

Informed IT integration

Three-phase approach can boost M&A synergy capture

When a company integrates a large acquisition or engages in a merger of equals, the sooner IT leadership is involved in pre-deal planning, the smoother the integration is likely to be. While every M&A transaction is unique, they all involve rationalizing and integrating portfolios of IT systems, platforms, and applications that have critical impacts on products, services, customers and suppliers.

One of the biggest challenges during IT integration is to quickly deliver on a transaction's strategic business objectives while making sure that both companies' day-to-day operations continue uninterrupted during the rapid countdown to Legal Day 1 (LD1) and any subsequent consolidation or transformation. Early planning, ongoing collaboration between IT and business functions, and efficient implementation of

a three-phase M&A IT integration lifecycle approach (Figure 1) can help head-off potential issues and boost post-deal synergy capture.

Figure 1: M&A IT integration lifecycle



Deloitte's *Integration Report 2015*, a survey of middle management through C-suite executives in <\$100 million to >\$5 billion companies from various industries, showed that a smooth transition from a merger's beginning through Legal Day 1 correlated very highly with overall deal success. Survey respondents said the

most common barriers to successful integration were unexpected challenges arising from the speed and various phases of integration; and from communicating with employees, customers, and suppliers before, during, and after the merger. These challenges illustrate how crucial it is for Chief Information Officers (CIOs) and

Chief Technology Officers (CTOs) to have a clear perspective on how to 1) balance the complexities of integrating IT assets and sustaining business momentum; and 2) engaging internal and external stakeholders early and often.

IT due diligence: Buyer basics

The IT function is an integral part of business operations, yet it is often overlooked in M&A planning because some senior executives view it as an internal service provider rather than a key stakeholder. However, given the connective tissue of IT and other internal and external business functions, it is critical that IT executives be included on the deal team and lead IT due diligence during the target screening process.

IT diligence can uncover operational and financial risks that may impact the deal's overall accretive value (e.g., EBITDA) and identify key cost drivers for current and future-state IT environments by examining:

- Business and IT strategy alignment
- Business processes and supporting IT systems/applications
- Infrastructure footprint
- Applications and physical assets inventory
- Detailed IT cost analysis (including synergy opportunities)
- Data management platforms and analytics capabilities
- Operating model and employee skill sets
- Impact on customers and suppliers
- Critical operational risks
- Potential security and compliance risks.

This analysis should also serve as a key input to the deal's top-down cost synergy targets. For example, it is important to understand the operational health of a target's data centers and connectivity providers, as both could increase overall IT operational expenses (e.g., remediating the LAN/WAN, security violations). It's also wise to review the target's primary business systems, proprietary technologies, and level of business enablement, automation, organizational support, and skill alignment to determine the feasibility of capturing functional cost synergies.

In addition, conducting diligence on outsourced and third-party vendors can help uncover further financial risks and opportunities by reviewing:

- Contracts to identify cost-saving opportunities (e.g., increased volume ERP discounts) and risks (e.g., licensing violations);
- Vendor health and risks to highlight potential product support issues or vendor rationalization opportunities;
- End-of-life scenarios to reveal potential quick technology rationalization wins or to move to a more robust cloud solution.

Finally, the diligence process allows an acquiring company to assess the target's organizational structure, cultural fit, potential skill-set gaps or redundancies, and areas for immediate synergies. Evaluating the span of control within the company can quickly help identify redundant areas and feed directly into the overall synergy target, as long as culture and business stability are not disrupted.

Case Study: A global manufacturer planned to acquire a global leader in turbine-based power systems with a large shared services contingent. The IT diligence process identified key gaps in technology resources, infrastructure, and applications prior to deal close, thereby minimizing business continuity disruption. Diligence also provided interim and future-state IT organizational strategies, as well as a 100-day roadmap for a target-state application landscape.

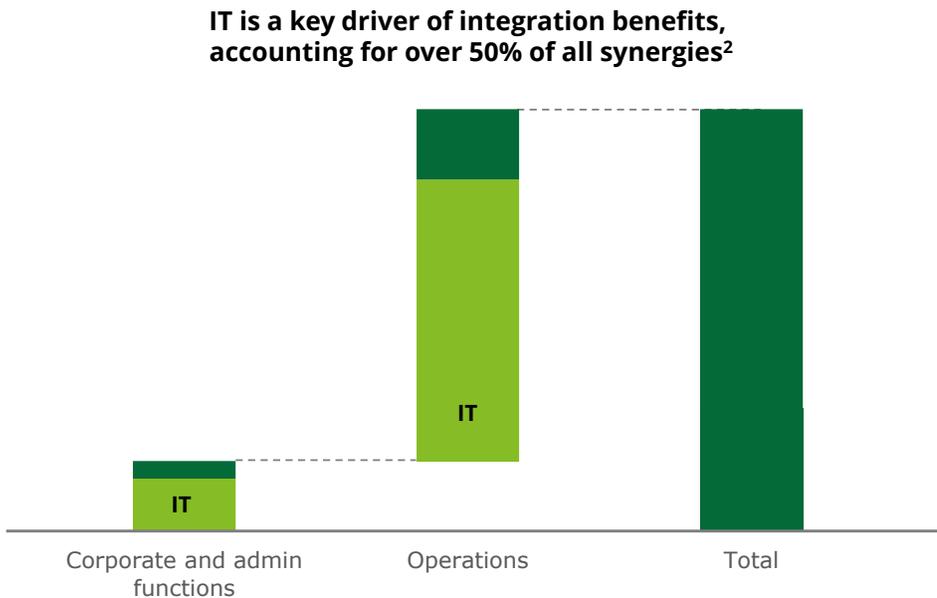


Pre-close planning: Start with the end in mind

Information Technology is a major driver of M&A benefits, enabling a significant portion of identified cost¹ synergies across the business enterprise (Figure 2). According to Deloitte's *Integration Report 2015*, roughly 18 percent of executives surveyed said they fell short of their initial synergy targets. Given overall deal synergy opportunities, it is apparent that if IT integrations are not properly executed, organizations may end up with lower synergies and higher realized costs than they anticipated.

As part of IT's participation in the deal team, the acquiring company's CIO or CTO should assess whether the deal objectives' estimated cost and time impacts are clearly articulated in the deal sheet. This will most likely pay dividends when making critical decisions around strategic platforms and setting end-state expectations.

Figure 2: Drivers of deal synergies



¹ This article will focus on cost synergies only as growth synergies are generally deal specific

² Source(s): Deloitte Consulting analysis of over 30 prior merger of equal transaction; Gartner IT Primer on Mergers and Acquisitions, Ansgar Schulte, February 2015

Defining business and IT priorities

While the IT function's overarching goal during M&A integration is to rapidly connect both entities and prevent business and operational disruptions on Legal Day 1, IT leaders should also focus on helping to quickly achieve the integration's strategic objectives. Engaging with business leadership during diligence and planning should help align and prioritize optimization objectives, project scope, and integration timeframe(s). As part of this process, IT should balance strategic priorities with the "art of the possible," and clearly articulate its delivery capability based on the proposed timeframe. In a 2015 survey, Deloitte found that over 50 percent of integrations were completed in less than six months (Figure 3);² a compressed timeframe may limit the objectives that can be realized prior to LD1, while a longer timeframe may increase costs, as the IT program will continue supporting integration efforts before realizing organizational synergy targets.

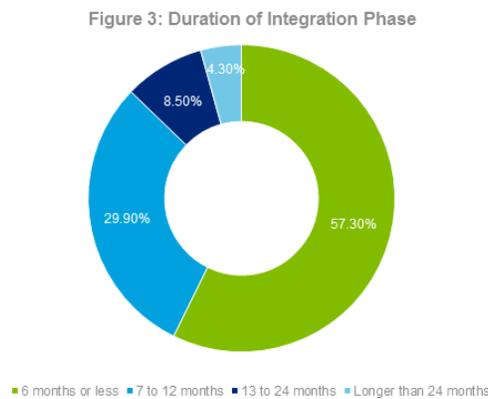
To accurately define the IT program scope and set expectations around department capabilities, it is critical that IT executives document and communicate to business leadership the integration options, timing, and risks. These conversations should be data-driven, collaborative discussions about prioritizing key capabilities. The goal is to clearly define a manageable IT integration roadmap that is supported by the business.

Once the initial scope is defined, IT should continue to use the "three-legged stool" approach (scope, speed, and cost) to illustrate potential impacts and risks of any proposed changes to the LD1 execution plan. Any increase in scope may strain IT resources and impede the delivery timeline, as they likely will require additional capital and/or resources to execute.

When all strategic decisions have been made and aligned to, it is helpful to conduct a pre-LD1 workshop aimed at developing a comprehensive end-state roadmap that will serve as the integration guide. The workshop should include IT leaders from both organizations; discussions should be structured around three phases, each with a set of distinct IT requirements:

- Legal Day 1
- Post Legal Day 1 (What can be achieved within three to six months after LD1)
- End State (typically 12 to 18 months post LD1).

Figure 3: Duration of integration phase



A. Legal Day 1 IT requirements

For Legal Day 1, IT should focus on providing basic services such as connecting wide-area networks (WANs) and email platforms, and enabling select users access to each other's critical applications or platforms (e.g., Finance may need access to both sets of financial systems to generate consolidated earnings reports, etc.). These tasks can be achieved by moving functional and business leaders at both companies through a series of speed-dating exercises, during which IT leaders ask them to quickly identify "must have" requirements for LD1. The list of must-haves should be kept short, both because of the typical time constraints associated with M&A transactions and because long-term solutions to achieve end-state objectives generally require different solutions and approaches. IT should drive the LD1 list-making process to enable the "art of the possible" and address key IT activities such as:

- Defining network connectivity requirements (e.g., customer data, internal messaging solutions, FileShare access)
- Accommodating new legal entity and branding changes for systems producing customer-facing documents
- Providing application access (e.g., time tracking, expense, talent portals)
- Enabling customer-facing applications to support sales and marketing strategies.

Note that the communication channels between IT and the deal team's governing bodies (e.g., Corporate Development, Legal) should remain open throughout integration to minimize security risks for both organizations.

² Deloitte Integration Report 2015

B. Post Legal Day 1 IT requirements *(typically three to six months following LD1)*

This is a period in which the newly combined organization typically rolls out significant operational changes. IT should focus on three concurrent objectives:

- Capturing “low-hanging fruit” synergies by quickly consolidating IT services and software license contracts for common vendors
- Supporting basic functionality that quickly allows the two entities to operate more effectively as a combined organization
- Enabling the various lines of business to begin realizing the integration’s strategic value by cross-selling goods and services to the newly combined customer base or launching new products and services into the market place.

As soon as the first round of organization changes has been announced, IT leadership should engage with functional and business leaders to determine the level of integration that will be achieved within each area. (This can vary greatly between back-office and front-office functions.) In addition, IT should further advance the integration project roadmap with detailed work plans that include milestones, start and finish dates, task owners, and inter-organizational dependencies. While executing these work plans and reporting progress on a weekly basis, IT leaders should begin planning how to achieve end-state objectives.

C. End-state IT requirements (typically achieved 12 to 18 months post LD1)

This is the “holy grail” for IT and the most difficult of the three objectives to achieve. When properly executed, end-state integration can help IT leaders rationalize the entire application landscape and consolidate data centers, WAN, help desks, and other IT resources. Working towards end-state integration

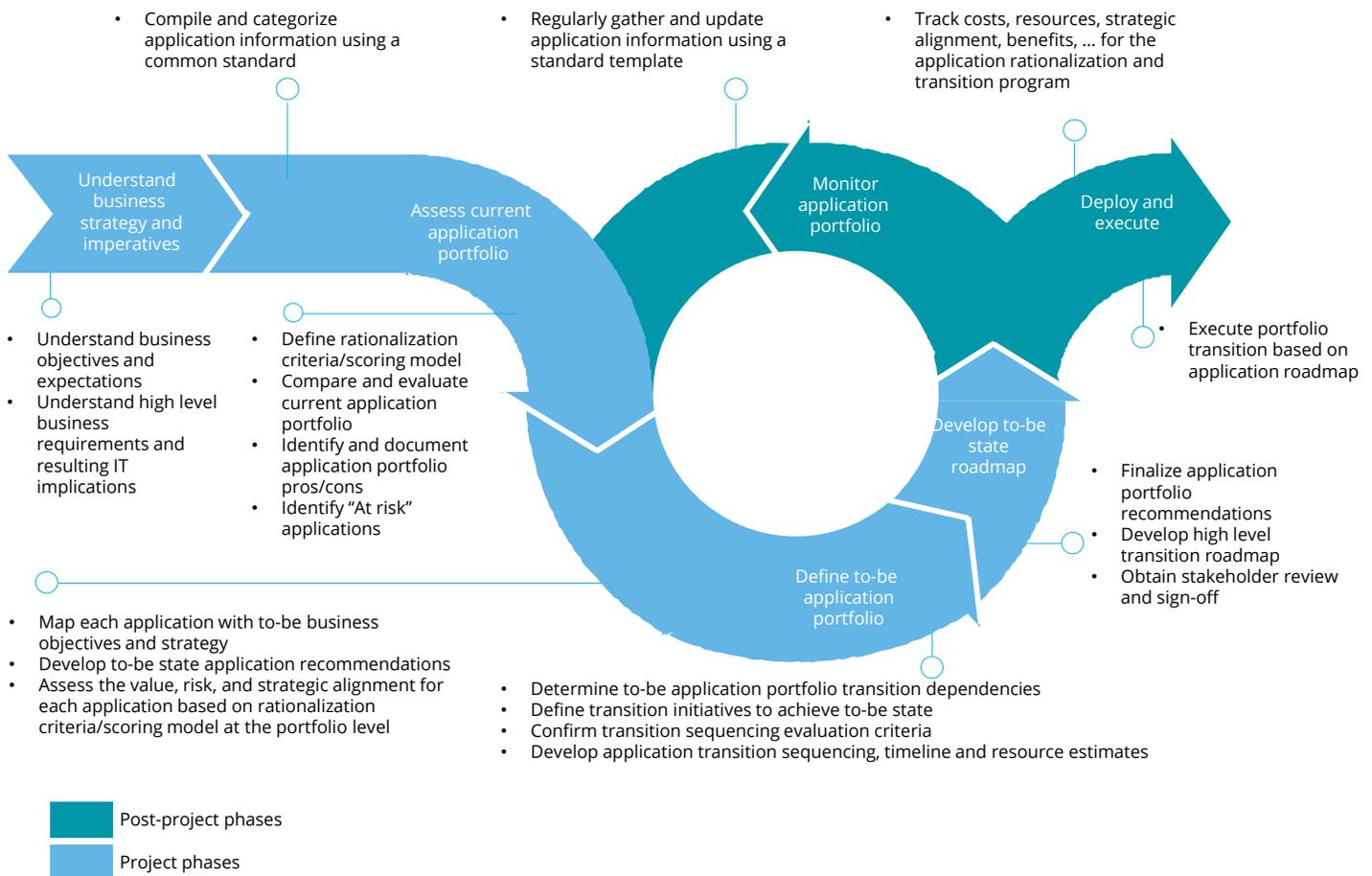
presents an opportunity for CIOs and CTOs to revisit strategic technology investments (e.g., infrastructure as a service, data analytics, and cloud) and assess whether this event could spur broader IT transformation. Given the current trend of moving applications from on-premises locations to cloud solutions, it may be possible to simplify the existing technology stack and detangle technical complexities which the organization may have delayed due to a diminishing IT budget.

Application rationalization

Application rationalization is a major cost synergy opportunity that typically yields a 20–50 percent IT footprint reduction, largely accomplished by reducing the number of overall applications, underlying infrastructure, and support and licensing costs. That being said, the level of IT and business integration will directly influence the magnitude of rationalization opportunities.

The process should start with a current-state view of all applications (e.g., ERP, HR, CRM, product lifecycle management, financial management, and financial reporting) and their respective processes and supported customers. Defining an application decision framework in advance (Figure 4) can allow the integration team to quickly identify rationalization opportunities and a recommended end state for the application portfolio. Potential criteria to be weighted for the trade-off analysis include business value, technical condition, total cost of ownership, growth enablement, and M&A readiness.

Figure 4: Application decision framework



Rationalization opportunities will vary and should be vetted with the business functions to align on timing and potential operation impacts. For example, the redundancy synergy targets may drive consolidation of back-office operations into a single shared services organization; however, this may have to wait until after LD1 and synchronize with back-office consolidation timing. Typical outputs of application rationalization analysis include:

- Consolidated application inventory
- Key end-state application decisions
- Application rationalization projects (including charters, teams, and timing).

Once the LD1 dispositions are established, the integration team will need to build and finalize the roadmap that details major execution milestones for application rationalization as well as cross-functional dependencies.

Case study: A global travel provider and investment company formed a joint venture (JV) and rationalized their financial systems by moving directly to a cloud solution. By partnering with a cloud ERP provider, the JV developed a common model that reduced 15 financial systems in less than 16 months, lowering maintenance costs and improving overall operating efficiency.

Infrastructure consolidation

Based on Deloitte’s experience, infrastructure consolidation represents additional cost synergy opportunities, often time independent of applications rationalization opportunities. Figure 5 illustrates typical consolidation opportunities and average reduction benefits.

Figure 5: Infrastructure consolidation reduction categories

Category	Source of savings	Benefits (reduction)
LAN/WAN/Voice and Data Network	<ul style="list-style-type: none"> • Cost reduction through consolidation, sourcing, and reduced band width requirements • Increased performance and reliability 	10%–30%
Storage	<ul style="list-style-type: none"> • Cost reduction through increased efficiency/utilization of new and existing technology • SAN, Virtual Storage Management deployments • Increased business continuity/disaster recovery 	20%–50%
Server	<ul style="list-style-type: none"> • Cost reduction resulting from platform consolidation and contractor reduction (or expanded service without head count increases) • Increased efficiencies through technical standardization 	10%–40%
Data center	<ul style="list-style-type: none"> • Cost reduction through consolidation (cost avoidance, improved real estate costs, operational efficiencies reduced capital investment, etc.) 	10%–25%
Mainframe	<ul style="list-style-type: none"> • Cost reductions and cost avoidance resulting from capacity planning, system consolidation and centralization, resource reduction 	10%–20%
PC Management	<ul style="list-style-type: none"> • Hardware/Software and support process standardization • Increased efficiencies from leveraging remote tools • Maintained or improved security service levels 	10%–30%
Maintenance contracts	<ul style="list-style-type: none"> • Cost reduction by validating inventory against billings • Extend reach and reduce technology cost via 3rd parties 	10%–30%
Help desk	<ul style="list-style-type: none"> • Additional outsourcing opportunities • SLA mgmt (align SLAs with end-user needs) • Cost evaluation against industry benchmarks 	10%–20%

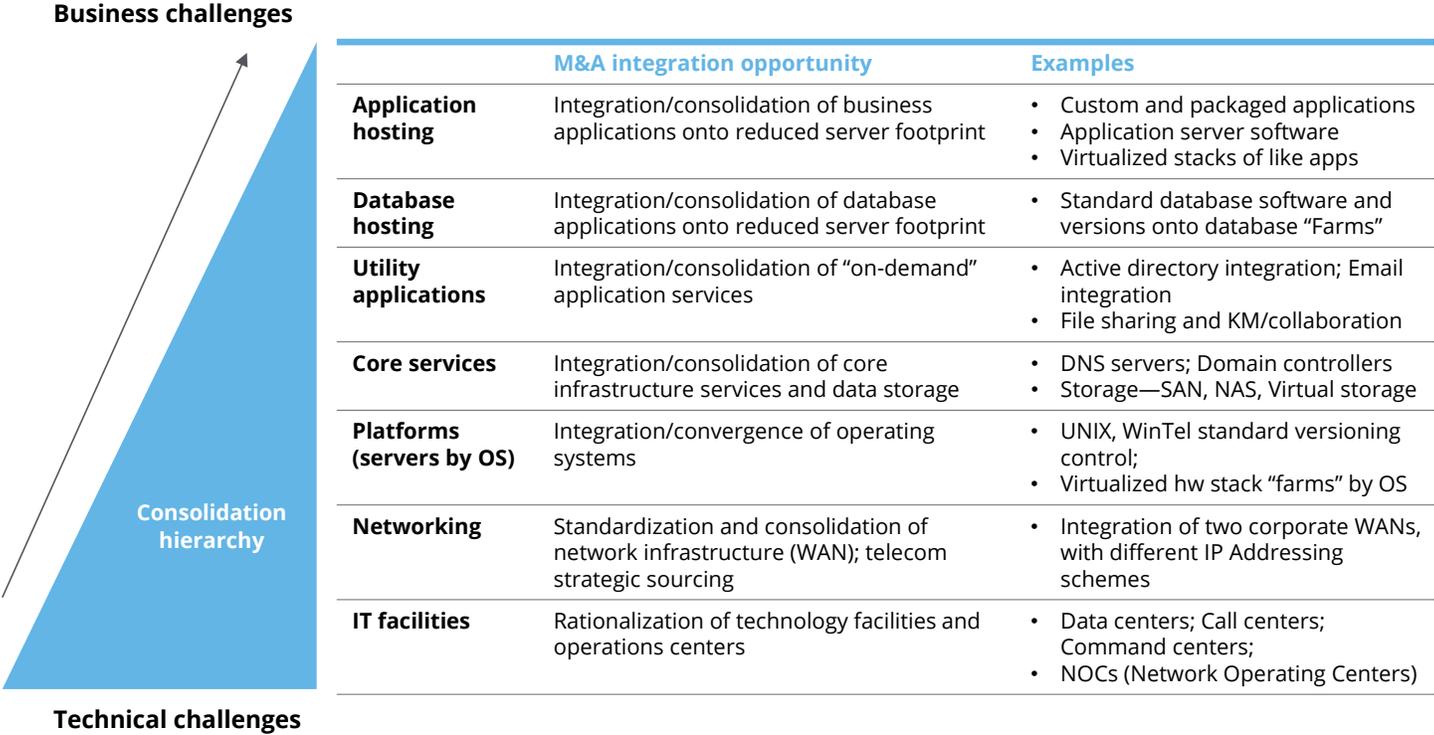
Leveraging findings from the planning workshop mentioned earlier can help the integration team understand the scalability of the infrastructure environment and minimize the amount of throwaway work and misinformed short-term investments. Focus areas typically include data center locations, networking, telecommunications infrastructure, core infrastructure services, and infrastructure management tools (e.g., authentication devices, and business applications (Figure 6).

It is important to note that not all of the target acquisition's core infrastructure components should be considered in scope for potential consolidation. For example, if the target's core business is eCommerce, it may make sense from a security perspective to keep infrastructure components for the external sites separate from infrastructure components for corporate applications.

In many scenarios, application rationalization and infrastructure consolidation have a cause-and-effect relationship, as the application rationalization opportunities may also translate into infrastructure consolidation wins. When pursuing either avenue, CIOs and CTOs should develop a fast and programmatic approach to select the go-forward environment or platform.

The challenge will reside in maintaining focus on revenue-generation activities, and supporting day-to-day business transactions, while pursuing cost-saving opportunities. In some instances, running two independent IT applications and infrastructure environments might be necessary to help continue revenue streams, until a joint go-to-market strategy and customer cross-selling strategy has been developed by the business leadership.

Figure 6: IT infrastructure consolidation opportunities



Managing transaction execution

Deloitte's *Integration Report 2015* found that "having executive leadership support" was the most important factor in a successful integration. All functional areas rely heavily on IT to execute for daily operations, and during a merger these interdependencies are heightened. Sales, HR, Finance, Marketing, Real Estate, etc., cannot execute their integration plans without IT first laying the foundation.

According to the report, enabling cross-functional and executive visibility into integration interdependencies and establishing effective oversight and governance (e.g., Integration/Project Management Office) were valuable to overall integration success in over 85 percent of deals.³ By operating under an effective governance model, the integration team can adjust plans, mitigate risks, and execute with full alignment. Without it, business functions may commit IT to perform tasks that may not be feasible by LD1 or may impact the integration program's overall success. Business and IT functions should open a communication channel early in the M&A lifecycle and maintain it throughout the integration process.

By this point in the lifecycle, IT executives and the integration team should have clearly defined and mapped the scope and resource requirements for all projects selected for LD1 and to achieve the post-transaction End State.

This plan should include both internal and external requirements, given that significant dependencies on third-party applications and environments will exist. The Integration Management Office (IMO) should continuously evaluate progress, resource constraints, and re-prioritize critical projects as required.

Focus areas for Legal Day 1

Depending on the new company's branding strategy, IT should plan to spend a great deal of time with Marketing/Branding or Communications teams leading up to the LD1 cutovers. Rebranding efforts typically go into full swing on LD1 and IT will play a vital role in launching a new website, synchronizing email addresses and potentially redirecting traffic from old websites or rebranding web sites in coordination with other marketing activities. Also, there are several important timing issues to consider, such as deploying announcements via external business websites before activating the company's new website, and documenting/distributing an Appropriate Use policy to all employees.

Controlling costs

On average, IT typically accounts for a significant portion (over 20%) of a merger's total integration budget, depending on the deal's size and complexity. Holding the line on transaction execution costs requires vigilance and ongoing monitoring. It helps to assign an IT team member to take ownership of cost tracking and provide a regularly updated dashboard view into the financial health of the integration. This will be especially important in areas using contractors, as the majority of these resources likely will be paid hourly and susceptible to time/effort overruns. If the IT department doesn't have a dedicated finance person, leadership should request that someone be assigned from the Finance team.

Approval for IT integration scope changes that impact project cost should follow existing internal processes for project financial management. Implementing a weekly governance cadence will allow the IT team to closely monitor activities

and billing to avoid unexpected cost overruns. It is imperative to educate the IMO and executive team on cost and timing implications for any decisions that may increase scope. On the flip side, while reducing scope can provide an opportunity to reduce short-term integration costs, if an activity is a prerequisite to drive greater consolidation and value into the business, then it is probably not a good choice for elimination.

Balance business and integration priorities

When two companies merge they should proactively and carefully address the cultural aspects and differences that may exist between IT organizations at both companies. Establishing a set of guiding principles can help to bridge cultural gaps, align on priorities, and set expectations for integration execution. These principles may be as simple as "do no harm" to the business or include additional guidelines such as focusing on optimization or delaying non-revenue-generating activities.

Keep in mind that prior to the M&A transaction, executives in both organizations may have approved and set in motion a number of large-scale IT projects. With the merger, some of these projects may no longer be relevant or they may be counterproductive to the integration strategy. An early step in establishing governance structure and cross-company team alignment is the consolidation and assessment of all active global technology projects and their continuation based on the current business climate. IT should coordinate closely with the business units on stop/delay decisions and, in some cases, a project disposition may need to escalate to the 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 go-forward strategy.

³Deloitte Integration Report 2015

Underlying integration issues

As the integration lifecycle progresses, each phase presents challenges and opportunities. Those organizations that can quickly plan, adapt, and react are often better-positioned to execute a successful integration and end state. Three underlying issues require IT executives' attention during the integration lifecycle:

1. Managing organizational disruption
2. Synergy capture
3. Security & compliance

The amount of required effort in these areas will vary from pre-announcement through post-LD1 execution, but all are key contributors to overall deal success.

1. Managing organizational disruption

Employee uncertainty and organizational disruption are natural outcomes of an M&A announcement. IT executives should manage concerns within the IT workforce as employees begin to churn on rumors and turn to social media platforms and analyst reports to clarify their future with the company. Minimizing organizational disruption calls for:

- Implementing a robust communication strategy
- Defining and aligning to a future-state IT operating model
- Developing a transition plan.

A clear, detailed, and honest communication plan can ease M&A-related employee anxieties. An IT communication leader closely aligned to the overall enterprise integration team should work with IT executives to create function-specific communication milestones and messages to share with IT staff to proactively manage their teams. As well, IT-related messaging should be included in the merger's overall communication plan to help customers (both internal and external) understand the transitional stages of technology platforms, help chains, and processes. The following framework provides guidance to address challenging questions.

Answers are not known, but there is a need to reassure workforce	Answers are leaked to the media and/or employees	Answers are known, but legal constraints prohibit immediate communicating to workforce
<ul style="list-style-type: none"> • Describe the integration planning process to answer open questions. • Promote increased leadership visibility; prepare IT leaders and ask them to spend time with their direct reports. • Don't make promises but be generally positive and upbeat about the deal. 	<ul style="list-style-type: none"> • Ensure communications SWAT team is trained and in place. • Implement contingency communication plan. • Work closely with the enterprise-level integration team to make sure approach and messaging are aligned. 	<ul style="list-style-type: none"> • Clearly communicate when more information will be available. • Keep staff focused on day-to-day work; reinforce the importance of staying on task while merger integration continues.

Undoubtedly, M&A-driven organizational change can be significant; it requires executive focus and commitment to manage employee uncertainty within the two organizations and select the most appropriate target operating model. Employee flight risk is a top concern, and added pressure from synergy targets may force IT leadership to make some tough retention decisions. The more successful IT organizations have a unified vision and communicate that to employees as soon as possible after deal announcement.

IT executives should work with HR and overall integration program leadership to identify critical IT roles and staff for short- and longer-term retention as the new company moves towards its targeted end state. There is no “secret sauce” to designing a future-state IT organization; however, it may be helpful to divide the target operating

model design into steps (Figure 7).

Integration provides an opportunity for a company to evaluate and modify its existing IT organization design to reduce costs, realign roles and responsibilities, reduce redundancies, and hire talent to achieve the desired end state. However, every action impacts current employees so senior IT leaders should be enlisted to develop and implement a clear transition plan to help their teams manage and navigate change. A common platform to align IT leaders is to host workshop sessions to discuss key topics such as:

- New company strategy and mission
- The vision for IT in the new company
- Key integration timelines across the enterprise
- Quick wins for the organization.

Once the senior IT leadership team is on board, the next step is to bring mid-level managers and supervisors into the conversation and communicate their value to accomplishing a smooth integration. The entire IT management team should then work with HR to create transition guides to use during one-on-one conversations with employees. Hosting an IT town hall can also help set a positive tone and articulate leadership’s commitment to IT staff.

Figure 7: Organizational design and selection methodology

Organization Design Step		Description
Step 1	Conduct a current state organization assessment	<ul style="list-style-type: none"> • Review due diligence collected on the acquired company • For both organizations, assess the drivers of IT performance, including things such as spans of control, number of staff in certain positions, clarity of job descriptions, talent/talent gaps, etc. • Establish decision guidelines such as using the new company’s business strategy to drive IT design, willingness to challenge the status quo, and criteria you will use to assess your final IT organizational design
Step 2	Define design principles and guidelines	
Review and Assess		
Step 3	Create the high-level operating model	<ul style="list-style-type: none"> • Define all major processes and sub-processes to be performed by IT • Group processes and sub-processes • Draw top layers on organization chart to reflect grouped processes and sub-processes • Draw next several layers on organization chart • Evaluate workload requirements and associated resource requirements • Define positions and associated competencies (selection criteria) for future IT leaders and employees • Work with HR to conduct job grading and banding • Define proposed governance and cross-functional touch points
Step 4	Create the more detailed organization design	
Review and Assess		
Step 5	Define employee slates and select employees	<ul style="list-style-type: none"> • Work with HR to identify all IT employees to be considered for future-state positions • Work with HR and IT leaders to select employees based on future-state positions and skill requirements

2. Cost synergy capture

Identifying IT synergy opportunities should begin early in the M&A lifecycle's diligence phase and remain a focus throughout transaction execution. The process requires aligning on and communicating synergy targets, and implementing an execution structure that can actively manage and track efforts towards these synergy goals.

Top-down synergy targets

IT is one of a company's largest cost centers. A merger creates potentially duplicative assets, people, processes, and technologies – a situation ripe for synergy capture. However, each company's structure, organizational maturity, business processes, and vision for service consolidation may drive value capture. Analyzing these driving forces will help IT leaders define which top-down synergy targets will be used to determine the merger's overall success and guide integration through program planning and execution.

Bottom-up synergy planning

Translating top-down synergy targets into tangible opportunities begins with a comprehensive current-state assessment of both organizations' IT assets. This inventory spans infrastructure, applications, staffing/organization, service providers, and more. The resulting analysis should align the integration strategy to synergy goals.

Operating model

One of the first areas likely requiring rationalization 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 optimize both service delivery and spending. A model map typically defines how each organization delivers IT services; its staffing/organizational structure; insourced versus outsourced capabilities; and execution model. For example, defining a Legal Day 1 and target-state operating model is vital to aligning the right staff to the right roles. Expect conversations on headcount rationalization and staff synergies to start well before LD1 and to execute within 60-90 days of the event depending on the expected level of integration consolidation.

Applications

Merging two organizations typically illuminates redundant IT solutions and application rationalization opportunities. Decisions to retain, starve, or sunset applications should be prioritized in partnership with business units/functional areas. IT application rationalization can reduce future licensing, maintenance, staff, and hardware/data center costs – integrating financial and other business systems can further optimize the company's cost structure.

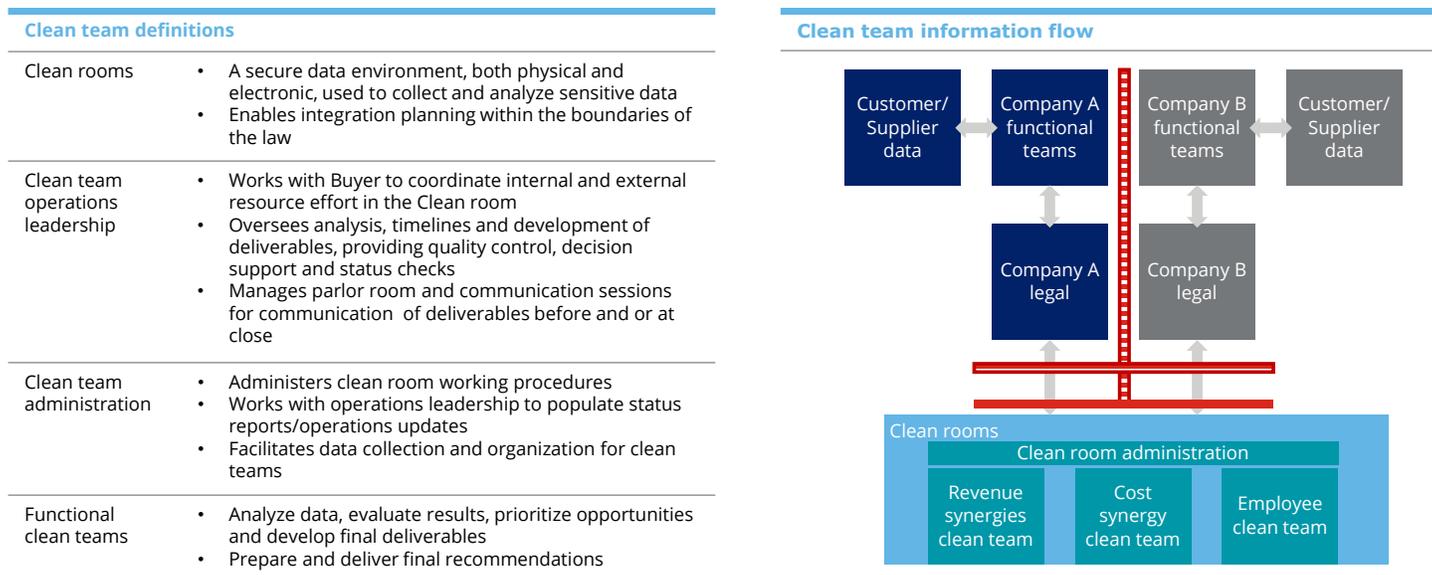
A major component of application rationalization is renegotiating vendor contracts and subscriptions. The end goal should be the establishment of support models which match deployment requirements and remove costs for products no longer in use after integration. This process includes uninstalling legacy and unused software followed by decommissioning or consolidating server hardware, ideally freeing-up licenses for other projects. An immediate focus area should be critical applications and vendors identified as high risk to successful integration or those with a high degree of redundancy. This approach should extend to optimizing server resources and taking advantage of licensing terms for virtualized environments.

Vendor contracts

Early identification of contracts across both organizations, proactive planning, and ongoing communication can aid contract negotiations. A dedicated contracts team should develop a comprehensive list of contracts focused on realizing maximum synergies based upon the overarching contract strategy. The dedicated team should quickly analyze and align on contract strategies across existing software licenses, required new purchases, and synergy identification and realization plans.

The team can use a "clean room" to optimize this process and to legally and quickly share and analyze sensitive contract data between organizations (Figure 8). The team should also make sure that proper escalation and support is available for high-impact contracts or for vendors pushing back on contract terms (e.g., vendors using the opportunity to monetize the event, requesting re-buying of licenses already owned).

Figure 8: Clean room framework



Commoditized technologies

Commoditized technologies such as data centers, computer hardware, telecommunications and IT networks, typically are the last big buckets of synergy value capture that IT will need to rationalize. Both companies likely have different data center geographies, rack footprints, hardware relationships, and communications partners: the integration team should assess the current landscape, develop a consolidation strategy that will eliminate duplicative costs in these areas, build the requirements and contracts behind each vendor relationship, and share them across the borders of the two organizations at Legal Day 1 to build the plan.

There can be many hidden costs in these relationships, such as term length, early exit penalties, minimum fee structures, and other potential expenses. Fortunately, the new company's larger size should enable greater per-unit discounts with vendors based upon buying volume.

Executing against synergy goals

As part of IT project planning for Operational Day 1, Legal Day 1, and post-Legal Day 1, IT should establish controls to identify, track, and monitor synergy realization. Not all projects will have an associated synergy capture goal, but it is IT leadership's responsibility to prioritize efforts for IT synergy capture to achieve the M&A transaction's goals.

Synergy capture should remain top-of-mind as the IT organization executes towards Legal Day 1 and beyond. Most, if not all, IT synergy realization will not occur until after LD1. There is a little breathing room, but executives should build a culture of opportunity identification, assessment, and tracking so that IT can deliver its piece of the financial pie for the new company. Steps include developing a common business process framework; collecting cost/revenue synergy plans and end-state business capability needs for each work stream; identifying process and IT-related initiatives to achieve end-state plans; prioritizing initiatives based on expected synergy capture; and leveraging a series of use cases to design future-state processes that enable each priority initiative.

3. Security considerations

With more organizations moving to cloud providers and Bring Your Own Device (BYOD), IT security becomes an ever-growing concern. Today's cyber threats extend beyond an organization's walls to include hosted data, e-mails, and mobile devices. For organizations that retain large volumes of customer/personal data, it becomes even more important to understand the maturity of a target's security governance and oversight capabilities.

Integration will expose the combined company to a new IT environment and, with that, new security considerations and potential regulatory or compliance requirements. Security teams from both organizations should quickly align and create an effective governance model to confirm their involvement in decisions impacting the security of the new IT landscape. Ultimately, the goal is to protect both organizations' interests and build confidence that no unnecessary risks will be taken as part of the integration activities.

Developing a collaborative relationship between the security and infrastructure teams is imperative. As IT begins connecting the respective networks, each company will be taking on the risk of any inadequate controls at the other entity. Major decisions made by IT leadership should answer questions including: "How does this align to our integration security expectations?" "Will this change impact our ability to maintain compliance? If so, what is the possible impact or mitigation approach?" Pre-LD1 activities such as testing potential network penetration and testing pre-LD1 connections between the companies tend to pay dividends in minimizing security vulnerabilities that require post-deal remediation.

In many organizations, the Information Security function integrates in tandem with the Privacy Officer (data privacy) and Legal (confidentiality). Close alignment of these areas during a merger is essential to confirm that legal lines are not crossed before it is appropriate to do so. For example, sensitive data such as customer lists or vendor contracts cannot be shared prior to Legal Day 1. Providing clear guidance to enterprise integration teams on how to maintain security and privacy controls, and establishing an integration governance body to review questionable scenarios can help minimize risk exposure throughout the integration lifecycle.

Moving forward

CIOs and their teams should engage early and often in a deal in order for IT to play a pivotal role for organizations striving to maximize the value of the transaction. From managing organizational disruptions to synergy capture to security and compliance, IT should remain actively involved to bring a clear perspective on how to balance the technology complexities with deal objectives while maintaining business continuity. Organizations that embrace IT as a key stakeholder and integral part of the deal will likely be better positioned for a smoother transition and successful end-to-end integration.



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