The CIOs Role in Mergers and Acquisitions

Andy Rowsell-Jones
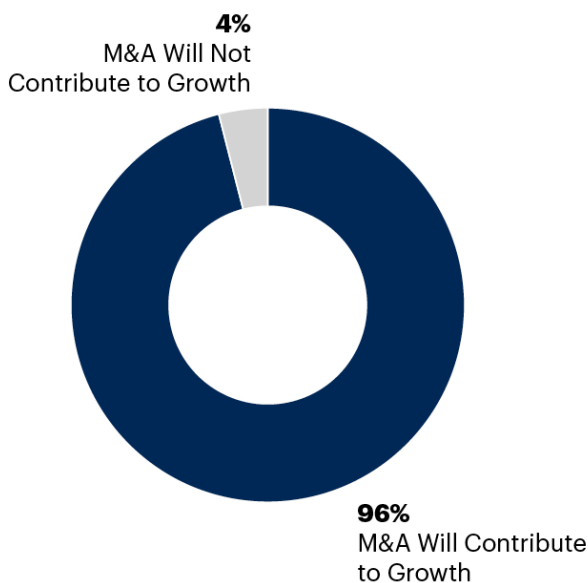
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M&A Remains a Growth Engine for Most Enterprises

Proportion of Companies Expecting Top-Line Growth to Come From M&A Over the Next Five Years
Percentage of Respondents

4%
M&A Will Not Contribute to Growth

96%
M&A Will Contribute to Growth

n = 209, Corporate business leaders who lead, participate in or influence their company's investment and strategy decisions, excluding "not sure"

Q: Over the next five years, what proportion of your company's top-line growth do you expect to come through acquisition (M&A)?
Source: 2022 Gartner Understanding Corporate Growth Strategies Survey
Note: Statistics are approximations from the midpoint
787049_C

Source: M&A Remains a Growth Engine for Most Enterprises (G00787049)

Proportion of Company's Top-Line Growth Expected to Come From M&A Over the Next Five Years
Percentage of Respondents

Mean Revenue Growth Expected From M&A: 16%

	None	Less Than 10%	10% to Less Than 25%	25% or Above
	4%	24%	54%	18%
	Zero M&A Target	**Low** M&A Target	**Medium** M&A Target	**High** M&A Target

n = 209, Corporate business leaders who lead, participate in or influence their company's investment and strategy decisions, excluding "not sure"

Q. Over the next five years, what proportion of your company's top-line growth do you expect to come through acquisition (M&A)?
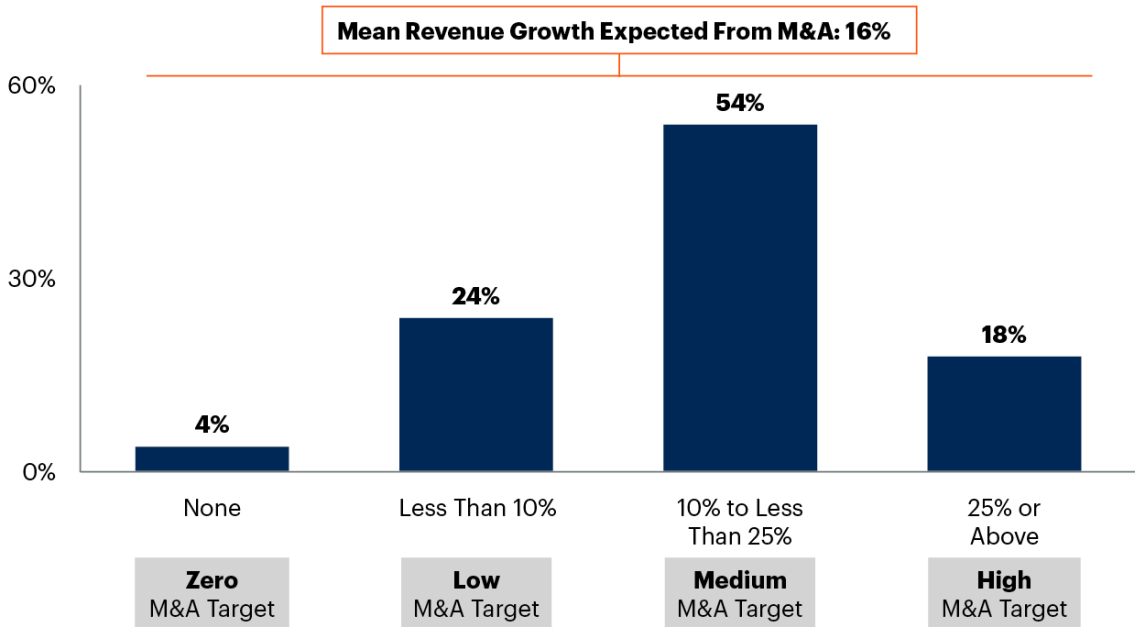Source: 2022 Gartner Understanding Corporate Growth Strategies Survey
Note: Statistics are approximations from the midpoint
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IT Matters to Deal Success

| M&A Strategy "Make a Buy or Sell Decision" | M&A Transaction Execution "Do the Deal" | M&A Integration and Operations "Conduct Postclosing Operations" |

Percentage of Respondents

■ IT involved in Stage ■ IT not involved in stage

Strategy

19%

81%

Execution

41%

59%

Integration

18%

82%
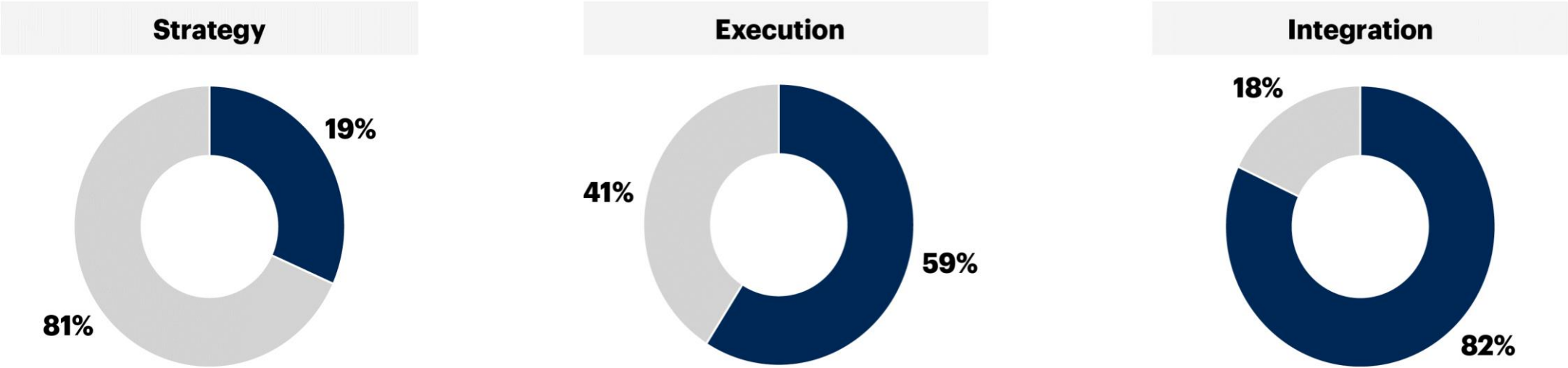
n = 125-126; M&A leaders, excluding none

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M&A Case Example: Retail

Teams and Individuals Leading M&A-Related IT Integrations

Business Integration Team

CIO

Business Integration Team

IT Team Managers

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M&A Case Example: Pharmaceuticals

Teams and Individuals Leading M&A-Related IT Integrations

IT Integration Team

- IT Executive Sponsor
- Community of Practice
- ACD Extended Community
  - ACD Team
  - ACD Reps
- External PMO Vendor
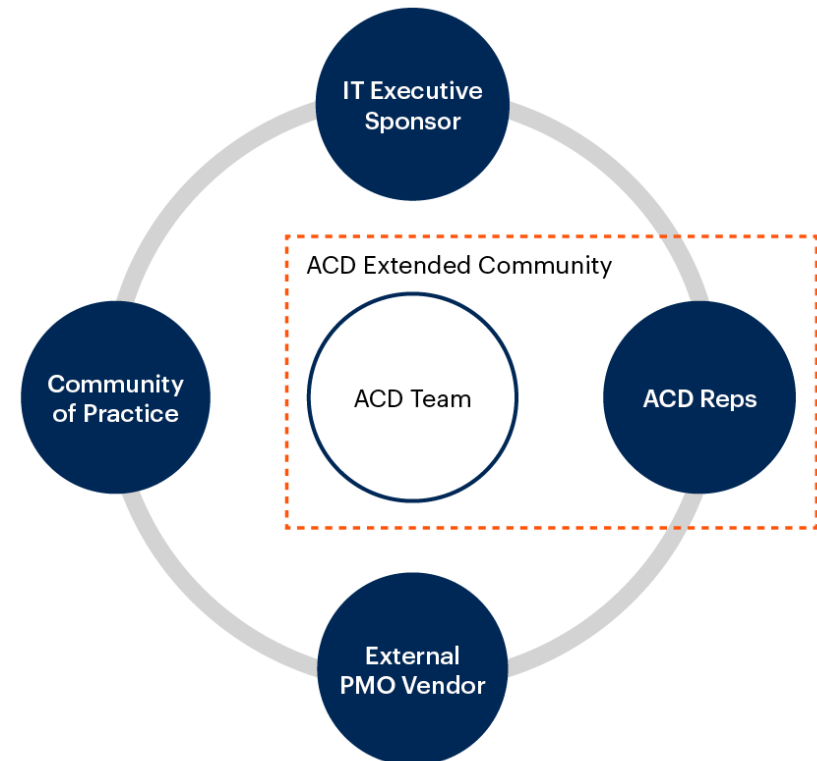
Acquisitions, collaborations and divestitures (ACD) team leads and subject matter experts ("ACD representatives") such as IT infrastructure, IT legal...

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Key Issues

- What are typical roles for CIOs in M&A?

- What could possibly go wrong (and how to prevent it)?

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Key Issues

- **What are typical roles for CIOs in M&A?**
- What could possibly go wrong (and how to prevent it)?

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The Role of IT in M&A

Phase ▶ Action ▢ Activity ▢ Key IT Focus Area ▢

M&A Strategy "Make a Buy or Sell Decision"		M&A Transaction Execution "Do the Deal"				M&A Integration and Operations "Conduct Postclosing Operations"	
Discovery	Targeting	Valuation	Due Diligence	Planning and Preparation	Negotiation and Closing	Realizing Synergies	Measuring Results
Portfolio Evaluation	Target Identification	Build Business Case	X-Functional Process	Integration Planning	Definitive Agreements	Revenue and Cost	Governance
Capital Allocations	Manage Target Pipeline	Valuation Methods	Refine Business Case	Define Success Metrics	Required Approvals	Productivity	Track and Report vs. Plan
Market Assessment	Select Target	LOI/Term Sheet	Report Results	Comms Plans	Announce	Culture	Lessons Learned

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M&A Strategy Phase

M&A Strategy
"Make a Buy or Sell Decision"

Discovery	Targeting
Portfolio Evaluation	Target Identification
Capital Allocations	Manage Target Pipeline
Market Assessment	Select Target

Role of IT Executive Leader

- Be an active participant — stay informed.

- Ongoing pipeline visibility.

  - Resource plan for the anticipated load.

  - Optimize due diligence.

- Techquisition: identifying digital capability as required.

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Identify Strategic Capability Gaps
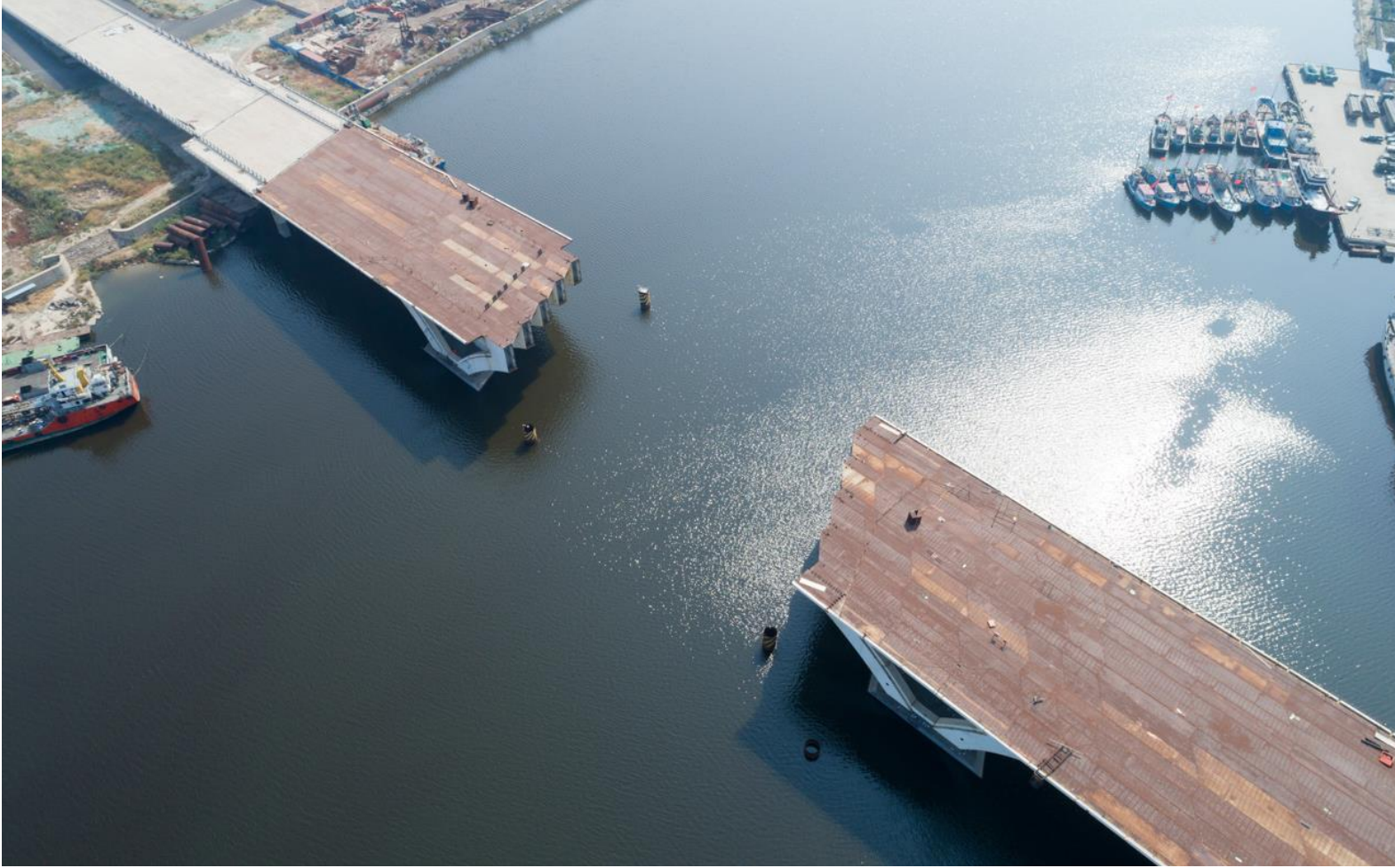
- Product or Service
- Customer
- Channel or Region
- Digital Capability
- Talent
- New Business Model
- Adjacency
- Financial

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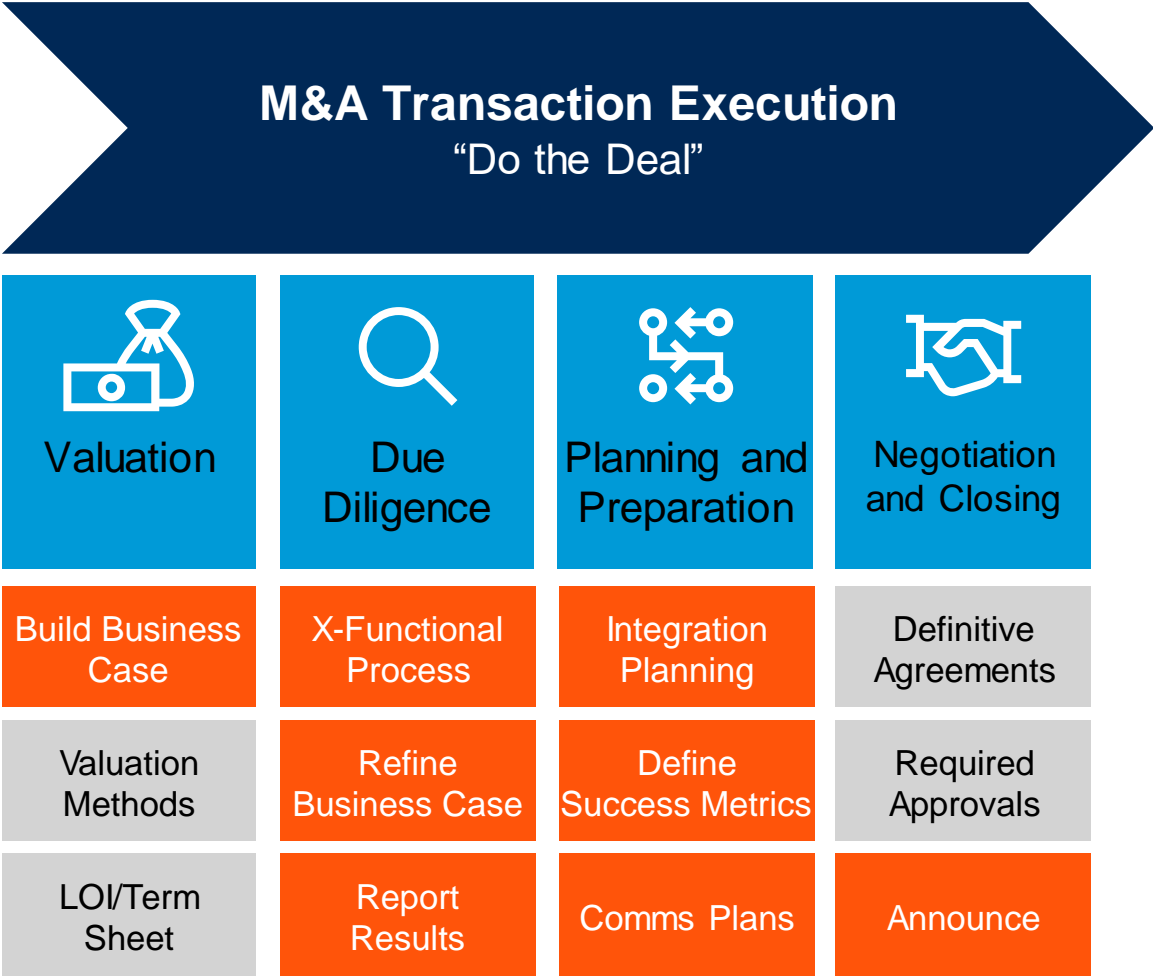# M&A Transaction Execution Phase

M&A Transaction Execution
"Do the Deal"

Valuation	Due Diligence	Planning and Preparation	Negotiation and Closing
Build Business Case	X-Functional Process	Integration Planning	Definitive Agreements
Valuation Methods	Refine Business Case	Define Success Metrics	Required Approvals
LOI/Term Sheet	Report Results	Comms Plans	Announce

Role of IT ELs

- Pre-LOI due diligence.

- Core functional due diligence.

- DD findings for the business case and definitive agreement terms.

- Integration planning preclose.
  - Integration approach
  - Success parameters
  - Communications

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IT Due Diligence Considerations

"You won't get all the answers before closing." ▶
- Focus on what's available and what you really need to know.
- Identify what you need post close.

"Analyze before you act." ▶
- Take the time postclosing to complete your due diligence and issue a formal report.
- Finalize integration roadmap once due diligence is complete.

Focused due diligence will ensure that synergies are maximized and risks mitigated.

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M&A Integration Phase

M&A Integration and Operations
"Conduct Postclosing Operations"

Realizing Synergies	Measuring Results
Revenue and Cost	Governance
Productivity	Track and Report vs. Plan
Culture	Lessons Learned

Role of IT

- IT is the "glue" to all cross-functional areas of acquisition integration.

- Integration team and plan.

- Enabler of revenue, cost, productivity and culture synergies.

- Set-back schedule is tracked and reported vs. plan.

- Post-integration learnings following each new M&A.

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Integration Best Practices

Clarity on Deal Drivers and Integration Approach

Integration Management Office (IMO)

Dedicated Workstreams (IT, Finance, HR, etc.)

Integrated Roadmap and Plan Across Streams

Change Management Plan

Communications Plan

Progress Tracking and Reporting

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Key Issues

- What are typical roles for CIOs in M&A?
- What could possibly go wrong (and how to prevent it)?

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3 Common Failure Points

- Post-deal software license expenses not optimized.

- Transition Service Agreements (TSA) are not well managed.

- Assessment of Techquisitions lack technical expertise.

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Post-deal software license expenses not optimized.

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M&A Creates Vendor Leverage

Common software and SaaS contract problems

- Define only affiliate use rights but fail to define the cost and process of new affiliate onboarding.

- Omit or have insufficient transitional use rights.

- Lack of license assignment rights resulting in over-licensing for sellers.

M&A activity can trigger software and SaaS license audits, exposing liabilities for additional fees.

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Get Contracts Ready For M&A (Items for Due Diligence)

Software and SaaS contracts ready for M&A
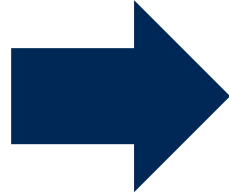
✓ Negotiate license audits and use verification rights that provide ample notice of a vendor audit.

✓ Prepare for a vendor audit by working closely with your software asset management team by running internal license compliance verifications.

✓ Ensure affiliate onboarding costs are consistent by negotiating definitions, use rights, onboarding processes and onboarding costs for affiliates.

✓ Ensure license metric definitions apply only to the entities using the software to avoid mandatory merger-and-acquisition-driven true-up costs.

✓ Negotiate adequate transitional service periods and minimize the cost of assigning licenses during divestitures.

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Involve Sourcing, Procurement & Vendor Management Sooner

Timeline: Undefined — — — — — — — Two to Three Months — — — — — Six to 24 Months — — —

M&A Strategy
"Make a Buy or Sell Decision"

M&A Transaction Execution
"Do the Deal"

M&A Integration and Operations
"Conduct Postclosing Operations"

Involve SPVM Leaders Sooner

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Involve sourcing, procurement and vendor management sooner in license negotiations.
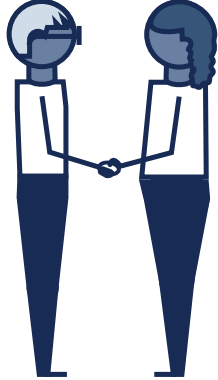
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Transition service agreements (TSA) are not well managed.

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Transition Service Agreement (TSA) Costs:

The cost incurred when a buyer contracts the continuation of certain services such as computer systems, access to shared services, access to knowhow, from the seller.

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TSAs Are Common and Impact Deal Value

Buyer   **Seller**

- Designed to cover the "transition" period of transfer of control from the seller to the buyer.

- Typically include access to IT services, other shared services, HR, process know-how …

- Typically contracted for up to two years with early termination and extension clauses (software is commonly contracted for one year with four optional three-month extensions giving up to two years TSA if necessary).

- Typically invoiced monthly with penalties for late payment.

- A source of governance problems as integration responsibility and operational responsivity diverge.

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Sample Governance: Structure

Structure			Scope of Responsibilities	Activities
Executive Sponsor	Seller Executive Sponsor [Insert Name]	Buyer Executive Sponsor [Insert Name]	Accountable for the overall management of TSA services.	• Ensure that TSA service levels received/provided are adequate to run the business. • Resolve TSA-related issues escalated by TSA managers. • Review periodic status updates with the TSA managers.
Management Level	Seller TSA Manager [Insert Name]	Buyer TSA Manager [Insert Name]	Responsible for the oversight of TSA services and issue management.	• Provide day-to-day leadership and decision making for TSA activities. • Resolve TSA service-level issues escalated by service-level process owners. • Collect, consolidate, and manage status reporting and milestones. • Coordinate monthly invoicing and billing.
Service Level	Seller Process Owners for TSA Services	Buyer Process Owners for TSA Services	Responsible for all TSA services within their function or region.	• Provide regular updates on status, issues, requested changes and exit timelines. • Develop and review the TSA exit and transition plans with counterparts. • Conduct initial issue resolution with their counterparts with respect to their assigned services. • Identify and facilitate TSA change to support business continuity.

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Sample Governance: Change Request Process

- The change request process will track changes to the scope, duration and cost of TSA services during the transition period. Potential requests include:
  - Change in duration.
  - Change in service scope and cost.
  - New TSA service.

- Standardized change request forms will be used to communicate change requests between seller and buyer leadership and submit for final approval.

- A central issue log will be maintained by the TSA managers to track change requests and related approvals.
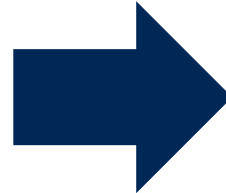
	Step	Owner
1	Identify the need for TSA service change.	Service level process owners.
2	Agree on change request.	Service level process owners.
3	Complete TSA change request form.	Service level process owners.
4	Review and approve/reject request.	Service level process owners.
5	Submit change request to TSA managers.	Service level process owners.
6	Approve or reject request.	TSA mgr./exec sponsor.
7	Update TSA service schedule.	TSA mgr./exec sponsor.

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7 Best Practices in Transition Services

Buyer   **Seller**
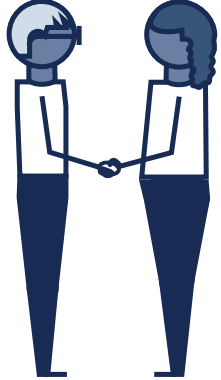
1. Establish clear, scalable mandatory services.

2. Define unambiguous optional services.

3. Agree on reasonable, properly monitored service levels.

4. Establish effective service management and escalation mechanisms.

5. Implement auditable, legally compliant information security measures.

6. Agree on clear protocols for service extension and termination.

7. Define service costs and changing mechanisms thoroughly.

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Apply seven best practices to TSA management.

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Assessment of techquisitions lack technical expertise.

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Techquisition:

A type of acquisition where a traditional company acquires a digital-born company with the goal of transforming their conventional business model with new digital capabilities.

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Traditional acquisition —hotel chain buys another hotel chain —Marriott acquires City Express.

Techquisition —farm equipment manufacturer buys robotics company —John Deere.

GROWTH & DEVELOPMENT

Marriott International to Acquire City Express Brand to Fuel Growth in Affordable Midscale Segment

OCTOBER 19, 2022 — BETHESDA, MD

Marriott poised to become the largest hotel company in the Caribbean and Latin America, expanding its presence significantly in secondary and tertiary markets in the region
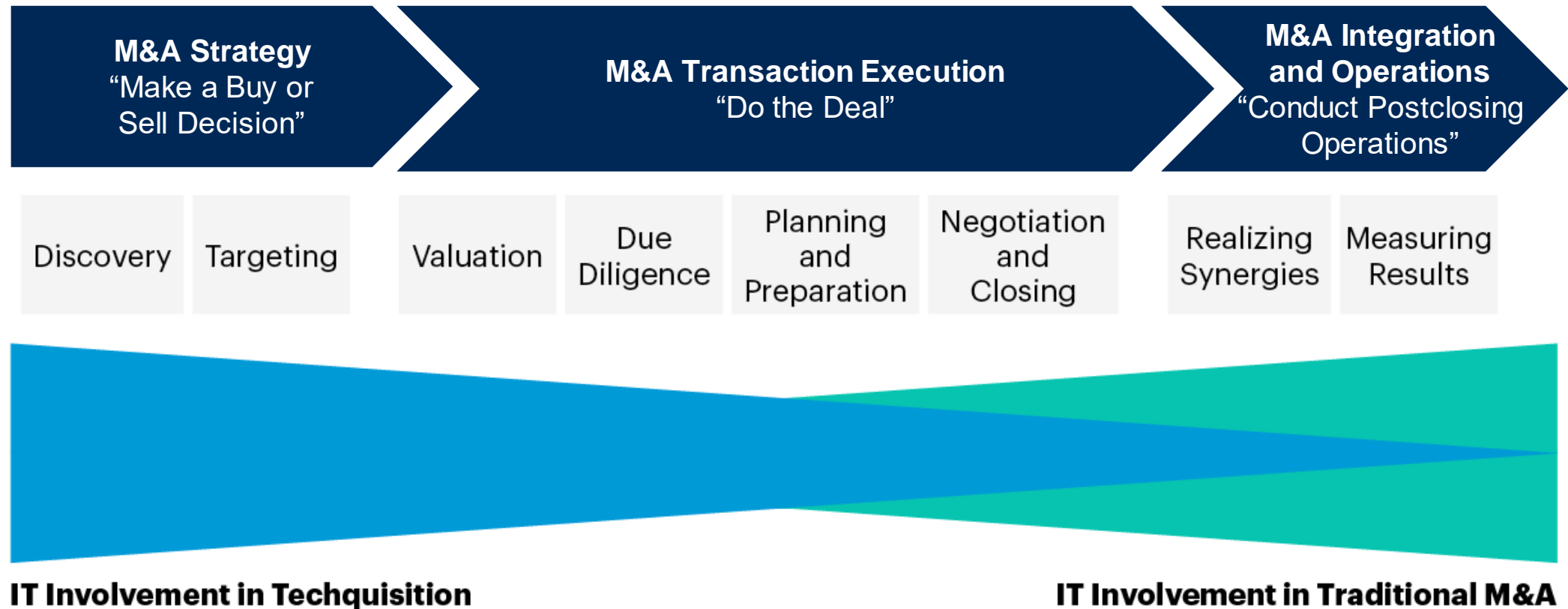
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Techquisition Risk Profile

The Techquisition Process Must Involve IT Leaders Early On

M&A Strategy
"Make a Buy or Sell Decision"

M&A Transaction Execution
"Do the Deal"

M&A Integration and Operations
"Conduct Postclosing Operations"

| Discovery | Targeting | Valuation | Due Diligence | Planning and Preparation | Negotiation and Closing | Realizing Synergies | Measuring Results |

IT Involvement in Techquisition

IT Involvement in Traditional M&A

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Implications for CIOs

	Traditional	Techquisition
CIO main involvement.	Late: During integration planning.	Early: During targeting.
CIO role in DD focus.	General IT issues.	Business model and IP.
CIO role in integration planning.	IT-related.	Business model and IP related.
CIO role in post merger integration.	IT-related.	Business model and IP related.

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Involve technical expertise earlier when assessing a potential techquisition.

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Key Issues

✓ What are typical roles for CIOs in M&A?

✓ What could possibly go wrong (and how to prevent it)?

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Recommendations

Avoid Three Common Failure Points:

- ⊘ Involve sourcing, procurement and vendor management sooner in license negotiations.

- ⊘ Apply seven best practices to TSA management.

- ⊘ Involve technical expertise earlier when assessing a potential techquisition.

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Gartner Recommended Research

🔍 [M&A Remains a Growth Engine for Most Enterprises](#)
Andy Rowsell-Jones

🔍 [4 Approaches to Prepare for M&A-Related Integrations](#)
Andy Rowsell-Jones and Kevin Bowling

🔍 [Tool: Transition Services Agreement Workbook](#)
Mark Carroll

🔍 [Mastering Transition Services in Divestitures](#)
Chris Ganly and Mark Carroll

🔍 [5 Steps to Divest Like the Best](#)
Mark Carroll and Chriss Ganly

🔍 [Save Millions($) in License Costs by Preparing for M&A-Driven Software Negotiations](#)
Jan Cook, Dolores Ianni and Other

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