WHITE PAPER

Technology Integration in Mergers, Acquisitions and Divestitures

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Executive Summary

Mergers and Acquisitions (M&A) and divestitures can be leveraged to gain a competitive advantage in the marketplace. But corporate transformations often create some of the biggest challenges for companies and their IT organizations to handle. Many corporate transformations fail to live up to expectations because the challenges include issues that cannot be dealt with by conventional IT leadership and management practices. Inadequate or misdirected IT integration efforts can cause the integration to be incomplete, delayed and costly — ultimately derailing business goals. Whereas a poorly executed integration can jeopardize the entire success of a merger or divestiture, a well-managed IT integration can help corporate transformations succeed.

Introduction

Businesses routinely look to mergers and acquisitions as a way to enter new markets, broaden their product portfolio, scale their operations, expand the customer base or extend geographic reach. In addition, spinoffs and divestitures may be considered for their ability to streamline operations or solve regulatory or antitrust issues and conflicts of interest — especially in the financial services industry. But do they enhance or destroy shareholder value? It depends on how the acquisition or divestiture is planned and executed.

When executed successfully, corporate transformations can be a significant benefit to a company's bottom line. However, such transactions often fail to deliver on their expected value due to a breakdown in the integration process. Deal-making is hard, but integration can be even harder. If you're not careful it can drag on for months, or even years after the transaction closes.
Due to the financial implications and risk associated with mergers, a majority of the attention is focused on the financial aspects of the deal. Because of the complexity and speed in which deals often take place, newly combined organizations tend to shortchange the integration process. Further, they miss an opportunity to transform and optimize the infrastructure to improve the newly combined organization going forward.
Merger integration is a complex process, with many decisions and pitfalls. By gaining an understanding of the challenges and focusing on ways to not only integrate but also optimize the infrastructure, IT leadership can help maximize the potential of the new organization. The main objective is to move quickly without missing opportunities and with a minimum number of disruptions to the organization.

Every company aspires to achieve a smooth integration following a merger, acquisition or divestiture. Failing to successfully complete the integration or misjudging the cost or effort involved could have a detrimental effect on the operation of the new organization. When an M&A potential is not fully realized, operational and financial benefits may evaporate. While many may consider bringing in an outside advisor as excessive and an unnecessary expense, the resulting guidance and teaming efficiencies could mean the difference between failure and success.

This white paper will provide helpful information regarding:

- The challenges organizations typically face during a merger and acquisition or divestiture
- The benefits of applying infrastructure optimization principles to integration efforts
- The value of a third-party advisor
- Strategies for managing the integration process

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Challenges in M&A and Divestiture/Spinoffs

For many organizations, an IT M&A integration or divestiture/spinoff transformation will be the most complex undertaking that their IT organization has ever undertaken. As the IT organization embarks on the integration journey, it will face a number of challenges.

Time Constraints

IT integration managers often find themselves under intense pressure to meet flawed integration or separation timelines while mitigating risks and guarding against unplanned outages. Resetting expectations can be difficult as the business has usually committed to investors or publically announced the deal, and does not wish to risk credibility loss by announcing a change.

Technology Portfolio Rationalization

In a post-merger situation, each company's IT environment may include numerous data centers at multiple locations worldwide, mixed hardware environments used by different businesses, and multiple overlapping systems and applications. IT managers are faced with the challenge of integrating fragmented and disparate IT ecosystems. Complicating the matter is the need to objectively analyze the application portfolio and determine the set of applications on which the company will standardize going forward without alienating parties associated with those that were not selected.

In the case of divestitures/spinoffs, where it is unlikely that equipment assets will transfer to the divested entity, IT managers are faced with the need to extract applications and critical data assets with precision, especially data that is essential to meeting regulatory requirements. Care must also be taken to ensure a smooth transition of the customer base.

Improper Planning

Mergers and divestitures/spinoffs place a unique planning challenge on integration teams in that they must focus simultaneously on a number of different types of planning activities. A dangerous tendency is to try to "fix everything" by building out missing functionality or developing new applications when interim, phased solutions will do. This leads to distractions and can derail the integration program. Poor planning combined with poor execution may result in project delays, cost overruns, lost productivity, reduced application performance, service disruptions and negative user experiences.

Immediate and Expanded User Demands

Recognizing that one of the main drivers of mergers and acquisitions is to expand geographic reach, IT managers may find themselves responsible for covering new geographies never before managed. With the drive for global expansion, IT teams increasingly must deal with both technology and support issues relating to multi-national and global users. Driven by a need to serve an expanded user base, IT managers are also faced with the need for capacity planning. Capacity planning, however, presents a distinct challenge because of different performance baselines across various applications. In the case of IT M&A integration, IT teams must think about the capacity planning for a combined workload. The challenge is identifying a new performance baseline that will support the target state in terms of users and data.

Leveraging Optimization Principals to Deliver Integration Success

Divestiture/spinoff programs are complex and infamously prone to delays. Merger integrations tend to be even more complex owing to the scale of change that occurs simultaneously across the organization. Furthermore, the risk of delays in the IT integration program can result in failure of the overall economics of the deal.

As organizations push through their M&A IT integration or divestiture carve-out efforts, it can be beneficial to draw on the guiding principles of Infrastructure Optimization (IO) in order to reduce complexities and prevent integration delays. By applying the best practices of IO to integration activities, companies can not only execute rapid integrations to achieve desired synergies and allow for a quick return to 'business as usual,' but transform and optimize the infrastructure as well.

By leveraging the IO practices of simplification, standardization, virtualization, integration and consolidation, CIOs can provision resilient, scalable, agile, quick-to-deploy infrastructures. These platforms can not only provide uninterrupted, quality user experiences during the transition, but improve speed to market, increase efficiencies, facilitate globalization efforts and reduce operating costs as well.

Similar to preparing to undertake an Infrastructure Optimization project within an organization, setting the course for and executing a successful post-merger integration or divestiture planning involves several key activities:

- Prioritize business applications
- Perform portfolio analysis
- Execute in progressive phases

Prioritize Business Applications

Bringing workflow and business process operations online is the first step in achieving successful divestitures and post M&A IT integrations. By prioritizing applications based on office productivity, business criticality and the business goals and drivers, CIOs can facilitate smooth and efficient IT transitions.

Perform Portfolio Analysis

Portfolio analysis is critical to IT integration and at the core of all technology transformation efforts. By obtaining a holistic view of the existing environment and target end-state requirements, CIOs can design resilient, agile, scalable, optimized infrastructures to support users now and in the future; as well as determine the optimal transition or IT integration approach.

Portfolio analysis involves:

- Performing a fact-based analysis of the applications and their business impact
- Identifying transactions and types of workloads
- Identifying data and data owners
- Measuring to set performance baselines
- Defining capacity requirements

In the case of divestitures/spinoffs, portfolio analysis involves identifying the business applications the divested entity will own going forward. It also involves determining the baseline of users, transactions and workload in order to define current and future capacity requirements of the carved-out business. Because of the deep integration with the parent company, obtaining an accurate read of the beginning performance baseline for the divested entity can be a challenge. In such cases, piloting a test infrastructure can assist in architecting a full production, target-state infrastructure.

In the case of M&A, CIOs are faced with the merging of two user groups, two sets of applications, two databases and so on. Portfolio analysis relating to M&A IT integration therefore involves conducting a comparison between the acquiring and acquired companies. Similar to divestitures, CIOs must determine current and future capacity as well as growth expectations. Capacity planning, however, must be viewed in terms of capacity planning of the combined workloads. Determining performance baselines again presents a challenge as one cannot simply add the two baselines to get a combined baseline.

Execute in Progressive Phases

Successful integrations must happen quickly. The first 100 days post deal close is therefore a critical period in every merger or divestiture. By managing the integration as a business process and executing on a steady pace in progressive phases tied to business drivers, companies can reduce disruption to 'business as usual.'

Partnering for Transformation Success

Even with appropriate business and financial planning for the M&A or divestiture transaction, the IT organization must still be able to execute the plans to deliver shareholder value. Effective technology integration places a unique set of demands on technology leadership and professionals alike. During this time of great change, CIOs must remain focused on business priorities that include setting and managing expectations with corporate leadership, users and customers. There is often an expectation that the IT integration or technology carve-out can be delivered using the existing IT staff. However, unless the organization makes a practice of pursuing inorganic growth through mergers and acquisition, most IT teams lack experience with the task of integrating disparate IT environments. This can cause IT teams to be overly ambitious in defining scope and integration timeframes and to underestimate costs.

CIOs can get ahead of the integration/divestiture curve and free themselves to focus on high-level, strategic activities by engaging integration advisors who can provide structure around the endeavor. In addition to governing the process and guiding the IT team through the common pitfalls of an integration program, third-party advisors play a key role in resolving staffing challenges unique to mergers and divestitures.

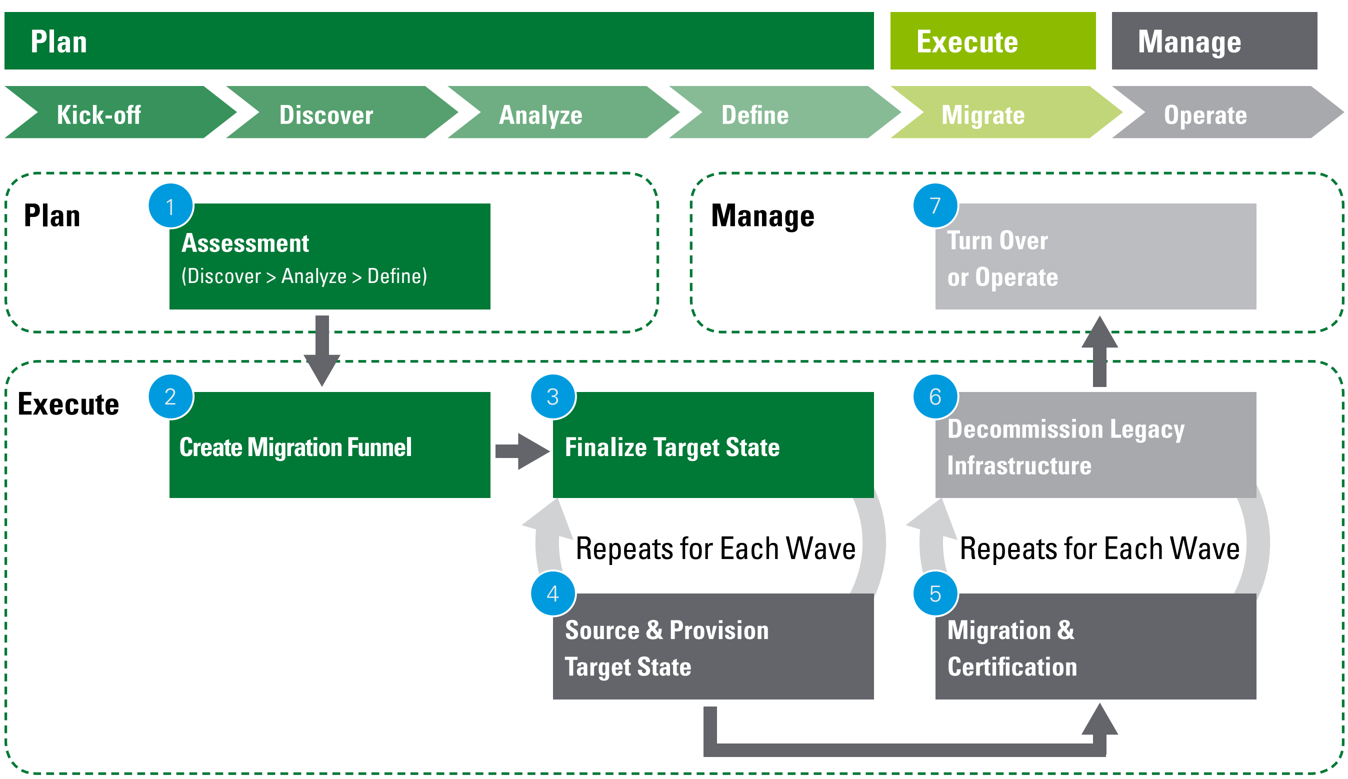
In the case of divestitures/spinoffs, for example, the IT team is split. The majority of IT staff remains with the parent company and the departing business is typically spun-off with a bare-bone crew — leaving major gaps in technical and leadership expertise. Although the organization is short-staffed, CIOs must still be judicious in their hiring. During the time of dramatic organizational change, poor hiring decisions can add an unnecessary expense. Temporary integration consultants provide the expertise necessary to effect change, and remove the pressure to make immediate hiring decisions. In the case of M&A, the organization now has two separate teams, both of which are competing to have their technology be the chosen platform. By acting as an independent third-party, integration consultants can make objective decisions about technology based on functionality and value to the combined organization, thereby putting conflict to rest.

Managing the Integration Process

Mergers, acquisitions and divestitures often fail because of flawed execution. IT integration or divestiture planning activities must be carefully orchestrated in order to realize project objectives. Developing and executing against a detailed IT integration plan can streamline, facilitate and accelerate the transformation process while minimizing costs.

By taking a comprehensive program approach, IT leaders can follow a sequence of coordinated steps and focus resources on the right activities at the right time. Guided by an overriding structure of planning, execution and managing, a best-practice program includes conducting discovery to assess the IT infrastructure, performing portfolio analysis and defining the future target end states. In the execution phase, the goal is to create a migration funnel that will allow for efficient execution of integration and transformation activities and the proper sourcing and provision of resources to achieve the target state. Finally, the management phase allows for a smooth turnover, deployment and operation of the integrated and optimized architecture.

Overview of Program Approach



Why CenturyLink Business?

The path to achieving successful M&A IT integrations or divestitures can be winding and complex, which is why CenturyLink works with your organization from Day One to establish a clear understanding of your business drivers and integration priorities. Our goal is to provide a solution that works best for you. To maximize your IT assets and drive business value, we place a high priority on understanding your IT portfolio from several dimensions. This includes a financial analysis to identify IT spend and determine the degree to which it is aligned with business objectives as well as an analysis of the static and dynamic aspects of the infrastructure. Finally, we perform a portfolio analysis to understand the current state and define the target state.

CenturyLink has a global reach with a network of practitioners who have deep expertise in multiple types of IT transformations, including mergers, divestitures and Infrastructure Optimization. We use our experience, proven methodologies and best practices to develop a strategy that speeds transition without increasing risk. We then work with you to execute it flawlessly.

Conclusion

Mergers, acquisitions and divestitures have become a common business practice for driving inorganic growth. Most companies, however, struggle with achieving success. Industry studies suggest that 50 to 70 percent of mergers fail to deliver incremental shareholder value. The reasons for failure are myriad and range from poor strategy to failed IT integration. Most of these failed IT integrations are due to the lack of preparation or planning or to poor integration processes. In addition, companies often lack the in-house expertise to execute.

The IT integration efforts for mergers, acquisitions or divestitures are complex undertakings that invariably put enormous strain on one or both companies. In this M&A culture, business needs place enormous pressure on IT to deliver IT transformations on time and within budget. These pressures often lead IT leaders to make decisions without all the facts, thereby hindering the integration and increasing the risk of a failed integration. By understanding the challenges, leveraging the best practices of infrastructure optimization and partnering with experienced third-party advisors, organizations can overcome these challenges to achieve successful integrations and deliver business value.

About CenturyLink Business

CenturyLink, Inc. is the third largest telecommunications company in the United States. Headquartered in Monroe, LA, CenturyLink is an S&P 500 company and is included among the Fortune 500 list of America's largest corporations. CenturyLink Business delivers innovative private and public networking and managed services for global businesses on virtual, dedicated and colocation platforms. It is a global leader in data and voice networks, cloud infrastructure and hosted IT solutions for enterprise business customers.

For more information visit www.centurylink.com/enterprise.

Global Headquarters
Monroe, LA
(800) 728-8471

EMEA Headquarters
United Kingdom
+44 (0)118 322 6000

Asia Pacific Headquarters
Singapore
+65 6591 8824

Canada Headquarters
Toronto, ON
1-877-387-3764

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