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Knowledge@Wharton – Wipro

CIO Series

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IT integration is critical to unlocking the full potential of an M&A deal, says John A. Gigerich, vice president and chief information officer for Europe at the Kellogg Company. And getting the most from IT requires that it "have a seat at the table." Gigerich, along with Stephen J. Andriole, who has been a guest faculty member at Wharton's Executive Education program, and Hiral Chandrana, vice president and global business head for consumer goods at Wipro, discuss related challenges in this CIO Series article, produced by Knowledge@Wharton and sponsored by Wipro.

In August 2012, when John A. Gigerich moved from Chicago to London for his new role as vice president and chief information officer (CIO), Europe, at the Kellogg Company, the cereal maker was in the midst of its first global M&A integration. Kellogg had acquired Pringles potato chips from Procter & Gamble for $2.7 billion. The deal closed May 31 and Gigerich's mandate was to ensure that the IT integration for Europe was completed by February 2013.

He recalls: "I was neck deep in it from day one.... We worked with the business [teams] to put all other IT initiatives on hold and focused the entire IT organization on the integration. It was a key priority for us globally, and within Europe it was our number one priority from an IT standpoint."

Gigerich, who joined Kellogg in 2007 as senior director of the global IT program management, believes IT integration plays a key role in unlocking the full potential of an M&A deal in the consumer goods industry. "IT touches every part of the business and underpins every aspect of an M&A integration. It plays a critical role in enabling the company to reduce costs by eliminating duplication and growing the business through economies of scale." He cites an example from sales: "The sales team [of the combined entity] would like to have one truck [deliver all products] and issue a single invoice to the customer instead of having multiple shipments and multiple invoices." It may seem simple – "just a matter of having the truck loaded properly at the warehouse." But, "it requires the entire backend IT systems to be in place."

Stephen J. Andriole, whose work has been published by Wharton Digital Press and who is a professor in the department of decision making and information technologies at

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the Villanova School of Business, says the primary driver of IT integration in consumer goods M&A is "customer experience, which should not degrade post-merger." The other drivers, he adds, are "cost and longer-term maintenance issues," and "the need for migration of data and other technical services."

Integration Often Fails

But M&A IT integration often fails, and at great expense to the parent company, according to Andriole. "The failure rate for M&A IT integration is easily over 60%, and when you factor in the human and financial costs, the ROI on "forced" M&A IT integration can be quite low. The outcome is often keeping the two entities separate and rolling up numbers (and systems) so that they are manageable and — especially in the consumer goods industries — at least customer neutral."

Checklist for Success

Michigan-headquartered Kellogg, founded in 1906, has made less than 10 acquisitions. The biggest was in 2001 when it bought the U.S-based Keebler Foods Company for $4.56 billion. Pringles was Kellogg's second-biggest acquisition, and with a strong footprint in the U.S., North America, Europe and Asia Pacific, this was its first global buy. "It's been a great purchase for us. The acquisition of Pringles has gone well. The business has posted good growth and we're excited about the potential of this brand, globally," Gigerich says.

His checklist for a successful integration includes the following: a high quality due diligence of the IT landscape at the target company; a detailed IT plan closely aligned to business objectives; the right staffing resources; and a strong governance structure.

But most importantly, it is key for the IT organization to be fully aware of the new business plan, Gigerich says. "For instance, is one buying a whole company or just parts of it? Is the acquisition in the same category, a complementary one or a completely different one? Does the target company have the same customer set? What is the approach and what are the benefits expected from the acquisition? All this has a huge impact on how you integrate."

Gigerich adds that it is also very important for the IT team to be involved early on so they can plan "which ongoing projects need to continue, which ones need to be put on hold and which ones must be discontinued." This requires hard negotiations with the business teams. Without this visibility, the process can become chaotic. "But for this planning to happen effectively, it is very important for IT to have a seat at the table and be involved in the integration discussions at the same level as the heads of sales, supply chain and finance. We should not be an afterthought," he says.

Andriole agrees. Pointing out that "the delivery of the business model and processes is usually almost completely dependent upon technology," he notes: "The IT teams should be involved the moment anyone even smells the possibility of a merger or acquisition because IT is extremely complex and company 'personalized'. It's essential to know about hardware, software, applications, networks and support before going into M&A discussions because IT integration could be expensive and time consuming, especially

"There is a fairly big component of change management, so companies need to run this with very strong governance."

— Hiral Chandrana

if the technology is disparate, which it usually is."

Accelerating Business Benefits

According to Hiral Chandrana, vice president and global business head for consumer goods at Wipro Limited, companies are fast realizing that if the IT integration is not in place, "it impacts the ability of the two companies to collaborate" and slows the expected return. "The biggest bang for the buck is in accelerating the business benefits like supply chain agility, product development, new channels for reaching the customer, etc. If you look at the Kellogg-Pringles integration, I would say that the biggest transformation is in the supply chain, and at a global level, enabling a fully automated distribution and warehousing solution for newly acquired product categories and opening up new markets."

Chandrana places IT integration in two buckets: enterprise connectivity and the operating model. Enterprise connectivity includes everything that an employee needs to be connected within the organization — phones, laptops, Internet access, emails, messaging, local area networks, wide area networks, virtual private networks, etc. The operating model includes the IT architecture, applications portfolio, enterprise data and the various business processes. These need to be streamlined so the combined entity can work seamlessly.

Chandrana says that for a smooth IT integration, companies must have a run-book or template, well-oiled machinery with a clearly articulated and well-documented plan, transparent timelines and costing model, the right people and the right partners. "There is a fairly big component of change management, so companies need to run this with very strong governance."

At the execution level, Gigerich places special emphasis on security — of not just the physical pieces of the network but also the digital properties. Take websites, for instance. Most consumer goods firms use their websites to gather data about their customers. This data is then mined using analytics to devise the most effective customer experience. "Consumer goods companies are constantly under threat from people trying to break into their networks. So one of the first things we need to do is to see if the acquired company is as secure as we are and what more we need to do."

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>
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Need to Keep an Open Mind

Andriole lists customer data base and customer service integration among the key challenges. "It's also assumed that fulfillment data bases and processes will work together. The resolution of these challenges takes extraordinary planning and near-flawless project execution — which is why so many M&A IT integrations fail," he notes.

The pace of integration could also pose problems. Typically, the integration needs to move faster if there is a transition services agreement (TSA), which usually happens when the acquisition is more of a carve-out and not a full buyout. Under a TSA, the acquiring company pays the target company for certain services until the integration is completed.

But there is a cost associated with the speed of integration. The IT organization has to either add more resources or drop some existing projects. "It all ties back to the business plan and having a seat on the table," says Gigerich. "If the business plan has been understood well, then everything can be planned around that."

Andriole and Gigerich suggest that companies need to go into an IT integration with an open mind. "There could be some pearls within the target company that could be beneficial to the combined entity and it is important to leverage these pearls," says Gigerich.

Andriole, who also is a business technology consultant, notes that many IT M&A integration efforts fail because of "politics and stupidity." He points out that often, "even if the acquired company has superior technology, it may get subjugated to bad technology. This happens all the time — much more than anyone wants to acknowledge."

Corporate cultures also play an important role, he adds. "If change is anathema to a culture, then things don't change. At the end of the day, a long list of things have to be true for M&A IT integration to succeed." ■

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