

# Information Technology

## How to complete the M&A integration process, minimize disruptions, and achieve desired synergies.\*

Mergers and acquisitions are often executed to gain access to new markets and products. While the revenue building effects of new markets and products can be fairly immediate, and certain redundant costs can be quickly eliminated, capturing and sustaining value over the long-term is a more difficult task. One of the most complex areas to manage over the long term is the integration of Information Technology.

The highest volume of activity over the longest period of time in an integration, particularly large-scale integrations, most often occurs in the Information Technology environment. This volume alone increases complexity, and this complexity is exacerbated by the fact that Information Technology commonly has the highest number of dependencies on other functions to execute its plans. It is no wonder why research consistently shows that integrating information systems is one of the top integration challenges for sizeable transactions.

To deliver following a deal, an organization's IT integration strategy must be closely aligned with the company's strategic objectives and goals, and further refined to meet the unique needs of each individual business unit. If not, it will degenerate into an almost frantic effort to complete a seemingly endless list of IT initiatives with little connection to the big picture. 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.

Collaboration and partnership with business leaders to determine the business impact of IT Integration is a key success factor for any M&A integration.

# The Issues Our Clients Face, The Actions We Help Them Take

At PwC, we understand the importance of getting the fundamentals of integration in place as quickly as possible during a deal to minimize disruptions and achieve synergies. We support our clients by rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future State Operations. This is the approach PwC delivers in managing the integration as an enterprise-wide business process. Please see Figure 1.

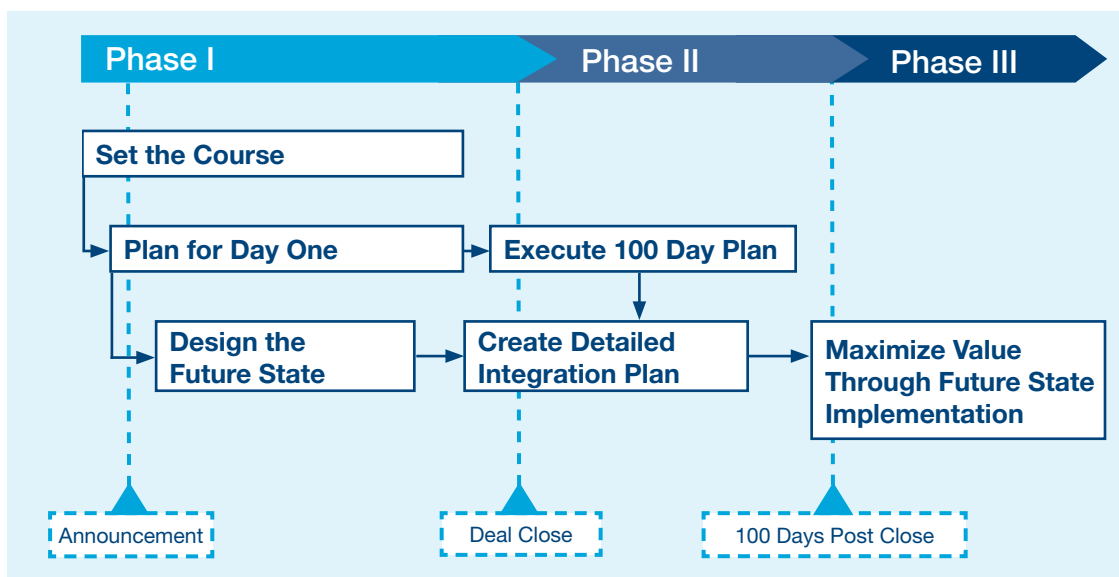


Figure 1 – The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right things at the right times.

# Set The Course

A merger or acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Across all functions, setting the course involves establishing clear leadership and role clarity during the transition. This empowers members of the integration team—including information technology—to communicate effectively and take decisive action.

Early planning and a clear understanding of the newly combined company's goals are essential to successful IT integration. The needs and requirements of the combined company's current and target business models will determine which IT integration approach—absorbing one company's systems into the other's, using the best of both companies' systems, or developing and supporting standalone systems—will allow the company to achieve the desired end state quickly and efficiently.

Setting the course for Information Technology integration involves a thorough assessment of the IT environment across all major IT components—business applications, supporting infrastructure, organization, spending, assets, etc.—to provide a complete picture of integration opportunities and challenges. This requires close collaboration and partnership with business leaders to determine the business impact of IT integration opportunities—one-time costs, time-phased cost savings, timing, and risks—as well as potential interdependencies. IT opportunities are then based on revenue enhancement, cost savings, timing, level of effort, and risk avoidance.

For the newly combined company, this forward-thinking approach requires a strong IT decision-making and ownership structure. With such a structure in place, a company can be assured that any emerging issues will be resolved in a way that is consistent with the company's overall goals and strategy and will minimize or avoid disruption to operations. This is particularly important when it comes to connecting business process integration responsibilities with systems integration responsibilities.

# Plan For and Execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong upon close absent proper planning and execution. While Day One is a milestone for celebration, it is also the time for smooth transition of mission critical operations.

Because IT makes up the backbone of internal and external communications, it is imperative that certain systems and management reporting tools are operational on Day One. These systems typically include interim solutions for connecting internal and external users, providing key data and select application access, seamless help desk support, and specific systems that support financial reporting and human resources. Not only are these systems integral to smooth operations, they also provide connectivity and communication between the newly combined company.

The key initiatives and IT projects for Day One should be rigorously managed as they tend to involve complex, expensive, and most likely permanent solutions. Moreover, any problems with these systems will cause frustration among customers and employees and have the potential to disrupt operations.

Another primary Day One imperative is to establish guiding principles that will dictate how specific IT integration projects will be structured. This will be crucial as the company moves forward to develop its future state operations.

## Focus areas for Day One Integration

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**Business Applications** Availability of key business applications is critical for Day One. Management information, application usage, systems access, and training requirements should be defined for each application to ensure seamless operation of the surviving or parallel applications on Day One. In planning for the longer-term integration, the newly formed company should agree upon standard applications for each business function, an integration roadmap for enterprise systems, a joint team of business users and IT professionals for all impacted areas, and established standards for conversion and integration tools.

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**Management Reporting** Almost immediately, leadership will require tools and processes to provide a consolidated view of the business' key performance indicators (KPIs). IT should anticipate an immediate need for reporting tools to consolidate information from the acquired business to provide enterprise-view business performance. Early identification and evaluation of key data sources and data structures, as well as available reporting tools, will be critical to ensure the necessary management reporting is available on Day One.

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**Office of the CIO (IT Business Operations)** The Office of the CIO should be ready to manage ongoing IT business operations in addition to supporting the integration effort of combining IT organizations on Day One. The IT integration team will typically report to this office as it makes human capital and financial decisions for the new IT function in the areas of IT project management, IT governance, compliance, integrating IT resources, and developing a financial plan for the function. This also typically includes the custodian of records function in close collaboration with the legal team to ensure compliance for all document or data retention requirements. Management should also move quickly to define clear accountability and reporting relationships throughout the IT organization. Headcount rationalization should be completed to keep the team focused during the transition phase, and a time-phased staffing plan of the future operating structure should be defined.

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**Infrastructure** IT infrastructure affects a range of IT elements, including data centers, data networks, voice networks, email and calendaring. IT integration can be an important opportunity to make the transition from parallel, and often redundant, infrastructure to single, shared data networks, voice systems, domain structures, audio/video conferencing, software and hardware deployment processes for PC workstations, and systems management tools.

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**Enterprise Architecture** Setting the proper course and planning for Day One requires insight into both companies' existing enterprise architectures—network and application architecture and architectures for data, voice, computing, directories, platforms, and operating systems. A high level assessment will ensure Day One planning and execution teams are in agreement on immediate requirements and solutions, and may also point out key gaps that can potentially impact the long term IT integration strategy and incremental investment(s) to achieve an integrated end state.

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**Information Security** Information security is a crucial element of IT management. For Day One, the newly combined company needs to implement interim and long-term plans for an integrated Information Security organization, starting with a common security governance and architecture. Integrated incident response, access management for new employees and select non-employees, and security compliance are also high priority areas.

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<b>Projects</b>	Priority should be placed on rationalizing the IT project portfolio to include only critical projects so that resources can be made available to plan and execute potential deal synergies. A focused review of the existing project portfolio across both entities is required to ensure only those projects that have strategic value to the combined business are continued. In addition, a resource capacity analysis should be completed to determine the availability of existing resources and the need for third-party support.
<b>Spending</b>	A total spend analysis should be completed to understand the “cost to serve” across each entity and to identify areas where costs can be reduced through consolidation, process improvement, or elimination of services and/or assets. In addition, a complete and time-phased understanding of the one-time costs (e.g., consulting, software licensing, and hardware/equipment) should be developed to provide a holistic view of the P&L impact. These estimates should be compared to third-party benchmarks and industry data to validate current and future spending levels.
<b>Systems Operations (Support)</b>	Day One IT operations should include support. This means developing the right support framework, procedures and processes for the delivery and enhancement of information technology central to day-to-day customer support. This can include enterprise change management, service level agreements, help desk support, asset management, and training support.
<b>IT Vendor Management</b>	A consolidated view of IT related third party commitments should be established as soon as possible. This includes a defined set of vendor processes—typically partnering with the Procurement department, a consolidated set of service level metrics, a consolidated contract database and beginning templates, and an initial master roadmap for contract consolidation.
<b>Outsourcing</b>	The use of qualified outsourcing to provide non-strategic IT services may reach critical mass and continue to play a significant future role in IT. With any merger of two organizations where outsourcing is used, a well thought out plan of the future state of the outsourcing relationship needs to be developed. Key elements to consider include impact of the contractual terms (e.g., early termination, change in ownership, change in services), the vendor’s ability to service the combined entity, and the cost impact of any potential changes (both one-time and run-rate). In addition, the company may consider outsourcing in the future to accelerate the integration, reduce ongoing costs, inherit best practices, and improve service levels.
<b>Assets</b>	Outside of facilities, IT often maintains the single biggest pool of assets within an organization. Management should focus on developing a detailed inventory of assets (e.g., PCs, Servers, Network Equipment, Data Center equipment) and soft assets (e.g., software licenses, intellectual property) to determine consistency, compliance, and potential cost avoidance due to oversupply or economies of scale. In addition, any change of ownership issues should be identified and addressed to avoid surprise one-time costs.

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# Design and Maximize Future State Operations

IT integration must be carefully orchestrated to maximize value creation, minimize costs, and realize integration objectives. This includes integration of IT core processes, such as systems development and delivery, data management, and infrastructure provisioning; supporting processes, such as third-party services, IT reporting structure, and operating procedures; and control structures, including governance practices, internal policies, and the usage of specific tools.

Every aspect must come together to deliver the fundamental promise of IT: the creation of value for customers (internal and external) through the effective deployment of technology. Using an IT integration roadmap can increase the likelihood of realizing value creation and maximizing the effectiveness of future state operations. The IT Integration roadmap consists of a balanced mix of application and data, infrastructure, and process related projects by business unit.

Creating the IT integration roadmap typically has four key stages that should begin just before the transaction closes and be complete about 100 days after that closing. Please see Figure 2.

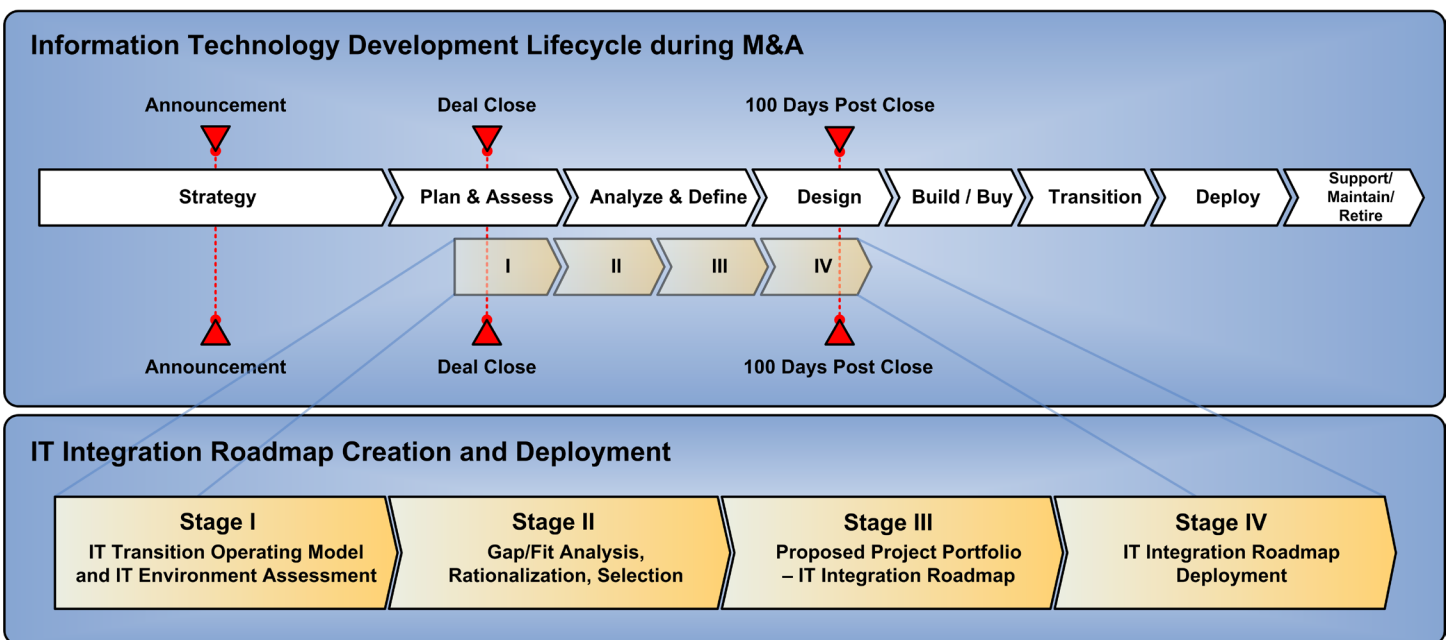


Figure 2—The PwC four stages to IT Integration Roadmap Creation and Deployment.

## Information Technology Development Lifecycle

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### **Stage I: IT Transition Operating Model and IT Environment Assessment**

This stage utilizes two key tools to guide the overall IT integration process. The IT Transition Operating Model serves as a transition guideline containing as-is, intermediate, and end-state stage models defining the key components (process, applications, data, infrastructure, people) of the IT Organization targeted for implementation and deployment. The overall assessment and Asset Inventory is necessary to ensure comprehensive integration analysis, identifying interdependencies, and appropriate decision making throughout the integration process, and includes three key components: business applications and systems, key infrastructure and hardware components, and vendor contracts and license agreements.

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### **Stage II: Gap/Fit Analysis, Rationalization, Selection**

This stage begins the detailed, tactical level analysis of the IT integration process with a gap/fit analysis, rationalization, and selection in three areas—business applications and systems, infrastructure and hardware, and vendor contracts and license agreements. This process should include an assessment of the cost savings, revenue enhancement, or risk avoidance that can be achieved through the integration of the two environments.

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### **Stage III: Proposed Project Portfolio—IT Integration Roadmap**

The proposed project portfolio includes the initiatives to be implemented in achieving the desired end state, and to address gaps identified during the gap/fit analysis. This stage should also include the rationalization of existing projects and the re-evaluation and re-prioritization of the IT project portfolio to include a mix of both near and long term integration requirements. Once approved by the executive sponsors, this portfolio becomes the basis for the IT Integration Roadmap and provides the structure for governing multiple IT investments across the organization, managing these investments to create value, and ensuring a transparent and accountable project management approach to achieve IT and overall integration objectives.

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### **Stage IV: IT Integration Roadmap Deployment**

Once the IT Integration Roadmap is approved, the company will need to establish the means to manage the integration effort on project, functional, and enterprise levels. Strategizing and planning is only as successful as the ability to execute. The initial excitement and focus following a successful deal closing tends to fade quickly. So a framework for execution based on sound project management principles and discipline should be created as soon as possible by leveraging dedicated resources early in the integration process. Sustaining a transparent and measured integration management process will often determine integration success or failure.

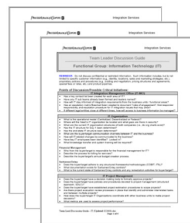
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# Our Approach for Delivering Information Technology Integration Success

Our disciplined approach to IT integration helps companies achieve early wins, build momentum, and instill confidence among their stakeholders. We take an active, hands-on approach to helping clients focus on the right things at the right times, creating early and sustainable capture of deal value. We deliver time-tested integration processes to support client integration teams and supplement those teams with experienced resources to fill resource and technical gaps as required. We customize our tools and services to complement each client's specific needs and internal capabilities.

## Our Tools for Information Technology Integration

**Team Lead Discussion Guide**  
Guide for functional team leader with questions that trigger thought to assist in rapidly defining integration scope



**IT Workplan**  
Model integration workplan used as a "starter" set of tasks to jump start the functional workplan development effort



**Critical Dependencies**  
Example IT dependencies that assist to accelerate the business requirements identification from other functions

Function	Business Requirements	IT Requirements	IT Dependencies	Business Dependencies
Finance	4	1	1	1
HR	4	1	1	1
Legal	4	1	1	1
Marketing	4	1	1	1
Operations	4	1	1	1
Procurement	4	1	1	1
Risk	4	1	1	1
Sales	4	1	1	1
Supply Chain	4	1	1	1
Technology	4	1	1	1
Executive	4	1	1	1

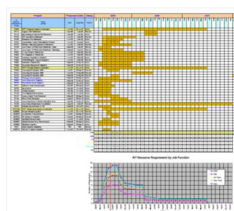
**IT Transition Operating Model**  
Leading practice 'end-state' modelling approach for integration transition



**Asset Inventory**  
List of IT assets, including business applications and systems, key infrastructure and hardware components, and third party vendor and licensing agreements

**IT Project Portfolio/Integration Roadmap**  
Tool used for communicating the integration plan for all IT components, including applications, data, infrastructure, process, and people

**Staffing Management Matrix**  
Accumulative human resource requirements by job type (IT and business) needed to execute the IT Integration Roadmap



**IT Value Drivers**  
Model business cases for critical initiatives required to achieve functional synergies and cost savings



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