



IT in M&A: Increasing the odds of a successful integration

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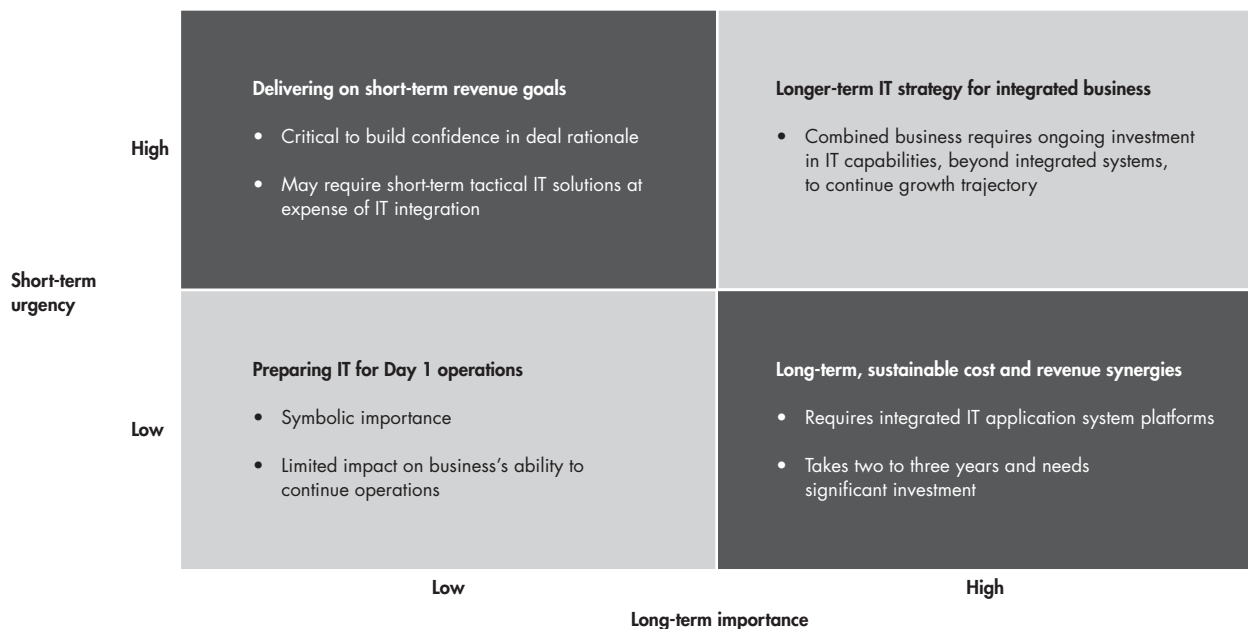
In every merger or acquisition, companies integrating their IT systems face two conflicting needs. The business wants to start cross-selling the products and services of the newly combined organization as quickly as possible to increase revenues. IT, taking a longer-term view, wants to invest the time and effort to integrate the combined organization’s systems effectively. Both goals are critical to merger success—and the sooner they happen, the quicker IT can begin generating incremental value for the new business (see Figure 1).

But too often, executives lose valuable time in the early weeks and months after a deal completes by taking too long to decide on critical issues, such as which platforms the new organization will run on and the best approach to IT integration. Often they focus on the wrong issues, including lower-priority projects like merging email, intranets or other systems that could continue to run independently or with patched connections without slowing down the new business.

In successful IT integrations, executives work quickly to determine which decisions are most important, and how to make those decisions quickly. This reduces uncertainty about how the company will integrate its platforms and what the end state will look like.

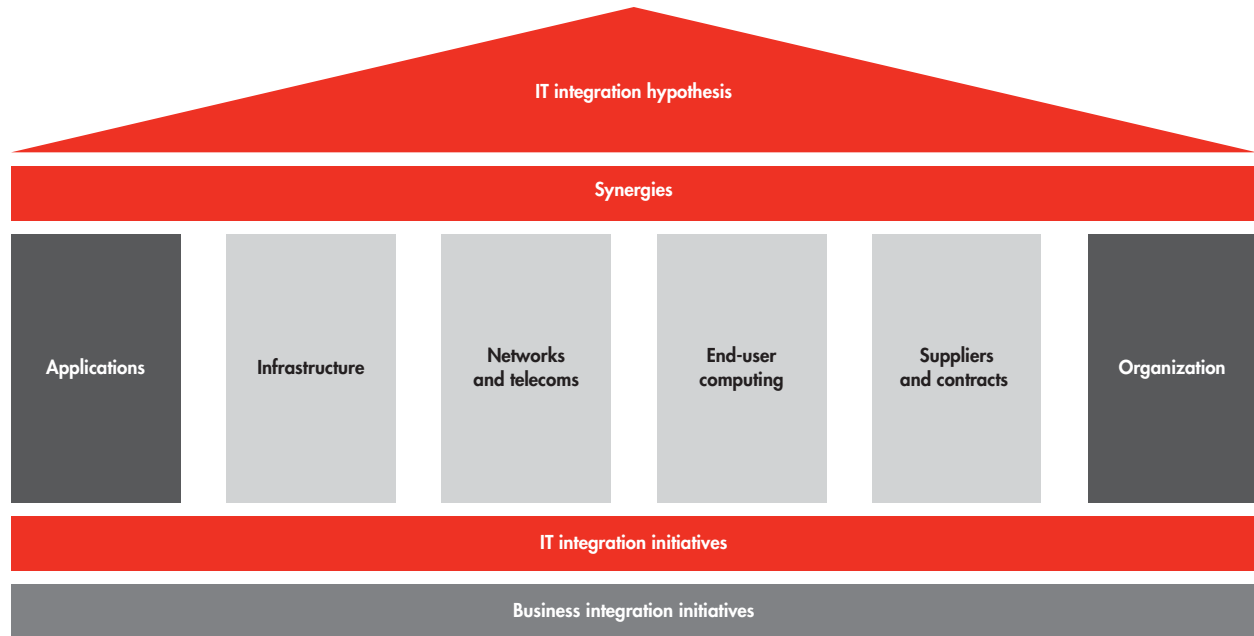
- By the end of the first month, they should have a clear idea of the company’s IT integration goals and hypothesis (see Figure 2).
- At the end of three months, they should know the shape and makeup of the future integrated application systems platforms, as well as how much they will need to invest and where they will get the resources. By this time, they should also know where integration is most important, which systems can continue to run independently and where interface connections are good enough for a while. They should also have defined the benefits they expect and how to manage the implementation risks.

Figure 1: IT integration must balance short- and long-term business integration goals



Source: Bain & Company

Figure 2: A successful IT integration begins with the integration hypothesis and stresses the importance of choosing the right applications platform and organizational structure



Source: Bain & Company

- After the first year, the integrated systems should be delivering at least half the value in cost and revenue synergies, as envisioned by the merger deal thesis. Full integration should be completed within two or three years.

Getting this right is more important than ever, as low interest rates and abundant capital spur more M&A activity. The rewards are worth the effort: Bain’s research finds that companies that take part in M&A deliver higher total shareholder returns (4.8%) than those that stay on the sidelines (3.3%). (For more details, see the Bain Brief “The renaissance in mergers and acquisitions: The surprising lessons of the 2000s.”) Given IT’s critical role in determining whether mergers deliver their expected value, the key strategic decisions belong not only to IT executives but also to CEOs and other senior executives. Ideally, senior IT executives should make the recommendations and then work with the CEO and other senior managers to make decisions. The gover-

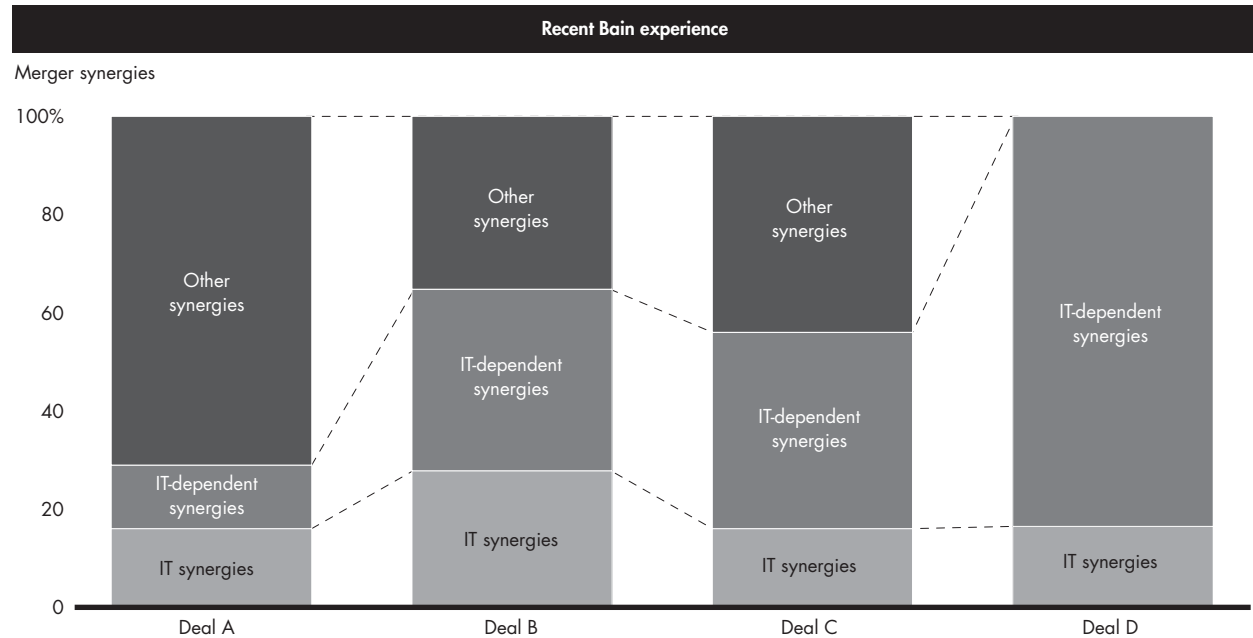
nance model of the post-merger organization will also help determine who makes those decisions. When one dominant partner is acquiring another, decision making tends to be easier (and quicker) than in a merger of equals.

Defining the goals of integration

The first step in a successful merger of IT organizations—one that is often overlooked—is to determine IT’s role in supporting the deal thesis. This important first decision clarifies the business value that IT will contribute to the merger (*see Figure 3*). Once the business integration principles are clear, they create a solid foundation on which to make other decisions.

With the business integration goals clear, the team can decide on the platform that best equips the company for future success—whether that’s using one company’s systems, employing a hybrid mix from both or continu-

Figure 3: IT-dependent synergies contribute 30% to 60% of a merger's benefits



Source: Selected merger integration projects that Bain has worked on

ing to run each company's systems independently. With that decision made, others about infrastructure, organization, suppliers and outsourcing become easier to make.

The merger of Kraft Foods and Cadbury in 2010 shows how answering the right questions promptly can help ensure a successful integration. One of the most compelling opportunities of the merger was the potential to cross-sell each company's products through the other's distribution channels. Kraft Foods was strong in food and snacks in North America and Europe, while Cadbury had a solid customer base for its confectionary products in Europe, India, Australia and other Commonwealth countries. To cross-sell, the company needed one platform. Kraft Foods had spent several years consolidating its systems and was heading toward a position of having three regional platforms—in North America, Europe and Asia-Pacific. Cadbury had a more distributed application platform footprint with 15 key platforms and a goal of consolidating down to nine. Executives

decided to move all of Cadbury's business to Kraft Food's platforms because they were more modern and supported multiple operating models, and Kraft Foods was twice the size of Cadbury. Kraft Foods also had a good track record of consolidating and implementing its systems. Within a year, the combined company had achieved half of its intended integration synergies, and the entire IT integration was completed within three years.

Traits of successful integration

In addition to starting with the right questions and adopting a clear understanding of the goals, successful mergers share several other pragmatic principles that help ensure a successful IT integration in the days and months after companies merge.

- **Focus on revenues.** Many companies focus on cost savings right after a merger, but their first obligation should be to pursue new revenues, even if that

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means running two IT systems independently for a while. The upside of cross-selling combined products and services across both companies' customer bases often far outstrips cost savings. In most airline mergers, for example, revenue synergies are a bigger target than cost savings. So it makes sense to quickly choose the reservation system that best suits customers' needs and create value from selling each airline's routes to both customer bases.

- **Act fast to support business goals.** IT executives often want to pick and choose the best of breed from each organization's application systems. But the costs of selecting and reconnecting these systems may outweigh the benefits to be gained. A more pragmatic strategy is to pick the best anchor system—reservations, for example, with an airline—and then consider living with the auxiliary systems that are tied to it. As integration continues, executives will want to weigh the value of changing those systems against the costs.
- **Prioritize ruthlessly.** Align decisions with the business goals, and execute quickly and decisively. Leaders don't shy away from cutting large projects that are no longer essential, even when it's painful to project owners. When one beer company acquired another, it stopped a multimillion-dollar CRM project that was well under way, because it wasn't needed in the combined company.
- **Hold on to talent.** People experience a lot of uncertainty and anxiety during a merger, so it's more important than ever for senior managers to actively

communicate with top talent. Good people may leave during the integration if they think the deal could limit their futures. In one merger, IT executives in the company being acquired were actively looking for new job opportunities, since they thought they would be redundant in the new company. They didn't realize that the acquirer was actually glad to have the chance to replace some of its own staff with new talent from the company being acquired. When the acquiring company learned what was happening, managers gave incentives to top talent so they would stay in the newly merged organization.

Beyond the merger

One of the risks inherent in mergers is that, with everyone focused on integration, the IT department can get derailed from its longer-term journey, which depends on developing technologies that support the company's growth ambitions. It may be helpful to assign a team to look specifically at opportunities beyond the merger and to continue developing applications in line with the new company's IT strategy, as well as to experiment with new technologies that may contribute to future growth, such as advanced data analytics or cloud computing.

It is also important to set boundaries that signal an explicit transition from merger integration back to business. Change will no doubt continue, but at some point, the emphasis switches from integration to transformation, allowing the newly merged company to move forward as a single, integrated venture. 

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