

White Paper

Architecture for Mergers and Acquisitions: Getting the CEO excited about Architecture

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I have described the use of Architecture Levels, Architecture Layers and the value of a Business Capability Model and Architecture Governance in my previous white papers, however it is time to reach out to one of our key supporters, the CEO and outline how Architecture can be a critical input to supporting delivery of the business strategy.

The CEO has a myriad of complexities, stakeholders and business drivers to address (reduce costs, increase revenue, become more efficient, get bigger) and Architecture can simplify these inputs and provide a bridge between the CEO aspirations and the business ability to deliver on these aspirations.

One such aspiration is the desire to get bigger and grow the business organically or via Mergers and Acquisitions. CEOs pay a high price for failed Mergers and Acquisitions, however using a strong suite of Logical Architecture tools and having a good grasp of an organization's current capability and gaps can go a long way to ensuring the estimated value is realized.

There is a caveat, and that is, the strength of your Architecture capability is a critical input to successfully supporting CEO aspirations and to avoid over promising and under delivering the Architecture function.

In this white paper, I will outline how the use of Architecture tools and templates can be applied to Merger and Acquisition strategies and play a central role in realizing the benefits, outcomes and growth path for your company.

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Architecture Tools for M&A

As mentioned, being realistic about your current Architecture capability and an agreed acceptance of Architecture in your organization at the Senior Management level, both within the business and technology domains, is critical to reaching out to the CEO. If you are unable to convince your immediate Sponsors and stakeholders of the value of Architecture to the company it is unrealistic to expect the CEO to bite the cherry and directly engage the Architecture team.

Playing at this level requires a level of respect and track record of successful Architecture initiatives and outcomes to earn the right to discuss opportunities to leverage your Architecture toolkit. Some of the key Architecture tools you will need in order to support a Merger and Acquisition strategy are as follows:

- **M&A Architecture Governance**
 - Architecture Principles – existing and enforced Architecture Principles
 - M&A Architecture Principles – set of M&A principles to drive integration / migration decisions
 - Architecture Governance – engaged Senior Executives and a track record of Architecture governance successes
 - Architecture Owner – critical single reference point for Architecture integration decisions (Business and Technology Domains)
- **EA Framework and key Reference Models**
 - Business Capability Model – Current and Target Business Capability models and a Roadmap will confirm your current transition efforts
 - Infrastructure Reference Model – Current and Target state models including an Infrastructure Register with Platform standards defined will confirm the state of your Infrastructure assets
 - Applications Reference Model – Current and Target state models including an Applications Register with key Enterprise wide Applications confirmed. This will confirm the state of your Application assets
 - Business, Service or Technology Organization Model – current organizational chart or Functional Model will confirm what People assets you have and what Services you will potentially acquire.
 - Enterprise Data Model – defined to at least level 0 / 1 to support high level analysis and integration assessments.

- **Various M&A templates**
 - Discovery and Due Diligence checklists
 - Application Risks
 - Infrastructure Risks
 - Integration Risks
 - 100 day Integration Plan

The strength of having these Architecture tools in place and agreed is that they allow for early diagnostics of your target company with the ability to establish the true state of skillsets, customer / product value segments, service offerings, application and infrastructure capability and integration issues and requirements that will need to be addressed. All of these inputs will provide significant insights to the bid team in order to better match the bid target price with the actual value to be obtained.

Deploying your Architecture Tools to the M&A effort

If you have a mature Architecture capability, then a logical next step is to utilize the Architecture capability and use it to create a formal review and governance environment to support M&A activity. This involves having a central Architecture owner for both the Business and Technology Domains to co-ordinate Architecture activities with the Due Diligence and Integration teams.

From an M&A perspective, a key focus for the Architecture team is comparing all of the different platforms between your current and target environment and the current environment of the target entity. Addressing the Business Model, Applications, Data, Integration, Infrastructure, Technology Services, Security and Change Management inputs will enable a holistic view to be established and compared logically across all environments.

Managing the data inputs to a point where they can be categorized, structured, analyzed and insights established will provide a quick overview of the target environment for the Due Diligence and Integration teams, usually within 1-2 weeks. The beauty of getting the data from all environments is that if you acquire a company with a capability that you don't have, you can accelerate or modify your existing roadmap and cost assessments to bring that component in, at least for that business area, as a test case for rolling it out to the rest of the organization.

Having an agreed future-state architecture also allows the acquiring company to be proactive in these situations and gain a greater degree of confidence in the insights being provided.

Deploying M&A Architecture Governance

- Architecture Principles
 - Architecture Principles provide the guiding lights for how Architecture is deployed and are critical hooks for ensuring that Architects and Architecture Governance decisions are aligned. Nowhere is this more important than in guiding integration decisions and “order of magnitude” cost estimates involved in the takeover.
 - Another point to consider is that a review of Architecture Principles at the Target Company will quickly identify any differences in culture and approach to developing and delivering systems i.e. level of customization, platform standards and therefore the level of integration risk.
- Architecture M&A Principles
 - A separate set of M&A Architecture Principles is critical to guide M&A integration decisions including stated priorities, overrides and exceptions to be managed.

Deploying EA Framework and key Reference Models

- Business Capability Model
 - The Business Capability Model is one of the easier models to deploy in an M&A setting due to the ability to create subjective assessments of business capability in the Acquiring and Target Company. The model can be deployed as a quick agile RAG rating (Red, Amber, Green) assessment of capability upfront or it can be used to represent all the data inputs available on the target company at the end of a due diligence exercise.
- Infrastructure Reference Model
 - The base Infrastructure template provides a script for interrogating the target company environment. Armed with knowledge of your existing current and target platforms enables gaps and overlaps to be identified and assessed. Impact assessments on your Target state also provide valuable ammunition for Integration planning and Bid Price refinement.
- Applications Reference Model
 - The base Application model also provides a script for interrogating the target company environment on the state of the Applications portfolio. Reviewing Enterprise License Agreements (ELA's) also provides insight on what contracts and integration issues need to be addressed.
- Business / Technology Organization Model
 - Whether you are reviewing the business structures or technology structures of your target company, using a Business or Technology Reference model provides a script to quickly grasp the organizational structures, number of FTE's, Services being acquired, cost base and integration risks inherent in the target company.

- Enterprise Data Model
 - Data integration has a habit of extending project scope and costs and unless it is actively managed within an organization it is a fair bet that integration costs will be significantly more than originally estimated. Visibility of your Level 0 / 1 Subject Areas and the System of Record will support high level analysis of Data dispersion and integration needs.

The Architecture templates used for M&A enable the capturing and classification of data and analysis and leveling of this data provides significant input to the 100 day Integration plan. Order of magnitude cost and risk estimates can then be applied to the key integration streams.

Architecture Model Case Studies

In this section I will briefly outline some of the key architecture reference models and how to apply them to address M&A requirements. The key models I will focus on are:

- Business Capability Model
High level business capability assessment
- Information Technology Reference Model
High level IT capability assessment
- Infrastructure Reference Model
High level Infrastructure assessment

Business Capability Reference Model – Use Case

The Business Capability model provides a script for interrogating your target company and completing a high level assessment of the target environment capabilities and level of integration risk. *Figure 1* shows an example of a Business Capability Model in the Mining industry that will support your due diligence.

A wide range of data can be modeled across the capabilities including RAG ratings, specific insights, FTE's, costs, and risks. Its use is primarily as a holistic overview to drive out patterns, areas of interest or capabilities that may need more detailed investigation.

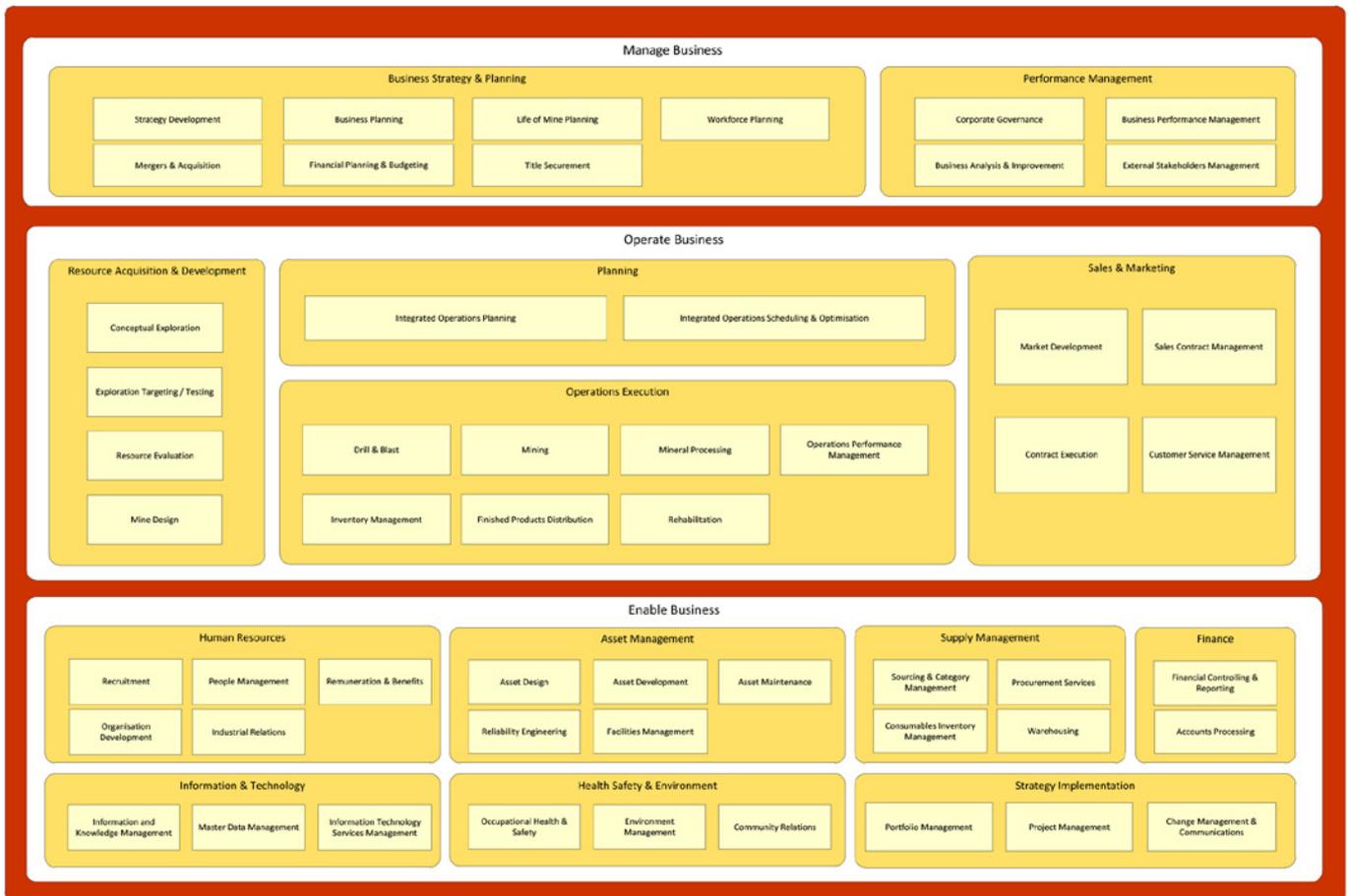


Figure 1: Business Capability Reference Model

Information Technology Reference Model – Use Case

Similarly for analysis of Technology capabilities, the Information Technology Reference Model outlines the key Technology capabilities and can be used to undertake RAG ratings, Risk profile, FTE, Cost, Skill Sets analysis and provide a script for resource / technology capability discussions.

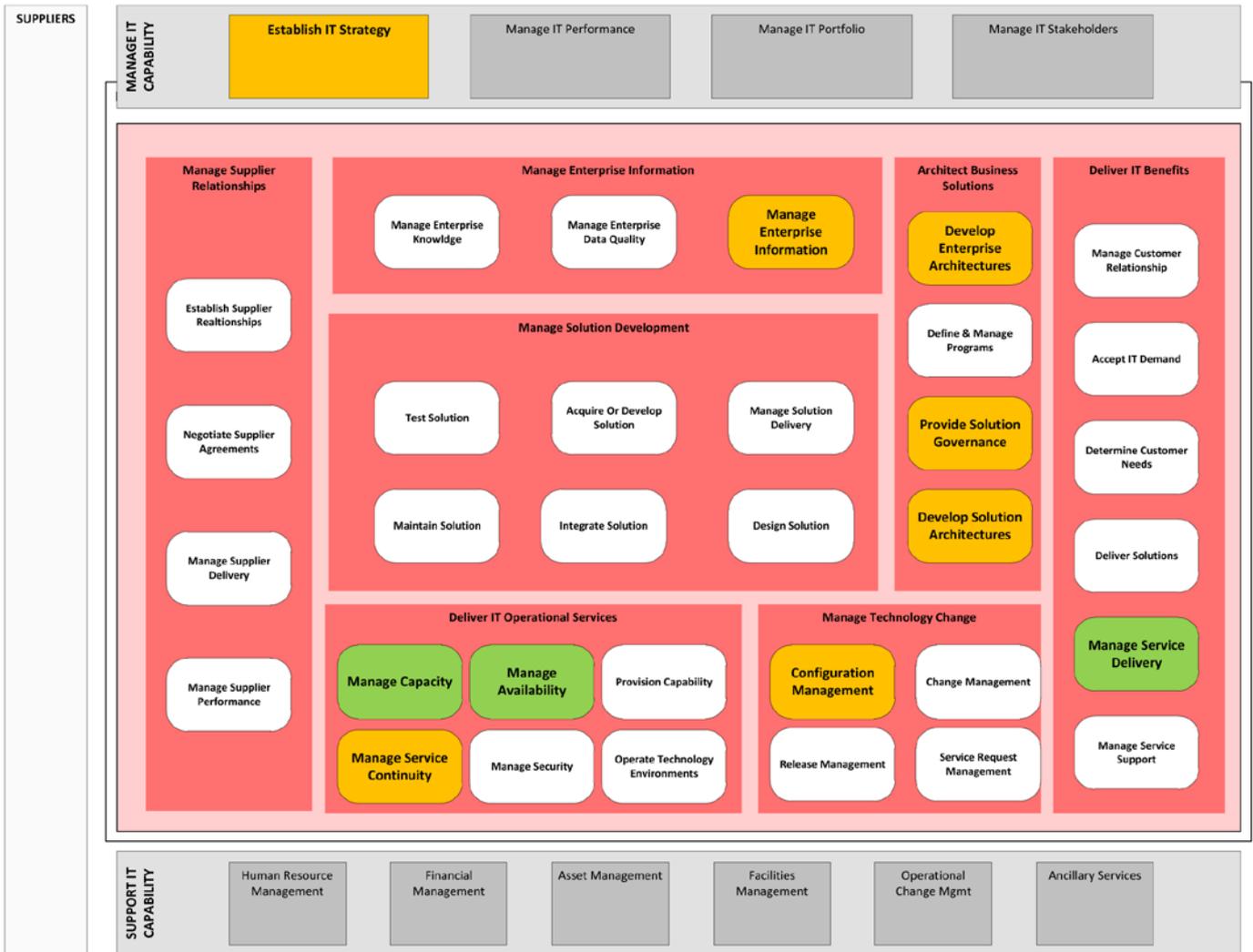


Figure 2: Information Technology Reference Model

Some Information Technology teams have stronger skill sets in key areas so it is imperative to gain an understanding of what can be leveraged, what integration is required and what cost impacts will need to be addressed.

Infrastructure Reference Model – Use Case

The Infrastructure Reference Model provides a useful script to discuss the Infrastructure issues and challenges between the two environments. Discussion can reflect the pain points and integration challenges that would need to be addressed. Positioning these insights against the Infrastructure model using filters such as RAG ratings, current projects, costs and standard platforms enables the bid team to factor these assessments into due diligence and bid calculations.

Figure 3 is an example of an Infrastructure Reference Model that would support M&A Infrastructure discussions.

Integration costs for Infrastructure platforms are significant, so there would need to be some compelling reasons for a target company platform to be bought into the combined target state. Generally it is the acquirer target state platforms that will take precedence.

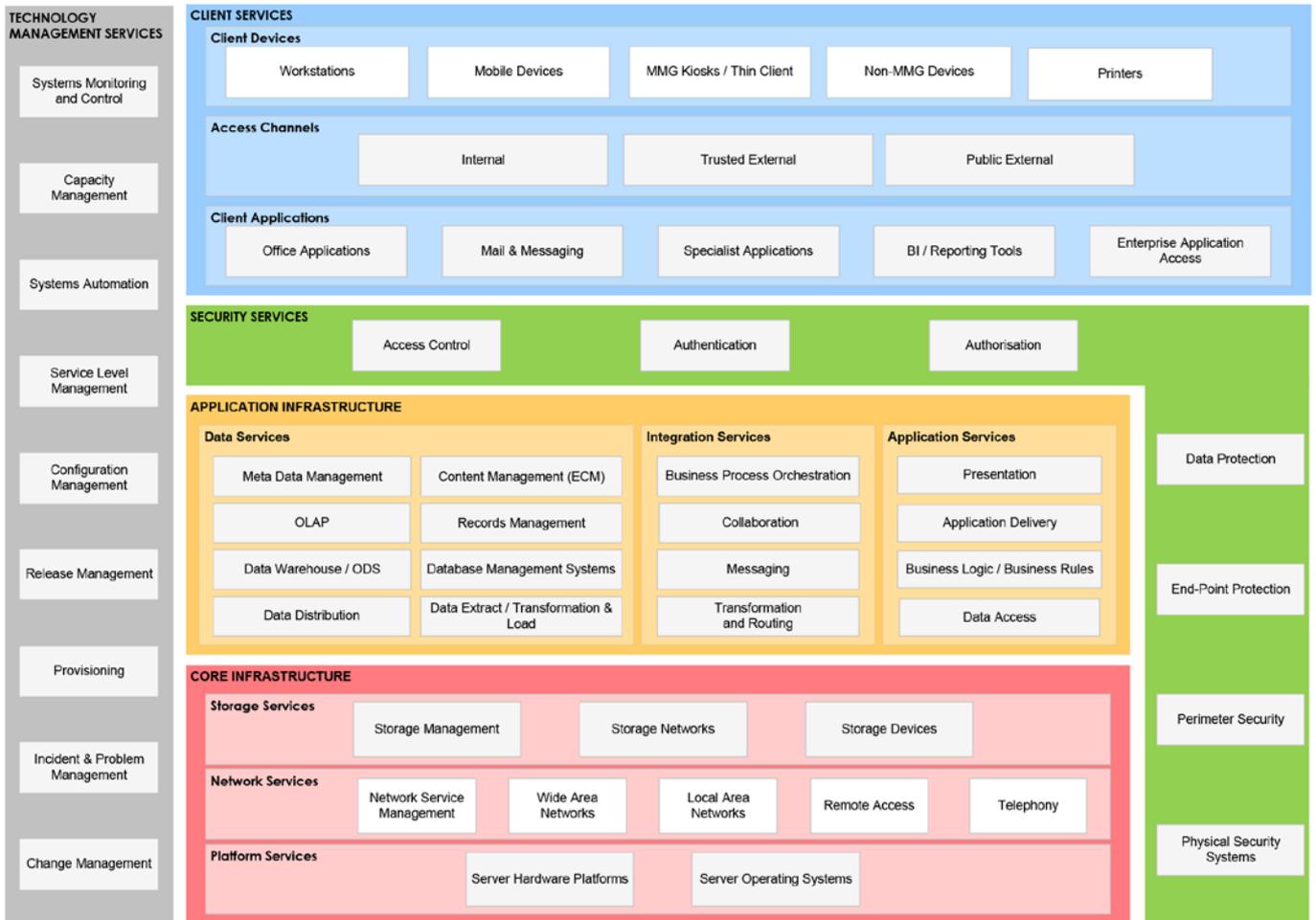


Figure 3: Conceptual Infrastructure Reference Model

Company M&A Case Studies

Financial Services Group – getting bigger quickly

A Financial Services company wanted to get bigger quickly with many consolidation opportunities available within the market at the right price. The bid team, made up of people across the Business and Technology Domains, were able to deploy a number of Architecture Reference models to position the target companies against their own capability and working with the CEO and CIO, identify what questions needed to be asked of the target companies.

Use of the models enabled a plotting of which companies would provide the best bang for buck, which companies could support the longer term objectives and outcomes, which companies had the customer base, services, the technology platforms, the skill sets required, what integration issues existed and what bid price represented fair value. The company went on to acquire 23 companies over a 4.5 year period and achieve its business objectives of growth and scale.

Mining Group – speed up due diligence

A Mining company was about to acquire a new company and mines portfolio and needed to quickly understand the key capabilities that would be acquired and need to be integrated. The bid team used a number of checklists and Reference Models (Functional Model, Infrastructure and Applications Reference Model) to plot the key platforms and insights and this enabled a high level 100 day integration plan to be established within a week and further research to be prioritized on key integration streams.

Final say on Architecture for Mergers and Acquisitions

When the Architecture function commands the attention of the CEO and Executive Team it brings to life the value that Architecture can deliver in supporting an organization's business strategy.

The Architecture models on a page can be tailored to specific audiences and provide a "picture" that is clearly understood and able to communicate the right messages and avoid the need for someone like the CEO needing to read through a 100 page written document to understand what is being acquired. Architecture success factors for M&A include a mature EA function / framework, clear representation of your own organizational assets and acceptance by the CEO and Integration team of the value to be achieved from the Architecture tools.

It is not an unrealistic goal for the Architecture function to reach into the CEO and Executive Suite. If your Architecture teams can consolidate the Architecture views within your organization, achieve good governance outcomes and engage sponsors / stakeholders then using your Architecture strength will address many of the CEO growth, M&A and integration challenges they face.

In my next white paper, I will describe how the use of Architecture can free up your Portfolio and Program budgets to focus on the key investments that need to be made.

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