IT Integration for Mergers and Acquisitions: Beating the Odds

Technology integration challenges can derail the best laid plans. Here's how to avoid common mistakes.

You've seen the research. And you've read the headlines. You already know, statistically, your transaction is expected to under-deliver, even fail.

So how do you position your transaction to beat the odds? Many failed transactions were compromised by IT complexities that delayed or eroded expected deal value. But your deal can avoid that fate.

TWO COMMON MISTAKES

Nasty surprises in IT Integration almost always stem from two mistakes:

The first is a failure to involve IT leadership in the early stages of the transaction. When involved early, they can spot the IT pitfalls their non-tech counterparts would miss. They can also help to define the deal structure and transition service agreements (TSA) and develop practical, realistic plans to avoid common problems and roadblocks.

The earlier IT leaders are involved, the better. When you wait until problems surface, solutions are more likely to be reactionary—focused on simply moving the integration forward, often at the expense of the most effective solution for the combined organization.

> Nasty surprises almost always stem from a lack of early involvement by IT leadership and a failure to determine how IT will be integrated.

The second mistake is a failure to determine *how* you will integrate IT. In other words, picking an IT integration strategy well-suited to transaction and business goals.

Generally, IT Integration Strategies fall into one of three approaches:

1. Maintain Separate IT Environments
2. Adopt the IT Environment of One Party
3. Use Best Practices from both Parties to form a New IT Environment

CHOOSING THE STRATEGY

Whether an organization chooses to run the IT platforms of individual subsidiaries independently or in a combined fashion should be informed by the overall business strategy and integration objectives. Consider: What is the basis for the merger?

What are the long-term growth goals? What are customer requirements and how will the merger affect the organization's ability to gain new or retain current market share?

Before developing an IT integration strategy, the organization must consider, with an open mind, its current-state operating model and its future-state vision. Is the business operated as a single integrated entity or as separate independent business units? Do independent subsidiary IT departments really run independently or are they more centrally controlled? IT Leadership should mirror the business integration strategy to align to the true business operating structure with an eye toward the desired future state.

Once the business objectives are understood, the key considerations for IT integration planning become clear.

MAINTAINING SEPARATE IT ENVIRONMENTS

Organizations that operate like a holding company, for instance, may choose to maintain separate IT environments. While this strategy generally results in the fewest IT synergies, it allows for significant flexibility. Likewise, if the buyer plans to sell the acquired business in a relatively short period of time, keeping separate IT environments will make separation planning easier and will have the lowest impact to existing IT operations. Even in these instances, certain aspects of the IT environment must be considered for integration planning.

ADOPTING THE IT ENVIRONMENT OF ONE PARTY

For large, established, centrally managed organizations, or in instances where the acquisition contributes to the long-term business strategy, the integration focus should be on adopting the IT environment of one party. This strategy can provide synergies through IT rationalization, but requires significant integration planning with a focus on Day 1 stability. In addition, if one organization has delayed investment in technology infrastructure and systems, the "Technology Debt," or investment needed to bring them up to today's standards, must be considered.

USING BEST PRACTICES FROM BOTH PARTIES TO FORM A NEW IT ENVIRONMENT

In the event of a merger of equals, or an instance where the acquired organization will add new business capabilities or services, IT Leadership may choose to integrate with a focus on a combined IT structure. This strategy can produce significant synergies by moving both organizations to the "best of class" IT structure, but also must take into account any "Technology Debt" held by either party.

	MAINTAINING SEPARATE IT ENVIRONMENTS	ADOPTING THE IT ENVIRONMENT OF ONE PARTY	USING BEST PRACTICES FROM BOTH PARTIES TO FORM A NEW IT ENVIRONMENT
CHOOSE THIS STRATEGY IF....	• The buyer operates like a holding company • The buyer plans to sell or spin off acquired business or assets in a relatively short period of time	• The buyer is large, established and centrally managed • The buyer plans to fully incorporate the acquired business for the long term • Customer reporting requirements or contractual obligations make one party's environment more attractive and cost-effective than the other's	• The deal represents a "merger of equals" • The acquired business adds new products or services that demand specific IT requirements
KEY CONSIDERATIONS FOR INTEGRATION PLANNING AND EXECUTION	Generally there are at least a few aspects of the IT environment that must be integrated. For example: • Communication platforms (i.e. email, phone, intranet) • Data sources for consolidated Financial Reporting	• Critical Day 1 functionality • "Technology Debt" of organization to be integrated • Application adoption requires implementation of common data standards to enable extensive data migration requirements • Decommissioning of unused applications, systems and networks	• Comparative best of class assessment and selection of critical business application platforms (including evaluation of "Technology Debt") • Future state infrastructure planning • Significant consensus building and "people" integration • Decommissioning of unused applications, systems and networks • Outsourcing or managed services arrangements of either party

CONSIDERATIONS FOR ANY CHOSEN STRATEGY

Regardless of the chosen strategy, the following critical items should be considered, evaluated and planned for:

PEOPLE AND ORGANIZATION FACTORS

After the strategy is chosen, leadership will need to define IT's role and how the function can support merger success. This involves consideration of the people side of change, which includes an assessment of resources from both the acquiring company and the acquired company. By addressing the people side of change early on, the organization can establish a retention plan to keep good employees within the organization. If this is not addressed, the organization will risk voluntary turnover from key personnel. People may leave if they feel their roles are redundant, if they do not receive clarity on their roles within the new organization, and/or if they feel they will not provide value to the new organization. After resources are determined, an IT "roadmap" or implementation schedule can be developed to prioritize which initiatives are most important in order to stay on progress with merger goals.

SECURITY

When a decision is made to integrate two companies, IT security management is critical to mitigate risks, especially to ensure that sensitive data and other information assets are transferred and managed securely. This requires careful planning and execution. Legal and compliance regulations may be breached if data integrity is not maintained during and after the merger.

GOVERNANCE

Because mergers are volatile in nature and circumstances can change rapidly, a strong IT governance structure allows for budget control and risk mitigation increasing the likelihood that the integration remains on track. Additionally, a strong governance model with clearly identified leadership and decision making processes promotes transparency and reduces ambiguity within the organization.

FINANCIAL REPORTING REQUIREMENTS

Post-merger, the consolidation of financial results for the combined business will be a high priority item. Whether the strategy requires overlaying a consolidation reporting platform or merging financial systems, this will be a key decision on which IT and the business will need to partner to plan for and execute.

CASE IN POINT

A diversified, global healthcare company was struggling with integrating a newly acquired strategic product portfolio, their largest acquisition to-date. Months after the acquisition completion, the business goals of the acquisition were being hampered by information technology (IT) integration strategy issues that had stalled and remained unsolved.

The IT integration issues stemmed from a failure to establish and communicate a shared enterprise IT integration strategy early in the acquisition process. The company engaged A&M to create alignment on the integration strategy and break the political logjam.

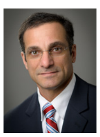
To achieve this objective, A&M led workshops with key business and technology stakeholders from the parent and acquired companies. The result - a singular vision and business case for migrating to a shared IT platform including detailed plans for what and how technology assets would be integrated, what assets would remain independent, and what assets would be decommissioned.

With everyone in agreement and aligned on the end goal, integration efforts began anew. With a clear, shared vision, the aligned teams were able to complete key prioritized activities in an accelerated fashion with full integration completed within 12 months, while delivering planned business case synergies.

Efficient IT integration will directly impact the speed and degree to which organizations can achieve identified deal synergies.

Early engagement of IT Leadership in M&A planning ensures that the IT integration strategy and plan enables rather than impedes the overall integration strategy, timelines and objectives so that businesses can be confident they realize the true value of the deal.

KEY CONTACT



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