WHITE PAPER

A SMOOTHER PATH TOWARD IT SUCCESS IN MERGERS AND ACQUISITIONS

With the right strategy and tools, organizations can navigate the increasingly challenging process of integrating multiple IT environments.

CDW PEOPLE WHO GET IT

EXECUTIVE SUMMARY

The merger and acquisition process was already complicated and fraught with potential pitfalls. Then the coronavirus arrived, not only throwing a previously robust economy into disarray but also making it more difficult for companies to engage in face-to-face conversations about potential M&A deals, or even to conduct basic due diligence.

Yet many observers predict that the near future will see an active M&A marketplace. Why? Because of the value that organizations can create by acquiring companies that give them access to new markets, new product offerings and new technologies.

Technology has long been a central component of the M&A process, but in recent years IT has actually become a main driver of many deals, as organizations seek new capabilities that can be unlocked only through applications and data. To successfully navigate an M&A deal, stakeholders must leverage solutions and services that help them efficiently integrate their IT environments.

The Challenging, Changing World of M&As

Even as the process of merging and acquiring companies has grown more complex in recent years, activity has remained robust. According to the "Corporate M&A Report 2020" from Bain & Company, 2019 saw $3.4 trillion in global strategic M&A deal value — on par with the year before.

Bain & Company notes that IT has become an increasingly important component of M&A deals and one that often throws up unexpected roadblocks. "In a tech-enabled world, deal scrutiny is expanding to include issues such as data ownership and access to critical technology, often prompted by national interests, as well as the impact on future competition," the authors of the report write. "The time, complexity and the resources to get deals over the regulatory hurdle are rising — it will take longer than you think and cost more than you expect."

All of this was true even before the coronavirus pandemic brought many businesses to something of a standstill in the early months of 2020. The impact of this crisis on the M&A landscape is still unknown, but it will at the very least be another complicating factor. According to *Forbes*, M&A levels in the U.S. dropped by more than half in the first quarter of 2020 compared with the previous year, and even most of the completed transactions were entered into before the crisis became a worldwide problem. With many businesses facing difficult financial situations, this dip could give way to a significant increase in activity in the near future. Still, those deals are likely to be fraught with additional hurdles. Negotiations and due diligence will take longer, *Forbes* predicts, and it will be more difficult for buyers to get to know sellers' management teams and key employees, given limits on travel and physical proximity.

In any case, the M&A process in 2020 and beyond is far more complicated than it was even just a few years ago, with organizations facing serious challenges for both business operations and technology integration. A decade ago, IT leaders could mostly focus on getting disparate data centers to work together. Today, with sprawling technology environments, there's a lot more to worry about. The challenges and opportunities of every M&A deal are, of course, unique, making it that much more difficult for IT and business leaders to chart the correct course.

For one, nearly all organizations have come to recognize the growing importance of data — not only its business value but also the need to meet requirements around privacy, security and compliance — to a successful M&A deal. Information must be standardized for successful data integration efforts, with a focus on both quality and cost controls. Another challenge is the increasing complexity of most large companies' IT environments, which often include resources from multiple cloud vendors. Ironically, these complex environments sprouted up as companies sought out simplicity. To improve efficiency, cut costs and decrease management burdens, savvy IT leaders have moved their organizations' workloads to a number of different settings, with many organizations embracing a multicloud strategy. While there are obvious benefits to such an approach, a sprawling multicloud environment can make it extraordinarily difficult to integrate systems and data from two different companies. This is especially true if one or both of the parties' environments are disorganized, lacking an exhaustive inventory of company data, applications and infrastructure.

The loss of employees during a merger or acquisition is often accompanied by a devastating loss of institutional knowledge, and this can create particular challenges around IT integration, especially if organizations are still running legacy systems. Other challenges include the merging of disparate

The percentage of corporate business leaders who say the acquisition of new technology will drive their M&A strategies over the next year, making IT the most common driver of corporate M&A deals[1]

Source: [1]Deloitte, "The State of the Deal: M&A Trends 2020," January 2020 business processes, regulatory landscapes that can change with geographic moves, and rightsizing new environments to meet business needs without either introducing wasteful spending or forcing employees to resort to shadow IT to get their jobs done. Even after the dust of an M&A deal settles, businesses must tackle the challenges that come with managing distributed workforces and identifying essential employees.

A number of common mistakes have historically plagued M&A deals. For instance, insufficient due diligence can lead to unwelcome surprises appearing after the conclusion of a deal. And a deficient involvement of IT departments early in the process can make it nearly impossible for tech leaders to conduct a current-state analysis of each environment and build a roadmap to a desired future state.

By contrast, getting a merger right can yield incredibly valuable results. And while today's environment is particularly challenging, there are also more tools than ever to help smooth the path for IT departments to successfully integrate their environments and support the business. Cloud platforms allow IT shops to increasingly leverage the help of external partners, and hosting merged resources in a public cloud environment during the transition can take some short-term pressure off integration teams. Also, the ability to infuse automation (in instances where there is a clear purpose and ROI) can help streamline common and repeatable processes, bringing about greater operational efficiencies — and, in some cases, cost savings.

The State of M&A

Before the coronavirus pandemic drove massive unemployment in the U.S., many business leaders suggested that an economic downturn could actually spur an increase in M&A deals.

- **63 percent** of business leaders said they expected M&A deal volume to increase over the next year, with only 4 percent saying they expected a decrease.
- Similarly, **56 percent** said they expected M&A deal values to increase over the next 12 months. Only 2 percent anticipated a decrease in deal values.
- **42 percent** of business leaders said an economic downturn would be likely to lead to an increase in M&A activity. Only 23 percent said economic trouble would probably lead to a decrease.
- Strategies for navigating a downturn varied: **48 percent** of corporate business leaders said their firms would work to maintain competitive positioning in a downturn. For leaders at private equity investor firms, the preferred strategy for navigating a downturn was finding undervalued assets, with 44 percent of these respondents saying they would take such an approach.

Source: Deloitte, "The State of the Deal: M&A Trends 2020," January 2020

When organizations take the right steps to integrate their business operations, human capital and IT systems, they can improve efficiency, reduce costs, use technology more productively, spur innovation and even leverage the merger process as a change point for the entire organization. But to attain these outcomes, stakeholders must carefully navigate the process and embrace a mix of services and solutions that will give them the best chance for success.

Different Deals, Common Considerations

Part of the challenge of successfully navigating an M&A deal is that there's no single roadmap. Consider these three recent CDW-led integration projects, each of which had different opportunities and potential pitfalls:

Deal 1: During a merger of two midsize companies in the Midwest, leaders at the acquiring organization decided they wanted only certain assets from the acquired company, as their own IT environment was generally much more advanced. However, they didn't have strong documentation for their (otherwise very effective) IT environment, making it more difficult than it should have been to get departments and employees from the acquired company up and running on their solutions. Ultimately, the merged organization adopted a cloud-first strategy and implemented new governance practices, setting the company up for success in the long term.

Deal 2: A worldwide manufacturer undertook a simultaneous acquisition and divestiture — acquiring another company and then spinning off part of it into a newly formed organization. The challenge here was that the company inherited IT systems that were unfamiliar to existing staffers, making it difficult for them to lead (or even make informed decisions about) integration processes.

Deal 3: Two U.S. healthcare organizations needed to figure out how to bring together two different electronic medical record systems. The process was so complex that IT leaders postponed that piece of their integration effort. At the same time, both organizations had legacy technologies, and leaders needed to make an effort not to lose staff with unique skill sets during the deal. Finally, one of the two healthcare organizations had made significant efforts to offer mobile care delivery, while the other had done almost nothing in this space. The IT integration team needed to figure out how to unify end users' experiences, given the disparate existing technologies.

The Three Phases of M&A Deals

Whatever the specific goals and challenges of an M&A deal, it's important for business and IT leaders to thoughtfully approach each stage of the process. Typically, the process can be broken down into three broad stages: the vision phase, the due diligence phase and the integration phase.

The vision phase: From the very beginning of a merger or acquisition, organizations must assess their current states and build out a vision for the desired future state of the merged organization. This conversation will, of course, be guided by the new business value that stakeholders hope to create through the deal. Still, the organizations' IT teams should have a seat at the table to bring up opportunities and challenges presented by technology integration. During the vision phase, stakeholders must identify gaps between their current states and their desired destination (both in terms of business processes and IT environments) — and develop a plan to bridge that divide.

The due diligence phase: Skimping on due diligence is the cause of many problems that pop up as unwelcome surprises after M&A deals are complete. During the due diligence phase, stakeholders at the acquiring company must go beyond generalities to fully understand the specifics of the technology environment of the company they are acquiring. This phase also represents an opportunity to assess which IT resources can be added to help the new company innovate for the future. During due diligence, IT teams should assess the agreements they have in place with vendors and determine whether these need to be changed to support the new business.

The integration phase: In this stage, the acquiring company executes the strategy that has been developed and honed throughout the previous steps of the M&A process. As the strategy is carried out, stakeholders should consider training exercises and adoption services for users who may be unfamiliar with certain tools in the new IT environment. It's also important for organizations to develop and execute a plan to decommission and dispose of legacy systems that will no longer be used once the deal is complete.

Best Practices for IT Integration

These stages will inevitably involve a mix of assessments and other engagements, which will vary depending on the specifics of an M&A deal. Nearly any deal will incorporate IT inventories and site surveys, helping stakeholders gain visibility into all existing hardware and software assets, verify reported inventory and identify potential problems. Also, engagements such as vulnerability assessments and penetration testing can uncover cybersecurity gaps and verify regulatory compliance.

Through network assessments and integration services, teams will review existing networks and determine the best path for combining infrastructure without disrupting application performance. Integration teams must understand which people and infrastructure are located outside of headquarters or branch offices, as well as how they're connected to the business and IT. Organizations may opt to end relationships with certain suppliers or use their new scale to negotiate more favorable agreements. It is also important for integration teams to understand how each organization manages data center infrastructure — keeping in mind that some job roles may be changed to improve efficiency and make the best use of internal talent.

There is often a temptation to rush the migration of apps and data, but these processes should be guided by business goals and available resources rather than by arbitrary timelines. In some cases, it may take a year or more to integrate data and applications.

Solutions and Services Are Critical to M&A Success

No two M&A deals are the same. While technology tools and services from external partners are essential to the success of any merger, acquisition or divestiture, specific solutions and services will vary according to the challenges of each deal. Here are five challenges that businesses often face during the M&A process — along with tools and services that can help organizations overcome them.

Challenge 1: License complexity — Many leaders assume that merging software environments during an M&A deal will be a simple process, but it often isn't. For instance, one organization might be using cloud software, while the other is still using on-premises solutions. Or the two companies might be using entirely different vendors.

Solution: Analysis tools — Tools that analyze IT environments and perform discovery of existing assets can help integration teams create a comprehensive inventory of existing software assets. Using this information, IT leaders can redeploy licenses in a way that makes business sense for the new company. While new tools are sometimes needed, existing monitoring and analytics solutions are often helpful. Application dependency mapping tools, for instance, can help teams map out how various applications interact with and rely on one another. And even a simple help desk ticketing system can provide data about potential pain points.

Challenge 2: Data integration — Bringing together corporate data from two organizations is one of the most critical — and most challenging — aspects of IT integration during an M&A deal. This process is essential for tasks such as application migration,

Four Trends Shaping the M&A Market

Boston Consulting Group has identified four factors likely to influence future mergers and acquisitions.

Spin-offs boosting supply: Divestitures are on the rise, with organizations seeking to cash in on high valuations or sell off assets that are at risk of underperforming.

Cash driving demand: Corporate and private equity cash holdings remain high, and interest rates remain favorable for deal-making.

Convergence leading to unconventional deals: Increasingly, organizations are entering into deals specifically to gain access to new capabilities, talent or technologies. And with tech-fueled business models blurring boundaries between industries, more companies are joining together from previously distinct sectors.

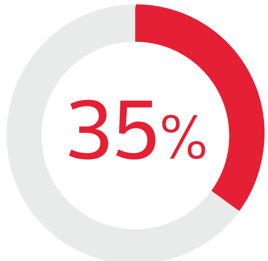
Resilience supporting activity: While the M&A market is still responsive to volatility, deal-makers in recent years have shown a greater focus on macroeconomic fundamentals (such as economic growth, forecasts and megatrends) than on in-the-moment economic indicators. Boston Consulting Group's research suggests that, rather than discouraging deals, an economic downturn will create more opportunities for buyers.

Source: Boston Consulting Group, "2019 Mergers & Acquisitions (M&A) Report," September 2019 maintenance or upgrade activities, data center migrations and website consolidation.

Solution: Data migration tools — Leaders often lack visibility into where data resides even within their own organizations. This can lead to significant problems with IT integration after a merger or acquisition. When both firms in an M&A deal are operating in the same industry, it's very possible that they will have customers in common. The goal during IT integration should be to combine customer data from both firms into a cleansed and concise "golden record." It's impossible to do this without a comprehensive view of existing data, and many organizations rely on master data management tools to locate and consolidate their critical data.

Challenge 3: Merging hardware — The simplest way to merge physical IT infrastructure is to shift both organizations onto a common platform. However, this is often impractical — especially if organizations have recently refreshed their data center hardware.

Solution: Cloud resources — Typically, merged companies will standardize their physical equipment over time. But IT leaders should be prepared to rapidly respond to performance problems in the new environment, especially in the early days after a merger. It's critical either to have in-house IT staff who are expertly trained on all equipment running in the new organization or to be able to rely on a third-party partner that has this expertise. Cloud resources can also serve as stopgaps to help organizations temporarily move data and applications onto common platforms without having to make capital investments in new data center infrastructure. Some tools help firms to build out cloud planning and migration roadmaps, which can reduce costs by preventing the overbuying of cloud services. This is an important consideration, since a sprawling, inefficient cloud environment can lead to a significant loss of value after an M&A deal.



The percentage of executives who cite a loss of critical talent as a top factor in M&A deal failure[2]

Challenge 4: Security and compliance — In addition to the typical security and compliance concerns associated with data storage and migration, M&A can create an additional layer of complexity because of new considerations around geography or industry-specific regulations. Sometimes, one organization may be subject to stricter regulatory standards on data security than the other.

Solution: Security solutions and services — If two merging firms have different regulatory hurdles, it's usually best for the new company to simply meet the higher of the two bars. This approach simplifies security and compliance policies across the organization, and it prepares the new company to meet stricter compliance standards in the future. Cybersecurity tools — including next-generation endpoint protection, next-generation firewalls and other solutions that protect data and applications from attack — are important for securing the IT environment after a merger. However, the integration process itself often relies more on service engagements (such as vulnerability assessments, penetration testing and compliance assessments) meant to root out existing liabilities.

Challenge 5: Overburdened personnel — Internal IT staffers typically have enough on their plates simply supporting and creating value for the business without also having to manage a complex M&A process. And more often than not, these staffers lack significant expertise with M&A deals, forcing them to learn as they go, even while making critical decisions that will affect the new organization for years to come.

Solution: Consulting and managed services — Services from a third-party partner can be crucial to M&A success. A trusted partner can lead or assist with processes ranging from inventory and data migration to cloud roadmapping and security assessments. Not only will third-party consultants have expertise that internal teams lack, but their presence will also prevent internal staffers from becoming overwhelmed. In a multimillion-dollar merger or acquisition, the stakes of IT integration are high. It's worth making the investment to get the process right.

Three Ways to Win at M&As

McKinsey & Company has identified three common factors of M&A "high performers," each of which can be applied to IT.

McKinsey says: "Integration ... moves much faster now with considerable planning work done before deal closure."

The role of IT: By doing extensive planning for IT integration before a deal closes, organizations set themselves up for success.

McKinsey says: "High performers now recognize the essential role of culture since organizational and cultural misalignment account for about half of integration failures."

The role of IT: The way IT tools are used in an organization has a significant impact on corporate culture. For instance, if employees at one company communicate primarily via email and employees at another use collaboration suites with a number of different channels, the email-only employees may need intensive training to align their workflows with those of their new peers.

McKinsey says: "High performers today tailor their integration approach to each situation."

The role of IT: Technology is no longer one size fits all. During and after an M&A deal, IT shops may have to support employees with unique needs that they never considered before the deal.

Source: [2]Bain & Company, "Corporate M&A Report 2020," January 2020

CDW: We Get Mergers and Acquisitions

With deep expertise across virtually all industries, CDW's solution architects can help companies optimize their M&A strategies and select the right solutions and services to meet their business goals. Among the services CDW offers:

Data storage and migration: Custom storage and data migration can help organizations securely move their data in compliance with regulations.

Software management: Software asset management during an M&A deal can save costs in auditing, locating software, ensuring licensing compliance and eliminating duplicate products.

Regulatory compliance and risk management: The right mix of cybersecurity solutions can keep IT systems and information secure, safeguard customer data and intellectual property, and ensure that companies don't risk the fines and loss of reputation often associated with a data breach.

IT consulting and professional services: CDW has provided organizations of all sizes with contextual information about the environments they are inheriting in M&A deals and has helped IT leaders understand their options about where to host new workloads and applications. This awareness has helped companies limit the time they need to spend operating under a transactional service agreement — ultimately lowering their costs.

CDW Can Design, Orchestrate and Manage a Comprehensive Infrastructure Strategy

CDW's simple, smart, scalable and flexible services portfolio provides a fully automated and managed infrastructure across your entire network, whether on-premises, hybrid or in the cloud.

DESIGN for the Future
Consult with our team of technology experts to plan a solution that fits your unique needs and optimizes business impact.

ORCHESTRATE Progress
CDW Amplified™ Infrastructure services help you build and deploy your custom infrastructure utilizing best practices.

MANAGE Operations
Our world-class, certified staff monitors and manages your infrastructure 24/7/365 to ensure operational efficiency and security.

Sponsors

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Learn more about how CDW Amplified™ Infrastructure services can help you solve business challenges.