Table of Contents

03 Abstract

03 Introduction: Role of IT in M&As

04 Key focus areas from SAP Perspective

06 Conclusion

07 About the Author

07 About Wipro Ltd.

Abstract

The ERP system in the Oil & Gas industry is tightly integrated with a plethora of legacy applications. The Mergers & Acquisitions throw up many challenges in handling the ownership of these applications and carving out the new ERP system post M&A.

This paper talks about the role IT plays in the M&A process. It focuses on SAP as an ERP system and discusses the areas to work on for a successful ERP migration post M&As.

Introduction: Role of IT in M&As

The Oil & Gas industry is constantly looking for opportunities to maximize profits and spread risks. Mergers and Acquisitions are an important business model in this pursuit.

Whether it is a divestiture, acquisition, spin-off or a plain merger, IT integration becomes a key business goal. If the integration is not managed well, the entire business plan has the potential to fall through.

In case of acquire and spin-off, the parent company drives the IT integration to iron out the wrinkles. For divest and merger, however, the new entity has to battle it out to give shape to the fresh IT model and make it sustainable.

M&As are often long drawn and have many phases. It is, thus, important to get the IT organizations on both sides involved from the due diligence phase itself. And IT plays an increasingly important role as the process progresses.

IT engagement during early stages helps:

- Evaluate infrastructure requirements and look at cost optimization, leveraging cloud-based infrastructure planning.
- Negotiate application licenses with application vendors.
- Identify application system complexity, available documentation and ensure the right System Integrator (SI) is selected for support and comes on board before the Transition Service Agreement (TSA) exit.
- Formulate the TSA to protect the interests and ensure sustainability of the newly-formed entity.

From an IT perspective, important points to ponder on while formulating the TSA are:

- Will the parent or its AMS vendor manage the carved out ERP system for operational support as well as application support and maintenance (bug fixes)?
- Will they also be responsible for carrying out business critical system/application changes/upgrades during the TSA period?
- What is the exit clause and notice period?
- Will it cover filing of regulatory reports typical to O&G industry like ZYTAX report, various EHS filing with EPA, etc. using current interfaces with state agencies?

Knowledge transfer is another important area of any M&A activity. It needs to be seen if there are business process documents, configuration and development documentation, and if the parent entity would provide this documentation to the new AMS vendor. If not, then there would be a need to select the new vendor who has the capability to quickly understand the system and business processes through reverse engineering, and create the required documentation.

Infrastructure is an integral part of this IT management process during any M&A activity. It is necessary to see if the new system will be on premise or on cloud, if there is a business contingency plan in place and bandwidth/connectivity to support and user teams. One needs to check if the SI vendor and power users access the TSA system while it is under the parent entity's control.

While the TSA is in operation, it is required to replicate the existing development and quality assessment systems for knowledge transfer to business and support teams so that they can test the integration with legacy systems.

After an M&A there would be a need for new security roles, new release strategies in procurement and modified workflows due to a change in business model and size. Thus, **Change Management** becomes an important part of the process. In a combined entity, the business users might not be actively engaged in SAP as this is generally performed by the BPO teams. But after carve out, it could be expected that business users of the new entity might have to perform these functions directly in SAP. This throws up new challenges due to usability and training. So businesses need to be trained not only on the new processes but also in basic SAP.

Even as the M&A process rolls out, the Day I readiness check list needs to be put in place. There are separate checklists to be prepared for post M&A and post TSA, including detailed cutover plan and ownership. Post M&A readiness check list should have all data objects (identified in data carve out section above) to be changed to have the new entity functional during TSA. Post TSA check list would involve cutover and production system migration.

There is need for business contingency planning, factoring in some application and system downtime. The interfaces with legacy systems should be stopped. The contingency plan should have process to capture the data during the migration and then replicate it once the system comes up.

The migration could be using one of these methods:

Lift & Shift: Physically move the production system from TSA data center to the new entity's data center. Ensure you have a full data back up and contingency plan, in case something goes wrong in transit.

Backup & Restore: Back up the data from TSA system and restore onto the client's system which has been set up afresh. Ensure data integrity during the restore process by setting up necessary validation process. This is also required for audit/regulatory compliance.

There is a need to ensure that inherited applications align with the long-term business strategy and IT roadmap of the new entity. This can be done by looking at application rationalization opportunities.

About the Author

Ramakrishna Avasarala, has about 25 years of experience in the Oil & Gas industry. Of this, Ramakrishna has spent 14 years working on SAP projects with Global clients in consulting and project management. Currently, he is part of WIPRO's CoE for SAP Solutions for downstream clients.

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