MAXIMIZING THE VALUE OF AN M&A!
Operational efficiency and increased leverage from your existing ERP investment
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Abstract & Introduction

Mergers & Acquisitions (M&A) exercises can often leave a trail of “debris” with regard to processes and systems. This impact can be felt by both the entities much ahead into the future. In many cases, monolithic ERP systems are in operation in both the firms, and these systems have been “seeded” with very specific knowledge and design that is intrinsic to the firm’s core operation.

However, when any of these firms becomes either the acquirer or the acquired in an M&A exercise, these enterprise systems may need to be unraveled and unlocked. Many of these systems have evolved over the period of time by focusing solely on the firm’s core business processes and have been designed to have an inside-out view of the firm. We cannot blame the systems’ original designers as the first wave of ERP implementations were fuelled primarily to address core back-office and transaction intensive processing, and were originally not intended to have a design that makes it amenable for other companies (either acquired or acquiring) to be absorbed into their fold easily. A CIO needs to ensure that the common information architecture for both the entities needs to be established quite early during the M&A harmonization exercise, and the real-world challenges are manifold. M&A activities are forecasted to increase heavily in the coming years, and in order to show quick gains and leverage from this exercise, the timeline for both the entities to be up and running on a common information model has been reduced. In any pre and post M&A exercise, there are multiple parallel and sequential activities relating to the IT estate – spanning from infrastructure, tools, applications, environments, and finally business workflows and rules themselves.

This paper aims to highlight the various factors and techniques that play a crucial role in determining the right sequence of IT investments and initiatives in an M&A scenario. The paper also debates some of the options to be evaluated when both the firms’ operations are themselves managed by either similar, best-of-breed, or competing ERP packages. While a common financial reporting model is often the first milestone of such an exercise, it is the intervening next steps around application harmonization, portfolio rationalization, ERP migration (source, target, or hybrid) that often prove to be the real challenges for a successful post M&A.

Integration at the heart of an M&A

Integration forms the core subject in an M&A exercise, apart from the human resource and financial integration, there is an added element of business process alignment and business systems (ERPs) integration. Business process or business application integration should not be looked upon as a mere IT integration project or a “back-end” project that can be accomplished just like any typical IT/systems project. Research has shown that the highest volume of activity over the longest period of time in integration, particularly large-scale integration, occurs in the IT environment. The volume of activity alone increases complexity -
Information Technology commonly has the highest number of dependencies on other functions to execute its plans.

In order to realize the twin objectives of operational efficiency and increased leverage, the following goals must be established for such an M&A project:

- An organization’s IT integration strategy must be closely aligned with the organization’s strategic objectives and goals, and further refined to meet the unique needs of each individual business unit.

- Building staff commitment to new goals and ways of doing business, and supporting these initiatives through a smooth integration of information technologies is vital to securing the stability and momentum to realize cost efficiency and maximize synergy capture.

Options for an M&A integration

Several approaches and options are available in order to accomplish IT integration. A decision on the approach will play a major role in defining the destiny of the merged entity. Very often a sub-optimal approach can result in eroding the gains that the entire integration was expected to achieve. Such losses could be in terms of increased or spiraling support costs, product roadmap challenges, or the inherent deficiency of the application environment to absorb changes and sustain business capability in a tough environment. The figure below presents a very simplistic view of the various options available.

![Figure 1: Application integration options for the merged entity](image-url)
Common integration challenges to overcome

Prior to the integration exercise, there are quite a few challenges that need to be resolved. Such challenges are a part and parcel of the “baggage” of an M&A exercise and can comprise of the following:

<table>
<thead>
<tr>
<th>HQ / Group Centric Process Areas</th>
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</thead>
<tbody>
<tr>
<td>Compliance &amp; reporting</td>
</tr>
<tr>
<td>Taxation</td>
</tr>
<tr>
<td>Group consolidation</td>
</tr>
<tr>
<td>Product design</td>
</tr>
<tr>
<td>Global HR policy &amp; regulations</td>
</tr>
<tr>
<td>IT / technology roadmap decisions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location / Business Unit / Subsidiary Centric Process Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales compensation &amp; incentives</td>
</tr>
<tr>
<td>Product pricing</td>
</tr>
<tr>
<td>Local HR policy &amp; payroll</td>
</tr>
<tr>
<td>Financial reporting &amp; statutory compliance</td>
</tr>
<tr>
<td>Dealer, channel management, inventory management</td>
</tr>
<tr>
<td>Manufacturing &amp; supply chain</td>
</tr>
</tbody>
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Regulatory compliance (SOX, Basel etc.), multi GAAP reporting, local / statutory regulations & different HR / business operational policies

Conflict between “local” and “global” requirements, when a firm is operating across multiple geographies and product lines, and managed loosely from a HQ

Disparate application instances, multiple technologies, disjointed processes

Multiple license fees to product vendors and service partners

Master data variance on common elements such as suppliers, customers, locations etc.

Change management & training – ERP specific SOPs

Organization structure has a role to play

An appreciation of the Organizational structure and the operating model is of great importance in the finalization of a strategy. A business process is designed to operate in a certain organizational model, for example the following table describes which business processes will hold dominance across HQ and group companies for a distributed organization (typical multi-national operating in various business units/locations as independent subsidiary companies):

Hence, when a largely diversified organization with a distributed model of operations acquires an organization that is more centralized (HQ-centric), inevitably there is bound to be a discussion around the adoption of business processes in the merged entity. Since the business process of the acquirer is mostly localized and governed with greater autonomy at the field, these processes will be very unique for each field subsidiaries. It might be more appropriate to only integrate the centralized functions and let the locations manage their businesses in their unique environment. The IT / ERP integration effort can be localized only for the critical back-office functions such as Finance, HRMS etc.

However, when two similar organizations (both HQ-centric) are a part of an M&A exercise, there needs to be greater effort around the understanding and assimilation of business processes across front-office, back-office, and core operations. Such an M&A exercise may entail complete migration of an ERP landscape from one system to another.
Approaches to IT integration

The IT integration strategy is closely linked and dependent upon the business integration strategy. As per Forrester, based upon business integration strategy, there are four approaches to IT integration.

**Best of Breed** - This is appropriate when the strategic intent of the merger is to add value by capitalizing on merger synergies in the two organizations. Under this approach, synergies will be realized by incremental adjustments. Where incompatibilities exist, there will be a high cost associated with the prolonged period of misfit and realignment.

**Co-existence** - This approach is considered appropriate when the companies operate in unrelated or geographically distinct businesses. Following the merger, IT integration will involve establishing limited interfaces between the respective corporate systems.

**Absorption** - In this approach, the dominant IT organizational form will be sustained through a full integration and consolidation process. This approach specifically addresses and reduces the complexity, risk, and time to completion, along with the problems related to integrating two incompatible IT architectures.

**Transformation** - The transformation approach usually involves the installation of entirely new computing platforms and IT infrastructures. While rarely used as a first step due to time constraints and the need to deliver measurable value quickly, transformation could be the second step in a two-step merger approach.

**IT integration - The key objectives:**

The goal for most IT programs in an M&A scenario is to achieve simplicity in business processes, often achieved via process standardization and shared services, and more operational efficiency across business operations, and support services. Often these entail a reduction in systems, platforms and a creation of a common reference architecture deployed at all locations and subsidiaries. However, this is more easily said than done as change management and process variance issues may often delay or sometimes scupper any IT-driven programs. Business ownership and effective communication and change management is often more critical than mere integration of systems and data.

- Create a strategic plan for IT integration
- Develop the acquirer’s IT strategy and vision for the combined IT organization
- Establish and monitor performance metrics
- Create business processes for the combined organization
- Design the structure for the combined IT organization
- Implement the combined IT organization structure and work processes

While executing an M&A integration, several questions will arise as to which approach needs to be adopted, or how should a data element be rationalized, or how should process differences or localizations needs to be addressed. The figure below highlights some of the key questions whose answers would determine the eventual direction and approach of the integration project.
**Approach for integration**

A standard approach for integration exercise can be described under three major phases or milestones. A Due Diligence phase followed by a Process Rationalization exercise which ultimately manifests in an Integration Project (across data, business process, and systems and architecture). Although the timelines mentioned below are indicative, their ratio indicates the relative duration of each phase when compared against each other.

**Due Diligence**
- Develop IT Strategy and Roadmap
- Change Management
- Governance Model
- Business Process Gaps
- Define Business Architecture
- Financials Reporting
- Consolidation Strategy
- Enterprise Integration Model

2-4 Weeks

**Process Standardization**
- Portfolio Assessment
- Business Process Standardization
- Common Process Design
- Financial Consolidation and Reporting Solution
- Master Data Management
- Data Conversion Strategy
- Rationalized Data Center Network

4-6 Weeks

**Execute Integration**
- Implement Planning
- Cutover Strategy
- Functional Design
- Technical Design
- Build Solution
- Migrated Data and Users on New Platforms
- Support Strategy
- Training Work Force, Customers, Suppliers on New Platforms
- New Tools/Products/Modules Implementation

6-12 Months

**Key Deliverables**
- Program Roadmap, IT Systems Integration Plan, Infrastructure Consolidation Plan, Interim Solution
- Portfolio Assessment Document, Business Process Standardization, Execution Plan / Project Plan, Cost for IT Integration Execution, Data Conversion Strategy
- Detailed Execution Plan, Function and Technical Documents, Configurations Setup Documents, Cutover Document, Training and User Manuals

Figure 3: Sample approach for an M&A integration project
Application portfolio assessment

A critical component of the process standardization phase involves the application portfolio assessment whereby each category of business applications is mapped along with its capability and classification – such as front-office, middle-office and back-office. An application portfolio exercise involves the mapping of each individual application (often maintained in the enterprise architecture repository) to the business capability and function that it delivers and the underlying IT systems that it harnesses. Such an exercise often results in “discovery” of a large number of localized business systems that were never deployed on a full-scale or updated/upgraded or their functionality is being duplicated in other systems. The most effective tool for carrying out such an exercise is the application functionality mapping whereby each business process (in L2, L3 definition) is mapped onto the corresponding IT application and not vice-versa. The application portfolio exercise needs to be executed with great caution and governance, as a robust and accurate definition of what constitutes an L2 or L3 business process and their classification as front-office vs. middle-office or a back-office.

The outcome from a process integration exercise is to design or establish a desired “to-be” architecture that results in achieving the key objective of the M&A which is operational efficiency (bottom-line) and increased leverage (top-line).
Process based integration elements (for a typical ERP)

Each ERP module or suite delivers a packet of business capability, and the expected outcome after an M&A integration program is to enable the merged entity to perform their business operations over a portfolio of applications that has been configured and tuned to deliver the results (KPIs and metrics) of the business process. As is illustrated in the figure below, each functional domain (Finance, SCM, HRMS etc.) will be assessed based on the desired goals and objectives set forth. For example, in the HRMS space, the re-alignment of work-structures and career path is one of the key design parameters for an HRMS system integration.

<table>
<thead>
<tr>
<th>Key Process Areas</th>
<th>Expected Outcome</th>
</tr>
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<tbody>
<tr>
<td>Financial Management</td>
<td>• Improve productivity through reduced manual reconciliations</td>
</tr>
<tr>
<td></td>
<td>• Transition from duplicated financial process and systems to well-defined single</td>
</tr>
<tr>
<td></td>
<td>process across the organization</td>
</tr>
<tr>
<td></td>
<td>• Effective utilization of multiple billing system</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>• Improve supplier network collaboration</td>
</tr>
<tr>
<td></td>
<td>• Mapping of multiple supply chain processes to single well defined process</td>
</tr>
<tr>
<td></td>
<td>• Improve revenues and optimize inventory</td>
</tr>
<tr>
<td>Human Resource Management</td>
<td>• Work structure alignment as per new structure</td>
</tr>
<tr>
<td></td>
<td>• Redefine organization hierarchy and roles</td>
</tr>
<tr>
<td></td>
<td>• Rationalization of payroll</td>
</tr>
<tr>
<td>CRM</td>
<td>• Enhance customer relationship management system for merged entity</td>
</tr>
<tr>
<td></td>
<td>• Robust solution for multiple order capture processes</td>
</tr>
<tr>
<td></td>
<td>• Flexibility and scalability to handle increased number of sale channels</td>
</tr>
</tbody>
</table>

Figure 5: Expected business outcome across functional silos of business applications
Key decisions need to be taken along the course of the process alignment journey. The table below lists the category across multiple functional elements and some of the key decisions.

<table>
<thead>
<tr>
<th>Element</th>
<th>Category</th>
<th>Critical Decisions</th>
</tr>
</thead>
</table>
| Organization Structure & Reporting | • Financials Hierarchy  
• Reporting Hierarchy  
• Company Structure (Divisions, Geo, BU) | • How are the financial books arranged?  
• How is the existing reporting & organization structure hierarchy? |
| Data Definition                | • Accounting Structure  
Master Data Elements – such as Employees, Suppliers, Customers, Products, Pricing etc. | • What master data elements need to be cleaned and migrated across? |
| HR Structure                   | • Roles & Responsibilities  
• Domains & Function  
• Career, Job and Role Harmonization | • How to incorporate new roles and functional responsibilities in the acquired entity |
| IT Structure                   | • System Landscape  
• Tools & Methods  
• Integration Approach | • Which systems - to be retired tools and methodologies - followed specific integration framework? |
| Support Structure              | • Business Support  
• IT Support  
• Managed Services | • Is new SOP required to be created?  
• Revised IT help desk/support  
• Set up new managed services organization? |
| Business Process               | • Process Flows  
• SOP Documentation | • Are process flows documented & how are they maintained? |
| Data Conversion                |                                                                          | • Data migration and clean-up followed by migration (for open balances and transactions) |
M&A integration with multiple ERPs – Data, process & systems

When two organizations running on different ERP systems merge, there is an added complexity data rationalization and data migration. An IT program of such a merger activity is bound to have several parallel tracks such as master data management, localizations, application customizations and extensions, and lastly data rationalizations. Few critical questions may need to be answered, such as:

• What is the sequence and phase of each individual tracks?
• Approach for data and process rationalization
• How does process re-alignment fit with the overall product roadmap?
• How to address statutory and compliance regulations?

The diagram presented below describes a view of two organizations (operating in multiple ERP environments) and the various tracks that are to be considered for an IT program.

Figure 6: Scenario of an ERP to ERP integration for an M&A exercise
Impact on delayed integration or typical post integration challenges

A delayed or challenged integration may result in huge downstream costs that can be easily avoided with better planning of the M&A integration. For every $1 billion of premium paid, a delayed integration costs about $500,000 a day. The more delayed or deferred an integration becomes, organizations tend to slowly accept the inefficiency and gradually but steadily reach a point of no return in terms of IT investments or product roadmap decisions.

- Lack of effective dialog with business to understand post-integration business model
- Internal organizational capability to carry out future acquisition integrations is not developed, and limited learning from prior acquisitions applied in future
- Business and IT Processes are not integrated and streamlined to the fullest extent possible
- Corporate and business view IT as the cause for overall integration schedule slippage

Short term M&A IT objectives

There are imminent tasks which must be accomplished in any merger, regardless of the strategic decisions being developed for the long term, such as the Day 1 activities. In any M&A integration, it is paramount that we don’t lose sight of what/how the Day 1 tasks need to be accomplished. This milestone becomes very important when taking decisions as regards training, data, and security aspects. Traditionally, most Day 1 concerns have been around the ability to perform day-to-day basic transactions such as shipping, invoicing, receiving, and payroll.

Implementing must-do Day 1 activities

- Common payroll and benefits
- Granting role-based permission and access to systems
- Building interface for parallel front-end transaction oriented systems

Completing interim or pro forma IT reporting issues

- Consolidated regulatory reporting
- Single GL to support reporting and provide a single control envelope
- Interim approaches to serve customers across the two sets of IT applications

Executing multiple one-time tasks

- Conversion of new employees to new payroll, benefits, HR, security, and other systems
- Customer issue identification and resolution, driven by regulatory, customer size issues, and just good customer relationship management
- Vendor relationships and contracts rationalization and alignment

It is essential to prioritize the Day 1 activities and what needs to be achieved afterwards. A good approach would be to create a list of key tasks across a horizon, for example 30-day, 60-day and 90-day integration tasks. An effective communication planning and management is key to sustain stakeholder attention and involvement of the employees impacted in the M&A. An often cited key integration objective is the ability presents a consistent image of the customer-facing business processes. For example, you may want to inform and involve your top customer base in the M&A exercise and seek their feedback while designing and deploying new customer-facing processes.

Change management

The degree of change in the organizational activities is primarily determined by the intended level of integration. Various options or scenarios can exist for an IT integration, such as:

- Limited integration of two operations
- Absorption of a smaller company that adds specialist expertise in an important sector
- Absorption of a company of similar nature and size
- Merger of a large player with a smaller company, which turned into an absorption
- Transformation of two companies of similar size and nature
The figure below depicts the options available for an M&A exercise, and the typical degree of change that may be required for a specific functional area.

<table>
<thead>
<tr>
<th>Process / Functional Area</th>
<th>Typical Degree of Change Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Minimal</td>
</tr>
<tr>
<td>Sales</td>
<td>Moderate</td>
</tr>
<tr>
<td>Core Operations</td>
<td>Minimal to Moderate</td>
</tr>
<tr>
<td>Back-Office (GL/AR/AP/FA)</td>
<td>Minimal to Moderate</td>
</tr>
<tr>
<td>Information Systems</td>
<td>Minimal</td>
</tr>
<tr>
<td>SCM / Order Mgmt. / Inventory</td>
<td>Moderate to Significant</td>
</tr>
</tbody>
</table>

Figure 7: Scenarios of possible changes and their functional impact in an M&A exercise

**Process alignment based on industry-best practices**

Harmonization can be accelerated by adjusting existing processes. One can leverage the process repository to complement existing acquirer/acquired organization process documentation to accelerate process definition and mapping. A process decomposition and adoption model whereby every L2/L3 process areas are evaluated and compared based on the industry standards and best practices. Each process definition is critically evaluated and a decision to either adopt or change or dis-continue needs to be made. This decision has long-term ramification as it would dictate how the future operating model will operate.

The figure below describes how a process area can be de-composed into its detail nuances and elements and compared with the standard and prevailing industry practices. Very often, an M&A exercise can serve as the platform and opportunity for process benchmarking and re-alignment to industry standards.

Figure 8: Sample process decomposition hierarchy as part of process rationalization and harmonization exercise
Impact on divestiture

Lastly, a typical by-product of an M&A exercise is activities relating to divestiture. The acquired company may continue to exist in a separate identity and it becomes essential to demarcate and isolate the component of the business that still remains in the acquired company. Typical factors associated with a divestiture exercise are:

• Segregation of business process, application data and infrastructure environments

• Protection of the IP assets as well as validation of security, user rights and privileges, and associated linkages

• Ability to clearly segregate the business transactions from each other

• Retention of historical data for claims, audits, and other statutory regulations

• Re-validation of the application portfolio including re-negotiation of SLAs with suppliers, re-architecting (down-sizing or right-sizing) of the infrastructure and removal / retirement of application assets not relevant

Conclusion

Any M&A exercise that involves two organizations operating on different of a variant of the same ERP platform has multiple factors to be considered apart from the system integration objectives. Aspects relating to business process, data and application portfolio plays a decisive role in determination of the approach to be adopted. Such an M&A exercise can result in multiple IT/business-driven programs that needs a holistic view and not as individual programs. Additional element of business process complexity and change management are also factors for consideration for the merged entity. The paper has attempted to highlight the critical few elements to be considered while planning for such an exercise. This is not only a business critical exercise and requires the IT decisions (approach, tools, methods etc.) to be aligned to the business strategy of the merged entity.
About Wipro Technologies

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 recognized globally for its comprehensive portfolio of services, a practitioner’s approach to delivering innovation and an organization wide commitment to sustainability, Wipro Technologies has 130,000 employees and clients across 54 countries.