



POINT OF VIEW | CONSULTING

# IT Optimization: The Strategic Value of IT Integration in Mergers and Acquisitions

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[Naveed.Anwar@nttdata.com](mailto:Naveed.Anwar@nttdata.com)

# Introduction



Mergers, acquisitions and divestments often fail to deliver the gains business leaders hope for. In fact, according to some studies, failure rates may be as high as 50%.<sup>1</sup> Many different factors underpin these elevated failure rates, but one very common reason for a merger and acquisition (M&A) transaction not to live up to expectations is that it stumbles on IT integration: the organizations in question struggle to align their processes, technologies, infrastructure and operations.

Confronting this particular challenge is crucial if M&A is to be more successful. Organizations that don't have a clear roadmap for integrating IT systems and infrastructure can't expect to achieve the results, such as operational synergies and enhanced competitive advantage, most desired for M&A transactions. They may even destroy value rather than creating it.

In this context, it's vital that dealmakers build a more disciplined framework for IT integration into their transaction planning and execution. This strategic

approach to IT integration must be designed, at the very least, to deliver a number of different benefits:

- Seamless business continuity with minimum disruption to core activities
- A quickly established IT environment for the newly formed enterprise
- Reduced operational costs
- Accelerated business transformation
- The ability to enable business transition and transformation

IT integration also needs to deliver these benefits at speed, with those responsible meeting aggressive timelines as part of a broader plan for operational execution of the deal. IT users in the future-state environment will expect to be able to access end-to-end services backed by experience and expertise. In practice, the roadmap to this optimized IT integration happens in three stages: Planning, soft cutover and hard cutover (see Figure 1).

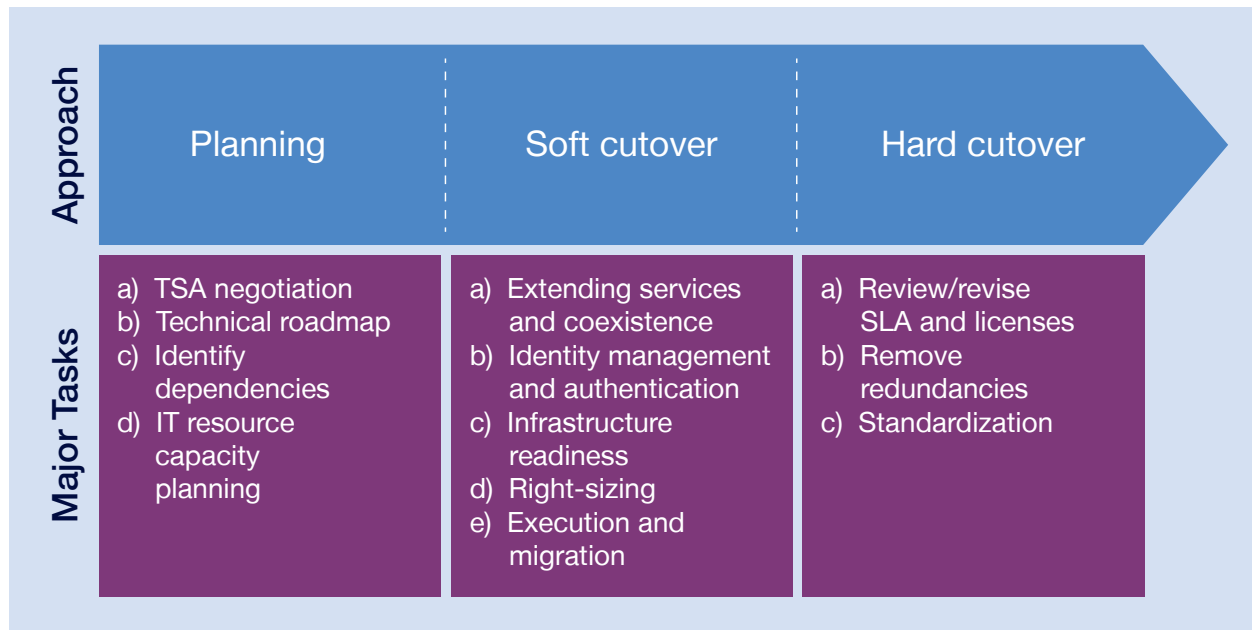


Figure 1: A roadmap for IT integration

## Planning for IT integration

For all M&A transactions, it's imperative to establish guiding principles at the earliest possible stage. These principles dictate how specific IT integration projects will be structured. This is crucial as the company develops its future-state operations.

**In practice, there are four possible approaches to IT integration:** Best-of-breed, select one, replace all and loosely coupled. Selecting one of these integration patterns is the first stage in the planning process.

### Best-of-breed

In a best-of-breed approach to IT integration, the goal is to take the best elements of each party's IT systems and infrastructure to create an optimized IT environment where the sum is greater than its parts. This can be a good approach to a large-scale merger of equals, for example, or where the deal encompasses entities with different business models across the combined organization.

A best-of-breed approach to IT integration can be time-consuming. However, it offers the promise of a good level of functionality in which organizations select the best available setups as they focus on the combined future-state architecture.

In the short term, it's imperative to connect the networks of the entities coming together and to begin the integration process in areas such as email and financial reporting. These tasks can be accomplished alongside the development of an organizational change management program and staffing plan that supports longer term work. It's necessary to evaluate current-state architectures while defining and aligning sourcing strategies, as well as to begin identifying strengths, weaknesses and opportunities for synergies. Organizations should agree to a future-state architecture, and then begin working toward it.

## Select one

With this approach, organizations choose the IT system of one of the parties entering into the transaction to be the system of choice for the entire enterprise following the deal. This pattern is common, for example, where there is a significant discrepancy in the size of the organizations being combined. It may be much simpler to move the smaller business on to the larger enterprise's systems.

The select one approach is also appealing as a rapid way to secure cost synergies, because the architecture direction defaults to that of the larger (or acquiring) organization.

Nevertheless, this approach to IT integration requires careful execution and a clear focus on short-term goals similar to those in a best-of-breed approach. These include the need to integrate networks and basic functionality while developing a transformation plan. It's still necessary to agree on an optimal future-state architecture based on the strengths and weaknesses identified at this stage.

## Replace all

The replace all approach may be appropriate when current IT solutions are poor in both companies and when new software is easily integrated. This approach is time-consuming, given the need to make new technology selections and to implement the products and services chosen.

In practice, phasing out of legacy systems and introducing a bespoke IT environment custom-made for the future-state organization is the riskiest approach to IT integration. However, it also offers the greatest reward if implemented successfully, particularly when the inherited systems aren't fit for their intended purpose.

It isn't possible to jump straight to this new IT environment, so a replace all strategy doesn't negate the need for short-term fixes such as connecting the network and integrating email and financial reporting. Longer term challenges include selecting target architectures for critical systems and agreeing to a sourcing strategy appropriate for the new enterprise.

## Loosely coupled

In M&A transactions where the companies will remain independent entities within a larger conglomerate, it makes sense to employ a loosely coupled IT integration model. This model also works well in transactions where the pressure to integrate is extreme — if only as a stop-gap.

With this approach, the organizations remain separate and fragmented; it may be that only reporting functions are modified for consolidation purposes. Even so, it's still important to create a blueprint for future organizational change management, including how staffing will develop in the future-state enterprise.

After agreeing to the most appropriate approach to IT integration, the organizations involved must complete further work at this planning stage before moving toward execution. Negotiating transitional service agreements provides important risk mitigation while implementing the chosen integration strategy, particularly as IT dependencies are identified. Meanwhile, IT practitioners require a roadmap that defines the technical processes for integration.

Resourcing is also a crucial question to consider at this point. What resourcing will be required during the integration period to successfully achieve the organization's objectives on time? What resourcing will the future-state IT organization require after integration?

## The most common M&A models

In practice, planning for specific M&A transactions must take into account the nature of the transaction and adapt accordingly. Every type of deal comes with its own framework and requires a different approach to ensure flawless transformation:

- **Merger:** When two companies merge with each other to expand their business strength and portfolio of products and services.
- **Acquisition:** When some or all of the company or its business units are acquired by a new owner.
- **Spin-off:** When a company decides to break its portfolio or service proposition into multiple companies.
- **Integration:** When a company acquires multiple companies with different service portfolios and seeks to run them as separate entities. In practice, at least some integration is required for governance and oversight purposes.

## Moving toward execution: The soft cutover

Execution of an integration strategy begins with a soft cutover. This is the process of bringing together the two business's IT systems to the extent that they can work together even though they, for now, maintain separate operating systems at least at some level. Alternatively, when the transaction involves splitting up companies in some way, the soft cutover process means separating the IT systems so that resulting business units can begin to operate independently.

In practice, this stage of the integration requires organizations to work strategically through a number of key issues, including:

- **Thinking about how to extend key IT services across the entities as they come together.** The practicalities of this process depend on which integration model supports the deal and the pace at which integration will take place. Organizations also need to consider to what extent they need to develop coexistence arrangements during this stage.

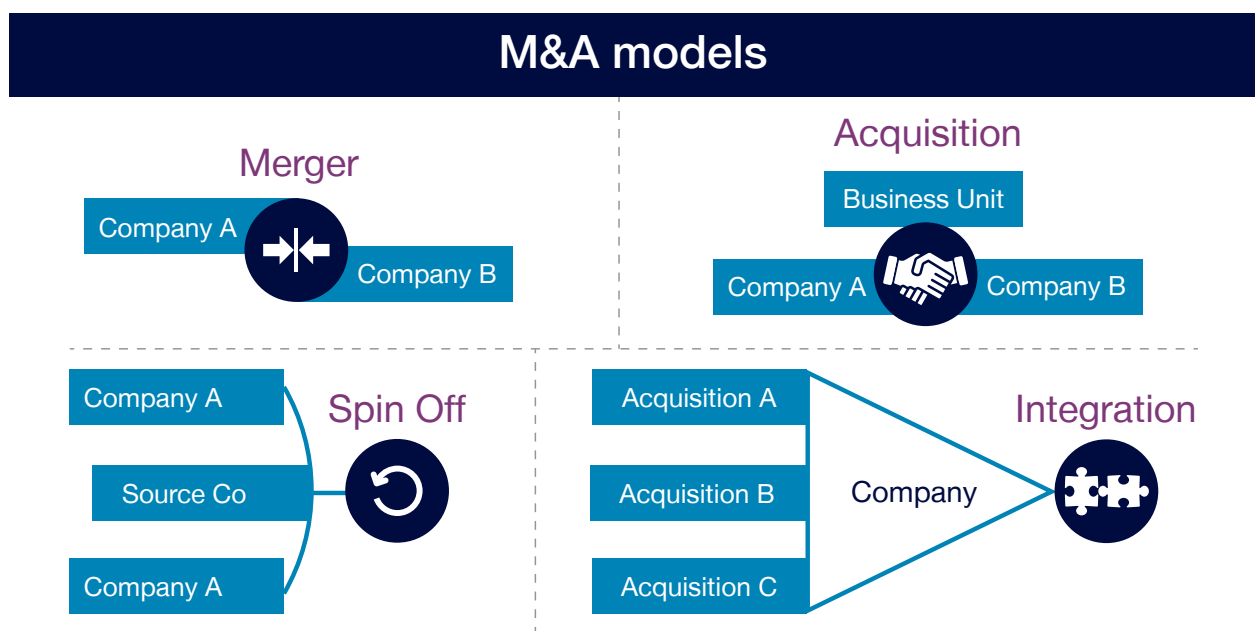


Figure 2: How M&A models may vary

## In search of greater resilience

Managing security before, during and after the integration process should be an absolute priority for IT managers, with a clear governance model established to embed resilience throughout the end-state organization.

Prior to the deal, during the diligence phase, it may be necessary to share key data or provide systems access to third parties. This should take place according to strict protocols and be tightly managed.

The integration process itself is an opportunity to enhance the organization's resilience, if enhanced security is a clear priority during the planning and design phase of the project. Understanding current weaknesses and opportunities for modernization is a key task.

Once the integration is complete, security and resilience remain key focuses for the end-state organization. Leading organizations are increasingly working toward a culture of security where every member of the enterprise takes responsibility for this issue, but this concept must be established as the new organization comes together.

- **Establishing identity management and authentication processes.** As the organization expands in size and complexity, more users will need access to the system — including its data management processes — to, at a minimum, begin driving the value envisaged in the transaction. However, this has the potential to create new points of vulnerability if it isn't managed carefully.
- **Thinking carefully about hardware and software requirements.** When working toward infrastructure readiness, it's especially important for the business to begin building a more unified IT architecture for the end-stage enterprise.
- **Identifying the resources necessary for this work and then procuring them.** Integration work may require skills and manpower currently lacking in any of the organizations in the deal, so this stage is critical. It's also possible to begin right-sizing IT

resources at this point, so they're ready for future purposes once the transaction is complete.

- **Executing and migrating IT on a project-by-project basis rather than in a single step.** Certain functions may move more quickly than others, or the organization may choose to prioritize integration by business unit.

Managing disruption and quickly moving toward integration are key focuses for the soft cutover process. It's important to set clear timelines and establish monitoring processes to hold project managers accountable during the integration process.

## Approaching the end state: The hard cutover

After the soft cutover, the process of moving toward the end state can be described as a hard cutover. This is the final stage of the integration initially envisaged, although this vision may have been revisited and updated on the basis of the lessons learned during soft cutover. As with soft cutover, it's important to work through this process step by step. The approach should remain strategic and holistic, but the detailed work of integration also requires additional technical inputs and analysis. Key tasks at the hard cutover stage of the integration include:

- **Reviewing and revising service-level agreements (SLAs) and licenses.** Organizations need to ensure the end-state enterprise has the agreements and permissions in place it needs to continue operating efficiently. This may require renegotiation of some contracts and licenses for the changing requirements of the new organization.
- **Removing redundancies identified during planning and initial execution.** This has the potential to not only generate significant cost synergies but also streamline IT, putting the function in a stronger position to enable business transformation.
- **Standardizing the software, hardware and other elements as the IT infrastructure is brought together.** Completion of this work should mean seamless integration for users across all entities involved in the transaction.

## Keeping users onsite

One major issue in many IT integrations is that users' needs are overlooked. While the integration may transform the enterprise's IT environment, users need support to take advantage of — or even to simply continue operating effectively within — the new system.

This means IT integration must keep users at the forefront. Enterprises need a clear strategy in place so everybody is informed about what's happening, when change is due to take place and how they will be affected.

This may require support from a number of different channels. It may be possible to hold workshops for users or to conduct training — either directly or via remote technologies, for example. It's important to offer good service desk support as users become accustomed to new ways of working.

Data should be an important consideration at every stage of the integration of IT assets and architectures. Organizations must think about issues including what data they currently hold, where that data should sit in the new organization, how it should be stored and managed, and how access will be controlled.

These questions are even more important in an era of tougher data security and protection regulations.

The project management team should also allocate sufficient resources to measuring and monitoring the IT integration. Above all, the team must know if the integration is delivering the business outcomes set out as objectives during the transaction.



## Conclusion

In an era where organic growth has been difficult in many territories, M&A volumes are maintaining record levels.<sup>2</sup> But both small and large organizations that look to deal-making activity as a way to drive growth and transform their businesses may be disappointed by the results if they don't focus on IT integration as a crucial driver of transaction success.

In fact, successful integration or separation of IT may be the single most important part of the M&A process. Identifying dependencies, resolving SLAs, agreeing to licensing, managing vendors and securing third-party support are all crucial.

Organizations need to plan ahead to achieve their goals. It's imperative to identify the key areas that must be modified or altered in the event of a divestment or separation. The same applies in the event of an integration. Working with the right group of advisers, identify priority technical actions as well as those areas that can be standardized and optimized later.

Many transformation and consolidation opportunities will arise. But with any opportunity, planning is the key to evolving to a new IT infrastructure with no disruption to the business and its critical functions. A disciplined and strategic approach, framework and patterns for integrating IT systems and infrastructure substantially increases the prospects of success and helps avoid costly mistakes. This is crucial as organizations attempt to reduce the number of disappointing M&A transactions in which they engage.



# About the authors

## [Anubhai Mehta, Vice President, Infrastructure Consulting & Integration](#)

With 20 years of experience, Anu has worked with clients on mergers, acquisitions and divestitures (people, process and technology) and led internal IT organizations' acquisitions and transformations. Anu currently leads a dynamic, global team of more than 600 consulting professionals who create lasting value for clients through the practical implementation of innovative IT services and solutions.

[Naveed Anwar, Senior Managing Director, Infrastructure Consulting & Integration](#) With 25 years of experience, Naveed has helped clients develop technology strategies and overseen complex mergers, acquisitions and IT separations. Naveed currently leverages his thought leadership and expertise at NTT DATA to provide industry-leading solutions in platform optimization, cloud transformation and enterprise IT consulting related to complex file structures and databases.

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# Sources

1. ["Mergers and Acquisitions failure rates and perspectives on why they fail."](#) International Journal of Innovation and Applied Studies. July 2016.
2. ["Global M&A exceeds \\$3tn for fourth straight year."](#) Financial Times. December 28, 2017.

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