# M&A PLAYBOOK: HOW TO PREPARE FOR THE COST, STAFF AND TECH HURDLES

Relying on staff engagement, a clear notion of the business concept and a thoughtful approach to redundancies can increase the odds of M&A success.

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Moved by cut-throat competition, the race is on for tech companies to find areas of improvement and get to work. Left unattended, it could evolve into an existential threat.

In the case of software maker Nintex, it acquired process management company Promapp in July 2018 with the goal of enhancing the way customers used its automation tool.

Not quite a rival, Promapp was a complementary addition to Nintex's mission, introducing a sleek visual mapping layer. As the two companies looked for overlaps in their systems, dueling customer relationship management (CRM) systems came through as an obvious point of inefficiency.

` "We went through a lot of challenges to execute on data migration," said Justin Donato, VP of information technology at Nintex, in an interview with CIO Dive. "We fell three times in a row having technical issues."

The data migration put extra strain on staff, Donato said. Not only did the team have to embark on repeated data migration processes — and the associated workload — but it also had to deal with the process repeatedly failing while relying on vendors to enable what should have been a quick process.

All of this happened while simultaneously dealing with the accompanying slate of changes M&A activity can bring about.

To improve their chances of success during an M&A endeavor, decision makers are called to:

- *Ensure there's a clear understanding of the business case for the acquisition, and use that information to guide their hands.*
- *Thoroughly assess the technical challenges and opportunities of the deal, while making sure employees are informed of possible changes.*
- *Use business outcomes as the guidance to determine redundancies of staff or technology.*

Without the correct strategies in place, companies risk sinking resources in M&A initiatives that won't fulfill stated goals, and lead them instead to a stagnant evolution cycle and the loss of competitive edge.

**Costs of integration**

When two companies join forces, they plan to leverage each others' staff, market strength and resources. Those resources include technology and IT infrastructure.

But long before any technology decisions can be made — such as scrapping old systems, or embarking upon a joint modernization effort — execs need to keep in mind what the acquisition means from a business standpoint, and set priorities accordingly.

"IT won't make the deal but it can break the deal," said James Anderson, senior research director at Gartner, in an interview with CIO Dive. "Leaders will factor IT costs into the decision to acquire or not. The time it will take to get the business to operate as usual after a merger is also a key factor."

It's difficult to accurately estimate how long a migration can take. Even with all the information on hand prior to finalizing the deal, there are simply too many unknown variables.

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However, it's fair to estimate the companies will integrate core systems within a year, even at the biggest companies, according to Glenn O'Donnell, VP and research director at Forrester, in an email to CIO Dive.

Whatever hasn't been integrated in five years, probably won't ever be.

"There will always be shards of segregation," said O'Donnell. "Think of it as scar tissue from the merger. I'd say 70% to 80% of integration has to happen within two years. If not, you have more scar tissue — and pain to go along with it."

The total costs of integrations also range widely. An EY review of 70 merger and acquisitions which took place between 2010 and 2016 included integration costs as small as $4 million and as large as $3.8 billion.

The top drivers of M&A integration costs are severance and employee-related costs, plant, office or real estate shutdowns and changes to IT systems, the company said in its report.

M&A integration costs can range from 1% to 7% of deal value, regardless of deal size, according to EY. In deals with higher valuations and companies — those punching above $10 billion — often feature lower integration costs as a percentage of the whole deal value.

**M&A groundwork**

For IT leaders looking to make their M&A successful, it becomes essential to identify the business practices, structures, stakeholders and challenges companies face while doing business.

The groundwork starts before any deal has been signed. And it almost always takes place at the top of the organization chart.

The playbook for transition varies depending on which company is the financially controlling entity.

"The biggest difficulty is that every merger is inherently different," said Anderson. "[Decision makers] have to understand what they're acquiring. Is it a company, a good or a service?"

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> *Sharon Rodriguez*
> *Chief customer officer at Unqork*

Mergers and acquisitions don't come without risk. The Harvard Business Review estimates anywhere between 70% and 90% of acquisitions fail.

Clarity on business goals can help align technical decisions accordingly, and will help expedite execution as companies unite. Additional hurdles can arise in the first stages of the acquisition process since accessing information before a deal can prove difficult.

Successful M&A stories tend to view any large decisions, such as replacing systems or teams, as a "zero day decision," according to Sharon Rodriguez, chief customer officer at Unqork and former M&A advisor in the financial sector, in an interview with CIO Dive.

Mergers and acquisitions where priorities are set as early in the process as possible have a greater chance of success.

Without the right people at the table to properly assess operational processes or technology, companies won't be able to correctly identify potential for long-term value, Rodriguez said. "That's when I've gotten acquisitions across on my desk and I asked 'are you joking?'"

From an IT perspective, there's scrutiny early on in the process over existing operations at both companies, said Kevin Beasley, CIO of ERP provider VAI, in an interview with CIO Dive. Typically, mid-level managers don't hear about deals until after contracts are finalized.

"The company acquiring wants to validate they're acquiring what their books say," said Beasley. "The company being acquired is doing its own vetting on the acquiring company."

According to Anderson, acquiring companies would do well to identify as best as they can what features in the transaction fall into the realm of technical debt.

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Overhauling legacy platform costs often catches up with acquirers after the deal has been finalized, which can lead to cost overruns or delays in the process.

"As you're moving into an acquisition process, no one ever says 'I wish it would take longer,'" said Anderson.

**Staff commitment**

The key to overcoming complex, often turbulent shifts in technology inherent to a corporate retool is conveying to employees why and how changes are being enacted. Devoting resources ahead of time to lay down a roadmap to success can ease the angst of transition.

For Donato, constant communication and transparency amid the Promapp acquisition and the CRM change helped get the company to its fourth, and successful, attempt at migrating.

In many cases acquisitions take many years to come together, said Beasley. Some companies take three or four years after an announcement to integrate their point of sale (POS) systems or their cybersecurity practice.

This happens because the lengthy process of evaluating different licensing and software capabilities is just now getting started. Typically, that information is kept a secret, with only the highest levels of IT leadership being in the know.

"The 'during' part [of M&A] means a lot of discovery," Beasley said.

It's the part of the deal when key questions are asked, like what's the cost of keeping data center and storage systems running as is.

"Companies shift to a third view of the IT budgets and see how these technologies enable services," said Anderson.

Managers ought to ask how much would it cost the now merged company to create a slate of services for things like collaboration. It might make more sense to turn to one vendor or set up internal, unified capabilities for instant messaging and video conferencing.

"That's when you'll see the cream float to the top, and the excess that could be replaced with economies of scale," said Anderson.