -- helping to navigate the complexities of your transition, ensuring a seamless and successful outcome.

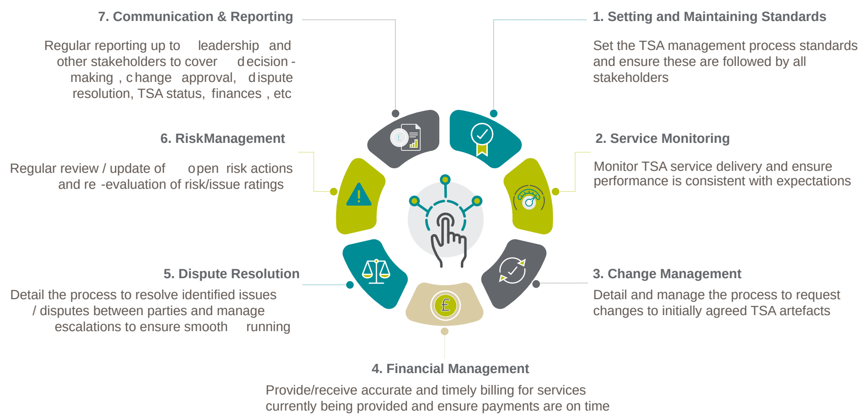

Figure 1 - TSA Management

Each plays a vital role in the grand orchestration of post-merger integration. The person or team on the buyer's side responsible for owning and managing the Transition Service Agreement (TSA) should act as the conductor, harmonising these efforts. The TSA is fundamental to all aspects of post-merger integration, influencing synergy targets and the ongoing relationship between buyer and seller. Effective management of the TSA

If you would like to speak to Ash Majeithia regarding this insight, send your enquiry to contact@masonadvisory.com.

To find out more about our services, click here.

Author

Ash Majeithia
Principal Consultant
email: contact@masonadvisory.com

About Mason Advisory

Mason Advisory has offices in Manchester and London and employs over 100 staff, with plans to continue its expansion. We enable organisations to deliver value through digital & technology transformation, solving complex business challenges, and helping clients set strategy through the intelligent use of IT resources including architecture, cyber, data, digital, operating model and organisational design, service management, and sourcing. We operate in sectors such as financial services and insurance, legal and law, government, health and social care, emergency services, retail, FMCG, transport, and not-for-profit.

Contact us

To get in touch, please email contact@masonadvisory.com or call +44 333 301 0093

OFFICES

MANCHESTER
Landmark
St Peter's Square
1 Oxford Street
Manchester
M1 4PB

LONDON
Bush House
North West Wing
Aldwych
London
WC2B 4PJ

Studio 202
77 Coleman Street
London
EC2R 5BJ