ERP Strategy to Follow During Mergers and Acquisitions

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When a commercial enterprise decides to merge with another enterprise of the same interest, one of the biggest things that dominates the entire talk is the consideration and execution of a successful ERP strategy for the new entity. That's precisely because managing the immense amount of data involved in a merger and creating synergy across the large portfolio requires careful consideration. It is important for the firms to determine beforehand: whether the ERP system of either of the firms stays, or both retire as the firms decide to go for a new ERP implementation for the newly-formed enterprise. There are different ways of how the IT business system or ERP integration can take place in the event of a merger, and even an acquisition, where a larger firm completely acquires a smaller firm operating in the same industry.

However, to understand them better, let's take a look at the terms mergers and acquisitions separately first, and then together. In a **merger,** the boards of directors for two companies approve the combination and seek shareholders' approval. After the merger, the acquired company ceases to exist and becomes part of the acquiring company. Whereas in an **acquisition,** the acquiring company obtains the majority stake in the acquired firm, which does not change its name or legal structure.

The difference between the two is that mergers require two companies to consolidate into a new entity with a new ownership and management structure, and acquisition requires one company to completely take over all of the operational management decisions of another. Together, **Mergers and Acquisitions** refer to the consolidation of companies or assets and can include a number of different transactions in which the ownership of companies, other business organizations, or their operating units are transferred or consolidated with other entities. As an aspect of strategic management, M&A can allow enterprises to grow or downsize and change the nature of their business or competitive position.

In today's competitive business landscape, where growing number of companies are indulging in Merger and Acquisition in order to grow market share and create more value for shareholders, it is becoming imperative to ensure the IT integration works smoothly and the valuable historical data is migrated effectively. But how to achieve it? What ERP strategy to follow during Mergers and Acquisitions? This white paper tries to decode it. Continue reading:

The Challenges with Post-Mergers and Acquisitions ERP Integration

As discussed briefly above, Mergers and Acquisitions can provide a boost to your market share, create more value for all the stakeholders, and provide an overall strategic platform for future growth. However, there is also a downside to them. The M&A activities can also accelerate the operational as well as ERP challenges for the organization that is growing/changing. A merger or acquisition often results in the companies outgrowing their ERP systems, predominantly because the two companies that are involved in the process are characteristically different in many ways, including in their respective operating models and ERP systems.

Most business processes are invariably embedded in the ERP system. Hence, it is important for the organizations going for M&A to overcome the challenges arising post a Merger and Acquisition in order to achieve their business goals efficiently and effectively, and to get a competitive edge in the global market. Here we discuss three different aspects of the challenges two different businesses face with post-M&A ERP integration:

1) Strategic: Before any Merger and Acquisition, it is a prerequisite for the companies to define their strategies and objectives. Also importantly the acquirer company must assess whether or not the business of the acquired company matches its own functions. Following this, the companies must also assess their system integration strategies.

2) Organizational: Once the strategic aspect of the challenges is dealt with, the companies involved in the Merger and Acquisition must address the organizational aspect of it. Compatibility with the acquired/merged organization is often a major organizational challenge that must be addressed for successfully integrating the functions of both the companies involved.

3) Technical: Apart from the strategic and technical aspects of different challenges companies face during Merger and Acquisitions, there are certain technical challenges as well that the companies must address. The challenges are explained below in brief:

a) Poor IT integration: Inadequate synchronization throughout the IT infrastructure makes it difficult for the companies to go through everyday business processes in a hassle-free manner, thus having an adverse effect on the overall efficiency of the business.

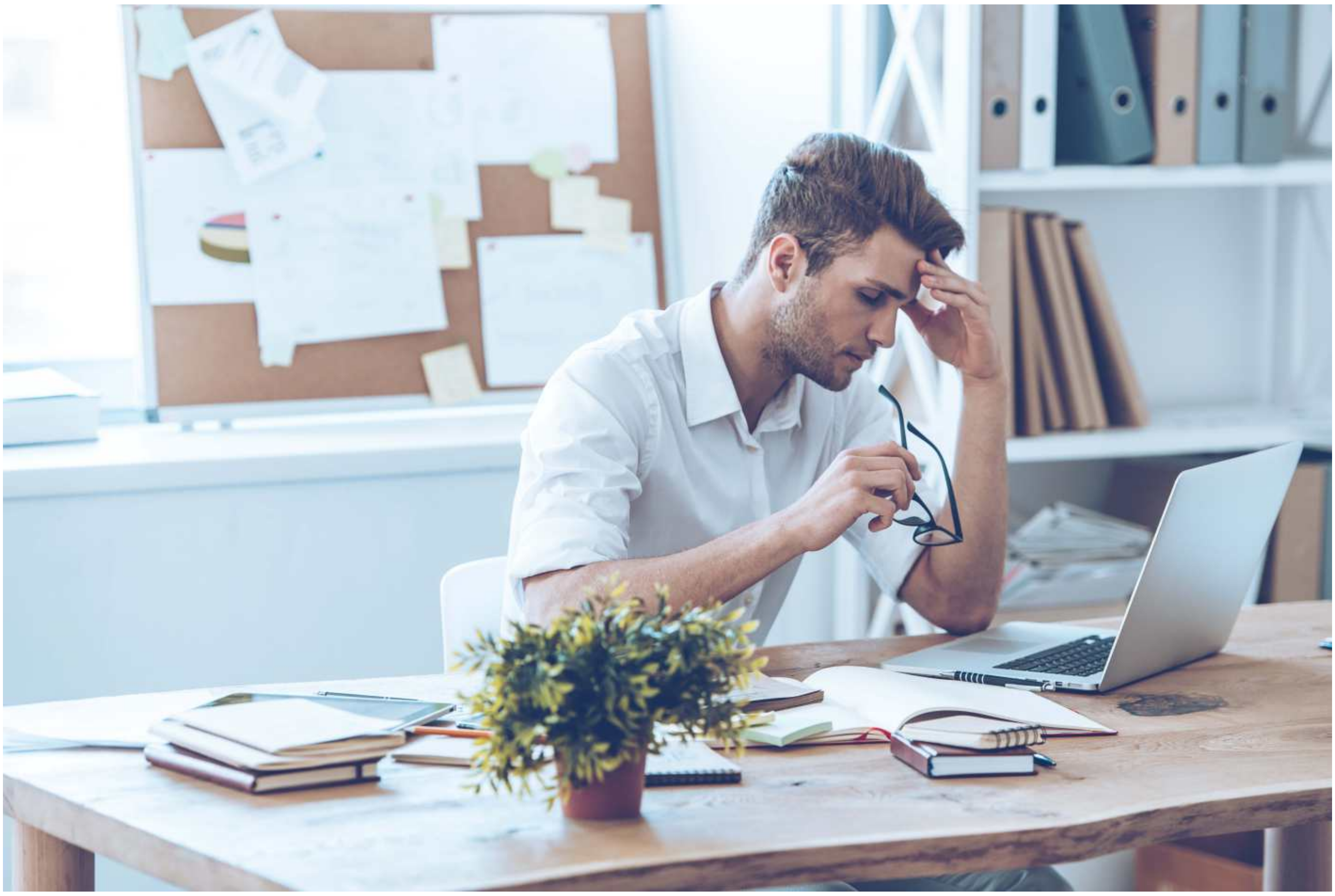
b) Visibility issues: When two similar businesses merge, there is a possibility of large amount of customer information getting duplicated. This underlines the need for single view of customer information, which can only be possible through proper integration of customer data information system.

c) Data integration & migration: Irrespective of where the data is stored, it is important that the companies can retrieve the huge amount of data scattered across various systems, applications and services. Also, migrating the same data post a merger/acquisition becomes a challenge due to different formats. This calls for firstly proper integration of the information system of two organizations, and secondly for the conversion of the data in a common format to make the data migration accurate.

d) Compliance regulation: The compliance related challenges come into play when two merging businesses have different compliance levels, or when the acquiring company is global and there is a need to impart training to the employees about new compliance policies.

e) Transition cost: System/data integration and data migration result in extra cost being incurred, which is rarely accounted for. This calls for efficient cost planning, so as to make optimized use of resources and implement the transition in minimum cost.

f) Customizations: Customization is often a necessity when two different companies are merging. However, it may lead to data inconsistency, and gaps in expected result and actual customizations, thus making it important to opt for customization only where it is necessary.



How do ERP Systems Come into Play in M&A Deals?

An ERP strategy during Mergers and Acquisitions is dependent on several factors such as:

- **Type of merger:** Mergers and Acquisitions can be of different types. To name a few, there's horizontal acquisition, where a direct competitor with a similar product line acquires a company. Then there's a type of M&A where a company in the same business, but with operations or strengths in different geography, acquires or merges with another company. Then there are M&As where a company whose offerings can provide innovation and new features for an existing product line acquires or merges with another company, or where a company with similar products but targeted toward different customer segments either merges with, or acquires another company, and finally where a company with a different product line targeted to the other company's existing customer segments either merges with it or acquires it. For every type of M&A activity, the ERP strategy would differ based on the needs and objectives of those activities.
- **Size of the firms:** Given the variety of business objectives of the Mergers and Acquisitions transactions, there is not a “one size fits all” ERP strategy that can be used across all such activities. The size of the firms plays a crucial role in determining the ERP strategy.
- **Industry:** Different industries often have different needs. An F&B manufacturer's business needs could be completely different from that of a paint manufacturer, or a pharma manufacturer. The companies going for Mergers and Acquisitions need to be wary of the same while considering their ERP strategy.
- **Existing systems:** When two companies agree to be a part of an M&A activity, they need to consider the fact their business needs and objectives could be completely different from each other, and that their ERP systems could be completely incompatible in this regard. It is important for the firms to determine beforehand which ERP system is going to stay, or if both the systems will be done away with to make way for a new ERP implementation.

ERP Strategies and M&A Strategies go Hand-in-hand

Following are three basic ERP strategies often applied in merger/acquisition or portfolio restructuring scenarios.

1) Financial reporting strategy: As per this strategy, the portfolio companies (the companies in which a holding company invests) continue to operate as separate independent entities, control their cash flows, as well as operations, but report the financial results to the parent or holding company, which continues to own them. These portfolio companies also use their own ERP systems and maintain a certain level of autonomy. The possible drawback of this strategy is that it is difficult for the holding company to monitor operations and control cash flows. Such strategy also limits the synergy across the portfolio.

However, this strategy is ideal for companies that continue to operate independently post M&A; for example, a merger between two companies in completely different markets or a merger between companies with a large geographical barrier.

2) The hybrid strategy: According to this strategy, the portfolio companies do business separately, but some of their functions are shared/merged across the business or operate on a shared services basis.

The benefits of this strategy include maximized portfolio profitability, reduced redundancies and more control and visibility into operations and cash flows. At the same time, there are certain cons too, as the outputs from different systems are difficult to manage and integrate.

In this case, the best ERP strategy would involve separate ERP systems for the various business segments, but shared services across the entire portfolio.

3) Full integration strategy: This strategy refers to full integration of both the entities into a new combined entity. Here, the portfolio companies are fully integrated and operate under one system. In this scenario, the merged company utilizes one ERP system to house data and manage operations from all aspects of the business. This makes reporting as well as monitoring easier, and results in complete synergy across the portfolio. However, in such cases where companies completely merge and create a new entity, integration and transformation to one single system can be disruptive.

Which ERP Strategy to Pick?

Well, as discussed above, different businesses have different needs. Also, the companies have certain objectives to achieve from a Merger and Acquisition. In such scenario, which ERP strategy to adopt depends largely on the type and size of their business, the industry they are operating in, as well as their objectives. The financial reporting strategy, where each part of the business continues to operate separately, will have the least impact on business systems. In contrast, a full merger of two separate entities into a new combined entity, or a hybrid strategy where some elements of the newly acquired business remain the same while others are merged, can be very challenging from business systems' perspective. It is thus important for the businesses to address the challenges with post-Mergers and Acquisitions ERP Integration, and figure out the best ERP strategy so as to achieve their business goals efficiently.

Conclusion

Making an M&A deal happen along with the consideration of an ERP strategy takes a lot of effort. It involves a thoroughly planned process for the selection of the most apt software as well as solution implementation. Without considering it, an M&A deal is likely to be unsuccessful. For all the companies opting for Merger and Acquisition, there can be multiple realistic strategic options as we saw above, and establishing which one is best depends on a variety of factors (again, as discussed above).Thorough analysis of each of the various options is thus required to devise a rational plan of action.

The modern day ERP solutions support and enable integration of two businesses significantly. Especially the Cloud-based ERP systems are increasingly configurable, faster to deploy, and specific to the needs and requirements of certain industries. BatchMaster Software offers a wide range of such solutions for the process manufacturing industries. To know more about them, visit here, or write to us at sales@batchmaster.co.in.

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