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Accelerating IT Synergies

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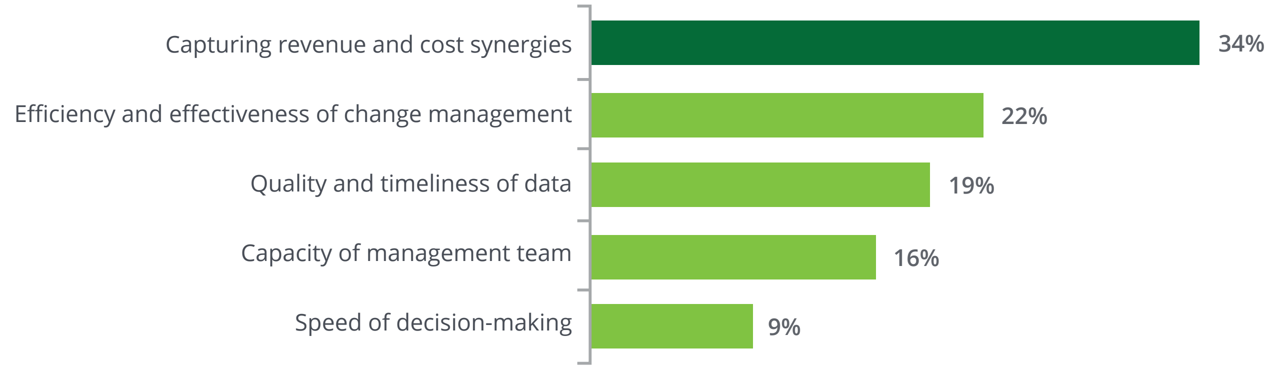
Accelerating IT synergies capture - the key to achieving a successful M&A deal

Mergers and Acquisitions (M&A) are a common strategy for organisations seeking growth and market expansion, or as a way to achieve operational efficiencies. However, while M&A deals have immense potential, they also pose significant challenges. In particular, it can be difficult to identify and create synergies, which are often the rationale for the deal and essential if the transaction is to generate value. According to a Deloitte survey of more than 500 executives, “Capturing revenue and cost synergies” ranked first in the list of top concerns for acquirers in M&A transactions.

What is your company’s top concern in a new acquisition?



Deloitte M&A Trends 2016, Corporate Acquirer Respondents (n=528)

Various categories of synergy

In M&A, synergy is the increased effectiveness and improved performance achieved by bringing two businesses together, so that the combined whole is greater than the sum of the two businesses on their own. There are three types of economic synergy:

- Cost synergies: these are achieved through cost reductions from combining the businesses – for example by eliminating duplicated activities or reducing unit costs through economies of scale and by increasing operational efficiency.
- Revenue synergies: these are achieved when the combined businesses can generate more sales than the sum of the two businesses separately, for example because of cross-selling opportunities.
- Capital synergies: these are the financial benefits that result from strengthening the balance sheet by redefining working capital, CAPEX and the financing liabilities of the new entity.

Synergies can be obtained across most business functions, such as R&D, Marketing & Sales, Customer Service, Procurement & Operations, Finance, HR and IT. But achieving them is not easy. Experience shows that almost two thirds of mergers and acquisitions fail to deliver the expected synergies and value envisioned for an M&A transaction, and one in four transactions result in a loss of value (negative synergy).

Accelerating IT Synergies

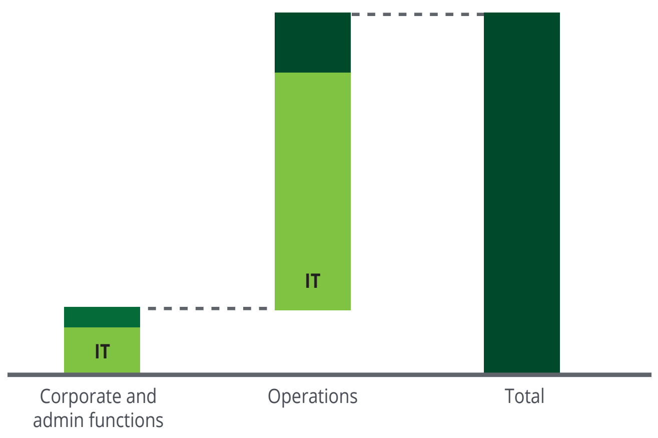
Why is IT critical to realising synergies?

IT is in a unique position to enhance the identification of synergies across all business areas and formulate plans to realise them.

It contributes to achieving synergies in two ways: first through economies of scale within the IT function itself, to reduce costs; and second, usually to a larger extent, by supporting the achievement of synergies in other parts of the business. IT provides essential support to all functions and activities in a company (people, processes, data, systems, assets, etc.) and therefore has a privileged view of the organisation and its business activity. Tasks automation, processes simplification, practices and technology standardisation and innovative solutions are some of the IT-related strategies that can be applied to other business areas to foster synergies realisation. Some examples of how IT is involved in other functions and can help to improve business performance are set out below:

- Supply chain and operations: production sites, plants, and factories are connected and supported by IT; this means IT must understand the underlying systems, processes, and data, and how they can be integrated or separated efficiently.
- Consolidation of customer-related IT systems is essential to achieving a unified view of the customer and therefore to enhancing customer satisfaction – as well as enabling targeted marketing efforts and streamlining data management.
- Optimisation of financial and HR processes can only be achieved by combining the IT systems of the two previously independent companies into one, to reduce operating costs, ensure data integrity and accuracy, and facilitate compliance with regulatory requirements.
- Identification of redundances and synergies in IT processes and systems can also make reductions in headcount possible. For example, the IT support of both companies can be combined into one single efficient team.

IT is a key driver of integration benefits, accounting for over 50% of all synergies



Source(s): Deloitte Consulting analysis of over 30 prior mergers of equal transaction; Gartner IT Primer on Mergers and Acquisitions, Ansgar Schulte, February 2015

According to Deloitte analysis of 30 transactions, **IT is the key driver for more than half the synergies obtained from the deal**, which means that one of the IT workstream’s top priorities should be proactive cross-functional engagement and alignment with all business functions from an early stage.

Main IT-driven synergies and other IT improvement areas to consider

Normally, IT synergies involve the harmonisation, integration, and optimisation of information technology resources, processes, and systems between the merging companies.

Analysis of the technical documentation of the buyer and of the sold entity – such as architecture diagrams, business process diagrams and infrastructure diagrams, as well as their fundamental IT processes – makes it possible to identify potential areas for improvement, which will normally fall into one of three strategies, as shown below.

1. Doing the same with less

A. Application rationalisation is a major cost synergy opportunity that typically yields a 20%–50% reduction in the IT footprint, largely accomplished by reducing the number of overall IT applications, the underlying infrastructure, and support and licensing costs. The level of IT and business integration of the acquired company will directly influence the magnitude of rationalization opportunities.

The process should start with a current state view of all applications: enterprise resource planning (ERP), HR, customer relationship management (CRM), product lifecycle management, financial management, and financial reporting, and their respective processes and supported customers. An application decision framework should quickly be defined to identify rationalisation opportunities and a recommended end state for the application portfolio.

Initiative	Benefit	Timeframe (months)	Level of business change
Reduce Microsoft spend through correct use of enterprise and select agreements	5%-15%	3-6	Low
Use open-source software as a competitive threat	10%-20%	3-6	Medium to high
Improve scheduling of resources in development pools to improve utilization	5%-15%	3-6	Low

B. Based on Deloitte's experience, IT infrastructure consolidation presents additional opportunities for cost synergies. Areas in which consolidation is possible typically include networks, the data centre, storage, server, computer hardware, telecommunications infrastructure and infrastructure services, with an average cost reduction of between 10% and 30% of the two companies' pre-merger costs normally possible.

Both companies are likely to have different data centre geographies, rack footprints, hardware relationships, and communications partners. The integration team should assess the current landscape, develop a consolidation strategy that will eliminate duplicated costs in these areas, build the requirements and contracts behind each vendor relationship, and share them across the two organisations at Day 1 to build the plan.

Initiative	Benefit	Timeframe (months)	Level of business change
Improve data centre power efficiency	15%-25%	9-12	Low
Reduce number of servers by consolidating servers with low cup / ion utilisation	20%-30%	3-6	Medium to high
Consolidate onto more cost-effective large Unix platform	20%-30%	9-12	Low

C. Sourcing and procurement. A major component of application rationalisation and infrastructure consolidation is renegotiating vendor contracts and subscriptions. Early identification of contracts across both organisations, proactive planning, and ongoing communication can aid contract negotiations. A dedicated IT Contracts team should develop a comprehensive list of contracts and focus on realising maximum synergies, based upon the agreed contract strategy. The dedicated team should quickly analyse and align on contract strategies across existing software licences, required new purchases, and synergy identification and realisation plans.

Initiative	Benefit	Timeframe (months)	Level of business change
Periodic review of Enterprise Licence Agreements to understand opportunities for renegotiation and cost reduction	15%-25%	6-9	Low
Consolidate large number of smaller suppliers to a smaller number of larger vendors	15%-25%	9-12	Medium
Use global presence to purchase licences in territories with most favourable prices	20%-30%	6-9	Low

D. Effective use of IT projects. Keep in mind that prior to the M&A transaction, executives in both organisations may have approved and set in motion several large-scale IT projects. After a merger or acquisition, some of these projects may no longer be relevant. Or they may be counterproductive to the integration strategy for a few reasons: overlap between projects, lack of alignment with the new company's strategy, etc. To assess and consolidate all active technology projects, a governance structure needs to be established at an early stage, along with cross-company team alignment. IT should coordinate closely with the business units on decisions to stop or postpone a project. In some cases, it may be necessary to escalate a project to the Integration Management Office (IMO) for final approval. The goal is to keep the IT resource pool as focused on the integration effort as possible and avoid consuming resources in areas that do not clearly align with the new strategy.

Initiative	Benefit	Timeframe (months)	Level of business change
Review all projects and measure business benefits to cancel those with less compelling benefits	20%-30%	Less than 3	Medium
Increase business benefits delivered by redirecting IT project budget to new investment projects	10%-20%	Less than 3	Medium

2. **Do more with the same**

   A. **Workforce and resourcing.** A merger or acquisition offers the opportunity to build a new IT team with standardised and consolidated roles, to improve the overall skillset of the team.

Initiative	Benefit	Timeframe (months)	Level of business change
Centralise third line support to leverage common skill	10%-20%	9-12	Medium
Centralise IT teams to a single, low-cost location	10%-20%	9-12	Medium
Flatten organisational hierarchy	10%-20%	6-9	Low

   B. **Service management.** Standardisation of business and IT processes within the IT organisation (such as IT Service Management), service catalogue implementation or development of best practices, are some measures that improves not only the IT function performance but also the quality of the service.

Initiative	Benefit	Timeframe (months)	Level of business change
IT helpdesk hours of service that match business requirements	5%-15%	Less than 3	Low
Outsource helpdesk, 1st, and 2nd line support when an in-house team is not efficient	15%-25%	6-9	Low
Improve demand management with e-Catalogues	20%-30%	9-12	Medium

3. **Do more through transformation and innovation**

   A. **Operating model.** One of the first areas likely to require rationalisation is each company's IT operating model. It is important to understand how things work today to formulate how they should work in the future to optimise both service delivery and spending. A model map typically defines how each organisation delivers IT services: its staffing/organisational structure; insourced versus outsourced capabilities; and execution model. Defining a target state operating model for Day 1 is vital to aligning the right staff to the right roles.

   B. **Technology upgrading.** Out-of-date technologies, such as legacy systems that are not flexible enough to accommodate substantial change, and regular manual interventions are potential areas for improvement during a transformation project.

Conclusion

Identifying and achieving synergies from an IT perspective not only helps the IT function become more cost-effective but can also **improve overall business performance when the IT work-stream is treated as an enabler and not as an standalone piece.** However, IT-related synergies are not that easy to realise. Deloitte analysis reveals that after a merger or acquisition most organisations remain with the same IT costs and quality as before. On average fewer than 20% were able to improve their IT costs and quality considerably. This stresses the importance of an effective and solid identification and value capture approach.

Organisations that recognise IT as a key stakeholder and an essential part of the deal are more likely to achieve a seamless transition and successful end-to-end integration. When IT plays a pivotal role in organisations striving to maximise the value of a merger or acquisition as whole, and all C-level executives, not only the CIO (Chief Information Officer) and their teams, engage early and often with the IT workstream, the chances to identify synergies across the company and even to accelerate their realisation are greater. Their active involvement brings a clear perspective on how to address the technological complexities of the new organisation with an eye on achieving the deal's objectives across business functions, all while maintaining business continuity.

If you would like to know in more detail how to accelerate synergies capture and realisation to maximise the value of your M&A deal, please reach out to us.

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