WHITE PAPER

# HOW FINANCIAL INSTITUTIONS CAN EASE IT TRANSITIONS

A strategic approach can help financial firms overcome the technology challenges of **mergers and acquisitions**.


## EXECUTIVE SUMMARY

The financial services sector continues a transformation that began in the late 2000s, riding an accelerating wave of merger and acquisition (M&A) activity that reached record highs in 2015. Those seeking to fast-track growth or cut costs see M&A deals as their best bet for achieving those objectives.

But these transactions don't come without significant IT challenges. Systems and users must be integrated, technology operations must be consolidated and all IT solutions must be catalogued.

To overcome these hurdles, financial firms must take several important steps. Discovery of all hardware and software assets is essential to understanding the demands of an M&A activity. Firms also must consider the completion of an Active Directory integration, data center build-out and the migration of data and applications.

Many financial firms turn to a service provider with experience working in the finance industry to handle specific elements of an M&A transaction, while others bring on a third party to take over the entire transaction process.

## Ready for the M&A Challenge?

Though mergers and acquisitions are complicated undertakings, many financial firms see them as an expeditious approach to expansion, a way to spark growth through new business synergies.

For many reasons, M&A failures significantly outweigh successes. *Harvard Business Review* experts estimate that 70 percent to 90 percent of all transactions fail. A study by KPMG, meanwhile, finds that 83 percent of such undertakings never deliver predicted returns on shareholder investments. Despite these figures, financial firms remain extremely active in mergers and acquisitions.

Why? A meticulously planned and executed deal between parties with the right synergies and resources can deliver tremendous returns. There's no single formula for guaranteeing payoff, but for the firms that get it right, the rewards are well worth the risks.

### IT at the Table on Day 1

Firms that succeed in mergers and acquisitions make IT a priority. Neglected IT issues are responsible for one-third of acquisition failures, according to a study by global management consulting firm A.T. Kearney. Why are they neglected? Deal-makers don't invite CIOs to be part of the transaction process, providing them with details only after they've signed contracts.

In fact, according to public accounting firm Ernst & Young, only about half of IT managers are included in the transaction process. This is a huge mistake, as IT services delivery drives every department and function of a business. CIOs should be included in the M&A process from the first day, so they can work with other departments to understand a deal's objectives and the links between business functions and IT systems.

A 2015 report by Boston Consulting Group cites communications as the weakest link in all M&A phases. The more layers that project directives have to penetrate, the less accurate they'll be. Only when they're part of the entire transaction can CIOs get and provide feedback on IT systems, deliverables, time frame and costs, and then communicate tasks to various IT teams to carry out.

Without this big-picture understanding, CIOs can't set or manage business expectations for the IT work needed for success. Too often, transaction executives make overly optimistic cost and timeline projections, setting IT departments up to fail when they begin post-merger work.

This work includes:

**Integrating people and cultures:** It's difficult to ensure that employees from two different cultures will mesh. Without equal opportunity to work with key department heads, IT staff will operate in the dark about their role in integrating users across both organizations.

**Unifying business processes:** Though much depends on how unified the two parties will be — whether it's a full-fledged merger or a deal in which an acquired party continues to operate with some independence — an IT team has to work with other business leaders to document existing processes. They determine which processes best serve the new entity so they can unify workflows and which may need to be completely re-engineered.

**Cataloguing resources:** To develop a new services portfolio, IT staff will review the technology services of both organizations, determine what they'll offer the organization going forward and develop a new catalog of resources that details what's needed to deliver each service.

## Steps for a Smooth Transition

Whether they're consolidating or expanding, banks, insurance firms and financial services organizations share common challenges in meeting their M&A commitments. After providing input during due diligence and plotting the systems roadmap, CIOs should prepare key IT staff to start integration work as soon as a deal closes.

The complexity of the work IT teams face depends on several factors. These include: the type of merger, acquisition or divestiture; the IT personnel retained as part of the agreement, their domain skill sets and experience working on M&A projects; and the scope of work involved.

If a bank is acquiring another firm to move into a new line of business, and the target's systems are in good shape, IT staff may need only to connect local area networks and wide

### Different Levels of Involvement

CDW understands the challenges that IT leaders face during mergers and acquisitions, and has developed a solution approach and methodology accordingly. The CDW approach is designed to snap into existing M&A plans, however extensive they are, to give customers a range of options.

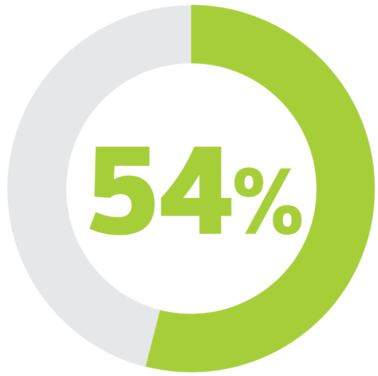
Customers can choose to involve CDW in an M&A at three different levels:

1. **Client-led (least CDW involvement):** The client covers most of the work. In some cases, a firm will turn to CDW to simplify the upfront process by providing a task-by-task analysis, determining the skillset needed to handle each, as well as the timeframe required. A firm's internal IT team will take it from there. In other cases, a firm may use systems integrators to handle, for instance, Active Directory integration.
2. **Client-managed (midlevel CDW involvement):** In this engagement, a customer would likely work with CDW throughout the project. Based on tasks CDW defines early in the process, for instance, a firm's CIO would choose which responsibilities internal teams handle and which they'll outsource. Alternatively, they may utilize their own plans and focus CDW's services on infrastructure optimization.
3. **CDW-led (most involvement):** A firm with a tight time frame and few resources may entrust most or all M&A activities involving IT to CDW, from scope planning to licensing maintenance.

area networks, email and other communications systems at the domain level.

If a transaction calls for merging two larger banks to expand operations for customer growth — and the combined portfolio includes a large number of disparate systems — the IT teams tasked with integration need sophisticated skills and experience. Their work plans will be based on who owns which assets, whose IT services model best delivers on current needs, and the systems required for the new business to function. Organizations focused on transformation will move to centralize operations on a unified infrastructure, but first, IT teams will re-engineer business processes; integrate or migrate core systems, applications, and data; and eliminate redundancies.

Large acquisitive firms with M&A experience and dedicated integration teams can likely handle these complex tasks in-house, but first-timers and smaller firms usually rely on outside help for some facet of their work. With their IT staff already taxed by day-to-day responsibilities, more CIOs bring in trusted service providers with financial-sector expertise to help them navigate specific project phases or take over the entire transaction process, from developing a project roadmap to integrating all infrastructure components.




The percentage of business executives who consider a well-executed integration plan to be the key to a successful merger or acquisition[1]

## Clouds Parting

Not surprisingly, financial institutions lag behind other verticals in migrating to the cloud. Experts attribute some of this to regulatory compliance and some to IT leaders who believe risk factors are too high.

Increasingly, however, pressures to operate more efficiently, reduce capital expenditures, and improve return on investment and equity by consolidating disparate systems are outweighing concerns. By the end of 2016, Gartner predicts, more than 60 percent of banks worldwide will be processing most of their transactions in the cloud to meet business mandates.

Ever more frequently, CIOs are addressing data control concerns by opting to deploy private clouds. This model, often built and managed with the help of a service provider, gives the organization more control over its infrastructure and security, while setting the stage for future M&A activity and growth. The cloud delivers such advantages as scalability, increased agility for managing workloads and improved management capabilities.

## Delivering Financial Services Expertise

CIOs may need to make a case for bringing project expertise on board, but with the high percentage of documented failures, they have plenty of evidence to support their request. Many organizations decide they would prefer to turn to a partner to finish IT project phases and realize value from their new assets as quickly as possible.

As they determine whether to bring on a partner, firms should consider their transaction services agreement: If the agreement costs $150,000 per month, and bringing in help accelerates the time frame by four months, a firm not only frees up that $600,000, but its CIO benefits from expert guidance.

Some firms engage with providers to contract for IT services that cover the M&A lifecycle, while others opt for services that focus on IT infrastructure integration and optimization. Depending on their core IT competencies, firms sometimes opt to sign a comprehensive managed services contract to ensure that they not only have a roadmap and services for the M&A, but to manage the data center infrastructure, banking systems, applications and licensing.

CDW's financial services portfolio, for instance, includes end-to-end offerings designed to help firms see value from their M&A activity. The portfolio integrates CDW's expertise across multiple solution domains — including networking, computing, storage and applications — with upfront assessment and planning.

## M&A System Checklist

A managed services provider such as CDW takes a holistic view of the two IT environments involved in the transaction. This approach can save major time and effort down the road. Once an M&A deal is signed, CDW can work with IT decision-makers to help them assess the scope of the project, break it into various phases and build a comprehensive roadmap that ensures project completion in a timely fashion.

The roadmap plots what needs to happen on Day 1 and all activities through the six-, 12- and 18-month mark, for example. It includes a task-by-task analysis, identifying everything that goes into each activity, the time frame and whether internal IT staff or the consulting team will handle it.

Common challenges and related tasks that IT teams face during M&A transactions include:

**IT asset discovery:** Before they can make any changes in the IT environment, IT teams need to know exactly what they've got. On their own or with a partner's help, they should apply automated tools to capture a complete inventory of all software applications running on all hardware devices and relevant networks. Their tools should also perform a complementary,

**Source:** [1]KPMG, "U.S. Executives on M&A: Full Speed Ahead in 2016," June 2016 comprehensive review of current licensing to make sure everything's in order from the outset.

**Site survey:** Site surveys, which go hand in hand with IT asset discovery, cover a variety of facets that affect IT operations, including:

- Electrical supply
- Water
- LAN/wireless
- WAN
- Security
- Existing IT systems
- Telephone and collaboration systems

**Active Directory integration:** With the importance of user authentication and authorization, Active Directory integration is critical to securing the new environment and meeting compliance mandates. Many firms turn to trusted partners to optimize their directory structures by trimming organic sprawl, consolidating directories and running a centralized model.

**Network integration:** Whether integrating components of existing networks or bringing a software-defined network approach for future-proofing, networking requires a variety of skill sets. IT teams focus on enabling seamless data, voice and video communications across LANs, wireless networks and WANs.

**Data migration:** In some situations, systems integration isn't sufficient or advisable, and data or entire applications may need to be migrated to a new platform. Data migration requires that IT professionals identify all elements of the existing environment and ensure sufficient throughput, networking capabilities and storage capacity to get to the new platform.

**Application migration:** In some cases, the acquiring firm doesn't acquire the hardware assets, and needs to migrate complex applications (such as enterprise resource planning and financial systems) to a new platform. This requires the IT or consulting team to determine all applications and systems that integrate with the migrating application. How they proceed depends on whether they'll be shifting to a private or public cloud model or keeping the app in a traditional data center environment.

**Data center build-out:** Firms may have an opportunity to optimize their data center operations during an M&A transaction. This includes deploying a smarter and more scalable converged infrastructure by leveraging virtualized servers, networking components and storage. New data center systems require transparency to ensure regulatory compliance, along with a storage area network that can handle storing all required data; the systems also must enable fast access to certain data sets for analytics.

## CDW: A Financial Industry Partner that Gets IT

For nearly 30 years, CDW has helped more than 15,000 banks, credit unions, capital markets firms and specialty financial services companies assess and improve their IT infrastructure. CDW's solution experts also have the knowledge and experience to help financial sector IT organizations navigate the complexity of mergers, acquisitions and divestitures..

CDW's services for customers involved in financial-sector M&As cover every post-deal activity. These include:

- **Assess:** Upfront planning, task-by-task analysis and roadmap development
- **Design:** Configuration of optimized infrastructure and other site components
- **Deploy:** Procurement, configuration and deployment of IT solutions across network, compute, storage and applications domains
- **Manage:** Ongoing services and support as needed

**To learn more about how CDW solutions and services can help financial firms overcome their IT challenges, visit CDW.com/finance.**





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