

# **HOW CAN COMPANIES COME TOGETHER WITHOUT GROWING APART?**



## Redesigning Value Chains for an M&A

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Organizations of all sizes and across all industries are constantly looking to grow. With every opportunity to seize, there is consequence. Buyers, more often than not, see this consequence at the bridge between purchase price and execution of the strategy that justifies the valuation.

Acquiring organizations have many challenges before them. As any company that's acquired another organization knows, integrating two firms into a single entity is no easy feat. Mergers and acquisitions significantly impact both organizations with a tremendous amount of change – in ownership, philosophy, and many constituencies.

Cultural, organizational, and operational disparities between the two organizations can pose significant challenges to maintaining the overall operating performance of the two companies. Can these issues be addressed earlier in the process of acquisition?

A well considered strategy for M&A can lead to:

- Immediate improvements in operating efficiencies
- Reduced costs
- Prevention of erosion in shareholder value

how should teams respond to change in IT organizations, processes and governance that are an inevitable part of M&As? How different is it to redesign value chains for an M&A?

## Insights from M&A Managers

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Outsourcing Center and Wipro recently performed a survey that identified the critical success factors of M&As from the perspective of managers and individual contributors whose organizations have either been acquired or have merged with another firm.

The research sheds light on the need for organizations to examine their M&A processes early in order to ensure they are, in fact, doing business better from the moment the merger / acquisition is inked:

- Leveraging an acquired/merged company's products, functions and services and increasing market share continue to be the top reasons for a strategic acquisition.
- Those responsible and/or accountable for the integration should be involved before deal closure to successfully plan and obtain needed information to properly implement the acquisition.
- The right pre-deal materials like the business case and investment thesis metrics aren't always getting into the right hands at the right time.
- Transparency and communication are the most critical factors in aligning culture, core values, strategy and shared outcomes.
- As a best practice, companies should use outside service providers to reduce one-time integration and ongoing fixed operating expenses.

## Improved M&A Practices for Better Outcomes

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While the reasons for acquisitions continue to be centred on obtaining new products, functions, services, increasing market share and reaching new markets, the survey shows that gaining operational efficiencies is a very important goal to drive down costs and doing business faster, cheaper and better.

More than three-fourths of survey respondents (77.4 percent) indicated they were brought into the merger/acquisition process before deal closure, which is a best practice. Being "brought in" serves to encourage accountability and gives operational heads the kind of interaction needed with the target to increase accuracy for the integration work. Bringing in operational leaders at the pre-deal phase also helps the investment unit better price the cost of the integration into the bid price. This assumes that the operational units brought into the merger have a sound integration playbook to follow, which should be tied to the investment thesis business case. Nearly one-fourth of players were not brought into the game until after the deal had been finalized. An ongoing problem is shifting between integration responsibilities and day-to-day responsibilities. Our learning has been that when clients make a strategic acquisition, huge disruptions occur with culture and senior management attention with an additive inefficiency of redundant processes. We have helped our clients segregate their division of strategic and tactical responsibilities so they can place a greater focus on critical integration issues.

*Gaining operational efficiencies is a very important goal to drive down costs and doing business faster, cheaper and better.*



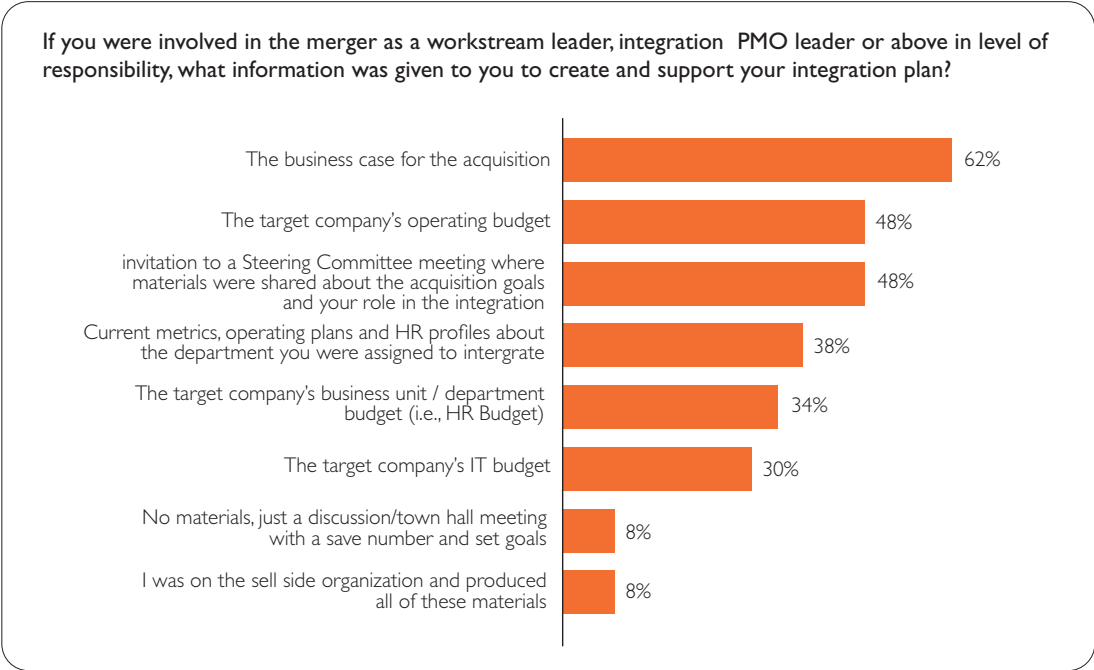
# The Essentials of Successful Integration

Our research shows that a variety of pre-deal material is considered essential to create the right baseline strategy for the integration:

- A clear strategic rationale and measurable deliverables
- Contractual obligations of the target organization and any outstanding penalties as a result of termination or change of ownership (important from the procurement department integration perspective)
- A detailed baseline on current processes, resources, contracts, risks, spend, number of suppliers, outstanding PO and payment
- A detailed technology inventory (infrastructure, applications, architecture, security, etc.)
- An understanding of the business perspective on the desired end state to ensure the effectiveness of IT planning
- Information on any major contracts that impact Business/IT
- Goals, aims, objectives, timescales, critical systems, critical dates, departmental budgets, other supporting strategies, critical processes, metrics, KPIs

- The business case, information on the leadership of the target company, key business risk and growth potential of the new firm over the next two to three years
- Job definitions, HR performance metrics, title bands and compensation details
- Clear communication plan of goals and objectives for the merged organization
- A well-defined operational governance structure and processes to facilitate the many decisions and questions that arise during a merger

From a sell side perspective, it is essential that an organization makes available to the acquirer a sound data room with a robust set of materials. Often, the target company produces materials in an ad hoc manner. Not only does this do a disservice to the process and efficiency of the due diligence, but it also may affect the perception of value and negatively affect the valuation. We have seen situations in which IT organizations have unexplainable budgets and run-rates with a lack of business case information to substantiate IT costs. A due diligence team will be able to pick this out fairly quickly and reflect that in the valuation.



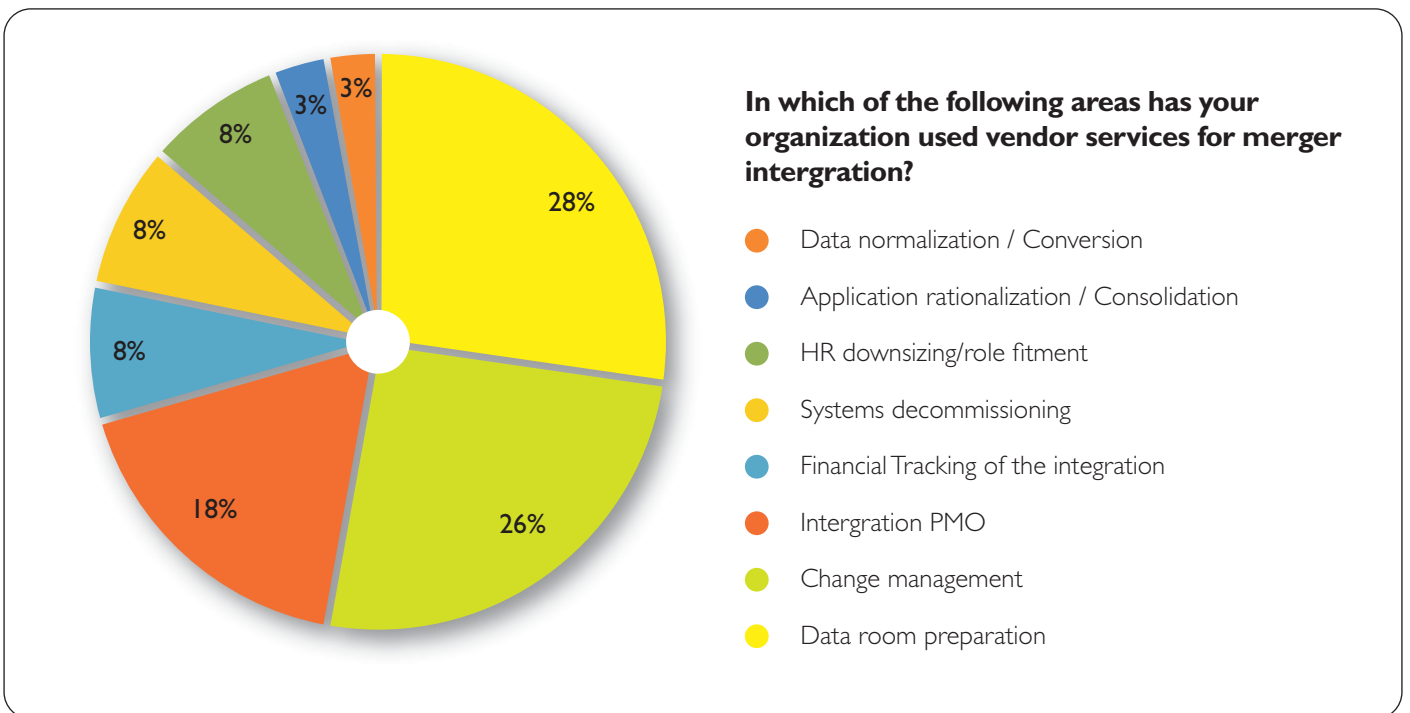
The responses above show that nearly two-thirds of respondents (62%) who had a high level of responsibility in the merger integration said they were presented with the business case for the acquisition. Startlingly,

nearly one in ten (8%) received no materials at all and only participated in a discussion or Town Hall meeting with an expected save number and set goals.

## External Vendor Support to Reduce Integration Costs

Our research suggested that third-party expertise is essential to help drive cost efficiencies with the acquisitions, mergers or divestitures in the areas of integration program management, execution and due diligence (see responses below). Respondents believe that using external service providers helps reduce one-time integration and ongoing fixed operating expenses.

The success of a divestiture, merger or strategic acquisition is based on the sound execution of the investment plan. More often than not, there is a tug of war between the investment team and operational business units that need to balance investment objectives with operational reality. A sound corporate PMO process can properly mediate that tug of war.



## Success Lies in the Details

In order to achieve M&A success, companies must be able to bridge all the investment model expectations used to build the deal's business case with measurable execution of the target operating model.

Wipro has created a global M&A practice that leverages its core products and services to help its customers acquire, sell off businesses and integrate newly-joined firms. Wipro builds a target model that is least disruptive to the existing business, based on business priorities like

efficiency, customer experience, straight-through processing (STP) and more. That is exactly what a M&A strategy should be focused on to deliver seamless integration, mitigate risk at every level of the acquisition and the post acquisition phases and unlock early business value from the acquisition.

*About the authors: Peggy Bresnick Kendler is Business Writer with the Outsourcing Center and Albert Eng is Head - M&A Transaction Services Practice BFSI at Wipro*

## About Wipro Technologies

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Wipro Technologies, the global IT business of Wipro Limited (NYSE:WIT) is a leading Information Technology, Consulting and Outsourcing company, that delivers solutions to enable its clients do business better. Wipro Technologies delivers winning business outcomes through its deep industry experience and a 360° view of “Business through Technology” – helping clients create successful and adaptive businesses. A company recognised globally for its comprehensive portfolio of services, a practitioner’s approach to delivering innovation and an organization wide commitment to sustainability, Wipro Technologies has 120,000 employees and clients across 54 countries.

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WIPRO TECHNOLOGIES, DODDAKANNELLI, SARJAPUR ROAD, BANGALORE - 560 035, INDIA TEL : +91 (80) 2844 0011, FAX : +91 (80) 2844 0256, email : [info@wipro.com](mailto:info@wipro.com)

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