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The hidden IT multiplier in mergers

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When the gritty work of merging two businesses doesn't go smoothly, talent is quick to flee, legacy systems buckle under bigger loads, and projects drag as resources grow scarce. Indeed, more than half of all acquisitions actually destroy shareholder value, according to independent research, and integration efforts that fall short of the mark are often to blame.

The pattern followed by leaders of successful mergers looks much different: they "follow the money" by targeting those integration opportunities that will generate the most new value; they stress fast implementation over perfection; and they focus most of their resources on keeping the base business running smoothly - particularly early in the transition.

The same principles apply to the critical step of merging two companies' IT operations. Unfortunately, they're not always put into practice. Many merging businesses go only as far as analysing the potential savings of fusing their IT units, through headcount reductions, for example, or economies of scale in purchasing. But companies that stop there miss an opportunity to create much more value for the merged organization - through quick consolidation of customer accounts to give a complete picture of everything that customers are buying, for instance, or integrating ledgers across multiple product lines so executives know what they are managing in the new environment.

The benefits can be enormous, but are often overlooked by integration planners because their value lies outside the IT department. By focusing on three principles - follow the money, speed over perfection and keep the base business running - managers can use IT to hasten and enlarge the total business synergies captured during integration.

Follow the money: It's crucial to define clear expectations of what the union of IT systems is meant to achieve. Consider, for example, the merger between two leading online retailers. Separate systems in each company handled customer account processing and order management - a major source of potential savings from consolidation. The IT organization took its time deciding which technologies should survive, believing that combining the systems would generate only modest IT savings. That assumption proved to be misleading. Once the integration team calculated the economic

impact on the entire business from integrating the systems, they found tens of millions of dollars of operational efficiencies, an order of magnitude greater than the total IT synergies expected. When executives on the transition team realized this, they quickly made the project a priority.

In another situation, direct IT synergies between two merging electronic equipment manufacturers amounted to 11 per cent of the total merger, a typical figure for such savings. Yet, even in this environment, where the synergies are largely created by removing labour costs and gaining scale in purchasing, the business value derived from IT integration contributed another 18 per cent of the cost benefits promised to investors. In this case, the added benefits came from sharing client information to improve the effectiveness of sales and marketing and creating a common management reporting system to deliver more timely feedback.

Speed over perfection: The dollars at stake represent only half the equation. Equally important are the savings in time that IT can deliver during integration. Bringing two organizations together usually presents difficult choices about which IT systems to use for running the business. Some companies have a shared approach to IT architecture and systems, while others have less in common.

In most cases, it pays to pick one IT system or the other - and quickly. From an IT point of view, the CIO should avoid best-of-breed or hybrid solutions. Such an approach often brings hidden costs of complexity, problems with integration and subsequent inflexibility to change. The priority should be to avoid protracted debate about IT integration and to shift focus as quickly as possible to building value in the business, where the stakes are usually higher.

Executives overseeing the recent combination of two manufacturers learned that lesson the hard way, when key IT managers argued they should take the opportunity to

replace their core systems with the "latest" in manufacturing, sales, order management, and inventory planning solutions. Shortly after the switch was thrown on the new application infrastructure, the executives discovered that almost half of their orders were being lost, misdirected, or overlooked by the invoicing process. While the resulting direct cost to the business amounted to tens of millions of dollars, the negative impact on customer satisfaction was far greater.

To hit the ground running, it's useful to determine which projects will yield the most value in the least time. A complete project portfolio review is an important first step. Companies can then begin to screen for "quick hits," such as stopping low-value and redundant projects or coming up with reporting systems that can rapidly integrate data to give a single view of the business. High value projects that have significant risk will also be escalated to a higher priority for management attention.

Keep the base business running: Mergers fail when disruption and change cause erosion in the base business. In this context, taking on large IT integration projects is even riskier than usual: The inevitable bumps in operations can leave room for competitors to steal customer accounts or critical employees. A more effective approach to combining IT operations involves a series of carefully staged interim steps rather than a "big bang" solution.

IT's role in ensuring a smooth transition to merged business operations is the least tangible but arguably the most valuable contribution a CIO and his or her team can make during integration. Senior executives require consolidated financials and key operating metrics to keep the business on track and to ensure the value promised in the merger is fully captured. Managers in charge of merged functions need to see an integrated picture of the business quickly so they can work with a single view of the customer in sales or credit.

The Royal Bank of Scotland, for example, has turned the integration of disparate IT systems into a competitive advantage as it has merged its way into one of the fastest-growing global financial service providers. When RBS acquired NatWest in 2000, many in the industry were sceptical that the banks could successfully join their IT systems. Other banking combinations - notably Wells Fargo's acquisition of its US rival, Interstate - ran into trouble when the costs and complexity of linking legacy back office systems soared.

RBS maintained a relentless focus on seamless operation of the base business during the migration. Because it was simpler and cheaper to operate, the RBS IT system was selected as the base platform over NatWest's system, which was four times larger. Together, the two systems held 18m accounts worth £158bn. The final piece of integration involved shifting NatWest's core ledgers and payments to RBS's system. "I haven't lost any sleep over it," remarked Fred Goodwin, chief executive of the Royal Bank of Scotland. "Any sleep that was lost on IT integration was lost during the bid when we wondered whether we could do this or not."

Merging companies often fail to achieve the full benefits of integrating their IT systems. The key is widening the focus from cost reduction alone to creating new opportunities across the business. IT must continue to support the combined business during the transition while merging operations. But IT teams can also quickly identify projects that will yield the most value in the least time. When they do, IT becomes an unexpected multiplier to the results of the merged business rather than its Achilles heel.

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