Insight overview

The benefits and pitfalls of merging two organisations' technologies

Exploring the five pivotal considerations of technology integration when acquiring an organisation to leverage existing technologies and exploit acquired technologies to deliver value.

Over the past decade the rise of digital native organisations has captured the attention and imagination of investors and traditional firms alike. Their high valuations, ability to rapidly move into a market and deliver products and services to consumers quicker than ever before have set new benchmarks for agility and innovation.

In our experience many traditional organisations have realised by now that digital transformation is inevitable but changing older complex systems that have organically grown over the years into a "spaghetti" of customised entangled technology solutions is not easy to transform. Nor is the people and culture of a hierarchical organisation with rigid rules and principles. The alure of buying a digital organisation that can catapult them forward on their digital journey with innovative technologies and platforms have moved many to scour the market for those unique partners where merging can create value and agility. This is particularly relevant in a Private Equity (PE) environment where acquisitions can be a key part of an organisation's growth strategy.

The financial benefits are identified and quantified through the initial process; cross-selling opportunities, new markets, synergies in products or services, reduction in operating cost just to name a few. But, when it comes to integrating the technologies of the organisations, to enable all these benefits, a clear roadmap, deeper analysis, and understanding is needed.

When considering the integration of different organisational technologies, the following points must be taken into account to guide the post-merger integration process.

It is clear through the engagements with our clients across multiple industries that without a clear vision and roadmap for the integration of the technologies, full business integration is not possible, which means the full potential of the deal cannot be realised. A technology strategy must be created that aligns to the new organisation's business strategy and vision. As part of the technology strategy there needs to be a clear understanding of how and what will be integrated between the two organisations. Based on a two-by-two matrix, with business process integration on one axis and business process standardisation on the other, integration principles can be developed ranging from diversification to unification.

Unification moves the organisation to a fully integrated single entity at a technology level, with high business process integration and standardisation. There are centralised services, and, in most circumstances, the acquired organisation moves fully to the acquirer's infrastructure and systems, except for those situations where the acquired organisation has technology that can be scaled and is a competitive advantage for the new organisation to move towards. In most cases this is the ideal state, but scalability of infrastructure and platforms and the costs are a big consideration. Another factor that could influence this decision is the long-term prospects of the organisation in its current state i.e., is it part of a Private Equity cycle to be sold in the future or is the view to build a resilient future organisation.

When acquiring another organisation to integrate into your business, it is key to consider the cultural fit and the ways of working. Considering a traditional organisation purchasing a move entrepreneurial business, there will inevitably be clashes on how and when money is spent. When a start-up is looking to scale, the difficulty moving from a small team of like-minded individuals to a larger organisation with more standardised processes and procedures can cause the key individuals to leave, which can cause a gap in knowledge and skills. Creating a clear and transparent dialogue with the senior stakeholders and key individuals, even during the due diligence process, will build support when the difficult decisions are made to spend money on the technology integration. We have experienced many instances, with our clients, when the initial cost and effort of IT integration has been vastly underestimated.

Key to a successful integration is to move the shared / corporate services to a single platform for the newly formed organisation. This has two broad advantages; it provides the opportunity to consolidate the resources, technologies, licenses, and support across both the technology and the corporate teams. Secondly, it moves the organisation forward in creating a centralised function for the day-to-day activities which helps to build a sense that this is now a single organisation. However, it is important to consider the implications of this from a technology perspective. Are there enough licenses available? Are the current systems scalable to incorporate the acquired business? Do you have enough support capability and capacity, either internally or provided by a third-party? What will be the contractual impact with your current providers?

We found that one of the major reasons for an acquisition with our clients is the opportunity to leverage the combined data of both the organisations and the ability to cross-sell to clients. Critical in enabling these elements is ensuring the data is correct, governed, and readily available to derive insights to create value. Your organisation will possibly already have a data strategy, but it needs to be re-evaluated to confirm that it is robust enough to incorporate the new data and there are clear policies and procedures in place to utilise it – this can be a difficult and costly effort if not done properly. Our advice is to take more time to get it right the first time. The value will be exponential if the organisation can leverage the data correctly or it could turn into a manual process with multiple versions of the truth scattered across the business.

In summary:

- Do you have a clear technology integration strategy?
    - global standardisation (single business with global processes and data),
    - shared wisdom network (independent, but similar business units sharing best practices),
    - specialised autonomy (independent units with different customers and expertise),
    - interlinked enterprises (unique business units with a need to know each other's transactions).
- Ensure senior stakeholder buy-in, transparency is key – especially the cost of untangling the customisations and integrating (can be up to 10x more than initially expected).
- Consider how agile your organisation is to move quickly and adapt to change.
- Focus on corporate services first: People, Finance, Procurement to quickly bring the people of the organisations together.
- Focus on data basics: Get your data integration right the first time, by having a data strategy that will enable the organisation to extract value continuously.

In acquiring an organisation, it is pivotal that the considerations around technology integration are considered as early as possible in the due diligence process, through the establishment of clear principles and the involvement of all the key stakeholders. This paves the way for a successful integration of the two organisations that will create sustainable value and, if so desired, make the new organisation more attractive for possible future mergers and investment.

If you would like to speak to one of our experienced consultants regarding this insight, email us at contact@masonadvisory.com or call us on +44 (0)333 301 0093.

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About Mason Advisory

Mason Advisory has offices in Manchester and London and employs over 100 staff, with plans to continue its expansion. We enable organisations to deliver value through digital & technology transformation, solving complex business challenges, and helping clients set strategy through the intelligent use of IT resources including architecture, cyber, data, digital, operating model and organisational design, service management, and sourcing. We operate in sectors such as financial services and insurance, legal and law, government, health and social care, emergency services, retail, FMCG, transport, and not-for-profit.

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