DD Consulting

M&A Integration and Separation

IT M&A INTEGRATION

Part 1

www.ddavisconsulting.com

IT merger and acquisition integration part 1

In a series of articles, Danny A Davis looks at the IT issues surrounding M & As - the first part looks at what preparation needs to be undertaken for day one...

During the integration process, think about IT both before and after the deal has taken place. The IT is secondary to the overall strategic and fiscal drivers for the merger; however the IT can be used as a bargaining chip during the acquisition negotiation.

A man looking to buy a second hand car moves around it, kicks the tires and says the engine needs tuning up and so he will pay a little less. Likewise we can look at the IT of the target in its entirety and assess the cost of integration or just to get the systems up to speed and use this £500m, or £800m cost as part of the negotiation to reduce the overall price of purchase.

Once the deal price has been reduced then comes the time to lay down integration plans. There is a fair amount of due diligence information; ensure this is marked up as such, so there are no confusions later, where plans laid down before the deal, have been changed, but old documentation gets out. Then use the information to help in planning.

Where are the major differences between us?

Looking at software and hardware, the process and people, there are usually large differences between companies. The first thing to look at is the strategic vision of the new business, which may be different from that of either of the two being joined together, the aim of the IT integration being to deliver for the new business rather than the old.

Next is to think about the key things that are needed on day one (the first day of ownership), looking to rapidly bring the emails and communications systems together and enable everyone to talk internally.

Slowly start to do an overview assessment of the systems, kit and data needed to move forward. One key mistake people make is to think that because combined data is needed (e.g. fiscal reporting) so the systems must be fully integrated. These are separate issues and must initially be thought of as such. It is very easy to follow the route or thinking data must be consolidated for finance, so it should also be done for HR and IT and other departments (these are nice to haves).

Then we consolidate data, so the systems must be combined to enable this and so the process and people to. Suddenly a full integration has been decided and we head for massive system change. This is the wrong way to look at it, certainly to start with. The main aim must be to help the deal, what is needed to do that? What is essential to run the new business? Do the basics first.

Procurement Opportunities

As the companies are brought together there is clearly a larger cost base, and larger volume of equipment required. As the entities start to use more of the same systems, so the costs can be reduced. Starting to look at contract rates, laptops, all the commodities can be reduced due to volume. Later as the company moves to fewer systems, so again there is another change in cost.

Training needs for the new systems

There are always new systems to have people trained on, so ensure the correct budget is put in place. Sales people need not only be trained in how to sell the other companies products, but also to use the systems of the other company, where appropriate.

If new systems are being take across into the target company, so there must be a lot of training to go with them. Where companies skimp on this, or rather put in place the correct budget, later to cut it under cost pressure, when trying to hit synergy targets, so the business is not correctly trained and never hits future revenue and profit targets projected by the M&A.

Project Assessment

Kick off an assessment of where the company is and what projects are on the go. An evaluation of everything that is going on and seeing where to spend on change must be kicked off. Kill projects that are duplicated and invest move heavily where projects will rapidly help the business.

State of Software Licenses

Understand where there is legal compliance, e.g. software licenses that are out of date or have not been purchased. Fix issues.

Cross Company Standards

Start to plan cross company standards. The issue here is not that there should be standards for the whole company, but that the costs are reduced. Thus where cost is increased through the concept of standardisation, don't do it.

Often, looking to standardise across Europe can create cost, where eastern European countries have such low IT costs, standardising based on western construct will only increase cost. This leads us into the question of shared service centres and in-source to cheaper places in our group of companies. Possibly even the concept of outsourcing.

Outsourcing

Don't outsource because of the M&A, wait until you know what the new business is and what is needs, only then should you outsource. Too often the concept of outsourcing to save money crops up because the M&A deal is not fully delivering the synergy targets. Outsourcing must be part of a business as usual approach and done with a clear head. Wait six months, maybe two years, but wait until the integration is over.

IT should be in the M&A conversations as early as possible and should be involved with the concept of the merger. This is a wonderful thing to say, is it true? Alongside all the other functions, finance, HR, legal, HSSE, sales and marketing all of whom will also want to be involved as early as possible, IT, can wait its turn, then show how important it is in helping the deal become a success.

Planning is key; the more information about both companies we have the better. Decide before the deal what is must be done on day one, for IT there is nothing essential, unless required for legal reasons.

Author

Danny Davis
Partner DD Consulting

Danny is an M&A integration specialist. With recent deals ranging from the pre-deal integration planning on a 50,000 person company purchasing a 25,000 person company, a $6bn global deal where he ran the European side across 30 countries, 250 business units, 26 functions through to a small private equity set of deals.

He is a guest speaker at London Business School, has been published prolifically in business journals and wrote the book "M&A Integration: How to do it"

Article published by the British Computer Society for the "Elite Group"
November 2008, Author: Danny A. Davis

DD Consulting

M&A Integration and Separation Specialists

Danny A.Davis
danny.davis@ddavisconsulting.com
+44 (0) 77 99 678 088

Derek Ingle
derek.ingle@ddavisconsulting.com
0777 617 1440

Ian Nelson
ian.nelson@ddavisconsulting.com
07803 888 585

Anna Daroy
anna.daroy@ddavisconsulting.com
07879 787 806

bcs The Chartered Institute for IT

DD Consulting

M&A Integration and Separation Specialists