

MITIGATING THE RISKS OF SYSTEMS IN AN ACQUISITION

(Get IT right; Do it Cheap; Make it Fast)

WHY READ THIS:

- A business' IT systems pose significant risk in an acquisition of a small to mid sized company.
- It is important to define and manage realistic expectations for all parties.
- Companies have mitigated this risk through effective IT due diligence.
- It makes sense in an acquisition to have the IT systems cost effectively assessed by a professional with 40 years of experience in doing this work.
- The author has 40 years of experience in resolving systems problems in healthy and troubled firms with the charge – installing or fix it FAST, fix it RIGHT and fix it CHEAP.

THE BUSINESS SITUATION

Often overlooked in assessing business acquisition opportunities are the risks presented by the IT resources of the acquired firm. In addition, private equity firms have invested in companies to later find that IT operations are dysfunctional and drawing resources away from the greater mission of improving corporate growth.

THE RISKS OF SYSTEMS

The IT department can be a bell weather indicator for assessing company management, organizational functionality, financial diligence and internal communications. Companies can expend unreasonable financial resources on IT, problems within the company are often manifested through communications with an IT department and, in many cases, their systems just do not effectively support company operations or volume of activity.

EXAMPLES OF SYSTEMS ISSUES

A transportation company developing their own system was looking to strategically buy a competing company. The acquisition target promoted using their back office system thereby saving the acquiring company considerable time and investment. The IT due diligence found that the acquisition target company system was limited at best, provided

minimal help to operations and could not support the combined operations of both companies. The systems asset was not considered in making the acquisition offer.

In another situation a stamping company looked to merge with a competing company. The buying company was completing its own system implementation and wanted to know the impact of implementing the buying company's systems on the target company. Due diligence found that the target company systems were actually more applicable and cost effective for the combined organization and should replace the buying company systems as the corporate system.

HOW TO MITIGATE RISK

Perform a "business oriented" assessment of the target company systems to identify potential problems indicative of overall company issues. Issues addressed:

- Clarify, refine and manage all stakeholder expectations and establish mutually agreeable system acceptance metrics;
- Review how critical information is being captured and how data and reports are being used to make operational and strategic decisions;
- Assess IT investment in hardware, infrastructure, software and technical and user training to be sure the IT resources are applicable for the company;
- Assess IT scalability to support growth;
- Review privacy and security issues; and
- Assess interdepartmental communications regarding the use of the IT systems.

ABOUT THE AUTHOR

Mr. Wener has 40 years of experience in helping small and mid-sized companies cost effectively utilize systems to meet their business objectives. He has extensive in assessing system functionality and in selecting and implementing automated systems for companies across a broad range of industries. For more information contact Jim Wener at 847 927-5377 or at jimwener@aol.com.