

# Foundation for M&A Success: Effective ERP Integration Planning and Execution



# Abstract

Many mergers and acquisitions (M&A) fall short of expectations because organizations underestimate the technological implications. In such scenarios, IT often only gets involved after the deal has been announced. This typically results in overlooking one of the most important technical factors for deal success: integrating both companies' business-critical enterprise applications, in particular Enterprise Resource Planning (ERP) to support the combined entity.

M&A deals aim to create a source of competitive advantage through synergies between the merging organizations. The right strategy for integrating the IT and operating environments, including ERP, sets the direction for weaving the two organizations together in a way that accelerates the desired synergies and provides the market edge they seek.

The key factors to consider in determining the ERP integration approach and plan include alignment with business objectives and strategies, the target operating model design and the supporting IT landscapes.

## ERP integration essential to M&A deal success

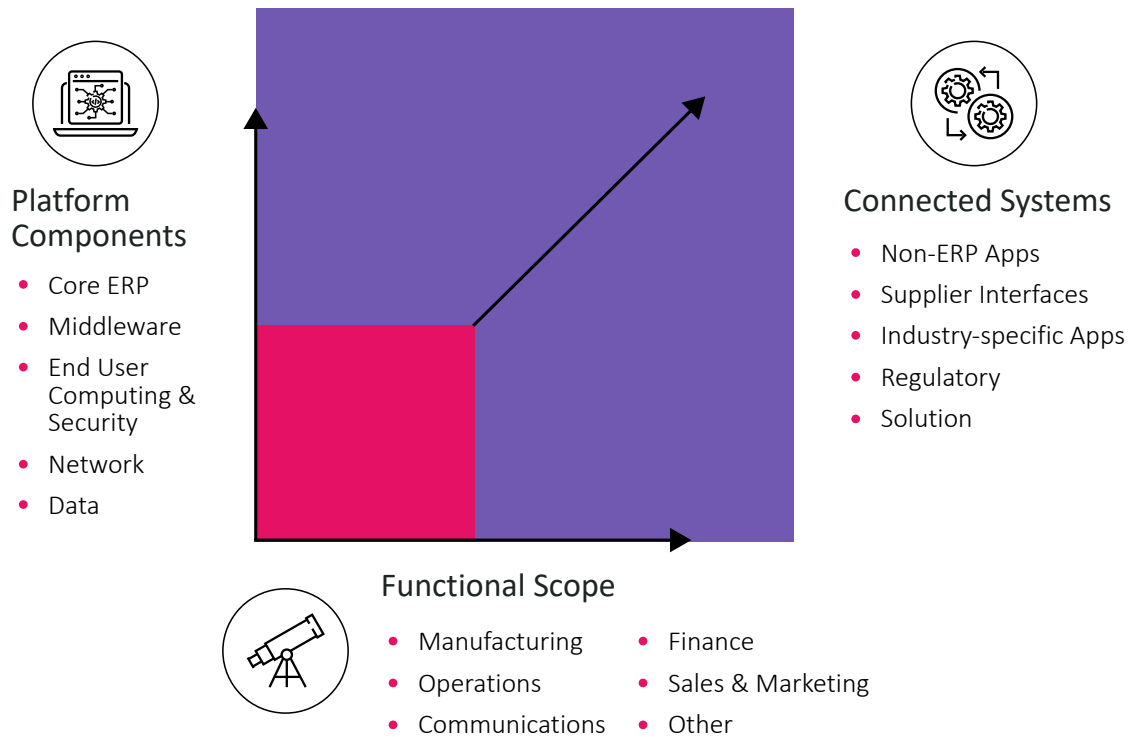
Research over the past few decades continually reveals the majority of mergers and acquisitions (M&A) do not deliver the expected return-on-investment (ROI). Synergy-busting drivers vary, but an area often overlooked is the optimal integration of the buyer and seller's IT landscapes.

According to a Gartner® report, IT spending, including that for digital systems and technology platforms, accounts for **just over 7% of revenue in some industries**.<sup>1</sup> They support both core and non-core operations and form the foundation for reaching an enterprise's growth and profitability goals. Therefore, bringing them together in a way that can deliver the targeted M&A value is essential.

In a **recent survey** commissioned by Tata Consultancy Services (TCS), 11% of CEOs at companies with more than \$1 billion in revenue ranked "technology compatibility/integration" amongst the top challenges to successfully executing an M&A deal, alongside financial and cybersecurity concerns.<sup>2</sup>

**Engaging the CIO and system integration partners early** – during the due diligence phase – can help more accurately assess the complexity of coupling the buyer and seller's IT environments.<sup>2</sup> This then jumpstarts the design of a target operating model and integration roadmap that is consistent with the M&A deal's expected value drivers and timing.

Determining the true size and complexity of integrating IT landscapes begins with a look at the core ERP systems that provide the backbone of most enterprises' IT platforms. That combined with an understanding of the functional scope and volume and variety of other connected systems, as shown in Figure 1, assists in assessing the effort and time needed.



*Figure 1: Determining size and complexity of ERP-based environments*

Correctly evaluating the target architecture of ERP-based environments is fundamental to optimizing the ERP integration roadmap. Good roadmaps articulate not only what to do, but when and how. They also outline the pitfalls of various approaches, estimate running costs and specify technology investments needed to support a better, faster and cheaper M&A integration.

Developing the right ERP integration roadmap for your next M&A deal requires four key steps:

### 1. Aligning to the M&A vision and value drivers

The reason companies engage in mergers and acquisitions is to achieve a specific competitive edge more quickly and effectively than they could by organically building the required assets and capabilities. The rationale behind an acquisition can be anything from plugging portfolio gaps and strategic technology “tuck-ins” to expanding a company’s market share or generating economies of scale and scope.

The business case and rationale or ‘deal thesis’ need to guide everything. Therefore, planning for M&A integration, including ERP, can begin as early as the target screening stage, but must always start once the deal is signed. A cross-functional M&A team first evaluates what each organization’s system can offer to deliver the deal’s desired value. Then the team determines the scope and degree of integration needed between the IT and operating environments, as well as the time and resources required.

The technology choices for the target operating model will depend on the similarity of businesses, expected synergies and existing infrastructure. The more homogeneous both companies’ systems are, the easier and faster they will be to integrate.

Engaging key stakeholders early on is essential to effectively communicating the deal thesis and determining the path forward leveraging a value-based integration approach. Inclusion of critical customers and value chain partners ensures people, processes and systems are brought together more efficiently and deliver superior shareholder value gains.

## 2. Paving the way with good due diligence

According to a recent TCS survey, a **full third of companies considering mergers and acquisitions in 2021** say conducting due diligence is the greatest challenge they face.<sup>2</sup> This is not surprising when you consider the confidentiality involved and the expertise needed to assess the multiple business strands and technologies interwoven with the ERP environment.

If the requirements for a successful ERP integration are not adequately considered during the pre-sign phase (see Figure 2), this could result in unrealistic synergy expectations or underestimating costs and time. Further, it may impact negatively on customers, supply chain partners and employees, affecting growth, profitability and staff retention.

While ERP on its own cannot make an M&A deal successful, not taking it into account can certainly harm value realization or, at worst, prevent the buyer from finding and signing a deal with a more suitable target.

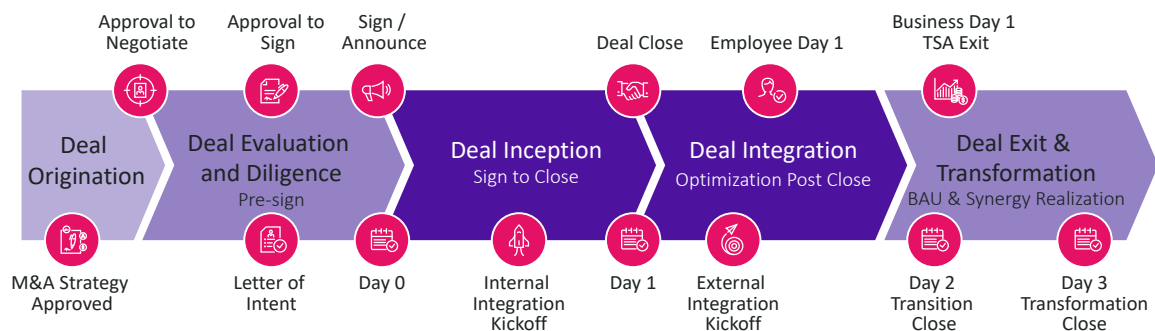


Figure 2: The mergers and acquisitions life cycle

The M&A team needs to have a 360-degree view of the target operating model and enabling IT landscape. This comprehensive perspective must reflect the core ERP system and connected applications to be retained, as well as those to be licensed or developed to support the merged organization. Good preparation during due diligence allows for more realistic expectations along the M&A life cycle. It further reduces the chance for operational surprises and enhances the ability to effectively address risks to timelines, costs and business outcomes.

In one example from TCS' experience, an inadequate ERP assessment during due diligence led to a delay of Day 1. A costly multi-team effort was then required to produce the analysis and documentation needed to enable the pre-close planning and post-close integration. Though only budgets were impacted in this case, suboptimal due diligence can result in negative reputational and severe ROI impacts.

Given that companies increasingly work as part of economic ecosystems, M&A teams can benefit from involving their core suppliers and partners early on. Trusted external parties can pick up part of the workload and reduce demands on specialized buyer and seller resources.

## 3. No one size fits all

While there is no silver bullet for successfully integrating the ERP and larger IT environment, three well-recognized levels of M&A integration exist: full, partial, and low to none. Each of these levels may be served by a sliding scale of four approaches (see Figure 3):

- **Fully absorbing** the seller into the buyer's system landscape;
- **Integrating only the back-office systems** while keeping individual customer-facing front ends;
- **Hybrids** that select the best from both the buyer and the seller; and
- **Stand-alone with minimal to no integration** of the seller's IT.

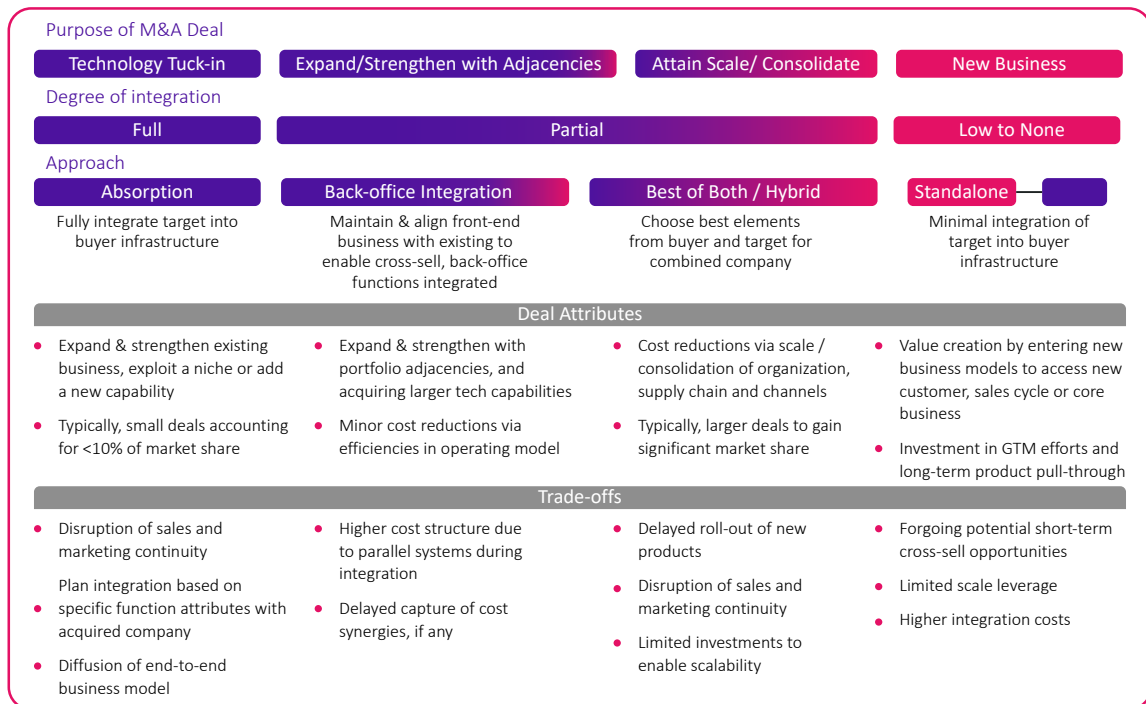


Figure 3: ERP integration approach variations

Making the right choice between the approaches depends on a range of criteria. The most obvious is the **size of the buyer versus the target**. If the buyer is large and the seller is small in comparison – for example, a niche market player – full absorption into the buyer’s ERP landscape is often the best option, notwithstanding the other factors below:

- **Nature of both organizations’ business:** Here the main criteria revolve around the similarities of the two companies across multiple dimensions, for example:
  - **Impact on customers:** The top consideration of any M&A deal is reducing the negative impact on customers. ERP systems need to remain online for as much of the integration as possible, as businesses cannot afford unnecessarily long outages or extended overlaps between old and new systems.
  - **Brand influence:** The acquired company may need to keep a unique identity to preserve customer relationships or leverage existing brand equity. A good example is a marketing agency network like WPP, which has maintained the individual identities of its acquisitions.
  - **Proximity of the two businesses:** If the buyer and seller are not in the same industry, the former may not have the appropriate systems to support the seller’s business. For example, a retail company typically does not have systems to manage a manufacturing operation. Similarly, private equity companies, which accounted for around **a quarter of total global M&A deals last year**, typically have no ERP capabilities.<sup>3</sup>
  - **Country-specific nuances:** Such things as legal entity optimization and integration strategy and supply chain variations may prevent full integration.
- **Degree of standardization:** While technology choices strongly depend on the definition of the target operating model, the more homogeneous both companies’ ERP landscapes are, the easier and faster they will be to integrate. And the same goes for the degree of data harmony and similarity in connected applications.
- **In-flight programs:** Some or all strategic technology and operational improvement initiatives already ‘in flight’ may need to be prioritized over integration, which typically takes 12-18 months.

- **Extent of outsourcing:** The more an ERP landscape is outsourced and the more comprehensive the outsourcing services are, the more the integration can depend upon partners to assist. Outsourced supplier expertise can reduce risks and limit the demands on in-house resources “driving the car while its wheels are being changed”.
- **Exit strategy:** If the buyer intends the acquisition to become a part of the core business, a higher level of ERP integration may be warranted. If the plan is to sell the acquired assets as an independent concern in the medium term, then keeping its ERP landscape as a standalone entity may be the right choice.

All of these factors and more underscore the complexity and strategic importance of completing a comprehensive ERP assessment to optimize the integration roadmap. This may explain why **almost 50% of CEOs** of companies with more than \$1 billion in revenue say they bring in an M&A consulting or systems integration partner for operational due diligence.<sup>2</sup>

#### 4. Balancing transition and transformation through M&A

While rationalization of applications may be needed, or new organizational structures reflected in the IT environment, attempting to transform the buyer’s ERP landscape before transitioning the seller is often not advised. Even small-scale acquisition integrations can be highly intricate, making transition and transformation virtually impossible to achieve at the same time. Keeping transition and transformation separate is about delimiting risk and speeding up the post-merger integration process. That way, tight deadlines for deal completion can be met and desired outcomes achieved more quickly.

That said, cases do exist where the buyer and the seller may opt for a two-stage integration strategy, which involves a wider transition and transformation program. For example, a seller divesting part of its business might create a ‘Spin-Co’ to separate the assets concerned from the parent company, including their ERP and move it to the cloud. Such ‘Spin-and-Merge’ strategies mean that the seller offers the Spin-Co in a transformed state that will speed integration.

## Fortune favors the prepared

Companies are increasingly realizing how important addressing ERP integration is to a successful M&A journey and ultimately corporate resilience. By thinking about ERP and the wider IT landscape at a much earlier stage than has traditionally been the case, the two merging organizations can:

- Ensure that corporate development strategies and IT visions are aligned, creating a source of competitive advantage;
- Allow integration strategies to support product and service portfolios more comprehensively;
- Make more informed decisions to support key value drivers through effective IT and ERP resourcing and budgeting;
- Find the best ways of consolidating ERP systems, where necessary, while reducing the time and cost of the post-merger integration process;
- Capitalize upon supply chain and strategic vendor relationships to boost agility and to optimize resources;
- Accelerate the realization of the M&A deal’s vision and desired synergies, fostered by early and consistent stakeholder engagement; and
- Enhance the chance of a successful integration ahead of wider corporate transformation programs.

As the saying goes, fortune favors the prepared. By giving early attention to ERP integration, progress through the different M&A stages can be smoothed. And the ultimate goals that drive the deal can be realized more quickly to the benefit of customers, shareholders, employees and partners.

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[1] “2020 Gartner, IT Key Metrics Data 2021: Industry Measures — Executive Summary”. GARTNER is a registered trademark and service mark of Gartner, Inc. and/or its affiliates in the U.S. and internationally and is used herein with permission. All rights reserved.

[2] “Deal-making in the Digital Era: Purpose, Planning & Commitment”, Tata Consultancy Services and *Chief Executive*, April 2021

[3] 1Q21 Global & Regional M&A Report, Mergermarket, April 2021

# About the authors



**Stuart Wilson**

Stuart Wilson is a senior partner and leader in TCS' M&A Services, bringing 25 years of experience planning and delivering enterprise transformation programs in large organizations around the world. These large-scale complex programs of change have been predominantly SAP-led, in a variety of industries (oil and gas, travel and transportation, utilities, CPG, etc.) and functional areas (finance, supply chain, procurement, manufacturing). His strengths include enterprise transformation, process improvement, global delivery, IT strategy, stakeholder management, contract management, dispute resolution and SAP programs.



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Abhijit Avsarkar leads the SAP M&A portfolio for TCS North America. He has over 25 years of SAP experience in partnering with clients to simplify, strengthen and transform their business by defining sustainable business transformation ERP strategy and driving execution based on business value realization. His expertise includes post-merger integration and post-divestiture carve-out program strategy, target architecture design, business and IT stakeholder management, planning and execution of large-scale M&A initiatives, and enablement of intelligent enterprise using innovative digital solutions such as conversational bots, RPAs, cognitive automation and advanced analytics.



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Courtney Wood is the director of thought leadership for M&A Services. Courtney has spent over 25 years in management consulting, supporting both large and early stage enterprises in producing meaningful business outcomes by developing the right business strategies as well as aligned 'people, process, and technology' constructs and roadmaps to realize their transformational goals. Prior to consulting, Courtney spent four years in commercial lending and investment banking, and earned an M.B.A. from Columbia Business School.

## To know more

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