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Buyer: be prepared, assess your own IT maturity!

KPMG POINT OF VIEW

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1. CONTEXT AND OBJECTIVES OF THIS ARTICLE

Despite that technical issues first come in mind when dealing with IT integration, our experience shows that a significant deal strongly impacts all dimensions of IT. These dimensions are very often underestimated by a Buyer.

As such, the objective is to identify these dimensions and provide a set of key questions a Buyer should answer before starting an IT integration.

This article is primarily addressed to CIOs, while taking the "Corporate Buyer" point of view (as opposed to Private Equity). Even if it may be relevant in other contexts, we think it is more relevant for acquisitions.

To help the reader, hereafter are definitions of certain terms used in this article:

- **Buyer:** company/entity which is acquiring another company/entity
- **Target:** company/entity a Buyer is considering to buy and later integrate in its existing operations
- **Seller:** company/entity that sells the Target
- **IT TSA (IT Transition Services Agreement):** services provided by the Seller, during a temporary period of time, to operate the Target

2. A SIGNIFICANT INTEGRATION WILL GENERATE IMPACTS ON ALL DIMENSIONS OF IT

When acquiring and integrating an organization, the reality is that two organizations are actually joining people, culture, processes, tools… As such, this situation creates shockwaves not only on the technology aspect, but throughout the whole structure.

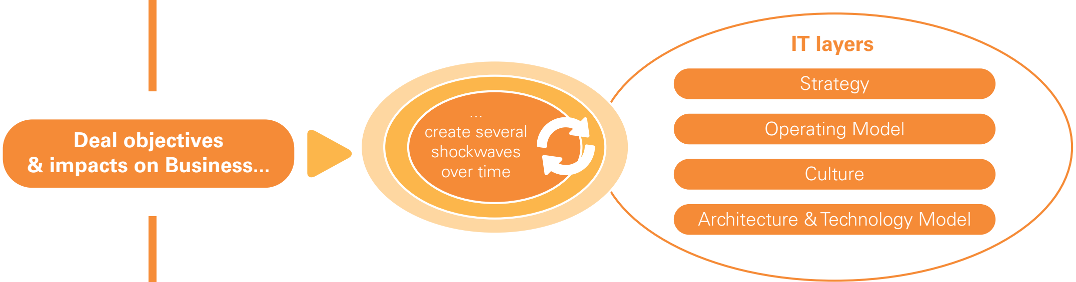
Indeed, our experience shows that, in the event of a significant acquisition, the shockwaves may potentially impact all dimensions of IT: Strategy, Operating Model, Culture, Architecture and Technology. We can briefly define these dimensions as:

- **Strategy** encompasses the IT vision and mission statement, major IT orientations and roadmap and costs structure.
- **Operating Model** encompasses IT organization, services and project delivery model and sourcing.
- **Culture** refers to all the "informal" elements that are in the background of the operational and management tasks.
- **Architecture and Technology** includes technological high level vision, application integration model, and infrastructure technical stack.

Rationale is that, for all these dimensions, structuring choices/visions may be (and often are) different between the Buyer and the Target. As a consequence, this situation will necessarily open up negotiations. Even if the Buyer has a theoretical "power of decision-making", we strongly believe that it must be prepared if it wants to keep control over these unavoidable negotiations.

From a Buyer perspective, having a clear vision of its maturity level on these dimensions is a prerequisite to prepare an integration journey: this vision will constitute the "red lines" of the integration i.e. the boundaries within which the Buyer wants (or not) to negotiate.

Moreover, these "red lines" will also define the integration guiding principles: they will therefore allow the Buyer to gain time and efficiency, reduce "regret investments" and accelerate the future optimizations journey.



3. ASSESSING MATURITY ON ALL DIMENSIONS OF IT

For a Buyer, understanding this context is a first step, but the next question should deal with the way a Buyer can assess its own maturity. The goal of this section is to highlight the key questions that should be raised by the Buyer.

Key questions related to the Buyer IT strategy

- At short sight, it is key to understand from the Business if this integration is part of a "long term" strategy or more a "let's see what it brings" type of approach.
  - Indeed, if the integration's benefits aren't fully convincing, IT must set up a "reversible integration" plan: the target state design should include this reversibility.
- At mid-term (Day 2), the deal may change the Buyer business strategy, which will significantly impact the current IT strategy.
  - Does the Buyer have a clear and shared vision of its IT mission statement? How could that vision fit with the Target's one?
  - How this deal may change the way the Buyer's IT supports Business needs?
  - Which major orientations of the IT strategy should be reconsidered?
- Synergy is also another domain where the Buyer maturity is critical.
  - Working on cost synergies requires to anticipate the creation (or update) of a clear and accurate costs baseline. However this is a long effort, while estimating synergies is often a time constrained exercise.
  - Applications convergence: synergies may come from the convergence of major business applications. As such, this will require from the Buyer a clear picture of its own Business application strategy and roadmap.

- Key questions related to the Buyer IT operating model

- At short sight, the Buyer should immediately assess how well it is structured to cope with the IT integration works. The answer to this question will make the integration journey radically easier (or more difficult). For example, does the Buyer already have (or not) proper IT M&A teams/skills, IT integration frameworks and methods?
- At mid-term (Day 2), an integration may significantly impact the Buyer IT Operating Model.
- **The delivery of IT services** may need to be reconsidered in terms of:
  - **Geographic coverage:** shall the Buyer deliver services for another geographical area to address the Target's scope?
  - **Quality:** shall the Buyer deliver services to higher quality standards to fit with the Target's needs?
  - **Governance:** shall the Buyer manage the delivery of services in a more structured way to cope with the Target requirements?
  - **Skills:** shall the Buyer enrich its own set of skills (e.g. having English-speaking people) to serve the Target's needs?
- **Project delivery** is an area where adaptations may be needed should the Target have specific Business needs or project delivery model (e.g. set-up Agile delivery mode or create a Project portfolio management).
- **IT sourcing maturity** can also be an issue during the vendor assessment and contract renewal. Indeed, should the Buyer have a weak IT sourcing Function, this may cause difficult negotiations between Buyer and Target. For example:
  - Has the Buyer enough power of negotiation with the main vendors to seamlessly manage the Target contracts renewal?
  - How well is organized the Buyer IT sourcing capabilities to cope with wider functional or geographical scopes?
  - Has the Target better contracts than the Buyer?

Key questions related to the Buyer IT cultural model

- At short sight, successfully managing the integration requires to create a "One Team" mindset.
- At mid-term, an integration may durably impact the IT cultural model: posture, overall vision of the IT mission statement… are topics that will be questioned during an integration. For example:
  - Does the Buyer have an IT cultural framework aiming at supporting vision, values, attitudes, communication… for IT people?
  - Has the Target a significantly different IT culture in terms of services or projects delivery, communication, region specificities?
  - To which extent this framework can be deployed to the Target?

Key questions related to the Buyer architecture and technological model

- At short term, the Buyer must ensure it has a sufficient technological vision/roadmap maturity (e.g. journey to the cloud, choices of platforms…), as the Target may have made different structuring choices.
- The Buyer must assess its own technological standardization level. For example:
  - Does the Buyer has a sufficient level of technological standards defined and implemented (digital workplace, cyber-security…) to "seamlessly" drive the integration?
  - If not, the Buyer will need to develop a set of standards in parallel, which will lead to complex situations.
- Last but not least, another area to review is the Buyer IT architecture integration capability and scalability:
  - How effectively are these standards implemented within the Buyer IT?
  - Has the architecture the capability to easily integrate all or some of the Target's systems (e.g. strong API management)?

4. CONCLUSION: EVOLUTION OF RESPECTIVE MATURITY MUST BE DYNAMICALLY ASSESSED

As an integration encompasses two organizations, the end result depends from their respective levels of maturity. Therefore, even if the maturity question is much more pregnant for the Buyer, an integration success relies on a maturity assessment at both sides. As a consequence, our key questions applies both to the Buyer and to the Target, however, having access and getting that analysis done on the latter is a classic pitfall.

Moreover, this should not be limited to a single point of time: indeed, respective maturity levels may change over the integration journey (9-24 months) as Buyer and Target can evolve at different paces.

Consequently, the integration journey will require to be constantly adapted to accommodate for this difference in the maturity evolution pace.

This opens to several other questions to go further:

- How could a Buyer cope with the situation should its own maturity levels be weak?
- How could a Buyer could reconcile its fragmented and decentralized operating model with the centralized model of the Target?
- Once the maturity analyzed, how to define the criteria to define the depth of the technical integration?

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