C-LEVEL GUIDE TO M&A IT SYSTEMS INTEGRATION

Nail your IT integration to avoid pitfalls and achieve cost synergies.

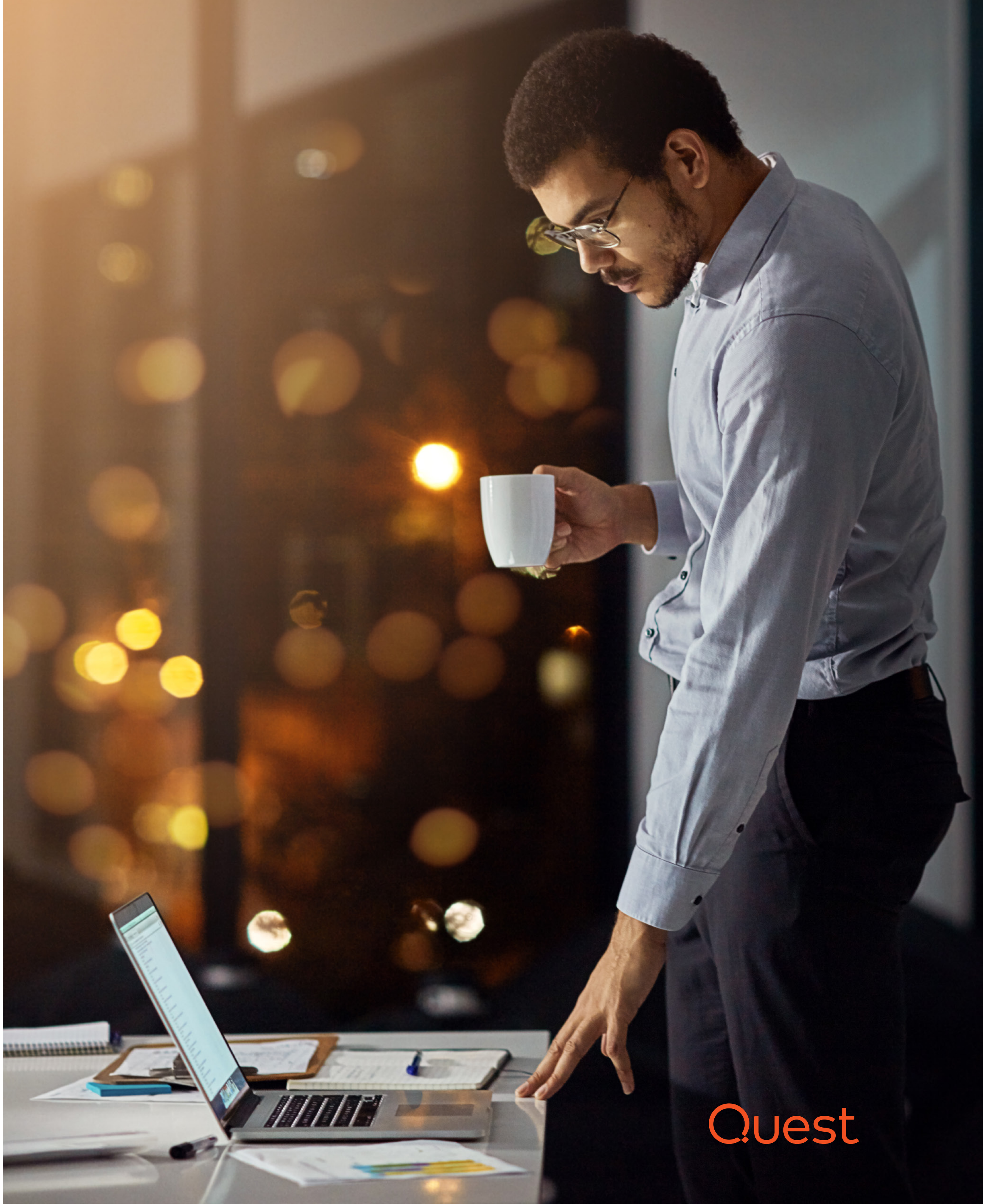
Quest®

Introduction

C-level executives know better than anyone that a lot of money is involved in a merger and acquisition — you live and breathe spreadsheets that predict your company's post-merger share price based on the synergies you manage to achieve. You also know the financial hit you'll take if the deal takes longer to close than dictated by the terms of the transition service agreement (TSA) and expected by early financial reporting to the market.

That's why executives often put a premium on speed in an M&A — to get the deal done and start realizing the financial gains. Gartner describes M&A synergies in its report, "The CIO's Role in Making Mergers and Acquisitions Faster," as follows:

"Such synergies, however, tend to be time-sensitive. The longer the acquirer waits, the more difficult they are to capture, because it is difficult for any enterprise to stay focused on a complex transformational project for more than 18 or 24 months, and change is usually met with increasing resistance as time goes by. Most synergies (70% to 75%) are, therefore, captured during the first year after



an acquisition. The first three to four months after a deal closes are particularly important in this respect, because they influence the much expected first-quarter financial results of the new enterprise."[1]

But rushing the process can actually be counterproductive. Research shows that over half of the synergies in a merger or acquisition come from IT operations (see Figure 1), so nailing your IT integration is essential to hitting your M&A ROI targets. Put too much pressure on the IT team to quickly execute the rationalization and integration of systems, and you risk falling prey to mistakes that could send the IT systems integration south and doom the whole deal.

This book explores those pitfalls, illustrating them with recent real-world examples, and offers a better approach: using a repeatable software and services framework for M&A IT integration.

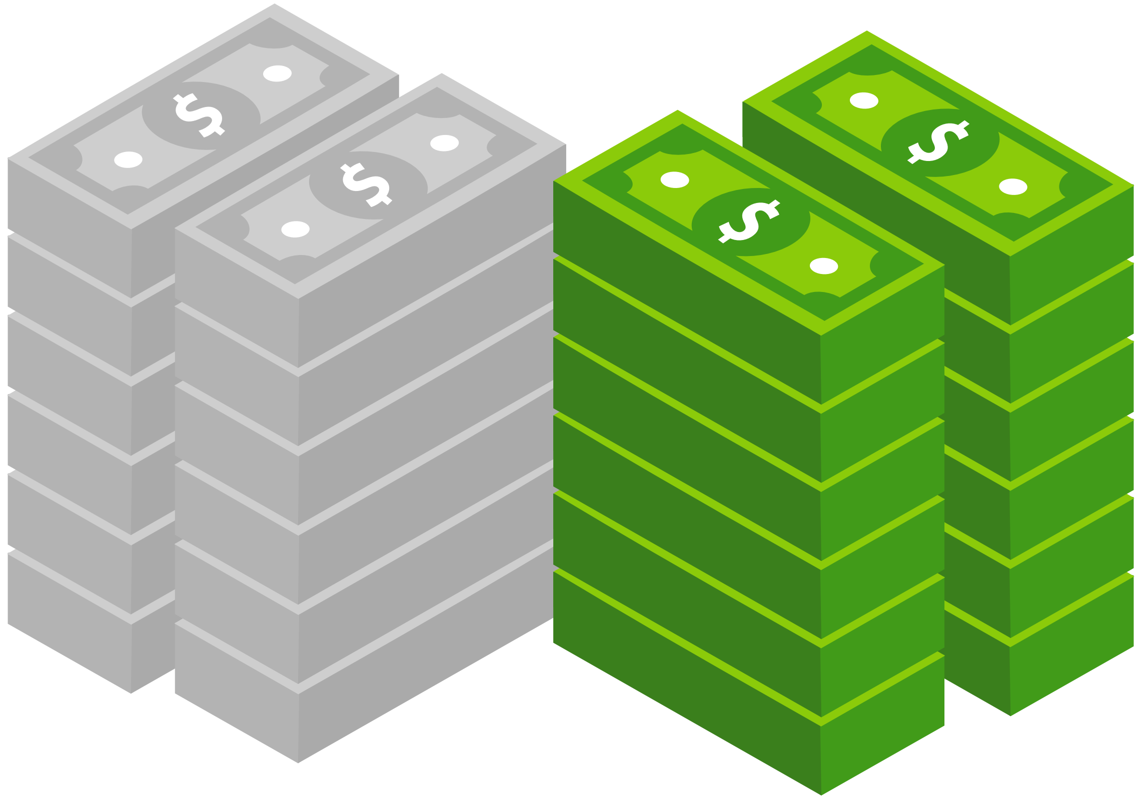


Figure 1. M&A cost synergies are heavily dependent on a successful IT integration.

> "25% of typical M&A-related integration efforts are coming from IT, and more than half of all synergy-relevant integration activities heavily depend on IT, meaning that CIOs have a significant opportunity to accelerate M&A execution."[1]

1 Gartner, "The CIO's Role in Making Mergers and Acquisitions Faster" (ID G00226390), Ansgar Schulte, December 5, 2018.

Day Zero Pitfalls

Most Day Zero activities involve execs poring over spreadsheets and participating in board-room discussions to determine the potential net present value (NPV) of the company to be created through the merger or acquisition. In these conversations, synergy benefits are predicted based on expected revenue increases, expense reductions, process optimization and financial economy.

The M&A team does its best to detail the specifics of those synergies; for example, they know that the IT integration will achieve expense reductions due to license consolidations and process optimization. But all too often, Day Zero cost synergy commitments and timelines happen without the IT executive's involvement —leading to two key mistakes that can impact the deal's ROI.

> All too often, M&A timelines and other commitments happen without IT involvement — leading to key mistakes that can impact the deal's ROI.

RUSHING IT DUE DILIGENCE OR NOT PERFORMING IT AT ALL

In too many M&As, executives view IT as an internal service provider rather than as a key stakeholder, even though the IT function is vital to business operations. As a result, the limited IT due diligence that is undertaken is performed in a vacuum by executives with spreadsheets of high-level IT costs rather than actual boots-on-the-ground details about things like:

- Strategy alignment between the business and IT
- Details about how business processes and the IT systems that support them
- Infrastructure footprint and asset inventory
- Application inventory and analysis of functional capabilities
- Employee skill sets and constraints on availability
- Operational risks, including impacts on customers and suppliers
- Security risks and compliance concerns
- Details about vendors, including contracts, risks and product end-of-life timelines

Without this in-depth information, executives often make mistakes about the benefits the IT integration can achieve and promise timelines that the IT team simply cannot deliver on. Setting those incorrect expectations can lead to serious issues or even torpedo the whole deal. Here are just a few examples of the value of including IT executives in your M&A planning process:

- The organization you're acquiring might well have bespoke or legacy applications that require older servers than are used in your infrastructure, or its hardware might be many years out of support. IT executives will know how to ferret out these issues and estimate the time and costs involved, as well as intelligently explore whether it's essential to keep particular applications and services running or whether sufficiently similar solutions are already in place in your environment.
- For a variety of reasons, your IT department might require all desktops and printers to conform consistent standards. If the acquiring organizations uses different hardware, you'll need to budget for replacements — as well as time and resources to review and reinstall all the software on those PCs. IT execs will ask the right questions and provide accurate estimates.
- Proper staffing — in terms of both numbers and skills — is essential for completing the IT integration correctly and on time. While C-level management might be focused on identifying just overlaps that could enable reductions in force, IT executives will also look for experience gaps that could endanger the project, as well as ensure there is sufficient staffing to keep the business running at the same time. Moreover, they are keenly aware that valuable knowledge is often tied up in the heads of a few individuals, so they can help you avoid costly mistakes in staffing decisions.
- A cursory contract analysis can inform license consolidation numbers, but IT executives can help surface deeper issues, such as vendor support concerns and end-of-life strategies.
- Calculating the amount of data that needs to be migrated can help the M&A team estimate timelines. But IT executives will know to examine the structure and organization of the data as well, so you'll

know how usable it will be after a basic migration and whether you'll need to budget for a significant cleanup effort either before or after the migration.

- In general, the faster you need the IT integration done, the more it will cost, because you'll need to bring in additional resources and pay for faster responses from vendors. IT executives can help you quantify this speed/cost equation and choose the timeline that best fits your budget.

> "We were given 60 days to cut over an acquisition that wasn't in our network. We contacted their ISP to run fiber and were told it would be a 3- to 6-month lead time to dig a trench and put in fiber. So the executives were up in arms, but if you don't ask these questions, you won't know the truth about how long all this stuff takes."
>
> *Healthcare IT executive during an acquisition project*

NOT PERFORMING CYBERSECURITY DUE DILIGENCE

A critical part of any due diligence is security, but all too often, a cybersecurity analysis doesn't happen. Why? Because any kind of preparation appears as idle work to management facing stiff deadlines. But pushing for an integration without attending to security properly is a recipe for disaster. There's simply no substitute for involving IT executives, most of whom have internalized the need to take an assume-breach mindset.

For instance, in 2015, the CEO of Marriott said its acquisition of Starwood Hotels would deliver $200 million in annual cost synergies by leveraging back-office and operational efficiencies. But it didn't turn out that way, in large part because Starwood had suffered a data breach two years earlier — a breach that went undetected during the merger and the subsequent consolidation efforts but made headlines not long after. Instead of basking in cost synergies, Marriott instead faces brand and reputational damage, increased regulatory oversight, and a host of legal issues. As Jeff Pollard, vice president and principal analyst at Forrester Research, puts it: "With all the [mergers and acquisitions] occurring, it highlights the importance of robust cybersecurity due diligence during the acquisition process."[2]

2 TechTarget, "Marriott discloses Starwood data breach affecting 500 million guests," Nov. 30, 2018.

Legal Day One Pitfalls

Legal Day One (LD1) encompasses both the actual day that two (or more) organizations become one and the three to six months after, when the acquirer is trying to merge cultures, processes and systems with as little disruption as possible.

It's during this phase that the sins of Day Zero come home to roost.

LACK OF PRE-INTEGRATION PLANNING

Lack of proper upfront planning in IT integration can lead to productivity disruptions, delayed timelines and lack of confidence in the deal's success. For example, if you fail to fully define network connectivity requirements, critical business processes might be unable to access customer data, disrupting services and shaking consumer confidence in the new company. Without proper integration between HR applications and other IT systems, employees and contractors might not be able to submit time cards or expense reports, leading to frustration and productivity issues. And without a complete application inventory and recommended end state portfolio, you might inadvertently fail to support applications that are needed for important business functions, as well as miss out on true rationalization opportunities.

> "Executing an M&A system integration is a function of run time, data volume and number of users. But you definitely need a few weeks of up-front planning to really understand what is on both sides and formulate some design thoughts around how you're going to get it from point A to point B and what transformation needs to happen in between. If you put in 30% on the front end and 20% on QA on the back end, you're left with 50% for execution activities."
>
> *Jim Schiffer, Enterprise Content & Records Manager, North American Mining Corporation*

NO CLEAR COMMUNICATION CHANNELS ESTABLISHED BETWEEN IT AND BUSINESS STAKEHOLDERS

Much of LD1 success is the people — the IT teams, the project managers and the business stakeholders in each department on both sides of the acquisition — so it's essential to establish solid communication channels early. Otherwise, you put employee collaboration, customer service and even security at risk. For example, communication is critical for:

- Ensuring customers of both source organizations can access the support site of the combined enterprise
- Promptly disabling accounts of employees whose positions are eliminated, so they cannot be misused
- Maximizing cross-selling opportunities
- Rolling out branding changes in systems that produce customer-facing websites and documents

"In any acquisition or divestiture, there are a lot of moving parts and parallel execution. If any one of them is late or doesn't get done right, it can create heartache on everybody's part down the line. You have to get the right people involved up front, people who understand the nature of the transaction and what's going to be needed."

Jarrod Roark, Professional Services Director, Quest Software

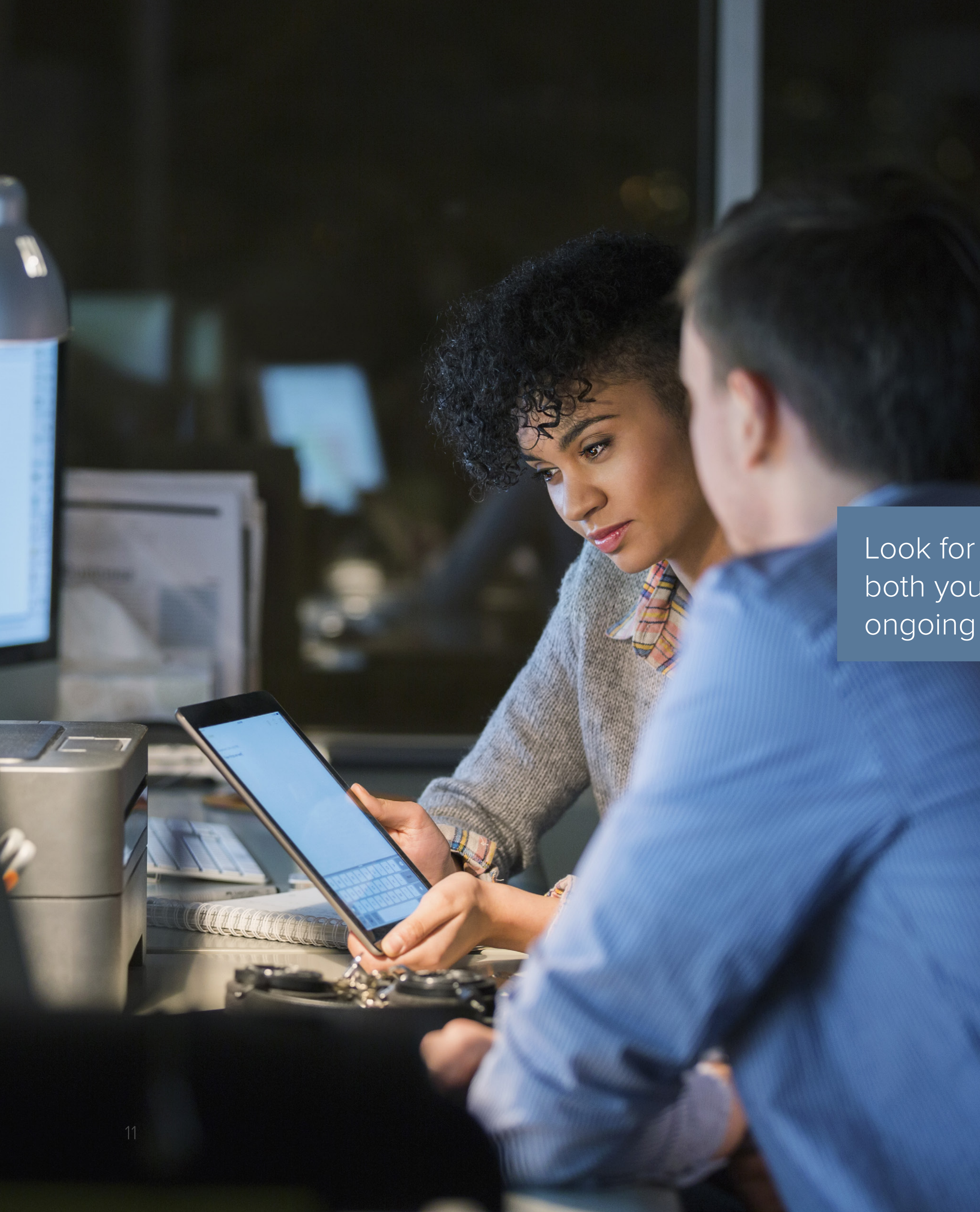
Day 2 Ongoing Management Pitfalls

After the LD1 period, the new organization should have found its footing. But there are still pitfalls to watch out for.

FAILING TO GO BACK AND PERMANENTLY FIX THE IT INTEGRATION WORK-AROUNDS

Most, if not all, M&As involve at least a few IT work-arounds designed to get people and processes working together quickly. IT teams can find creative ways to make things work — for instance, by enabling a team to get the data they need in a non-standard way or keeping a key application running by splicing old hardware into an otherwise up-to-date IT shop. These work-arounds add complexity and risk, but that might be an acceptable business choice for the short term.

Unfortunately, many organizations fail to go back and find permanent solutions for the work-arounds. They balk at the effort and cost involved, not recognizing that they're being penny wise and pound foolish, since leaving the work-arounds in place can drive up both management costs and security risks for the long haul.



NOT LEVERAGING THE INVESTMENT IN THE PRE-MIGRATION TOOLS

Many organizations think of IT integration and ongoing management as two distinct efforts that require different tools. In fact, they sometimes even invest in new tools for each M&A project. But changing up the tool set means a new learning curve and a new set of support agreements — in other words, increased costs and more hurdles that endanger your integration timeline.

> Look for flexible tools that you can use for both your M&A IT integration projects and ongoing management.

To avoid this pitfall, look for flexible tools that you can use for both your M&A IT integration projects and ongoing management. As the IT team becomes proficient with that single set of tools, they will be able to manage the environment more effectively, estimate timelines more accurately, and complete the next M&A IT integration faster and more efficiently.

CASE STUDY

How Equifax's aggressive acquisition strategy created a complex environment ripe for a data breach

It's widely known that Equifax suffered one of the worst data breaches in history, exposing the sensitive personal data of 148 million U.S. consumers. What is less commonly understood is the role that M&A activity played in the breach.

Equifax adopted a growth-by-acquisition strategy when it hired a new CEO in December 2005; by 2017, it had acquired more than 18 companies. In financial terms, this strategy was a resounding success: the company's market value more than quadrupled.

> Equifax's failure to perform proper IT integrations during its M&As led to an excessively complex IT environment that was ripe for a data breach.

But the Congressional investigation into the breach shone a bright light onto the downside of the M&A execution. It found that the IT complexity left in the wake of the acquisitions was a contributing factor in the "entirely preventable" massive data breach, as well as Equifax's failure to discover it in a timely manner. Indeed, the complexity of the Equifax IT environment even hindered the forensics investigation. The House committee's report is blunt about the effect of the IT complexity on security: "Both the complexity and antiquated nature of Equifax's IT systems made IT security especially challenging. Equifax recognized the inherent security risks of operating legacy IT systems because Equifax had begun a legacy infrastructure modernization effort. This effort, however, came too late to prevent the breach."[3]

Another important factor in the breach was a disconnect between IT operations and security, which had been moved out of the IT silo and into the Legal silo. In particular, the two groups kept separate "multiple and incomplete software inventory lists," which led to patch management and digital certificate deployment problems that were instrumental in the data breach.

3 U.S. House of Representatives Committee on Oversight and Government Reform, Majority Staff Report, "The Equifax Data Breach," December 2018.

Recommendations

There are proven strategies that can help you avoid these IT integration pitfalls during your merger or acquisition. Here are our top recommendations:

CREATE AN M&A IT READINESS TEAM

Assemble an M&A IT readiness team equipped with experienced people who can collect critical information that could impact timelines and cost estimates, and make sure to get their input prior to finalizing any deal. In particular, task this team with carefully analyzing the target's environment to identify opportunities and challenges to the transaction, including contracts, platforms, people, processes, security and regulatory compliance.

Creating an IT readiness team can help you maximize M&A value while minimizing risk.

Gartner offers the following insights into involving IT early in an M&A: "Companies that involve their IT function early on, during the planning stages of an acquisition, can shorten their initial candidate's screening process, develop a clear view of the most suitable integration strategy, and significantly improve their estimates of M&A-related integration risks and timelines, because 25% of typical M&A integration efforts come from IT, and more than half of all synergy-relevant integration activities are strongly dependent on IT."[4]

IDENTIFY MUST-HAVES AND EASY WINS

Prepare for LD1 by clearly defining your goals. Keep the list short, focusing on must-haves and easy wins for early integration benefits. Be sure to document any work-arounds and plan for how you will remediate them later.

4 Gartner, "The CIO's Role in Making Mergers and Acquisitions Faster" (ID G00226390), Ansgar Schulte, December 5, 2018.

Day 0: IT due diligence

Understand, analyze and assess the entire Microsoft environment of the acquired or divested organization.

Day 1: IT integration execution

Scope, plan, secure and execute both Legal Day 1 coexistence integration and end state consolidation.

Day 2: Ongoing business

Manage, recover and secure your newly consolidated Microsoft environment.

Figure 2. A repeatable software and services framework for M&A IT integration

RELY ON A REPEATABLE M&A SOFTWARE AND SERVICES FRAMEWORK

Using a set of processes and software tools that are repeatable and known to the IT players is critical for reducing IT integration timelines and maximizing cost synergies. A repeatable framework, as illustrated in Figure 2, allows you to become familiar with a set of solutions, a single support team and a single services team, so when your next M&A comes around, many parts of the IT integration are not unknowns but familiar, predictable processes.

Gartner lists how CIOs can contribute to making companies M&A ready: "Deploy ready-made IT tools, templates and checklists, such as customized IT due-diligence checklists, integration planning templates, Day 1 infrastructure migration kits, and tools for secure document sharing and remote collaboration to efficiently support both predeal and postdeal M&A activities. Serial acquirers often develop so-called 'M&A playbooks' that contain standard processes and IT tools to reduce the time required to integrate, while minimizing operational disruptions and improving the quality of harmonization results."[5]

5 Ibid.

Using a repeatable M&A software and services framework is critical for reducing IT integration timelines and maximizing cost synergies.

Conclusion

Getting your IT integration right — which requires avoiding the key pitfalls outlined here — is essential to achieving your M&A ROI goals. By relying on a repeatable software and services framework for your IT integrations, you can speed your project while minimizing operational disruptions, thereby maximizing your M&A cost synergies.

But don't stop there. An M&A IT integration is actually a golden opportunity to clean up and modernize your infrastructure so you can deliver an efficient, manageable and flexible IT environment that not only supports but actually drives the success of your organization. To learn more, read our white paper, "IT Integration Best Practices in Mergers & Acquisitions."

A repeatable software and services framework can speed your IT integrations while minimizing operational disruptions, thereby maximizing your cost synergies.

ABOUT QUEST

Quest provides software solutions for the rapidly-changing world of enterprise IT. We help simplify the challenges caused by data explosion, cloud expansion, hybrid datacenters, security threats and regulatory requirements. We're a global provider to 130,000 companies across 100 countries, including 95% of the Fortune 500 and 90% of the Global 1000. Since 1987, we've built a portfolio of solutions which now includes database management, data protection, identity and access management, Microsoft platform management and unified endpoint management. With Quest, organizations spend less time on IT administration and more time on business innovation. For more information, visit www.quest.com.

If you have any questions regarding your potential use of this material, contact:

Quest Software Inc.
Attn: LEGAL Dept
4 Polaris Way
Aliso Viejo, CA 92656

Refer to our website (www.quest.com) for regional and international office information.

Ebook-CLevelGuide-US-GM-38206