Integrating IT: The Real Lessons Are Learned After the Merger

The regulatory and competitive environment over the last few years has been fertile ground for mergers and acquisitions. The rise of mergers as a tool for company growth has produced many common questions about integration, but the lessons learned must continue to be applied long after the merger is supposedly complete.

Introduction

The past few years have brought about many sweeping and costly changes to the energy industry. Post-merger power companies in particular are reeling in a business climate inundated with complex issues. The unexpected effects of deregulation, convergence, Web-enabling technologies, and the advent of new competition via new spin-offs and fresh start-ups has merged and/or acquired businesses wondering how to achieve and sustain the speed, effectiveness and value to realize post-M&A IT integration.

Most businesses think that the right solution is to seek economies of scale via the elimination of process redundancies that will, in turn, allow for a significant reduction in labor costs. But the truer, perhaps longer lasting, solution is the one that provides the right mix of process, application and emerging technologies, and combines them with effective program management of the entire process. In order for program management to be successful, a clearly defined set of integration initiatives or projects must be thoroughly planned.

This initial planning is critical to the success of the merger, because it aligns the strategy, processes, organization, and technology of the companies to help ensure they achieve the merger’s objectives.

How long after a merger or acquisition should IT integration be considered?

IT integration planning should begin during the due diligence process. It is critical that the costs and savings associated with IT integration are assessed in great detail when organizations consider the feasibility of a potential merger. The reality is that M&A integration costs associated with IT (both infrastructure and application integration) are usually 45 to 65 percent of the integration budget, and can account for as much as 35 to 55 percent of the synergistic savings.

Although it is difficult to quantify the American energy players currently working on post-M&A IT integration initiatives we can certainly say that:

1. Every one of these companies will have undergone some type of post-merger activity during the transitional period; and
2. Most IT integration activities continue 12 to 24 months after the merger is closed, depending on the level of integration that is sought.

How does a company determine priorities and then develop a game plan?

In a typical merger, IT integration activities can be classified into three broad categories: process, application, and infrastructure. Process integration activities are focused on identifying common or new business processes that will be employed by the combined organization. This will enable the project team to align the strategic objectives in processes, application and infrastructure with the planned IT integration initiatives to achieve the defined synergy savings.

The integration project itself should follow a five-step approach:

Understand Strategic Positioning

Without a doubt, solid leadership is the most important key to success and must be identified and fully dedicated from day one. These leaders will institute the strategic vision of the organization. This will enable the project team to align the strategic objectives in processes, application and infrastructure with the planned IT integration initiatives to achieve the defined synergy savings. Key business and technology leaders are also identified and formal decision-making and governance processes are adapted.
Synergy Validation & IT Review
Here, team leaders review the identified synergy savings figures with the appropriate integration team members. This information will be critical during the cost and resource review phase, as significant cost justification is usually required to proceed with IT integration projects. A critical component to the overall IT initiative-planning effort is identifying the estimated capital and recurring costs for each integration project. Since a significant percentage of this cost typically involves technical infrastructure-related items (e.g., hardware, network upgrades), it is important to have a comprehensive understanding of the current IT environment for both organizations.

Develop Integration Plans
During this phase, the team will assess and evaluate each integration project for impacts, dependencies, and cost factors in several areas including business processes, infrastructure, applications, and data security. A detailed work plan is developed that includes complete resource-loading, skill set requirements, and dependency identification. A risk assessment for the project is also developed that documents risk-mitigation suggestions and contingency plans if appropriate. Once a detailed initiative plan has been reviewed and accepted, it is linked back into the overall IT master schedule.

Cost & Resource Review
A human resource plan is developed and determinations are made in regard to future staffing needs. While the estimated cost for the integration projects and the potential synergy savings were documented and reviewed during the integration planning phase, here these costs are reviewed from an overall perspective. If a significant variance exists between the initial synergy savings and cost estimates and the values produced by the project team, the estimating metrics and cost factors are revisited and appropriate adjustments are made.

Implement
Now it’s time to see if all of the analysis, preparation, leadership decisions and project plans have paid off – it’s time to implement. Leaders will execute their organization’s realignment communication plan and implement all targeted organization, process, and technology changes, including e-business tools. Business process validation is conducted and KP/CIs are tracked. Post-implementation support is also provided as necessary.

It is important to note that while the overall approach to a post-M&A IT integration is often the same, the decisions of what to integrate differ between organizations, and rely largely on both strategic business decisions and the amount of synergy savings enterprises have agreed to deliver to stakeholders.

What is the time frame for a typical post-M&A IT integration effort?
Of course, this number varies according to the level of integration achieved, whether all of the projected targets were accurately met and if schedules were strictly enforced. However, for optimal results, integration planning should begin during the due diligence process (pre-deal) and should be completed 18 to 24 months after the deal is closed. Activities that extend beyond 24 months of post-close may not be considered true integration activities.

What are the pros and cons of a comprehensive IT integration?
Although it is somewhat difficult to completely categorize results as either pro or con, outcomes could be considered as perceived rewards, and the risks and challenges commonly associated with a comprehensive IT integration.

Most evident are the rewards that come in the form of bottom-line, hard savings derived from FTE (full-time equivalent) reductions that could only be achieved through comprehensive systems consolidation. IT operation, and operation and maintenance (O&M) costs are substantially reduced. Another equally tangible benefit is that common business processes are more easily enforced through common systems.

Still, risks and challenges need to be carefully considered. It is quite possible that integration activities might take as many as two to three years to complete – diverting resources from new business ventures during this time. IT integration also commands an up-front investment, and a strong business commitment is critical to undertaking a successful IT integration project.

What are expected cost savings?
Cost savings can typically be divided into two areas: core IT savings (e.g., data center consolidation, platform consolidation, etc.) and business savings from IT integration/consolidation (e.g., FTE reductions from consolidating the AP department into a single system).

Business savings are usually directly related to the synergy savings documented in merger filings. With the regulated utilities, additional savings are often considered “bad” because they need to be passed on to ratepayers and cannot be retained and/or reinvested by the organization. For example,

How much does a large-scale integration cost?
In our experience, we have seen such projects range from as little as $15 to 20 million to many more tens of millions of dollars, depending on such diverse factors as the size of the

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merged organizations, the level of integration needed, the anticipated savings from FTE reductions and consolidation of infrastructure/processes, and the levels of technology to be instituted.

All post-M&A IT integration teams must focus on two things: capturing the benefits and integrating the business. In order to capture the benefits, the enterprise seeks to achieve business value goals as quickly as possible by driving short-term value and exceeding the market’s expectations. Integrating the business essentially translates into a seamless implementation of combined day-to-day operations and positioning the enterprise for future growth.

Success is evident when the newly merged business can produce prioritized plans to reap the benefits and post-merger integration checklists. Misalignment between the IT initiatives and the overall business strategy, process, and organization will prevent the realization of synergy savings. With a sound strategic enterprise architecture approach, proper alignment can be achieved, resulting in realization of the synergy savings.

Summary
Post-merger IT Integration can often be the Achilles heel of merger integration; however, it also offers the potential for enormous value creation. Planning for IT integration must begin during the due diligence process and a target budget should be established. This budget should be balanced with the amount of synergy and cost savings that have been identified. By following a structured, methodical approach to IT integration that involves the appropriate alignment of business strategy, process, organization, and technology, the organization can reap the benefits of – and capitalize on – the post-M&A IT Integration.

“Lessons learned” that we have passed along to clients
1. Synergies are always initially overestimated and the effort to achieve them is always underestimated.
2. Top management must support the business objectives that drive IT application decisions.
3. The IT integration process will always take longer to complete than originally estimated. The biggest delay comes from the business’ inability to make timely decisions. Understand your dependencies and be able to clearly articulate them to management.
4. Start contract negotiations with software/hardware vendors earlier. Don’t wait until after close when time is no longer on your side.
5. Have a clear understanding of the cost breakdown for each integration project; you will be asked multiple times to justify and/or revise them downward.
6. When planning integration projects, have a clear view of the resource requirements and constraints for each organization. Do not over-allocate them.
7. Business decisions must drive application integration decisions. A balance must be achieved between operational efficiency, implementation costs, and synergy savings.
8. Communication is critical. You can never overcommunicate.
9. The close date can change two or three times. Have a flexible plan that can easily be modified to different scenarios.
10. Don’t underestimate the resistance and negativity you will get from the acquired organization. This must be monitored through a change management process.