

HOW IT CREATES VALUE IN MERGERS AND ACQUISITIONS

The critical role of IT in an M&A



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Mergers and acquisitions (M&A) are an important growth strategy that can improve a company's competitive positioning and performance. M&A value is derived from synergies—business value that can come from sources such as reduced operating costs, reduced risks, increased market share or ability to enter a new market. To capture those synergies, companies may seek to share overhead functions, integrate operations, jointly create new capabilities or exploit economies of scale.

Despite its promise of improving performance, empirical studies often cite high failure rates in an M&A. In one Deloitte survey, nine out of 10 respondents reported that they did not achieve the intended results on previous M&A deals (Thomson, Garay, Thomas, 2015).

Industry information often homes in on a primary determinant—and unsuccessful integration commonly is promulgated as the leading cause of failure in M&A. When Bain surveyed executives in 2002, "ignored integration challenges" was cited as the No. 1 reason for disappointing deal results. But we seem to be learning. In a 2012 Bain survey, integration challenges dropped down to No. 6 among the causes cited by executives for disappointing deal results (Harding, Shankar & Jackson, 2013).

In 2015, deals hit a record high of \$4.86 trillion according to data from financial services data firm Dealogic. Whether or not that trend continues upward, this great volume of M&A activity has left in its wake many learnings to sort through, with CIOs and IT executives seeking ways to meet the challenges of past, present and future M&A activity, as well as finding ways to create value in these deals.

Creating value

As the operations lifeline for nearly every business activity, IT plays an enormous role in enabling M&A success by helping to capture the synergies identified in M&A goals and by meeting transition challenges. At the same time, IT also has tremendous opportunity to create value because of its domain expertise, and a singular and unique ability to understand the enterprise landscape processes, people, information, systems and technology. This unique position allows IT to spot risks and roadblocks that the CEO or dealmakers may be unaware of. At the same time, IT may uncover new sources of synergy during due diligence that increase deal value.

In a CIO.com article, Kim Nash wrote: “Yes, a CIO can spot IT problems that a CEO or CFO might miss, such as a decrepit application behind a pivotal business line that will take millions to stabilize. But in these digital days, sometimes only a technology leader can recognize IT assets that could increase the value of the deal” (Nash, 2014).

A McKinsey report supports that point with survey data that attributed more than 50 percent of the synergies available in a merger as being often “strongly related to IT” (Sarrazin & West, 2011) (McKinsey). Another survey restates the point, identifying 30 to 60 percent of a merger’s benefits as related to “IT-dependent synergies” (Shah, Lino & Padmanabhan, 2014) (Bain).

When IT is an active participant, it can participate in strategic decisions in an M&A and create value by identifying unknown synergies and potential obstacles, sharing its unique perspectives on how the deal can grow revenue, capture cost efficiencies or address risks.

OFTEN, MORE THAN HALF THE SYNERGIES AVAILABLE IN A MERGER ARE STRONGLY RELATED TO IT.

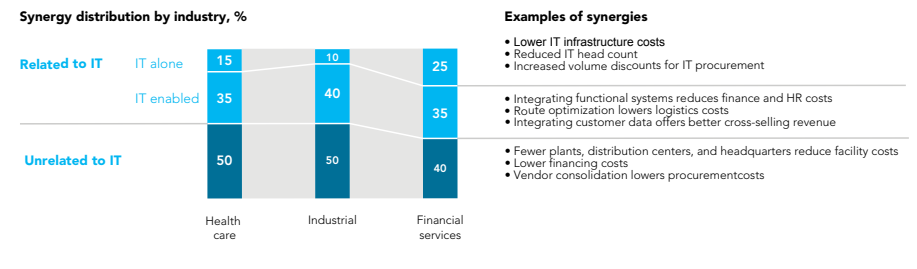


Figure 1: One report from McKinsey attributes more than 50 percent of the synergies available in a merger as often “strongly related to IT.” (Sarrazin & West, 2011) (McKinsey)

Meeting integration challenges while capturing synergies

While there is opportunity for IT to create value in an M&A, IT must also meet the many operational challenges in migration and integration. And yet another challenge overlays this one—while IT addresses its functional challenges to keep business moving forward, IT must concurrently work on capturing M&A synergies and goals. For example, if a key synergy lies in the cross-selling of products and services, IT will need to help enable that capability ASAP. If a key synergy lies in capturing cost savings by streamlining overlapping technologies, IT will need to move on this goal swiftly. All the while, it has to plan, prioritize and move forward with other projects that may be longer term but still critical, like employee email systems.

Enabling success with integrated IT portfolio management

Meeting the fundamental demands of an M&A and creating value during its course can be handled concurrently with effective strategies, planning and tools. The abilities to create value, meet integration challenges and capture M&A synergies share a common prerequisite: a clear view across the IT landscape. Integrated IT portfolio management equips the IT organization with these critical abilities:

- Accurate, real-time views of the IT landscape, including application, technology and project portfolios, the relationships between them, and business processes and capabilities they support
- A well-thought-out IT road map and the ability to manage it effectively so that IT can prioritize and support business goals, capture deal synergies, and avoid risks that negatively impact the business and lead to higher IT costs
- Ability to accelerate the benefits of the M&A due to clear insight into the impacts of planned changes and potential obstacles
- A foundation that accelerates future M&A activity and IT success through established, proven and repeatable processes

	Business objectives	Typical IT objectives/actions	Typical EA objectives/actions
Coexistence	<ul style="list-style-type: none"> • Increase market or geographical presence. • Gain direct access to customers. 	Perform: <ul style="list-style-type: none"> • Financial consolidation. • Network/infrastructure consolidation. • IT contracts consolidation. 	<ul style="list-style-type: none"> • Ensure interoperability. • Share standards. • Diminish IT cultural differences.
Absorption	<ul style="list-style-type: none"> • Achieve cost savings. • Eliminate competition. 	Decrease IT costs via: <ul style="list-style-type: none"> • DC consolidation. • Staff reduction/retention. • Adjustments to the apps portfolio. • IT contracts consolidation. 	<ul style="list-style-type: none"> • Build the migration road map. • Perform application portfolio management.
Best-of-breed	<ul style="list-style-type: none"> • Increase market share. 	<ul style="list-style-type: none"> • Increase IT capabilities. • Choose packaged suite. • Build interfaces. • Rebuild an IT team. 	<ul style="list-style-type: none"> • Build capability maps. • Score applications. • Help rebuild culture. • Participate as part of the dispute-resolution team.
Transformation	<ul style="list-style-type: none"> • Acquire new capabilities. • Increase footprint. 	<ul style="list-style-type: none"> • Build new IT system. • Support business innovation. • Outsource IT. 	<ul style="list-style-type: none"> • Help create the new business model. • Build capability maps. • Perform IT innovation.

Figure 2: Enterprise architecture (EA)-based IT planning and portfolio management supports the necessary M&A activities for each type of merger (coexistence, absorption, best-of-breed, transformation). Source: Forrester, December 2010, "Best Practices: EA Should Take an Active Role in Mergers and Acquisitions."

Order in the IT landscape as a prerequisite to planning

Recent surveys and research studies often highlight planning as a primary enabler of M&A success, and the sooner, the better. Specifically, a well-executed integration plan and achievement of synergy targets are identified as top success factors (Thomson, Garay, Thomas, 2015) (Deloitte). While early-as-possible planning is a critical key step, an even earlier step for the acquirer is to have its “IT house in order”—to know what the assets are and where, the systems and processes, and then to streamline and optimize IT (Sarrazin & West, 2011) (McKinsey).

Attaining order in the IT landscape is no small endeavor. Every day, an organization's already vast IT ecosystem expands. Years of organic and M&A growth have left IT landscapes riddled with diverse technologies that are often overlapping or redundant. This proliferation of disparate systems can leave IT decision-makers without a realistic method for collecting accurate, complete enterprise-wide data in a timely manner. The owners and managers of these systems are often geographically dispersed, and many enterprises lack a centralized source for information, much less one that contains current and reliable information. Reporting often involves tracking down owners and massaging spreadsheets—only to do it all over again the next time. Yet, access to this information is prerequisite to taking the steps necessary to analyze and optimize the in-house IT landscape before planning to integrate systems from an acquisition.

Without a centralized repository for information, IT landscapes can be siloed and prove to be a challenge. As a starting point, these scenarios are risky at best.

“CEOs and CFOs should be wary of embarking on an M&A growth strategy that will require a lot of back-end integration if their corporate IT architectures are still fragmented: the risk of failure is too high” (Sarrazin & West, 2011) (McKinsey).

An orderly IT house involves a clean, current and complete repository of data on your enterprise's technologies and systems—including applications, processes and people—and the ability to access this information on-demand. Along with a central repository of current, consistent, data, the right tools can enable analysis, planning and management of the IT landscape and provide business-relevant information to enable better, faster decisions.

Once a company has the advantage of a central repository and management tools, it can get to work streamlining its own technology portfolio to capture cost savings, identify and reduce risks, and improve processes. It also gains the flexibility and agility to analyze, plan and manage any incoming technologies, components and business relationships, including those with significant and wide-reaching impact like an M&A.

Optimizing and streamlining can garner significant cost savings, first, in the acquirer's landscape and subsequently in the M&A transaction. In one survey, IDC quantifies an average IT operational cost savings of \$43,402 per 100 IT users by implementing effective automated solutions along with appropriate process and organizational strategies in key areas related to IT financial management and project portfolio planning, including reduced use of external services, consolidation, elimination of redundant tools and others (IDC, 2011).

When the acquirer has reshaped its own IT platform, it can rapidly integrate the target company's platform into a carefully considered architecture, enabling data from the acquired company to be migrated in less than six months (Sarrazin & West, 2011) (McKinsey).

Business capability maps provide the business context and help set priorities

Of course, any changes to the IT environment need to be planned with an understanding of the company's business strategy, goals and business capabilities. In particular, business capabilities are a high level view of the enterprise structured according to the activities it performs and are thus very effective for strategic planning. They help articulate business needs in a way that is meaningful for the business which is key to promoting mutual understanding and cooperation towards goal achievement. They also translate easily into IT functionality to enable evaluation of how well IT is supporting the enterprise's business requirements.

In an M&A situation, business capabilities of both the acquiring and target companies should be assessed for differentiation, mission criticality and complexity of changing. It is very probable that the acquired company has differentiating capabilities (possibly the reason it was acquired) that should be leveraged swiftly. Non-differentiating capabilities (often back-office business functions) should be assessed for redundancy and consolidated as soon as possible. Applications and technologies from both companies can then be appraised for their value to the business in order of business priority.

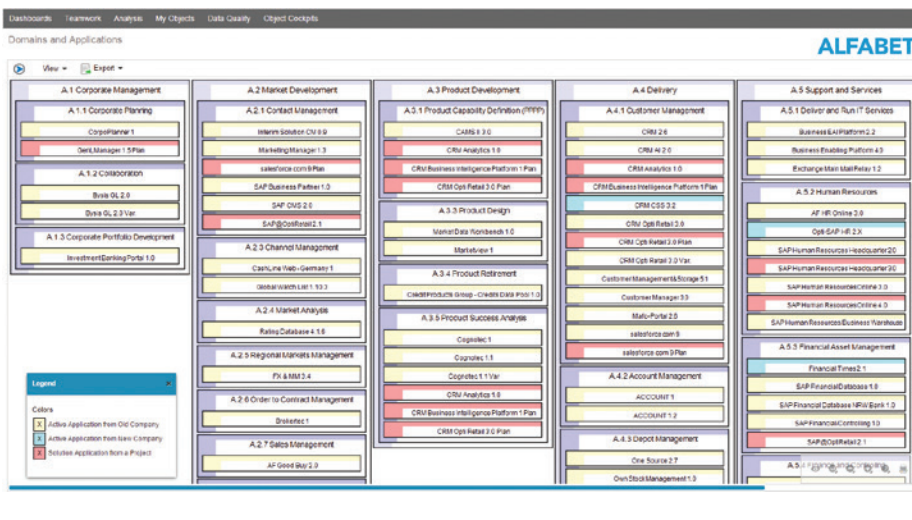


Figure 3: This business capability map provides a view of the business activities and the applications from both the acquiring and target companies as well as applications that are being created in running projects. The user can thus easily see redundancies and in prioritizing the capabilities, decide where to start integration initiatives.

IT road maps as a key enabler of integration success

"Many mergers don't live up to expectations because they stumble on the integration of technology and operations. But a well-planned strategy for information technology integration can help mergers succeed." (Sarrazin & West, 2011) (McKinsey)

"All you need is the plan, the road map, and the courage to press on to your destination." - Earl Nightingale

IT integration in M&A may not seem quite as simple as the Earl Nightingale quote implies, but an effective IT migration road map has been repeatedly proven to help IT navigate integration effectively and help move a newly formed organization from its current state to its goal state as defined by the deal thesis. As critical as it is for IT to have comprehensive insights into its own landscape as a foundation for strategic IT planning, it must also be clear on the business strategy, and a road map for guiding progress from start to goal realization is mandatory. To create an effective integration road map, IT requires a tool to help translate strategy into road maps, one that ensures strategic planning is implemented effectively to support successful outcomes. Enabling iterations with stakeholders helps to improve plan quality.

Road maps can provide an effective and repeatable method for quickly assessing acquired application landscapes, accelerating integration efforts and maximizing value from every deal. Finally, road maps are an effective means of communicating and ensuring everyone is synched on migration plans for integration.

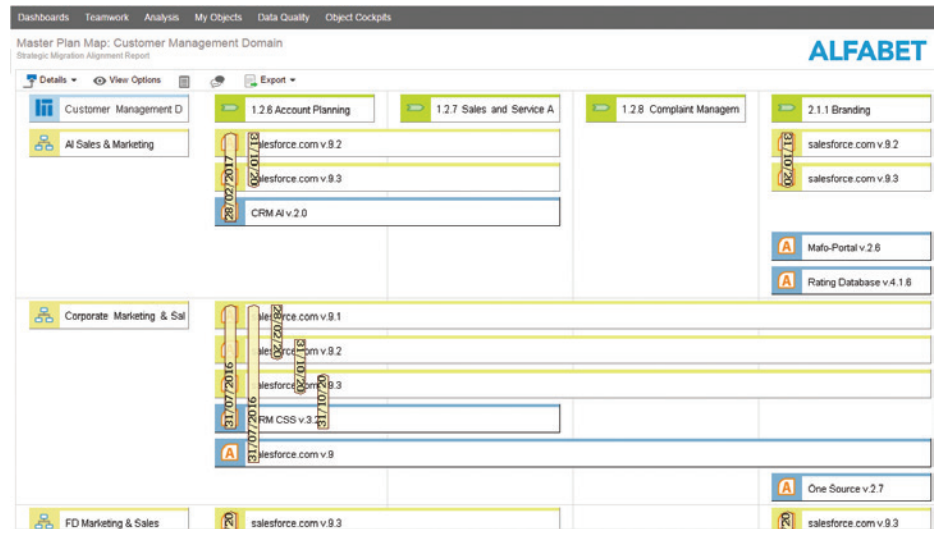


Figure 4: This road map for migration planning shows which existing applications (in blue) will be replaced by new applications (in yellow) and when (date in the arrow)

Key capabilities of integrated IT portfolio management

Integrated IT portfolio management tools can help gain a clear view across the IT landscape and a comprehensive understanding of the interdependencies among the various portfolios—application, project, technology and demands. With this information, organizations can make better informed decisions on IT change with the confidence of accurately estimating the impact on all parts of the enterprise. This view also helps an IT organization to effectively prepare the enterprise to meet the challenges of M&A, to capture more synergies—and capture them effectively, and to increase its ability to accelerate realization of M&A benefits and lay a foundation to support future success.

Integrated IT portfolio management tools allow risks and opportunities to be identified more easily, such as obsolete technologies that are at risk of security breaches, or cost drivers, such as end-of-service products that are subject to extended support.

The following key capabilities of integrated IT portfolio management can help IT organizations in M&A:

- **Standardization.** Standardization is essential in post-merger activity to leverage maintenance and license cost savings, reduce operational risks and increase value by consolidating the diverse technologies that tend to proliferate throughout years of organic and M&A growth activity. Look for a tool that offers a platform upon which technology standards across the enterprise can be built and enforced.
- **Application-to-technology alignment.** Aligning applications with technologies makes it easier to identify which applications are supported by technologies that are near end-of-service. Integration with application portfolio management allows IT to align technology and application road maps to avoid expensive planning errors during M&A consolidation or integration initiatives.
- **A central repository.** A central IT repository allows information about the IT systems, applications, processes and people to be assessed, captured and managed more easily.

A transparent overview of the IT landscape is a prerequisite to the realization of M&A benefits, providing a factual basis for identifying synergies, cost-saving opportunities, and operational risks. Key decisions can be made faster regarding which applications, infrastructure and IT processes are needed and what transformation is required to create the new IT organization, with minimal disruption to the business.

- **Planning.** Effective planning relies on reliable access to current and accurate data, along with tools that enable—and connect—the analysis, planning and management abilities of the business. The tool employed should enable processes to manage the business relationship, enterprise architecture, IT finance and IT risk, as well as provide a process-based platform for road mapping.

Integrated IT portfolio management activities that are critical to M&A success
Swiftly add new information
Perform application rationalization
Consolidate and streamline the IT portfolio
Align with organizational goals
Support transformation initiatives
Perform application portfolio management
Score applications
Quickly assess acquired application landscapes
Build capability maps
Rebalance project portfolio as new acquisitions are made
Create, monitor, assess and report on integration projects
Help create new business models
Build migration road maps
Have ready and available a repeatable planning methodology that is flexible, agile and ready for future M&A activity as well as digital business transformation

Figure 5: Many of the activities inherent to IT planning and portfolio management are beneficial for effectively managing an M&A.

Software AG 's Alfabet sets a course for the future of your digital business

The path to the Digital Enterprise is a navigational challenge given the complexity of today's IT environments. Integrated IT portfolio management provides the organization access to information required to make critical decisions for evolving the IT landscape in M&A integration and to support digital business moving forward.

Software AG's Alfabet IT portfolio management product provides decision-makers with insight into the IT portfolio to make the right IT investment decisions and to plan how IT will support the business in the future. Alfabet provides a platform that connects all stakeholders together in a collaborative, streamlined and governed process for executing the digitization of their enterprise.

Alfabet is a collaborative, cloud or on-premises platform used by business and IT leaders to better understand the IT landscape, stay up-to-date on changes, and expose dependencies and impacts among IT portfolios. This enables business technology strategists, enterprise architects and portfolio managers to execute a well-governed strategy planning and execution process, incorporating investment planning and guaranteeing involvement of all relevant stakeholders.

Alfabet as part of Software AG's Digital Business Platform provides the means to align an enterprise along a strategic road map to achieve business and IT digitization; it also ensures effective and efficient execution of a digitization plan through strategic portfolio management capabilities.

For more information, talk to your Software AG representative or visit www.softwareag.com/alfabet.

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Software AG offers the world's first Digital Business Platform. Recognized as a leader by the industry's top analyst firms, Software AG helps you combine existing systems on premises and in the cloud into a single platform to optimize your business and delight your customers. With Software AG, you can rapidly build and deploy digital business applications to exploit real-time market opportunities. Get maximum value from big data, make better decisions with streaming analytics, achieve more with the Internet of Things, and respond faster to shifting regulations and threats with intelligent governance, risk and compliance. The world's top brands trust Software AG to help them rapidly innovate, differentiate and win in the digital world. Learn more at www.SoftwareAG.com.

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