IT INTEGRATION FOR Mergers AND ACQUISITIONS

EMC IT’s integration best practices to achieve profitable growth and broader competitive reach

ABSTRACT

Developed to optimize the business benefits of an active mergers and acquisitions strategy, this white paper outlines key objectives and guiding principles for IT integration diligence, planning, and execution.

It is intended for IT executives, architects, designers, and consultants who are responsible for merger and acquisition IT integration efforts.

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# TABLE OF CONTENTS

- EXECUTIVE SUMMARY ........................................................................................................4
- INTRODUCTION .........................................................................................................................5
- SETTING THE COURSE WITH DUE DILIGENCE .................................................................6
- DEFINING THE INTEGRATION STRATEGY ..............................................................................6
- ESTIMATING MODELS AID PLANNING ..................................................................................7
- FINALIZING THE PLAN OF RECORD .....................................................................................8
- SETTING UP A GOVERNANCE MODEL ..................................................................................8
- BUILDING OUT AND REFINING INTEGRATION PLANS .......................................................9
- COMPLETING THE GOVERNANCE MODEL ...........................................................................10
- INTERIM-STATE PROCESSES DRIVE IMMEDIATE VALUE ...............................................10
- EXECUTION GUIDED BY A PROVEN INTEGRATION METHODOLOGY ......................................11
- STREAMLINED EXECUTION THROUGH PROPER GOVERNANCE .........................................13
- AN EVOLUTIONARY PROCESS ............................................................................................13
- MAKE EMC’S SUCCESSFUL TRACK RECORD YOUR OWN ...............................................13
THE VALUE IN BRINGING IT IN EARLY

Bringing in a dedicated IT M&A integration team just after the letter of intent is signed by a potential acquisition is a best practice for EMC. Because IT integration is core to any M&A integration effort, the team’s presence helps broaden the conversation and illuminate potential areas of opportunity as well as operational challenges and financial risks.

The benefits of leveraging IT M&A integration due diligence efforts early on will provide M&A stakeholders with:

- **Clear intent/strategic objectives**: the business value to be derived from the acquisition is explicitly articulated in measurable terms and is clear to everyone involved.

- **A greater understanding of the effort and expense required**: what it’s going to take to migrate a company, division, or even product line over to EMC from a time and financial perspective.

- **The establishment of a Governance Model**: high-level details about the roles and responsibilities necessary to successfully manage IT integration efforts.

EXECUTIVE SUMMARY

For nearly a decade EMC has been engaged in a highly active Mergers and Acquisitions strategy (M&A) that has encompassed ~70 acquisitions, and enabled the company to evolve into the industry’s foremost information infrastructure provider. In that time, EMC® has acquired and leveraged specialized technology, innovation, and talent complementary to its own; significantly expanded its portfolio of product, service, and solution offerings; and tapped into new markets. This influx of acquired resources has helped contribute to EMC’s record growth and strengthened its competitive stance, enabling the company to more fully address its customers’ information management challenges in an increasingly dynamic and connected world.

Playing a fundamental role in EMC’s overall M&A integration strategy during this period, EMC IT accumulated considerable expertise surrounding the technical and operational aspects of the integration process. A specialized EMC IT M&A integration team began working together, developing and refining an IT integration approach that could be used and reused to help streamline and secure the success of subsequent M&A integrations.

Today, an agile IT-specific integration framework is leveraged to guide the process. It can be tailored to the varying circumstances surrounding each acquisition—whether that be assimilating an entire company or division into EMC; working with a company that will operate primarily as a stand-alone subsidiary with only minimal IT integration points necessary; or a hybrid integration for an acquisition that falls somewhere between.

This white paper provides a high-level overview of the multi-step process, key best practices, and core methodology that EMC IT M&A has developed to support the company’s successful M&A integration strategy.

Figure 1: EMC Strategic Acquisitions: 2003-2011

Each strategic acquisition aligns with EMC business to support and strengthen EMC’s position as the industry’s leading information infrastructure provider.
INTRODUCTION

Mergers and acquisitions are risky propositions. In fact, studies have shown\(^1\) that a significant number of M&A investments fail to achieve the synergies anticipated (70 percent) or create the return expected (58 percent). Poor planning, indecision, and delays during the M&A integration process often result in considerable impact to productivity, talent egress, decreased customer satisfaction, and less-than-expected business value from a merger or acquisition.

In contrast, EMC’s track record with mergers and acquisitions has been highly successful. Its acumen in proficiently assimilating and optimally leveraging strategically acquired assets to fill gaps, expand its range of solutions, and extend its competitive reach is well known and respected across industry sectors. Although EMC draws upon the expertise of multiple teams to support the many facets of a successful integration, EMC IT plays a critical and integral role.

Drawing from the EMC IT M&A team’s extensive integration experience in the technical and operational arena, this white paper provides helpful insights about setting IT integration objectives, fine-tuning plans, speeding execution, and optimizing outcome at every stage. A three-phase approach is outlined that encompasses considerations and best practices for:

- **Due diligence** to gain a comprehensive understanding of the particulars of a specific acquisition and define a high-level integration strategy and corresponding budget.

- **Detailed integration planning** that leverages the information and insight from the due diligence phase and digs deeper with a formal gap analysis and assessment in order to define a target operating model and detailed integration plans.

- **A streamlined and smooth execution** supported by a transparent, decisive, and sound decision making process.

\(^1\) Mark Herndon, Parkwood Advisors, LLC

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**Figure 2: Phases/Major Activities Deliverables**

Information is also provided about the role EMC IT’s integration methodology plays in the overall process. Comprising checklists, estimating models, and playbooks perfected and proven over years of development and use, this integration methodology offers overarching support and guidance for all phases of the IT integration process—but especially during execution.
SETTING THE COURSE WITH DUE DILIGENCE

A high-level understanding of the factors that surround a specific merger or acquisition helps lay the groundwork for a solid plan and ultimately, successful execution. A key best practice is to get IT involved in the integration process early on—months before the acquisition papers are signed.

IT due diligence discovery efforts should ideally begin after a Letter of Intent (LOI) negotiating a potential acquisition is signed by the target company, but before the actual deal is concluded and the acquisition is made public. During this period, the goal is to understand as much as possible about the potential acquisition’s business and operating models, any potential risks or gaps that would require capital investments in IT, and operational expectations for the business and its resources once it becomes a part of the parent company. All of this intelligence is then leveraged to create a high-level integration proposal or “Plan of Record” for the target state.

The challenge is that many assumptions need to be made in a short period of time, and with access to a limited number of contacts. The timeframe between LOI and a publicly announced acquisition can be as little as 30 to 45 days. In addition, non-disclosure agreements, meant to eliminate the risk of a stock run, tend to keep the audience to a minimum and information on a need-to-know basis.

Prior to the actual acquisition, one of the primary sources of information comes from a comprehensive diligence questionnaire, which is submitted to the prospect by EMC’s corporate development team. The questionnaire is used to secure a wide range of details on everything from finance and taxes, to business functionality, applications, and IT infrastructure. Once completed, it is disseminated to the core M&A integration teams—including the IT M&A team—for analysis and preliminary planning.

“The due diligence assessment helps us put together a ‘Plan of Record’ that allows the company to model out the purchase offer and make sure that the purchase price is appropriate given the integration costs we see down the road.”

Jon Peirce, Senior Vice President, IT Global Infrastructure Services

DEFINING THE INTEGRATION STRATEGY

To support streamlined due diligence and planning, the EMC IT M&A team has developed and refined an Acquisition Integration Strategy Framework. The Framework provides a structured approach for reviewing predefined options for IT applications and infrastructure integration based on guiding principles, IT constraints, and key considerations. It is designed to guide discussions between the IT M&A team, business stakeholders, and EMC’s Integration Management Unit (IMU), to raise awareness about the complexities, effects, and consequences of M&A activity within IT, and facilitate appropriate decisions based on that knowledge.
Figures 3&4: The figures above depict integration option considerations for both applications and infrastructure within EMC's Acquisition Integration Strategy Framework.

ESTIMATING MODELS AID PLANNING

Over time, EMC IT has honed its ability to more accurately estimate integration costs using top-down estimating models. The models start with baseline costs and provide additional levers for key variables that most significantly impact the effort and cost.

As part of their continuous improvement efforts, the IT M&A team reviews actuals from previous acquisitions—both in terms of the size and type of target company (i.e., hardware, software, or service) and makes updates to the estimating models as necessary.
FINALIZING THE PLAN OF RECORD

The EMC IT M&A team’s Plan of Record represents the culmination of due diligence efforts. It offers preliminary IT integration recommendations and strategy, along with time and cost assessments.

Depending upon the integration aspects surrounding a particular acquisition, the Plan of Record details the strategic objectives necessary for achieving the target operating model based on one of the following integration options:

• Full integration and complete assimilation into EMC IT operations.
• Partial or hybrid integration where some systems and processes will remain as is and others incorporated into or replaced by EMC operations.
• Independent applications and operations where only a few points of integration might be involved such as human resources, legal, messaging, and security.

The Plan of Record, along with initial input from other M&A integration teams, is then leveraged by EMC’s corporate development team to effectively negotiate the terms and offering price for the acquisition.

SETTING UP A GOVERNANCE MODEL

In addition to the Plan of Record, the preliminary attributes of a Governance Model are laid out by Corporate Development and the EMC IT M&A team at this stage. The Governance Model identifies, from a hierarchical perspective, the various roles and requirements that will be necessary to successfully guide IT integration efforts.

Key to establishing critical executive sponsorship at this time is the assignment of senior-level leaders from both the acquiring and acquired companies. Representing core constituents of the steering committee for the M&A IT integration effort, they provide the necessary high-level backing and leadership required for success during the design and execution stages.

Further evolution of the Governance Model occurs as the integration progresses; it gets formalized with specific names assigned to corresponding roles and responsibilities in the planning stage, and mobilized during the execution phase.

EMC BEST PRACTICE: CAPITALIZING ON EXPERTISE

To the extent possible, EMC leverages the same resources as in previous engagements for acquisition integration. Capitalizing on expertise is vital to successful IT M&A integration efforts because it offers a proven, consistent, and repeatable process carried out by people who:

• Offer expertise from previous acquisitions and know what’s involved
• Understand what assumptions to make or avoid
• Comprehend the inherent risks and offer options on different approaches

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Once the acquisition is finalized and the agreement signed, the purchase becomes public knowledge. Restrictions are lifted and people from both the acquiring and acquired companies can share information and resources. At EMC, information exchange is initiated through joint kick off meetings followed by more in-depth interviews over the course of several weeks.

Using the initial assessment outlined within the Plan of Record as a baseline, gap analysis and evaluation is conducted at a more granular level to better understand the current operating environment of the acquisition, clarify what the target model will look like, and what it will take to get there. At the end of this stage, a comprehensive, concise, and coordinated integration plan is formulated providing specifics on the various applications and supporting architecture that will be integrated as well as what new functional processes need to be put in place. Typically, both short-term integration strategy and long-term plans are laid out.

Again, the refinement of integration plans is aided by the use of EMC IT M&A team workbooks, templates, and time-and-cost estimating models that have been developed and distilled through years of IT integration experience.

**Building Out and Refining Integration Plans**

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**Figure 5:** EMC IT M&A Integration Governance Model roles and responsibilities
COMPLETING THE GOVERNANCE MODEL

The Governance Model, initiated in the due diligence phase, is now completed with the names of those assigned to the various roles and responsibilities specified earlier. The size and number of participants who will support governance, especially during execution, typically fluctuates in accordance with the size and complexity of the acquisition to be integrated.

SVPs, business process owners, process leads, and program and process managers are chosen to populate the more business-focused integration slots within the Governance Model on the applications side. Senior executives from such areas as security, infrastructure services, and services delivery are also selected to represent infrastructure integration (although some overlap exists with applications). In addition, various managers are chosen as part of the functional integration team.

Leveraging the best and most experienced people to populate this structured and hierarchical Governance Model, and facilitating dynamic, cross-functional communications among all participants, lays the groundwork for making the right integration choices. It also facilitates a level of decisiveness that helps keep integration efforts moving forward to successful completion.

INTERIM-STATE PROCESSES DRIVE IMMEDIATE VALUE

Despite the varying levels of integration that occur during the execution stage, several interim state processes are typically required for EMC and the acquired company to work together and conduct business immediately after the sale—such as jointly selling the acquired company’s offerings. Typically, systems that need to be integrated right away include: financial processes, human resources, messaging, networks, and security which need to be on par with EMC standards.

A defined methodology and approach, supported by experienced groups that have been a part of multiple integration efforts, are called upon to quickly get these interim-state processes up and running.
“In one word, our approach is collaborative. We work hard to understand the target company’s business in order to ensure we don’t negatively affect their growth and success. Collaboration, not assimilation, is a powerful approach to integration.”

Stacey Barie, Senior Manager, IT M&A Integrations

EXECUTION GUIDED BY A PROVEN INTEGRATION METHODOLOGY

After the well-laid plans and expertise is in place, the next step is execution—and a purpose-built and proven integration methodology is a vital element for ensuring a clear and decisive path to streamlined integration.

Representing a compilation of information and insight gleaned from years of experience, the EMC IT M&A team’s integration methodology is used to support the execution of activities that effectively fulfill the agenda of the integration plans.

A formal integration methodology helps those responsible for execution define the objectives of each major activity and necessary key tasks. To help guide the process, specialized tools, templates, playbooks, and best practices encompassing the integration methodology are leveraged to gain greater perspective on what approaches worked best in the past, what to watch out for, and how to handle potential problems that may arise.

As part of its best practices approach, the EMC IT M&A team executes on integration in a series of waves for both IT infrastructure and standard IT business applications.

IT Infrastructure integration comprises the following:

- **IT Day One Business Enablement**—Secure connectivity and communications.
- **Security Mitigation**—Ensure risks are mitigated, devices are monitored and managed, and all security processes and procedures are in place.
- **End-User Client Device Migration**—Facilitate EMC domain integration, anti-virus and remote access/VPN, PC-client updates, and desktop support.
- **Decommission and Standardize Internet Gateways**—Migrate gateway services to the EMC Gateway and implement EMC Global Security requirements as needed.
- **WAN / Wireless (MPLS)**—Implement MPLS connectivity for corporate WAN services as well as the EMC Standard LAN/WAN/ Wireless infrastructure.
- **Exchange Migrations**—Migrate to EMC’s Microsoft Exchange environment.
- **Global Support Center Services**—Provide “Tier 1” support for all IT assets and services.
- **IT Organization Alignment**—Ensure appropriate organizational alignment and accountability.
- **IT Contracts**—Address necessary changes/updates to contracts such as Oracle, Microsoft, and Telecom.

EMC BEST PRACTICE: COMMUNICATE PROACTIVELY, CLEARLY, AND WITH ONE VOICE—BOTH INTERNALLY AND EXTERNALLY

Effective and clear communications—within and across integration teams and company lines—is one of the most important determinants for successful acquisitions. Plans and decisions that are made and proactively communicated through regular status updates, meetings, and reports help ensure transparency, greater understanding, and smoother progress.
Integration of standard IT applications is structured through EMC business processes:

- **Requisition to Check (Indirect Expense Management)**—Encompasses purchasing, SSP, fixed assets, and AP.
- **Lead to Service (Quote to Cash)**—Covers forecasting (e.g., leads/opportunities); pricing/configuration; customer information setup and maintenance; ordering, fulfillment, items, invoicing, and revenue accounting; revenue reporting; project accounting services; customer service integration (e.g., maintenance and warranty); and electronic license management.
- **Marketing and Other Applications**—Includes marketing, website, and campaign management; engineering (e.g., IP protection, code repositories, etc.); and collaboration (e.g., shared workspaces, blogs, etc).

“Leveraging an established integration methodology and proven tools helps you manage the M&A process more effectively.”

Stacey Barie, Senior Manager, IT M&A Integrations

**AN EMERGING EMC BEST PRACTICE: IT-AS-A-SERVICE: A POWERFUL ACQUISITION INTEGRATION TOOL**

Focused on its mission to continually improve its M&A integration strategy, the EMC IT M&A team has turned its attention toward leveraging IT-as-a-Service (ITaaS) and has been participating in front-end development as EMC IT continues to build out its service offering portfolio. The expectation is that when these services are released, they can be easily assimilated into M&A efforts to help simplify and speed the integration of an acquired company.

Virtual Desktop infrastructure (VDI) and Infrastructure as a Service (IaaS) are two such services that are already being leveraged by the EMC IT M&A team.

**Instant connectivity, instant collaboration**

The most common service leveraged by the EMC IT M&A team is VDI, which can be deployed shortly after the acquisition deal is signed. VDI enables the establishment of almost instant connectivity between EMC and the acquired company in order to immediately start collaboration and sharing of resources.

VDI enables the acquired company to quickly connect to a standard EMC virtual desktop image and from there, seamlessly access EMC resources on the network, including pertinent business applications.

**Infrastructure-as-a-Service (IaaS) when and where you need it**

Although IaaS in the M&A integration arena is in its early stages, it offers a more expedient way to put new infrastructure resources in place. For example, if there is a need to migrate or move the target company’s existing infrastructure resources into an EMC environment, IaaS can be leveraged to accomplish that in a faster and more effective way.

**On the horizon: Business Intelligence-as-a-Service**

EMC hopes to leverage Business Intelligence as a Service (BIaaS) as part of interim-state processes put in place to help support business application integration. It would enable EMC and the target company to more easily connect, share, and derive value from each other’s application data by producing reports and analyzing metrics much sooner than previously possible.
STREAMLINED EXECUTION THROUGH PROPER GOVERNANCE

During the execution stage, the Governance Model is in full operation. By providing a formal chain of command, and facilitating frequent communications at all levels, the Governance Model fosters a proactive approach for solving problems and avoiding roadblocks that could derail integration efforts. Problems can be escalated and quickly addressed through the proper channels thereby streamlining the integration process for the benefit of both the acquiring and acquired companies.

AN EVOLUTIONARY PROCESS

Since each integration experience brings its own unique aspects, EMC IT M&A team recognizes the importance of continuing to document and leverage the knowledge gained through these engagements to broaden and strengthen the best practices, tools, and methodology of its IT integration strategy.

MAKE EMC’S SUCCESSFUL TRACK RECORD YOUR OWN

While this white paper offers a high-level synopsis of the steps, best practices, governance, tools, and methodologies developed and employed by the EMC IT M&A integration team through its extensive work with nearly 50 acquisitions since 2003, you can leverage it as a blueprint for your own M&A process.

To learn more about how you can benefit from this integration expertise to optimize your organization’s IT M&A integration strategy, contact your local EMC Consulting representative or visit us at www.EMC.com/consulting. EMC consulting can help you leverage proven best practices and develop everything from playbooks and estimating models to comprehensive IT integration methodology to enhance own due diligence, planning, and execution efforts.