M&A Systems Integration: An Opportunity for Success or Distraction Post-Close

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In the complex landscape of mergers and acquisitions, systems integration is a cornerstone of post-close integration (PCI) success. A meticulously planned integration strategy is paramount, not merely for optimal resource use or minimization of operational costs but most crucially for protecting the intended deal value. PCI is where strategic vision meets operational reality, and the ability to navigate it effectively can be the difference between success and failure.

Yet, in this intricate process, there is a pitfall: the temptation to over-engineer integrations that, while seemingly beneficial, do not align with the PCI's core objectives. The challenge is to discern between essential integrations and those that inflate costs without proportional benefits.

The business landscape is littered with cautionary tales of ventures that, led astray by the allure of excessive integration, diluted deal value

Consider the merger between Hewlett-Packard (HP) and Compaq in 2002. HP's strategy involved extensive customization and integration of systems across the merged entities to create a unified IT infrastructure that leveraged the best capabilities of both organizations, combining "about 250 systems, some 20 years old and custom written." But they failed to create an IT roadmap with detailed end-to-end workflows, rendering requirements incomplete and ambiguous [1].

Under these conditions, customizing and integrating these diverse systems required significant investments of time, resources, and expertise. This overwhelmed the project and business teams, leading to expensive delays and disruptions as employees grappled with unfamiliar systems and processes.

Two years into the three-year integration plan, it was clear the project would take five years. HP's aggressive strategy did not leave room for the detailed planning necessary for an integration of this magnitude [1]. This example underscores the necessity of a well-defined, strategic approach to integration—one that avoids unnecessary complexity and focuses on achieving the deal objectives.

A clearly defined integration strategy allows teams to minimize complexity, maintain pace, and prioritize deal value realization

A well-crafted integration strategy, with distinct phases and clear objectives, is essential. By adopting a phased integration strategy, teams can navigate the integration process more smoothly, ensuring that critical operations continue and the deal's overall goals are met.

- **Minimize Complexity:** Break down the integration into manageable phases. Each phase should focus on specific integrations sequenced by priority and alignment with deal objectives. This allows for a controlled and organized integration and makes it easier to address and resolve issues as they arise.

- **Maintain Pace:** A phased strategy allows the team to set and maintain the appropriate pace throughout the integration process. As defined milestones are achieved, teams realize progress and are more likely to maintain momentum. This is crucial in long-term projects where the risk of stagnation is high, and the costs of delays can destroy deal value.

- **Prioritize Deal Value Realization:** The primary goal of any M&A activity is to realize the value envisioned when the deal was struck. A phased integration strategy allows for early identification and prioritization of the most critical integrations that drive deal value. In order to align incremental phase priorities with value realization, a clear vision of the end state must be developed, data gathered and analyzed, impacts to people and processes assessed, and detailed risk mitigation plans put in place - elements that the mXa CrossCheck[sm] methodology described below is built to address.

Each phase in the integration strategy should be clearly defined with specific goals, timelines, and responsible teams. This clarity supports proper expectation setting and facilitates coordination among stakeholders. A phased approach also provides flexibility to adjust the strategy based on prior phase learnings or changes in the external environment.

The Crucial Role of IT in Phase Planning

IT leaders must have an early opportunity to participate in phase definition and prioritization to identify, communicate, and plan for integration risks that, if not addressed, will drive project delays and higher costs. The ubiquitous nature of technology in today's businesses means that the IT function contains many prerequisites to business operations. Thorough prioritization of integration work considers technical complexity, technology options, resource requirements, and other factors best assessed by IT professionals.

IT should not be viewed merely as a support function but as a strategic partner, ensuring that technology investments directly contribute to the realization of deal value

This analysis should be completed collaboratively with business leaders; however, "business owners tend to overlook or underestimate the crucial importance of effective information technology (IT) integration in achieving the anticipated benefits. Research shows that poor IT integration in the merger project is a frequent cause of failure to achieve expected M&A-related benefits" [2].

This gap in understanding between IT and business leaders highlights the importance of assessing integration strategy during due diligence. It's critical to dig in early to understand the details of critical systems and how they support prioritized workflows and processes, where standardization, custom development, or manual solutions make sense, and, ultimately, what the initial target architecture will be.

"Due diligence should address both security and the technology stack, with a detailed examination of how an acquired entity would be integrated, how it will be used in the business, and how deep the integration with existing products will be once the companies have merged." [3]

CrossCheck℠ Methodology Streamlines the Process

At mXa, we have developed the CrossCheck℠ methodology to streamline the integration process, minimize complexity, focus on achieving strategic synergies and maximize deal value.

- **Start with the End in Mind:** Develop and communicate a clear vision of the desired end state and intermediate milestones to guide all integration efforts.

- **Consider the Human Element:** Recognize that integration is not just about systems but also about people and processes - involve key stakeholders early, especially IT teams who understand the technical complexities and risks.

- **Deal in Data:** Use data to prioritize integration activities according to how directly and materially they support deal value realization.

- **Identify and Mitigate Constraints:** Monitor complexity, manage scope and mitigate risks to avoid derailment.

Mastering the Art of Systems Integration

In PCI, the path to success runs through a meticulously planned and executed systems integration strategy. By balancing the ambition for technological integration with the pragmatism of strategic objectives, companies can avoid the pitfalls of complexity and cost overruns. The involvement of IT as a strategic partner, along with a phased, data-driven approach to integration, paves the way for a smooth transition, ensuring the realization of deal value and the achievement of merger synergies. In this context, systems integration emerges not just as a technical challenge but as a strategic opportunity to enhance operational efficiency, foster innovation, and drive long-term success.

About us: mXa, on the 20+ year foundation of Method360, was founded to intentionally serve fast-growth companies and the unique challenges they face. We understand that inorganic and organic growth provokes change, ambiguity, and uncertainty that can deeply burden the organizations involved. By seeking to understand the human element in M&A and fast growth environments, mXa embraces a unique, contrarian approach in advising clients that seeks to realize maximum value for them in alignment with business objectives.

Interested in learning more about our capabilities or to discuss your M&A and integration story? We're here to help.

References:

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