Make IT a Partner in Successful M&A Due Diligence

Get IT involved in the M&A process pre-close to help ensure post-close success.

Estimates put the probability of M&A failure at between 50%[1] and 70%[2] – not an encouraging statistic.

50% 70%

IT-related activities can be the largest cost items in a merger or acquisition. When these costs are overlooked or underestimated, it can cost organizations millions in additional costs down the road.

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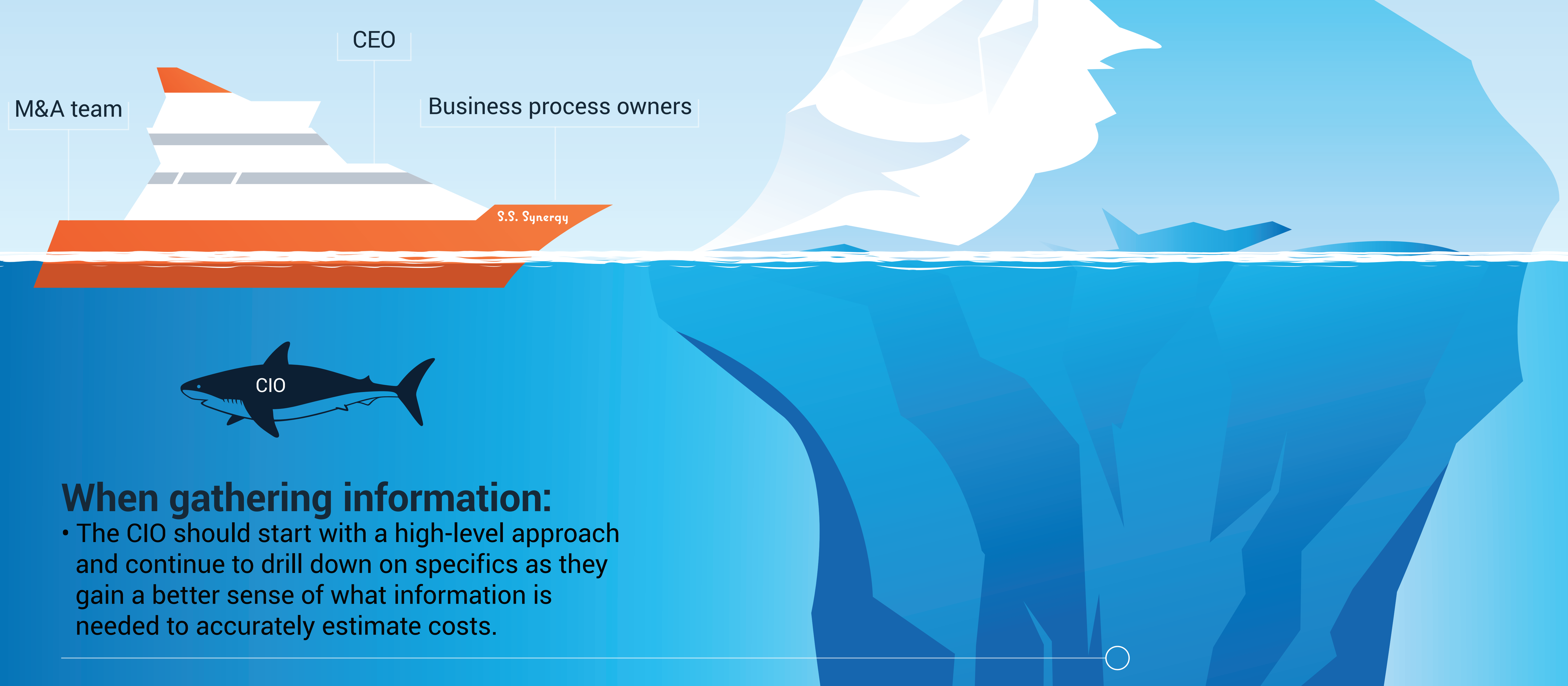
Many organizations ignore the role of IT prior to executing a merger. Many CIOs do not hear about M&A activity until after the deal has been closed.

Harvard Business Review estimates that companies worldwide spend more than $2 trillion on acquisitions every year[3]; however, "companies too often pay the wrong price and integrate the acquisition in the wrong way."[4]

If the acquiring CIO is not part of the acquisition team and the due diligence team, then they will be handed an integration and ongoing budget written by someone else (often a consultant) and told to make it so.

To mitigate risks and create accurate cost estimates, the CIO must force their way into the M&A conversation before the deal has closed.

[1]Source: Ward et al., *Positioned: Strategic Workforce Planning That Gets the Right Person in the Right Job*, Amacon, 2013.
[2]Source: Forbes, "Why half of all M&A Deals Fail, and What You Can Do ABout It." *Forbes*, 2012.
[3]Source: Christensen et al., "The Big Idea: The New M&A Playbook.", *Harvard Business Review*, March 2011.
[4]Source: Myers, Randy. "Integration Acceleration." *CFO Magazine*, 1 February 2011.



When gathering information:

- The CIO should start with a high-level approach and continue to drill down on specifics as they gain a better sense of what information is needed to accurately estimate costs.
- The CIO may not have the opportunity to ask for additional information from the target organization. In this case, it is better to have an end-to-end idea of IT in the target organization than to have detailed information about only one part.
- Remember that this is an iterative process. Continue to update risks, assumptions, cost estimates, and scope as you gain additional information.

When performing analysis to determine the resultant enterprise:

- The CIO will have to look at all domains to define the IT merger state. They will not be able to make decisions in isolation. Each domain will have implications on the other domains, so keep the relationship between them in mind.

When estimating integration costs:

- The budget the CIO has outlined will be the budget they must stick to. They must be prepared to justify the budget to the business through risks and assumptions.

PROJECT STEPS

1. Investigate Challenges and Benefits

The M&A team can forget about the hidden part of the iceberg (IT) when sailing towards decisions.

- When making M&A decisions, IT costs can be underestimated and overlooked. The business is on a ship sailing towards an iceberg. They can only see the business-related M&A implications that are above the water.
- The CIO is a shark under the water. They have a line of sight into the significant IT costs associated with M&As.

2. Gain Executive Buy-In for IT Involvement in Due Diligence

CIOs have to rock the boat and force their way into the M&A due diligence conversation.

- When it comes to getting involved in M&A due diligence, CIOs have no choice but to rock the boat and force their way into the conversation.
- The CIO must present exactly what benefits IT will bring to the table and then use a Due Diligence Charter to outline what IT plans to offer.

3. Determine Current State of Target Organization

The iceberg is so large that the CIO doesn't have time to examine the whole thing.

- The CIO should start at a high level and drill down to understand what information is needed to accurately depict costs.
- If the CIO may not have the opportunity to drill down for additional information, – it is better to have an end-to-end idea of IT at the target organization than to have detailed information about only one piece.

4. Consider Current State of Own Organization

Break the iceberg into manageable domains to help structure information gathering and analysis.

- The CIO should consider manageable domains (Business, Data & Applications, Infrastructure, etc.) for each stage of the information gathering phase (current state of the target organization, current state of the buying organization, and the resultant enterprise).
- This allows the CIO to sort information into categories while at the same time keeping track of how everything fits together in the big picture.

5. Define Resultant Enterprise

Remember that all parts of the iceberg support each other to keep the tip afloat.

- The CIO will have to look at all domains to define the IT merger state. They will not be able to make decisions in isolation.
- The CIO must also remember that each domain will have implications on the other domains, so keep the relationship between them in mind.

6. Close Gaps and Estimate Costs

Once the ship sets sail, there will be no turning back. The CIO must stick to the budget.

- The CIO must be prepared to justify the budget to the business through risks and assumptions.
- The CIO should create a trail in the IT Due Diligence Report that shows how the different lines in the cost estimate can be traced back to different assumptions and risks.