

Post-Merger IT Integration

Steering IT through the phases of a deal



January 2021





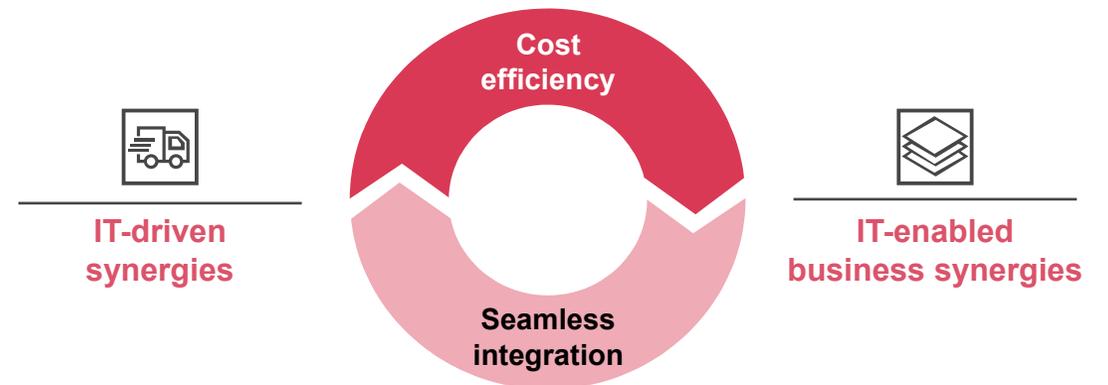
Introduction

IT is considered one of the most critical factors of successful post-merger integrations (PMI) – regarding both benefits and risks. The majority of total M&A synergies stem from IT-driven or IT-enabled synergies. Although the contribution of IT synergies varies depending on the industry, we see that clients across industries rate IT as one of their top priorities in PMI and similar scenarios.

In parallel, IT integration often consumes an equally significant share of the overall integrations' one-off cost and failure to achieve seamless IT integration may be harmful to business continuity and operational efficiency.

Thus, it is essential to take a structured approach towards IT integration – not only for large-scale acquisitions but also for mid-sized buyers who want to ensure the realisation of expected business cases and reduce the risk of failure. Even for smaller acquisitions, a dedicated approach to the IT function is crucial especially when it comes to digital and tech companies with a significant IT footprint and impact on business operations.

At PwC, we gained extensive experience and supported a range of clients in different industries with the integration of IT functions in the course of mergers, acquisitions, joint ventures, business swaps, and other scenarios. In this whitepaper, we share our insights that are common to almost every transaction that we supported in the past.



Our approach to post-merger IT integration

PwC's general approach to post-merger IT integration is structured along the deal phases (see exhibit). During each phase, there is a set of activities required to prepare, plan, and implement a successful integration of the IT function.

1 | Pre-signing: Assess & improve transparency

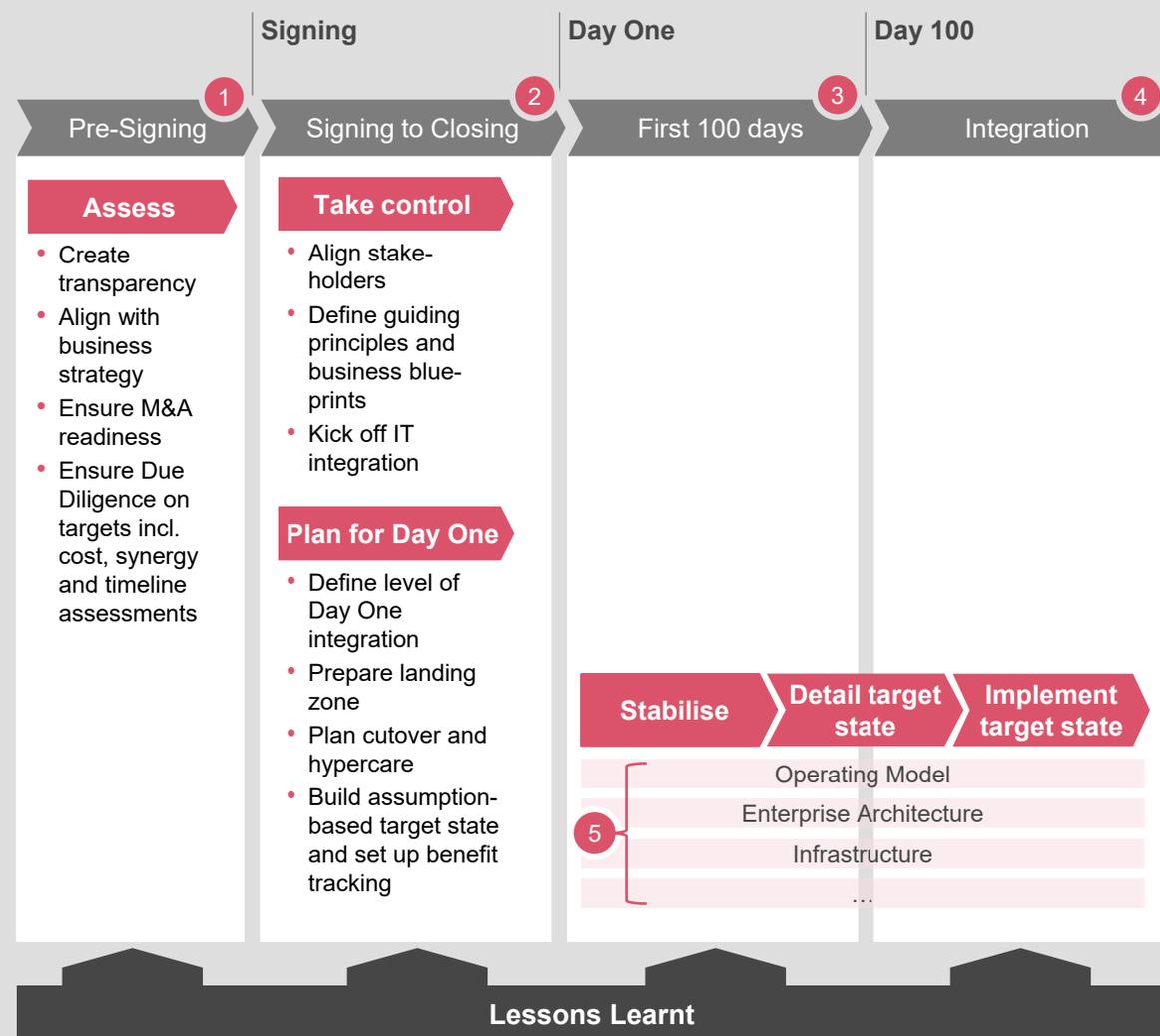
What many businesses underestimate is the necessary homework before negotiations with potential targets are even held. Especially if the corporate strategy imposes large growth targets on the different business segments, the IT function subsequently needs to prepare in order to respond to changing demand and especially potential acquisitions.

IT leadership needs to actively seek dialogue with business functions to get an early understanding of how growth shall be achieved. Is it organic or inorganic growth that will drive the future top-line? If the answer is inorganic, CIOs need to act immediately to start preparation. The following questions serve as guide for designing a roadmap towards overall PMI readiness:

Are we ready for M&A?

- Is our Enterprise Architecture **well documented** and are we able to **map IT capabilities** that are committed to the business to IT services and applications?
- Can we track **dependencies of applications** and workplace services to underlying infrastructure?
- Do we know about **key resources** providing critical knowledge and skills to our organisation?
- What is our **level of IT security**? What are internal policies and external **obligations** that a potential target needs to fulfil?
- Are **IT procurement capabilities** set up to provide transparency on existing contracts and licenses as well as their terms and conditions? Do existing contracts allow **sufficient flexibility** to quickly scale in case of larger acquisitions?

Steps towards post-merger IT integration



1 | Pre-signing: Assess & improve transparency

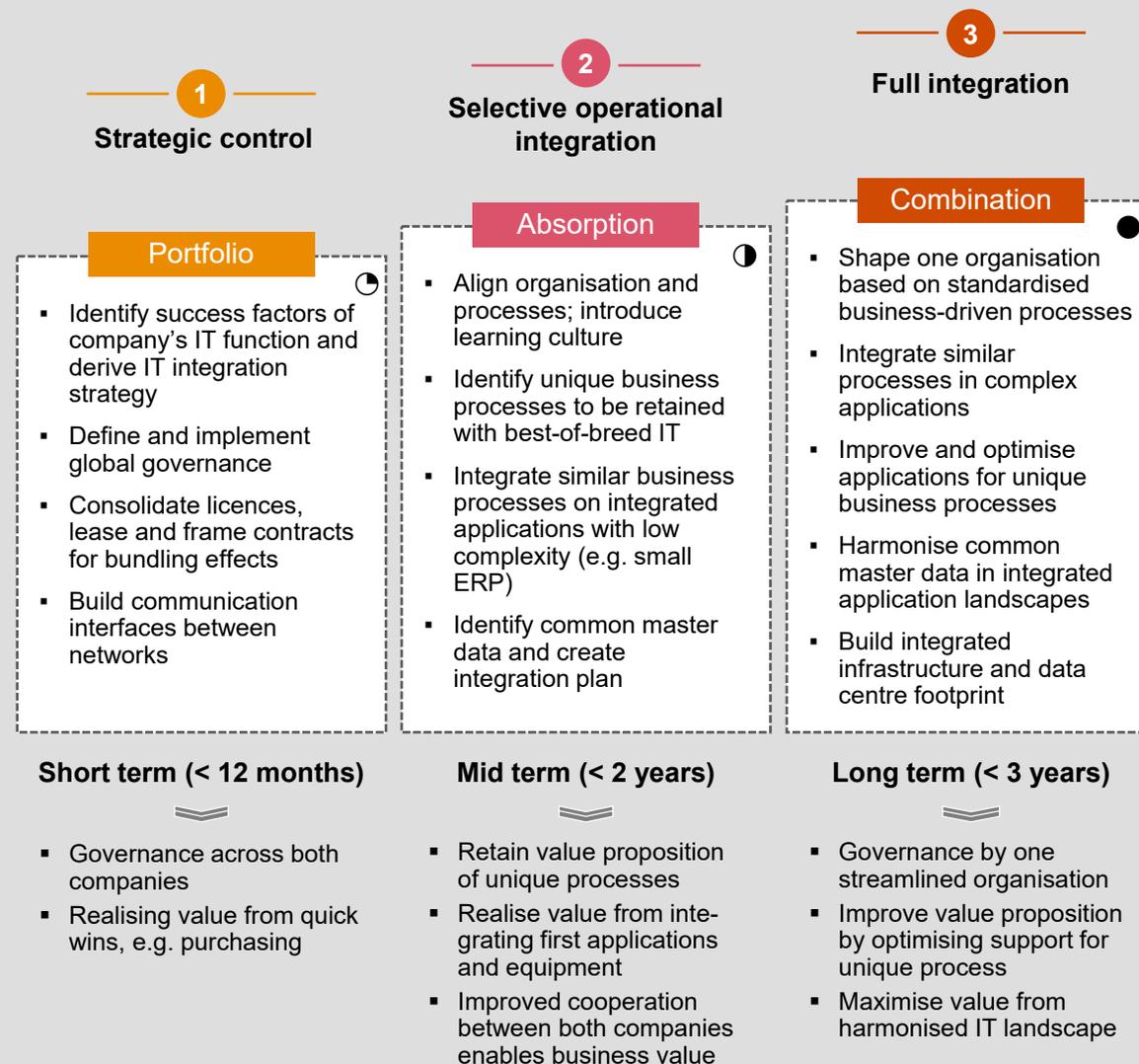
In addition to ensuring general readiness for integration, the IT function is required to support Due Diligence on potential targets. Readiness assessments and preparatory measures based on this work significantly reduce complexity and effort involved in comparing the as-is landscape with the information provided on the target. The goal of IT Due Diligence is not only to enable a statement of 'fit' and detect potential 'red flags' that could endanger a successful integration. It also requires IT leadership to commit to indicative estimates of potential synergies, one-off integration costs and risks affecting the buyer's target valuation assessment.

2 | Signing to Closing: Taking control

The actual transformation of the IT function and the setup of the corresponding programme organisation begins after signing. We need to set the scene by ensuring alignment between key stakeholders and increasing transparency on critical transaction parameters. Business stakeholders are represented in the cross-functional work streams of every transaction programme, but also in the line organisation.

Overarching PMI steering defines guiding principles for every design decision that is taken in the different functional streams – not only IT – throughout the integration process. One of the central decisions is the depth of integration for Day One and beyond (see exhibit). The way in which these principles are brought to life for the IT function needs to be aligned with the business blueprints being developed as a first step and gradually refined in later stages.

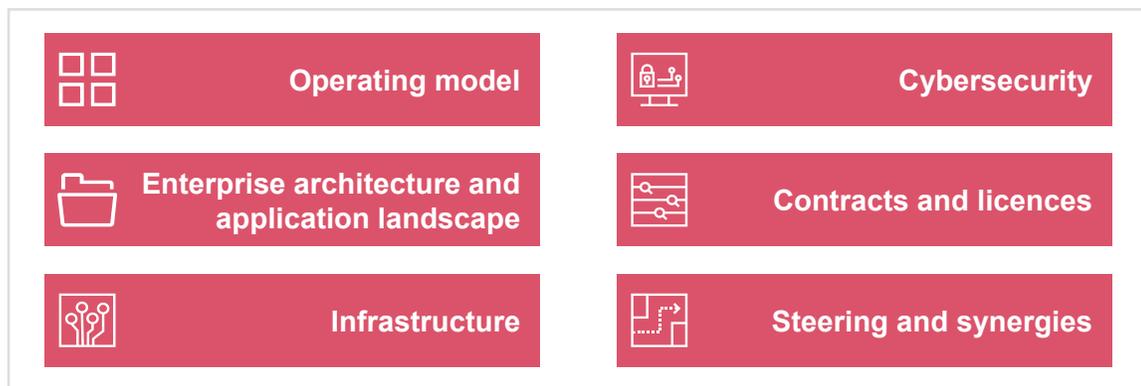
The business blueprints include timelines for market authorisation of the deal itself as well as respective products. This becomes even more relevant in highly regulated environments such as the pharmaceutical or healthcare industries. In addition, joint salesforce models, production footprint and supply chains define the requirements towards IT and the timeline for IT integration.



● Potential for synergies

2 | Signing to Closing: Taking control

Based on the business imperatives, we can set up the team structure, kick off the work streams and assess the available information in order to come up with a preliminary integration roadmap. Our overview of critical IT domains helps to arrange the different work streams and their respective scope.



Defining and formalising work streams and documenting high-level goals, key dependencies, and risks is essential to enable true ownership and tracking against these goals. With the structural setup in place, we are able to define reporting requirements and cadences.

A PMO organisation is set up to fulfil the increasing transparency demands both within the programme as well as towards business and leadership. Alongside general programme steering and functional work streams, do not forget to develop a strategy for change management, communications, and training.

To lay out the preliminary integration roadmap, each work stream needs to ingest the data room and Due Diligence information on the integration target, compare its specifics to the internal as-is situation, and derive a joint target state including measures to bridge the gaps. Certainly, information is limited at this early stage of the deal and both parties need to comply with applicable antitrust laws.

In alignment with the overall PMI programme and the business, priorities are defined for Day One. This includes, in particular, the level of Day One IT integration for applications, workplace environment, and the outside appearance to e.g. suppliers and customers.

What do we need for Day One?

- Are there key applications that already need to be integrated/interfaced for Day One?
- Does business expect fully integrated collaboration support?
- Do the market and/or authorities require fully adjusted branding (e.g. website branding, email domains)?
- ...

Based on these priorities, the IT functional work streams identify and prioritise Day One integration activities. This includes any activities required to provide a ‘landing zone’ for the IT organisation to be integrated on Day One as well as a detailed timeline and resource planning for the cutover.



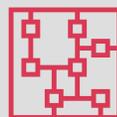
2 | Signing to Closing: Taking control

While - depending on the Day One priorities - a significant range of interfaces and technical changes need to be implemented in order to provide the required level of integration, almost all users of the integrated business depend on the seamless cutover of IT operations. This can be a tremendous risk to business continuity or market authorisation. Even in simplified Day One target state scenarios, cutover has at least a strong impact on how the company is perceived by employees and customers.

As such, Day One planning and all activities from signing to closing are aimed at ensuring this seamless cutover. It ideally happens over a weekend to not disrupt business operations with planned downtimes. As a result, any integration activities that do not fully support the Day One priorities need to be planned for a later phase.

Moreover, not only technical implementation needs to be in focus on Day One. Likewise, the users need to be prepared with a change management plan that recognises cultural differences and habits, as well as the need for end-user training in order to accommodate in the target state environment.

IT integration fundamentals



Acquisition strategy

- What are strategic objectives of the acquisition and how can IT support them?
- What leadership decisions have been made and what is the impact on IT?
- What degree of integration is planned?

IT strategy

- How does the integration strategy fit with current IT strategy and transformation projects?
- How does it impact the IT target operating model?
- When and to what extent will we harmonise IT services?

Operating model assumptions

- Does the current IT operating model, organisation, and governance model support the overall target state?
- What are the cornerstones for the new IT target operating model?
- What changes for the current IT are incurred?

Financial goals and synergies

- How can the IT function best support the business by enabling synergies?
- Are major financial and operational goals as well as synergy targets broken down to IT-level?
- How will we set a baseline for and track synergies?

Leadership and governance

- Is an integration structure defined and/or established?
- Is an effective integration decision-making process installed?
- Is the integration strategy/timetable defined, understood, and agreed both internally and externally?

Stakeholders and culture

- Who are the key stakeholders in the integration process and how do we keep them engaged?
- Which specific communication requirements do the different groups possess?
- How well is the integration rationale shared and understood?

Key risks

- Are internal and external IT risks, issues, and dependencies identified?
- Are the IT risks aligned with the business?
- How can we ensure a continuous risk tracking and early alert process for IT and business?

2 | Signing to Closing: Taking control

While Day One itself should almost be a phase on its own, it is crucial to diligently plan the cutover in advance, since it needs to be accomplished in a short period of time.

We need to...

- ✓ ...adapt service management to allow for quick response to issues throughout the first 100 days, from shortly before cutover until a steady state is reached
- ✓ ...have domain experts as well as key users on the ground in multiple shifts to ensure testing and bug fixing on the most important systems for business continuity
- ✓ ...have fallback solutions in place in case issues cannot be fixed in time
- ✓ ...have a governance hypercare team in place to support in case of non-technical issues, since many responsibilities and processes may change depending on the Day One target state and some envisioned designs might not run smoothly from the start, or might not be understood by all stakeholders

With IT functional target states and high-level timelines in place, we are able to set up a tracking system for one-off costs and synergies. Initial estimates from the Due Diligence phase are the starting points. We break them down by integration area and refine them based on more detailed bottom-up planning provided by the functional work streams.

We draw up an initial list of proposed integration measures for each integration area as part of the assumption-based planning process and map them to a common cost baseline that serves as the reference for any synergies realised. Not all synergies can be planned upfront and, likewise, not all synergies materialise as expected. The cost baseline needs to be robust yet flexible enough to allow for unplanned opportunities and issues.

We develop initial business cases for each measure and document assumptions. To validate them, we compare bottom-up estimates with top-down synergy targets and identify possible gaps. It is crucial to highlight that the baseline is still based on assumptions at this stage and will change as soon as antitrust limitations disappear on Day One.



3 | First 100 days: Stabilising the business

After Day One, the nature of our programme changes significantly in multiple ways. We shift from a planning and readiness check attitude to a hypercare attitude. No cutover is completely seamless and it usually takes up to 100 days to reach a steady state. To put it differently: after 100 days, business and leadership expect a steady state in order to focus on the actual integration.

Even with the most diligent planning, the focus of most teams will shift during this period from a proactive stance to an at least partially reactive stance. We need to face these challenges with clear governance, escalation mechanisms, and also with the patience to overcome obstacles before adding complexity with new integration measures.

This phase does not only come with challenges, but also with opportunities. After Day One, antitrust limitations no longer apply and teams from both sides can work together seamlessly. Transparency on the new entity and clarity on the gap between its current state and the joint target state increases dramatically. Before jumping into analyses, do not forget to host joint kick-offs to add momentum to teamwork and cultural integration, as well as to review the current state of the IT function.

Bucket list for Day 100

- ✓ Achieve steady state of IT operations and solve potential Day One defects
- ✓ Consolidate L1 service desk and communication channels to end users
- ✓ Agree on integration objectives including synergies and one-off costs
- ✓ Detail integration and plan for dependence from transitional service agreements (TSA)
- ✓ Enable programme steering and savings tracking

Jointly, we develop integration objectives and detailed work plans for the next phase. The target state as well as the teams' scope and setup will change to adapt to this increased level of information. New plans need to be reviewed against other ongoing projects and transactions outside of the integration programme in order to ensure resource availability and avoid conflicting priorities or inefficiencies – e.g. due to overly complex dependencies.

In scenarios in which we are integrating an entity that formerly was part of another corporate structure, it is important to develop a strategy to reach operational independence from any transitional service agreements with the seller. Depending on the contractual obligations, this may need to be prioritised over synergy-focused activities.

We conduct post-Day One Due Diligence to substantiate and refine synergy and one-off cost estimates with the effect of either adding new synergy measures or cancelling others. By building scenarios for key synergy measures while balancing ROI and risks, we decide on a final target state. All functional work streams need to commit to this target state, including respective synergies and one-off costs. Consistent documentation of assumptions and decisions supports plan/actuals comparisons and enables an effective change process along the way. Even at this early stage, we need to make sure that savings measures are free of overlaps to avoid double counts.

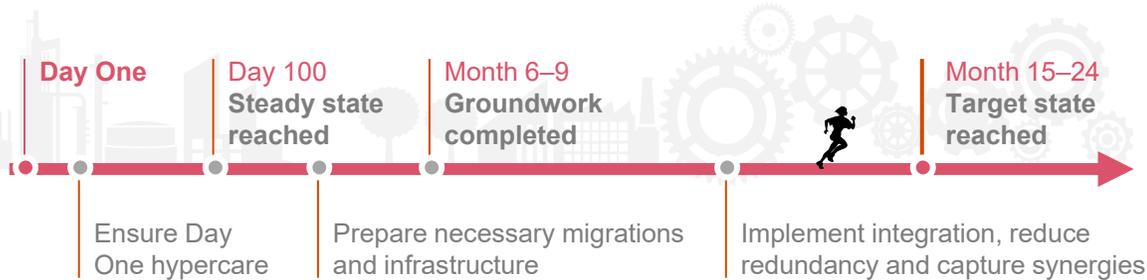
Likewise, we adapt synergy tracking since we now have access to the full granularity of baseline costs at the integration target. We use this transparency to agree on a common and comparable baseline that has no special items on either the buyer or the target side. During integration, we will observe that scope items shift between areas of responsibility (e.g. from decentral IT to central IT, or from business domains to enabling functions). To avoid double counting or confusion of measures and respective synergies across these areas, savings captured along the way always need to be measured against this baseline.



4 | Integration: Delivering deal value

With the steady state reached and business operations running seamlessly at the envisioned level of integration, we can now focus on the actual integration across the different domains of the IT function. The next chapter provides an overview of which domains usually take a major part in IT integration.

From a steering perspective, this is the time to launch the integration activities that were deprioritised for Day One. Resources and experts need to be organised in order to kick off integration projects. The ramp-up phase includes detailing project plans as well as managing quality gates and dependencies – especially outside the programme. Some dependencies, such as alignment with workers’ councils and key business stakeholders, need to be taken into account very early, as soon as the target state is defined.



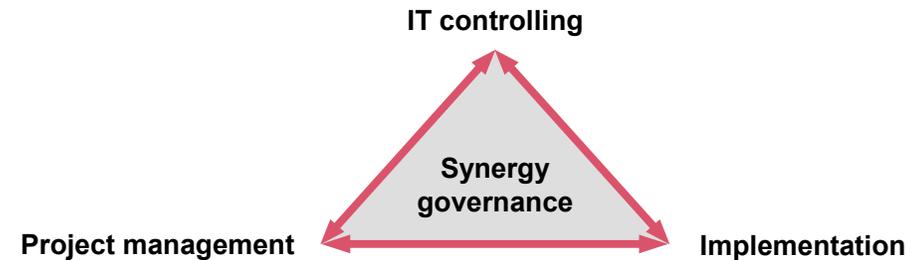
Depending on the integration scope, the first 6 to 9 months focus on preparing the ground for measures that result in actual synergies. Data needs to be migrated from deprecated or redundant systems to the target state systems. This involves analysis, migration, potential development of add-ons or interfaces to the existing landscape, and testing.

In this regard, testing is probably the most underestimated effort. It needs to happen not just after the migration activities but already prior to them. For example, applications need to be tested to work in the target state workplace environment before users are migrated to new hardware or client environments. The target state workplace needs to be set up under consideration of not only the migration of all users to the buyer environment but also the adaptation of the buyer’s infrastructure in order to enable differentiating IT assets to continuously work in the new environment.

Progressing further into this phase, another period of 9 to 15 months will focus on capturing the savings that we laid the foundation for. Monitoring and reporting on IT consolidation and transformation become crucial keeping the programme on track and realising the value of the transformation that the teams have committed to.

First foundational projects come to an end and programme steering needs to confirm completion and acceptance of project delivery against the initial targets. Projects with impacts on business and end users accelerate and thus, the subsequent management of communication around impactful changes becomes increasingly important.

To enable transparency on value realisation, we need to establish processes for synergy tracking with finance/controlling and prepare a tracking toolset in order to map savings compared to our baseline with measurable effects on operating cost centres. Not all savings are visible on IT cost centres since IT is enabling significant business synergies. As such, programme cost should not just be compared against synergies in IT operations.



The governance system for synergy data collection and tracking needs to be designed soon after Day One including a KPI tracking framework. Saving data needs to be collected, reviewed, and evidence stored centrally to ensure that no double counts occur. But the results of financial reviews also need to be fed back into the integration programme so that actual savings are mapped to measures on the roadmap. Thus, controlling, project management, and technical implementation views always stay aligned.

5 | Considering critical IT domains

Operating model

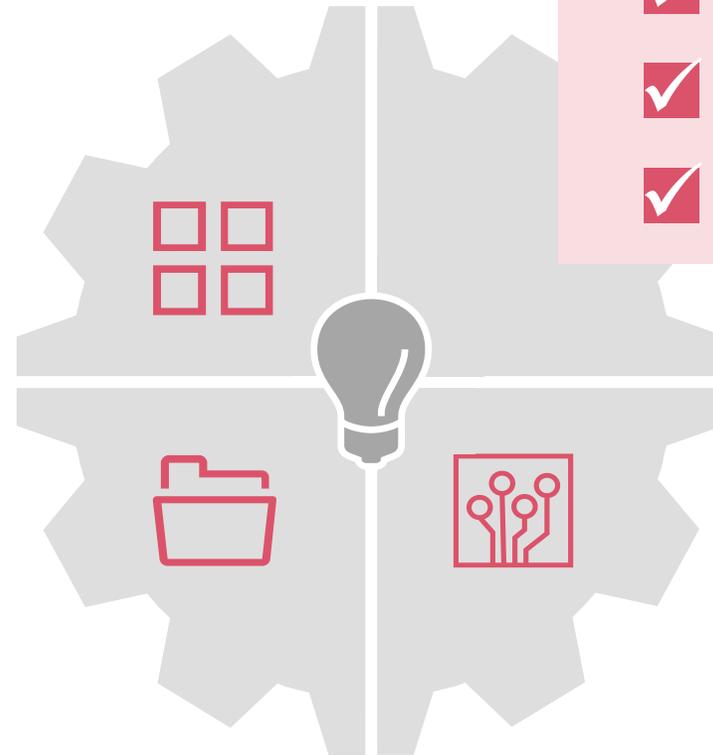
This domain is one of the first to be detailed in each phase, since the entire enterprise architecture and infrastructure depend on the envisioned target operating model. A work stream concerned with the operating model needs to answer questions around the value contribution of the future IT organisation.

To make this value contribution, the organisational setup and respective leadership capabilities are revised, recognising the available and the required headcount, skill sets, cultural differences and legal aspects.

Enterprise architecture and application landscape

Enterprise architecture answers the question of which business capabilities are expected in the target state and which IT capabilities need to be in place in order to support them. Applications and data are the backbone of these IT capabilities.

A programme work stream concerned with enterprise architecture will identify differentiating data assets and applications as a source of competitive advantage. It will define the target state for them according to the guiding principles and expected role of IT required from business and leadership. Redundant components of the architecture need to be retired and resources focused on value-adding activities.



PwC value add

- ✓ We provide **in-depth functional expertise** as part of service offerings around IT transformation in M&A scenarios
- ✓ Our functional experts know about the **challenges throughout the deal cycle** and support you in planning ahead
- ✓ With our worldwide PwC and Strategy& network, we are able to deliver strategy-through-execution in a **one-team approach**

Infrastructure

Infrastructure is often one of the largest work streams of an IT integration programme, contributing to a major portion of the IT-driven synergies. But it also imposes significant risks in terms of business or end user impact.

Starting with workplace and IT support, infrastructure addresses domains with direct exposure to a broad range of users. As such, infrastructure has a significant impact on the overall IT integration programme's reputation.

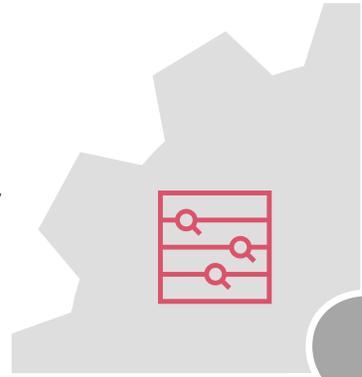
In addition, it takes care of network and data centre/cloud operations, including hosting of customer-facing websites and business-critical applications. Another element is identity and access management, which is the backbone of security in the business.

5 | Considering critical IT domains

Contracts and licences

Post-merger integration requires the IT procurement organisation and processes to be harmonised in order to maintain effective sourcing and execute the overall sourcing strategy. Likewise, a coherently aligned sourcing approach is key to realise saving potentials as it opens up the opportunity for renegotiation and consolidation of contracts. With increased bargaining power, the joint organisation is able to obtain better conditions.

The sourcing work stream usually completes its tasks in relatively early phases of the deal to realise savings as soon as possible. Knowing the precise target state volumes and capabilities is a prerequisite.



Cybersecurity

Risk management and cybersecurity are key aspects of IT integration. Two organisations with different levels of or approaches to IT security (e.g. endpoint vs. perimeter security) merge, and the entire chain of corporate cybersecurity is dependent on its weakest link. Hence, the challenge is to identify diverging security concepts in order to agree on a common level of security parity.

The level of security is influenced by leadership priorities, but is also impacted by local market regulations and expectations from suppliers and customers. Non-compliance may lead to loss of market authorisations, limited business users' access to critical knowledge, supply chain issues, or revenue loss.

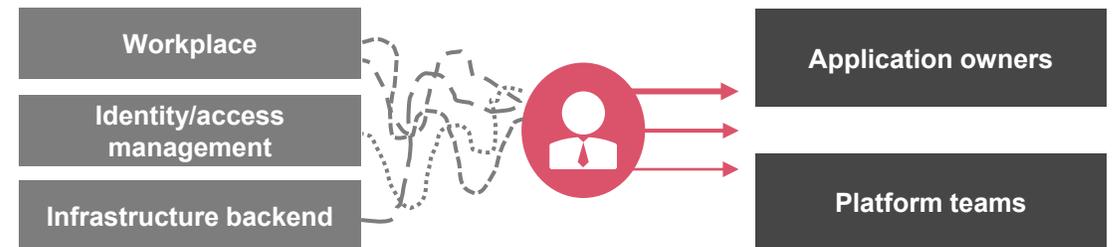
Five lessons learnt on post-merger IT integration



Take the business perspective – Applications are key

Applications and access to business-critical data constitute competitive advantage. Derive your target application landscape from the IT capabilities required in the business blueprints and foster integration towards it. Train users to enable them leveraging a common architecture, and actively retire redundant solutions. Subsequently, you support seamless collaboration and capturing synergies.

Get transparency on your business application landscape early and ensure a single source of truth across the entire integration programme. Depending on the data quality in enterprise architecture tools and other sources, a lot of effort may be required to clean up the source data while organising the integration projects. Make sure learning points are fed back into repositories or synchronised from the start to preserve the value created in identification and assessment efforts.



Define overarching application stewardship through the deal phases. The application owners and platform teams will be facing several requests, both from operations and the integration programme. Many of these requests will appear disconnected but may have significant interdependencies that are not immediately obvious.

A central role can cover both a communicator and a gatekeeper function between the integration activities and the application teams. In communications, this role guides application operations staff through the integration programme's roadmap and fosters awareness of upcoming changes and their implications. As a gatekeeper, this role prioritises and orchestrates demands from infrastructure and platform teams and aligns them with operational demand management to avoid overloading the organisation.



Actively manage benefits

Focus on the big bets of potential synergies: infrastructure, organisational redesign, and licence optimisation offer the highest potential among IT-driven synergies. Business applications, especially those related to ERP, enable a major portion of business synergies and contribute to IT synergies in application support and licence procurement cost.

Start with high-level planning and then continuously narrow down your plans by having a process in place that allows for continuous development. Service cost backed top-down estimates follow early stages with only limited information. Later, detailed bottom-up validations substantiate the plan.

Align a clean, complete, and mutually recognized baseline for accurate synergy estimates and tracking. Set targets for distinct domains and assign clear ownership so that bottom-up validation can take place decentrally with the help of domain experts. Map savings to key milestones to track measures and enable steering at a project management level. Introduce scenarios for each measure and focus on 'big tickets', keeping both synergy buffers and the trade-off between synergies and cost in mind.

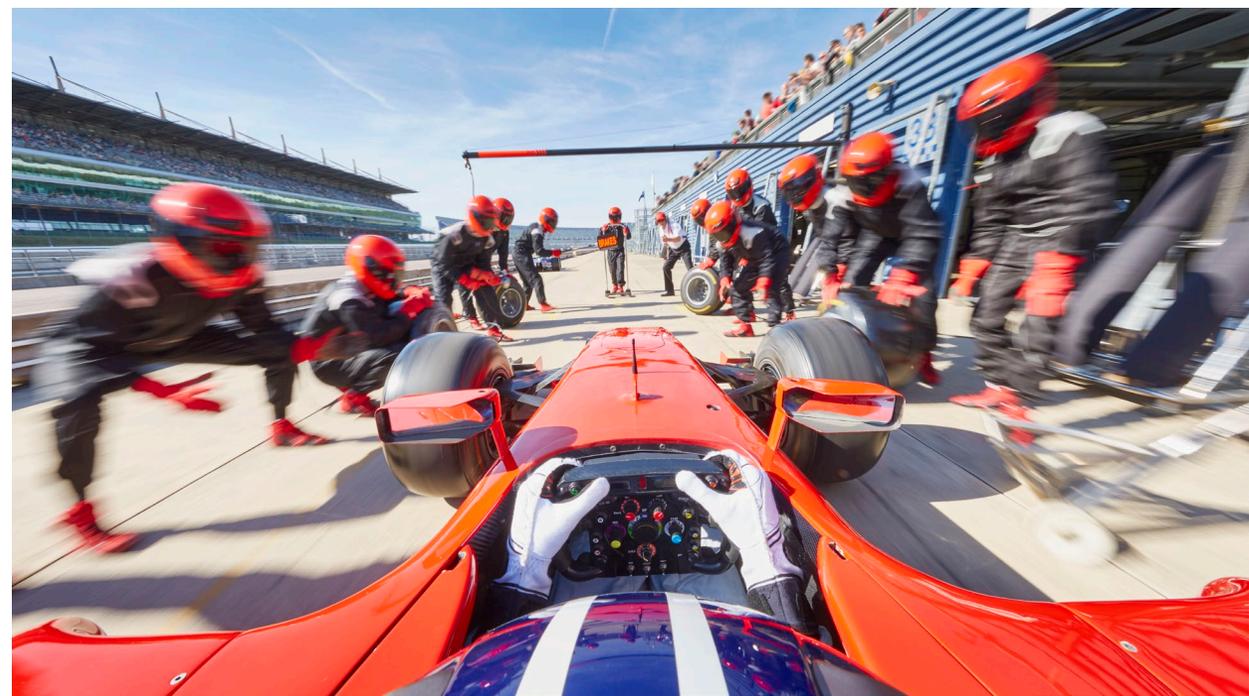
Define a central role with responsibility for capturing, reviewing, tracking, and documenting savings across IT domains to ensure double counts are avoided and savings actually materialise on the cost centres. Link this role to programme steering to design the flow of information from the project perspective to the controlling perspective as efficient as possible.



Build an effective team

Ensure buy-in from key stakeholders by clearly communicating the vision and engage with both staff and management. In an integration context, there will always be uncertainties and doubts in the organisation, especially when the organisational redesign is not yet complete. Hence, providing the entire team with a sense of purpose is crucial. Particularly in culturally different or technically complex environments, consider double-headed leadership (leads from buyer and target side) and actively leverage independent support.

Focus on project relevance and prioritise based on value and risk to operations, while continuously validating integration goals. The risk-based approach in particular should not be underestimated. The primary goal for IT integration is to ensure business continuity. Thus, ensure with every decision that integration will not disrupt business operations – e.g. by defining resilient fallback scenarios. Set feasible targets but also expect realistic evaluations from all teams in order to ensure transparency and timely resolution of issues.





Do good and talk about it!

Ensure continuous communication across streams within the programme by establishing a common communication platform. Provide a programme introduction portal to quickly onboard new contributors and spread success stories. This does not always need to be extensive information packages; Short Twitter®-style messages have proven to be highly valuable for everyone on the programme to gain an understanding of what is going on and to detect potential dependencies or gaps.

Manage program-external communication by identifying the relevant business and IT communities, and the respective channels that are of most relevance to them. Set up regular and recognisable communication formats to keep everyone on track. Identify sensitive topics very early so that communication can prioritize them.

Often, there are unexpected 'darlings' among IT services that impact the integration programme's reputation when being retired. Understand where the target organisation believes its strengths lie. Which of these strengths might deviate from decisions taken regarding the target state? People might lose tools or IT services that they believe are valuable even though an objective assessment showed that another solution is superior.

Ultimately, dedicated leadership communication is crucial to reflect ownership and sponsorship for activities in a programme of such a long timeline. Towards the second half of the integration roadmap, stakeholders will tend to shift their focus to other topics, so make sure to preserve your 'airtime'.



Involve local teams

Depending on the organisational setup and governance in both target and buyer organisation, country coordination may play a key role. Even in highly centralised organisations, do not underestimate the impact of the individual countries. Depending on the level of centralisation, countries and functions may utilise local applications that depend on infrastructure services among which you want to reduce redundancy. On the other hand, they can benefit from the global services offered by the combined IT organisation. In strongly decentralised setups, local IT leadership is often your primary source of information and constitutes the interface to the business.

Make sure you pay enough attention by assigning clear ownership for country coordination and ensuring that guiding principles and required information on global groundwork are cascaded into local organisations.



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IT as driver of synergies in mergers & acquisitions

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