

Navigating Data Migration in M&A – Key Pitfalls and Effective Strategies

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In today's fast-paced mergers and acquisitions (M&A) market, optimizing data migration is crucial for success. This white paper explores how to minimize risks and maximize deal value through effective data migration strategies. We will discuss the importance of relevant data, the key risks in different phases of data migration, and how to handle sensitive information, leading to a clear and practical solution.

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Why is data important in M&A transactions?

In mergers and acquisitions (M&A), data is like the lifeblood of the deal. Imagine trying to merge two giant puzzles with thousands of pieces, and each piece represents a bit of data that needs to fit perfectly to create a clear picture. Companies today have their Master Data scattered all over the place, including customers, suppliers, product information, and financial records. This Master Data is critical because it provides the necessary context for business operations.

Data is an incredibly valuable asset in M&A, as it enables detailed insights that support effective decision-making and improve deal efficiency. Therefore, having consistent Master Data Management (MDM), where there is a single source of truth, a master record for each person, place, and thing in the business, is critical for the following reasons:



Improved management decision making

With MDM, businesses can have a single, 360-degree view of all their data. This means that all relevant information about a customer, supplier, or product is available in one place. This comprehensive view can aid in strategic decision making, especially in the context of M&A. For example, it can help identify potential synergies, assess the value of the target company, and evaluate the compatibility of the two companies' operations.



Cost optimization

By limiting data redundancies and improving data quality, MDM can lead to significant cost savings. This can mean avoiding the costs associated with integrating incompatible data systems or cleaning up inaccurate data. Additionally, having a single, reliable source of data can reduce the time and resources spent on data management, freeing up resources for other strategic initiatives.



Managing regulatory risks

MDM can help in ensuring compliance with various regulatory requirements by providing a single, unified view of data. This is particularly important, where companies need to demonstrate compliance with a range of regulations, from anti-trust laws to data protection regulations. Having a single, reliable source of data can simplify the process of demonstrating compliance and reduce the risk of regulatory penalties.

In a nutshell, consistent and reliable MDM can significantly boost the value of a business during an M&A deal. For sellers, it can increase the selling price by presenting a well-organized, valuable asset. For buyers, it makes the due diligence process smoother and helps in making a competitive bid. Post-deal, effective MDM can drive value across the newly merged or acquired business. Research shows that poor data quality and management can cost businesses up to 35% of their operating revenue due to ongoing stranded costs, operational deficiencies, and an inability to deliver product(s) to the right market and customers.



What is the relevance of data in an M&A transaction?



\$0.3 Million

is the average budget overrun per data set for data migration projects



40% +

of M&A data migration projects face challenges

A key step in realizing the benefits from effective MDM, is data migration. This process involves consolidating data within systems during an integration or separation, and it's often an underestimated part of M&A transactions. Data migration is critical but challenging due to compatibility issues between old and new systems, and the need to maintain data integrity and security during the transfer. This process often requires careful planning and execution, along with the use of specialized tools and services. Many data migration projects fail to meet their timelines or are entirely aborted, often exceeding budgets by an average of \$0.3 million per data set. Given that a typical M&A deal can involve dozens of data sets, these costs can quickly add up, making data migration a significant financial concern. Recent research shows that over 40% of these projects encounter such issues, underscoring the need for meticulous planning and execution.

Key risks in data migration phases

Data migration is the behind-the-scenes hero (or villain) of M&A transactions. It's like moving to a new house; you must pack everything carefully, transport it without breaking anything, and ensure it all fits in the new place. Here's a breakdown of the key phases and the risks involved. Understanding these risks and how to mitigate them is crucial for a successful move.



Data mapping (Aligning data field in source to target systems)

- **Risk:** Incorrect mapping can lead to data loss or corruption, similar to missing puzzle pieces.
- **Mitigation:** Implement detailed mapping strategies and rigorous verification processes to ensure accurate data alignment.



Data conversion (Extraction, transformation and loading-ETL):

- **Risk:** Errors in scripts during ETL can cause data inconsistencies, similar to converting VHS tapes to digital and ending up with corrupted files.
- **Mitigation:** Rigorous testing and validation of ETL processes prevent conversion issues.



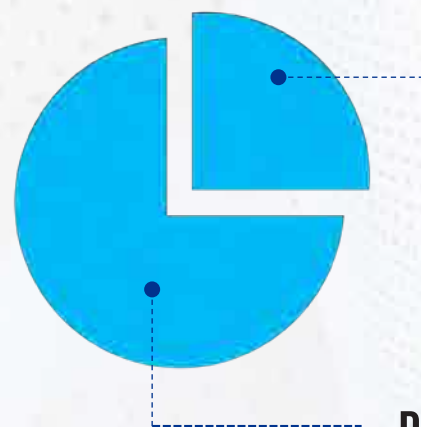
Data validation (Ensuring data accuracy):

- **Risk:** Improperly validated data can disrupt business operations, akin to moving into a new house and finding that the furniture doesn't fit.
- **Mitigation:** Comprehensive testing and validation processes are essential to confirm that the data is correctly loaded and functional.



Framework for sensitive information

Handling sensitive information, such as customer-sensitive information (CSI) and personally identifiable information (PII) during data migration is crucial. This process requires strict adherence to regulatory requirements to avoid legal issues. Here are a few effective ways to manage it:



Regulatory compliance

It's essential to follow data protection laws to steer clear of any legal troubles. Think of it as following the rules of the road to avoid traffic tickets, except here the stakes are much higher.

Data masking and clean rooms

Implement data masking techniques to protect sensitive information during migration. It's similar to putting a privacy screen on your computer, allowing only those who need to see the data to access it. Additionally, clean rooms should be set up for secure data analysis. These are controlled environments where data can be analyzed without the risk of exposure, ensuring that sensitive information remains protected throughout the process.

Effective strategies for data migration

To navigate the complexities of data migration and mitigate associated risks:



Early planning and assessment

Conduct thorough assessments of the data landscape and develop a comprehensive migration plan early in the M&A process. This includes understanding the scope of data, identifying potential compatibility issues, and planning for necessary resources.



Engage specialists

Utilize specialized tools, services, and engage specialists with experience in data migration. Their expertise can help in navigating complexities and ensuring a smoother transition.



Ongoing monitoring and support

Implement robust monitoring and support mechanisms to address any issues promptly during and after the migration process. Continuous monitoring helps in identifying and resolving issues before they impact business operations.

Case Study: Data Migration in the Financial Services Industry

A leading Canadian financial institution acquired another entity. KPMG was engaged to address key risks related to this acquisition, focusing on data migration, and ensuring robust risk management across all phases.



Priorities and Challenges

Given the complexities of the banking industry's multinational footprint, a thorough review of the data conversion strategy, product mapping, and error handling processes was essential. The deal's structure, involving a convert-and-close approach, demanded a compressed timeline for developing and testing the data migration strategy, heightening the risk of data errors impacting business operations.



Our Role and Solution

KPMG's role involved organizing the data conversion strategy into six spines following either a centralized or decentralized model. The collaborative effort between business and IT teams ensured accurate data mapping. Additionally, a centralized approach to data transformation was employed for most Value Streams, ensuring a seamless transition to the target system.



Benefits to the Client and Results

KPMG's extensive experience in data migration ensured that all aspects of the integration were aligned with best practices in the industry. The structured approach to risk management and data transformation facilitated a smooth transition, safeguarding the client's business operations post-acquisition.

Conclusion

Successful data migration in M&A is essential for minimizing risks and maximizing deal value. By focusing on relevant data, managing key risks, and adhering to regulatory frameworks, organizations can achieve smooth integration and realize the full potential of their acquisitions. While data migration might seem daunting, recognizing the risks and planning meticulously can significantly ease the process. This approach ensures that the M&A transaction is successful and that the merged or acquired business can hit the ground running.

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