Mergers and Acquisitions: The Data Dimension
A White Paper

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Trusted Intelligence
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Preamble

The world is changing more quickly than ever, particularly in the area of multi-channel data flows. The shift from the industrial age to the information age and the current financial and economical challenges are already impacting our behavior and, as a result, we are demanding more intelligent data to drive our actions or decisions. The survival of any enterprise will depend on its agility, which is fundamental to ensure sustainability and growth. We strongly believe that without data integration, data quality, and data governance, enterprise agility cannot be achieved. In a society that is consuming more and more data, data quality and data governance become fundamental to support value creation and enable growth. Therefore, it is imperative to define frameworks, models, methodologies, tools, and technological platforms to ensure the right level of data compliance and confidentiality. Although a technological platform enables information and data sharing, it is critical to protect proprietary strategies (outside the firewall) to increase trust among all business partners. Moreover, with improved data management, the total cost of ownership of the data can be cut still further.

In a data-driven world, it is the enterprise’s responsibility to execute such frameworks to preserve, improve, and sustain the global value chain and economy.

In this white paper, we will focus on mergers and acquisitions enablement through the implementation of a data excellence framework supported by a unified platform to accelerate delivery of the transaction’s benefits.
The Data-Driven Approach to Enable Organizational Flexibility

Over time, the market forces the enterprise to deal with different imperatives to remain competitive and to continue to grow. The following list includes some of the business imperatives and goals that will be required over the next five years to create value and adapt the business model to the future value chain. In all cases, the delivery of just-in-time and governed data quality is a critical factor in achieving such business goals in a rapidly changing economy.

- Introduce new products to market in 30 days
- Divest a company in six weeks
- Merge a newly acquired company in eight weeks
- Reach operational excellence in one year
- Transform the business in two years
- Reduce the number of applications by 50 percent
- Decrease the number of Enterprise Resource Planning (ERP) systems by 75 percent
- Reduce the number of vendors by 60 percent

Furthermore, as the enterprise moves from a reactive strategy focused on implementation to a proactive strategy focused on sustainability and leverage, some “what if” scenarios naturally arise, such as the following examples:

- Acquisition of a new business
- Divestment of an existing business (in whole or in part)
- Internal reorganization
  - Creation of a new global/regional business
  - Decomposition of an existing global/regional business
  - Consolidation of sales forces
  - Move of production from one factory to another
  - Development due to external factors such as legal and fiscal change
- Scale of shared service implementation

To execute these business objectives, a comprehensive global data strategy is critical and must be part of the overall enterprise strategy. The definition of a data strategy must be coordinated and owned by a data management team that operates as a business cross-functional team. To ensure business sustainability and growth, the enterprise information system needs to be able to support data process changes in a focused, fast, and flexible manner (the front end) and must include the swift re-alignment of data and data hierarchies to reflect internally or externally driven changes to the business context. Also the introduction and scale of shared services will need to be enabled and even accelerated to provide a slim, cost-efficient, and service-driven back end. Business modernization, operational efficiency, and successful mergers and acquisitions all rely on accessible, timely, high quality data.
The objectives of this white paper are to highlight the different data considerations for the acquisition of a new business. It illustrates the data strategy, framework, methodology, and platform necessary to:

- Give visibility of the impact of organizational changes on the enterprises systems and processes in order to manage the changes associated with an acquisition.
- Enable the enterprise to smoothly integrate business changes for each change scenario.
- Leverage the enterprise information system as an enabler for business flexibility and shared services implementation.

Mergers and acquisitions involve vast and complex processes from a data integration perspective. To provide a practical view of the challenges associated with an acquisition, we will base this work on a real-life scenario. Then we will illustrate the challenges that the enterprise will have to face and finally will propose a framework and best practices to enable a smoother integration of the acquired organization.

**Mergers and Acquisitions’ High-Level Considerations**

In this section, we will highlight some key parameters and questions that need to be considered and answered before signing the contract. These decisive points may highly influence the business case.

- What similarities exist in terms of scale, timing, and business model?
  - Size, geography, and existing landscape
  - Early notice gives improved planning opportunity
- What are the drivers influencing early versus late integration?
  - Business benefits versus political factors, change management
  - Early savings on infrastructure/license agreements
- What needs to be done in the first 100 days?
  - Early financials consolidation
  - Back-office implementation as shared services
- What will be the chosen integration approach?
  - Adopt versus adapt strategy
  - Timing constraint

The effort and focus of these high-level considerations depend on timescales of execution that can vary from three months to three years.

The complexity of integrating a new acquisition, as illustrated later in the example, applies to any business. From a data perspective, any organization (financial services, manufacturing, or government, for example) faces the same challenges when integrating a new acquisition. The integration of the acquired business data must take into account legal and financial constraints of the acquirer. The acquisition must also contain the acquirer’s best practices, data standards, and business rules to ensure that data quality key performance indicators (KPIs) thresholds are achieved before integration to guarantee business continuity and reduce business risk.
The Business Example

A multinational with $25 billion revenue decided to grow an emerging business by acquiring a leading company with $3 billion revenue based on a mix of product and services. The acquisition is consistent with the business’s objective to become the worldwide leading company in its particular market.

The Context

The acquired company has more than 50 different products and services to integrate into the acquirer’s systems and processes. The products and services are spread throughout 30 countries and supplied by three factories with a number of co-manufacturers and diverse business partners.

The contract states that the acquirer is only allowed to use the brands of the acquired company for 12 months after acquisition, which implies that all acquired products and services have to be rebranded or discontinued within one year after signature. Such contract terms result in additional business complexity and tight timelines.

The acquiring and acquired companies have different business processes, different financial and legal constraints, and different data management practices:

- The initial assessments reveal that data quality is poor—duplicate and obsolete records plus data inconsistency—and there is no formalization of best practices. In addition, no common data integration platform exists.
- A complex order to cash and financial process is not harmonized across the different countries.
- A very complex business model involves multiple layers of business partners.
- Each unit has its own master data systems using local languages in different countries. There are no common data standards or common approaches to sharing data.

Moreover, there are specific legal requirements for some countries to consider. Finally, the resource constraint adds to the complexity due to conflicting planning e.g. technical resources are already fully occupied with other migration activities (in this example) and business resources will not be available to validate the migrated data.

This real world business acquisition example should be kept in mind as the framework for implementation is introduced.

The Planning Overview

A high-level planning overview shows the volumes of master data to be integrated over a project timeline.

![Acquired Company Integration Timeline](image-url)
Potential impacts and issues to be considered during the Data Integration Process

Data is generally the forgotten dimension in acquisitions; once the acquisition contract is signed, it is assumed that data integration will happen as if by magic. The business people assume that the IT people will manage the data conversion from the acquired company to the current systems. IT assumes that the business knows and understands the data-related business rules that need to be part of the conversion process. Figure 2 highlights some potential business impacts due to data not correctly converted according to the appropriate business rules.

<table>
<thead>
<tr>
<th>Rule</th>
<th>Scope</th>
<th>Data Quality Dimension</th>
<th>KPI</th>
<th>Business Impact</th>
<th>Business Benefit</th>
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<tbody>
<tr>
<td>All banks must have the ISO country code in the fifth and sixth digits of the swift code</td>
<td>All active bank records</td>
<td>Accuracy</td>
<td>86%</td>
<td>14% could equate to millions of dollars in delayed payments</td>
<td>Flawless execution (agility)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Any transaction requiring a system swift code will fail</td>
<td>Increase trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rework cost, Days Sales Outstanding, cash flow, bad debt provision</td>
<td></td>
</tr>
<tr>
<td>All transactions between countries must include a transfer pricing code within the record</td>
<td>All transfer pricing records</td>
<td>Completeness</td>
<td>86%</td>
<td>14% of transfer pricing records cannot be processed</td>
<td>Inaccurate financial reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Incorrect transfer pricing leading to incorrect cost of goods, leading to incorrect taxes</td>
<td></td>
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<tr>
<td>Finished goods materials with the same barcode printed on the case must have the same parent product code</td>
<td>All active finished products records</td>
<td>Accuracy</td>
<td>90.9%</td>
<td>9.1% Finished goods records are wrongly classified for revenue/cost calculations</td>
<td>Reallocation of revenue to correct bucket</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Improved decision making</td>
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Table 1. Business Rules, Data Quality Dimensions, Business Benefits

For each area of the business, key business rules need to be identified and applied to avoid any potential business impact during data conversion. A very structured methodology and framework must be followed to ensure that all critical business rules in all functional areas are considered while the data is converted. Data integration is critical to the success of the acquisition, and if the data is not consistent with the business rules, achieving the business case of any acquisition may be compromised.

The Data Excellence Framework

The data excellence framework encompasses comprehensive common processes and best practices with a common methodology understood by the enterprise at all levels. The long-term vision of the data excellence framework is to enable the enterprise to shift to a new paradigm: “Data quality culture is embedded as second nature” across the organization for business success.

The step-by-step approach of the data excellence framework is critical for the successful integration of the acquired company to fully leverage the expected value of the acquisition. The framework’s mission is to enable the enterprise to be trusted, intelligent, and agile by using the highest levels of data quality to empower its business partners, employees, and stakeholders.

This business-rules driven framework ensures successful and optimal data integration through the delivery of data quality KPI metrics, the management of the exceptions, and the inclusion of the appropriate threshold that allows all business processes to execute flawlessly after the integration.
The data excellence framework defines the business rules as rules that data should comply with to execute business processes properly. Each business rule is associated with one of the following dimensions:

- Accuracy
- Completeness
- Consistency
- Non Duplicate
- Non Obsolete

For example, data consistency is a business rule typically owned by the CIO because he or she needs to ensure that all data for reporting and operational purposes is consistent across the systems. It is crucial to adopt a practical approach to data quality and to focus on the critical business rules rather than seeking 100 percent quality, which may not be achievable within the acquisition project timelines. In a traditional data conversion/data integration initiative, an optimal level of data quality needs to be targeted to avoid delays in the acquisition integration. Figure 2 depicts a realistic view of the perceived effort between data integration effort and data quality effort in the data management life cycle as part of an acquisition process.

A key component of the data excellence framework is to provide a simple and straightforward process to govern data quality business rules, to show the results to enable corrections, and to link the data quality KPIs to the business impact for optimal prioritization (figure 3).
In addition, the data excellence framework defines the organizational roles needed during the conversion. The roles necessary for effective data governance achieved through data Stewardship include the data accountable, the data steward, and the data responsible roles supported by a data excellence group, enabled by a data excellence framework (see Figure 4).

![Figure 4. Roles and responsibilities within the Data Excellence Framework](image)

**Who Cares Most?**

The willingness and commitment of senior management is critical to the acquisition success. To get their buy-in, be sure to highlight the business impact and the benefits of process and business rules ultimately owned by them.

- CFO (risk, compliance, reporting)
  - Reliable controls and reporting based on trusted data and transparency
- COO (operational efficiency, flawless execution)
  - Agility and operational efficiency based on trusted intelligence
- CIO (cost effectiveness, business enabler)
  - Cost effectiveness based on foundation services
  - Enabler for the business to achieve its goals

**Attributes of the Data Excellence Framework**

The framework facilitates the execution of multiple data integration projects within the same timescales—for example, parallel projects in different legal entities of the acquired organization. The following characteristics are key for a comprehensive framework enabling prompt data integration of a new acquisition.

- Harmonized business and data management processes
- Standardized data structures, based wherever possible on industry standards (e.g., ISO country codes)
- Defined best practices
- A standardized data integration platform
- Global agreements with solution providers
- Increasing level of ownership of data and best practices in business functions
The Standard Data Conversion Process

This section will describe a high-level approach to accelerate and guarantee successful data integration. The methodology, supported by a comprehensive data integration platform, represents a real competitive advantage, ensures successful and rapid acquisition integration, and enables the enterprise to “industrialize” the integration and be fully equipped to face any business imperatives required in any organizational change.

Here are the standard steps in data conversion:

- Identify the data sources.
- Define the data objects that are in scope for data conversion: The term “data objects” describes all records that fulfill the same purpose (e.g., customer, supplier, and material records).
- Prepare the data object structure (DOS): The DOS gathers and organizes information from the target application point of view and indicates how the target application will use the data object. There is one DOS per data object.
- Perform the data mapping: Identifying a source for each field present in the DOS.
- Design the transformation: Logic that will allow modifying or deriving a target data field value from the mapped data field value is based on business and validation rules.
- Test the process.
- Execute and load.

The next two figures illustrate a high-level, end-to-end data conversion process.
A technical platform (see Figure 7) is critical to accelerate and support the data excellence framework. This platform must be comprehensive and scalable to support every stage of the data life cycle where the data excellence framework applies. The platform has also to support multiple parallel project implementations as follows:

- During the Data Preparation where the platform supports the execution of the framework against the legacy repository to assess the quality of the data ready to be migrated
- During the Data Conversion phase where the platform supports the execution of the framework as part of the data validation process before the load in the target repository
- During the Sustain phase where data in the new repository is regularly assessed
- During the Real-Time Entry phase as part of a data capture tool

The Platform

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Conclusions

To measure the success of mergers and acquisitions transactions, it is imperative to set up clear criteria related to the data dimension. Otherwise, the business case will be incomplete.

In our business example, the acquisition was successful. The integration of the newly acquired business was achieved within the timelines and with the required data quality levels:

- All the products and services within the project scope were integrated into the new business processes and systems.
- Units in all countries have gone live and business is following the acquirer’s process, systems, and best practices.
- All products and services were rebranded.
- Data quality thresholds were achieved.

The integration of the acquired enterprise was only possible thanks to the detailed data excellence framework and best practices enabled by a comprehensive, robust, and flexible technological platform and data governance model involving the business and IT organizations.

Our view for the future value chain is that any business strategy will only succeed if it includes a comprehensive data strategy that can address all business imperatives. A data strategy enabled by the appropriate frameworks and technology platform will cultivate a “first time right” culture, resulting in value creation beyond departmental or business unit boundaries.

High-data quality is vital to an organization’s sustainability and growth. Trusted data represents a real competitive advantage. It is time to manage data as a company asset.

The cultural change is critical for any merger or acquisition. A tremendous effort will be required in this area to ensure a successful change management. Therefore, introducing and executing a proven data excellence framework supported by a robust platform is a mandatory accelerator to deliver an efficient data integration and to support a business driven data governance while the organization focuses on the cultural challenge.

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