

**SAP Solution in Detail  
Business Process Platform**



# **SUCCESSFUL MERGERS AND ACQUISITIONS**

**Aligning IT to Accelerate Postmerger Integration**

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## EXECUTIVE SUMMARY

With the frenetic pace of global mergers and acquisitions (M&A) showing no sign of abating, nearly every CIO today must at some point grapple with the enormous challenges of integrating acquired companies. Too often, though, success eludes the merged companies – with IT getting part of the blame for the failure.

In enterprises with successful M&As, CEOs and other high-level executives recognize the strategic importance of early and ongoing involvement of their IT team in the M&A process. These leading organizations have the IT team weigh in during the assessment phase and remain after the deal is signed to spearhead postmerger integration efforts.

This paper addresses how your IT group can prepare for and participate in M&A business initiatives to help maximize the deal's value, minimize risk, and speed time to benefit after the deal is signed. Among its practical insights, the paper shows CIOs the potential pitfalls that await the IT team and describes the common set of steps SAP customers are using to avoid these pitfalls and achieve rapid, highly effective postmerger integration.

## BARRIERS TO SUCCESS

Whether a company is pushing to become the market leader in an industry, leveraging synergies to cross-sell to an installed base, or looking to gain economies of scale, mergers and acquisitions can be an exciting and essential part of its growth strategy. It's a strategy that offers tremendous rewards – along with potential risks. Spurred by ongoing industry consolidations, competitive pressures resulting from globalization, and a significant rise in interest from private equity, M&A activity logged another record year in 2006,<sup>1</sup> as shown in Figure 1.

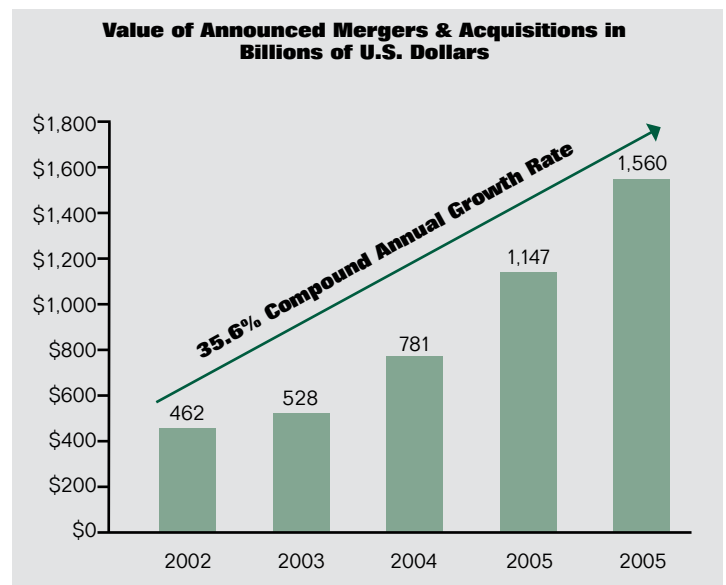


Figure 1: Value of Announced U.S. Mergers and Acquisitions, Shown in Billions of Dollars

Source: "Globalization and the Rise of Cross-Border Mergers and Acquisitions," published jointly by Accenture and the Economist Intelligence Unit, June 2006

1. "Why Do So Many Mergers Fail?" Knowledge@Wharton online database, March 30, 2005

(<http://knowledge.wharton.upenn.edu/article.cfm?articleid=1137&specialid=30>)

However, while global M&A activity continues to set records, the cold reality is that 50% of major mergers since 1990 have eroded shareholder returns,<sup>2</sup> as shown in Figure 2. The media is rife with examples of high-profile mergers – in industries such as media, technology, and communications – that saw a dramatic reduction in shareholder value as a result of difficulties integrating the acquired company. In fact, Wharton research places the range of failure between 50% and 80%.<sup>3</sup>

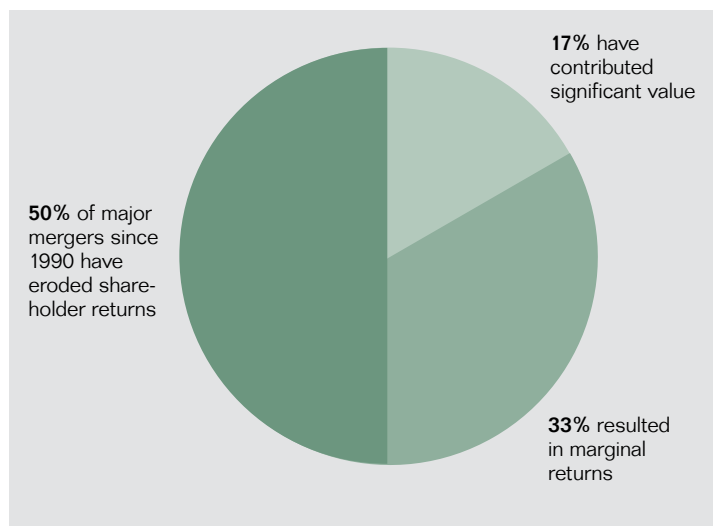


Figure 2: Percentage of M&A Deals Resulting in Failure

Source: Data derived from “Mergers: Why Most Big Deals Don’t Pay Off,” *Business Week*, October 14, 2002

The success or failure of mergers and acquisitions depends to a great extent on how well a company meets the challenges of postmerger integration, including how it defines the role of the IT group in facilitating a rapid and effective integration. Even the most straightforward scenarios – a product acquisition, for example, where there is little overlap of applications and infrastructure – present challenges for the acquiring company and its IT team. These problems can leech the value from the deal when it is not planned for carefully.

## The Challenges of Postmerger Integration

Although every merger or acquisition has its unique challenges, acquiring companies also face a common set of problems and challenges. And although most organizations intuitively understand these issues, even the best companies can underestimate the intricacies involved as they try to address M&A challenges quickly and thoroughly.

These challenges include:

### ■ Overestimating synergies

Without the right data or tools to evaluate and calculate synergies, acquiring companies frequently overestimate the value and timing of the deal. Deal makers often overestimate potential synergies and underestimate costs created by the deal. As a result, mergers frequently fail to achieve expected revenue synergies.

### ■ Customer loss

Determining which customers are profitable and creating a plan to retain them should be one of the top priorities in a merger. But companies often fail to transition customers to the merged entity. There are lots of reasons why: for example, lack of consistent customer relationship management (CRM) processes; a changed product portfolio or product duplicates; loss of a trusted sales team; and inconsistent pricing, maintenance, and support.

2. “Alliances and Mergers Services for the Financial Services Industry,” Cap Gemini Ernst & Young, February 2001.

3. “Why Do So Many Mergers Fail?” Knowledge@Wharton online database, March 30, 2005

(<http://knowledge.wharton.upenn.edu/article.cfm?articleid=1137&specialid=30>)

#### ■ **Employee attrition**

When employees leave as a result of a merger, it's usually the top employees who defect and not the underperformers. One recent study of failed acquisitions found that management attrition rates soared 47% over the three years following the acquisition, with employee satisfaction dropping by 14% and productivity dropping by 50%.<sup>4</sup> According to a study by Hewitt Associates, top human resources (HR) issues in M&As include retention of key employees, compliance with applicable laws, and alignment of culture, compensation, and benefits.<sup>5</sup> Other factors hindering an acquiring company's ability to retain top talent include duplicate or undefined roles, lack of consolidated employee data, and incompatible HR systems.

#### ■ **Supplier consolidation**

The ability to consolidate and synergize supplies from various vendors can reduce costs and add value to the supply chain. Companies that cannot integrate or establish a supplier relationship management (SRM) system quickly are prevented from enjoying the advantages of joint development, marketing, and sales efforts with partners.

#### ■ **Inability to track key performance indicators (KPIs)**

Disparate systems and data prevent management from having visibility into the performance of the combined companies. The ability to analyze KPIs, even when underlying systems are not yet integrated, is essential to assessing the success of a merger or acquisition. By tracking performance, executives can identify problems earlier to keep earnings on track.

#### ■ **Slow and incomplete integration**

The quality and speed of postmerger integration is critical to M&A success. According to research by Booz Allen Hamilton, more mergers fail because of inadequacies in the integration process than because of a fundamental flaw in the concept.<sup>6</sup> The lack of a flexible, adaptable IT environment hinders a company's ability to merge processes, assets, and systems.

To address these challenges, successful companies involve valuable members of their finance, HR, and IT organizations to participate in the premerger assessment and evaluation phase of a merger or acquisition and create detailed integration plans once the deal is sealed.

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4. "Merger & Acquisition Integration Excellence – Executive Summary," Best Practices, LLC online database, 2000 ([www3.best-in-class.com/bestp/domrep.nsf/Content/2660176D3C73C34485256DDA0056B49C!OpenDocument](http://www3.best-in-class.com/bestp/domrep.nsf/Content/2660176D3C73C34485256DDA0056B49C!OpenDocument))

5. "The Real Cost of the Deal," *Hewitt Quarterly Asia Pacific*, volume 5, issue 1.

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6. "Post-Merger Integration," Booz Allen Hamilton ([www.boozallen.com/capabilities/services/strategy/658273](http://www.boozallen.com/capabilities/services/strategy/658273))

## ALIGNING IT WITH CORPORATE M&A STRATEGY

When the IT group is aligned with the business needs of the company, it is becoming a strategic partner in business initiatives such as mergers and acquisitions. For instance, with the IT group participating throughout the pre- and postmerger processes, companies gain valuable insights into potential synergies and challenges and have a greater chance of achieving significant value from a merger or acquisition.

When involved early, IT experts can help assess the value of the merger or acquisition as well as address any limitations to rapid postmerger integration. For example, they might rectify data quality issues, integrate processes, or replace rigid systems that inhibit change. Aligning IT to support the business needs of the company in M&A scenarios involves two core areas of action:

- Assessing the potential synergies – or lack of them – between the companies to determine how these synergies may impact the new company’s infrastructure and applications
- Swiftly capitalizing on acquired IT assets after the merger is signed and moving expediently and successfully toward realizing the planned synergies in their entirety

### Adding Business Value During the Assessment Phase

As they assess and evaluate the merger, IT experts can conduct a peer-to-peer analysis comparing the acquiring and target companies. For instance, depending upon the overlap of various functions (such as a single help desk and a combined employee portal), the IT experts can also analyze the value of master data for all enterprise resource planning (ERP), CRM, SRM, and HR applications; assess governance procedures; and investigate synergies between IT systems. Through these assessments, they can provide insight into:

#### ■ Shared customers

Companies need to assess the existing relationships of shared customers and find ways to retain those customers after the merger or acquisition. Unified master data and integrated applications ensure that the merged company has insight into profitable top-line customers and can focus on them immediately.

#### ■ Prospects or target markets

By analyzing customer data to identify size, geographic location, or industry, the acquiring company can assess potential market growth.

#### ■ Shared vendors

Merging companies need to identify duplicate vendors across various procurement activities to streamline costs and form an efficient merged entity.

#### ■ Products

By assessing products in a combined portfolio, companies can determine overlap and pricing inconsistencies, identify the impact of redundant or similar products on the customer, and communicate product transition plans to joint customers.

#### ■ Employees

By assessing roles and responsibilities, companies can pinpoint overlap and work with the HR organization to identify and retain top talent. It’s critical that employee benefits and compensation continue without interruption and that employees realize quickly that they can rely on the merged entity for day-to-day operational requirements.

A recent article in *Computerworld* highlights the importance of master data evaluation. The article focuses on a bank with a 3% to 5% bad-debt ratio on its credit-card operation. This bank acquired another bank. The acquired bank had a 15% bad-debt ratio, which nearly put the acquiring bank out of business.<sup>7</sup> Had the acquiring company assessed master data across the combined entity, it could have recognized the risk and acted to avoid it.

7. “Piecing Together the Data Picture,” Sami Lais, *Computerworld*, August 11, 2003.

The IT team can also assess the level of governance and compliance supported by each organization. By evaluating the overall software architecture and implementation of end-to-end business processes, it can ascertain potential security vulnerabilities that should be addressed in postmerger integration to mitigate risk to the acquiring company. The team can also assess the use of current governance, compliance, and risk-management tools.

Finally, IT organizations should evaluate the overall synergy of IT systems, including the enterprise architecture, hardware, networks, data stores, technology platforms, business software, and user interfaces. This enables companies to plan a comprehensive migration path and more accurately estimate overall savings.

### **Delivering Value During the Postmerger Integration Phase**

Farsighted CIOs use the prospect of M&As to drive needed IT changes that will allow rapid, effective postmerger integration. Not only do they evaluate their overall IT architecture, they also assess the underlying infrastructure and essential applications required to support core business processes. Then they take steps proactively to create a flexible, unified IT environment that facilitates postmerger integration.

A flexible IT environment maximizes interoperability, shortens development time, and enables seamless integration internally and across merged companies. With a flexible, unified IT environment, the IT organization can deliver significant value in the postmerger integration phase in several ways:

- **Improving IT effectiveness**  
By reducing the risk and effort of integration
- **Unifying the IT infrastructure of the merged companies**  
By setting an order of priority and consistently communicating changes to the employees, customers, and partners impacted by the merger
- **Driving cost savings**  
By identifying and eliminating redundant data, processes, or systems

- **Enabling end-to-end business processes across merged organizations**

By seamlessly integrating existing applications and creating new shared-user interfaces from which users can implement end-to-end business processes

- **Supporting expanded product or market breadth**

By integrating new products into key systems and centralizing master data management (MDM) while minimizing costs

- **Enabling increased business scale**

By supporting expanded locations, offerings, and customers with new, quickly composed services and applications

IT organizations that prepare early and effectively for mergers and acquisitions and are best aligned with business can speed postmerger integration, provide a stable environment for core business during the transition, and enable the company to meet its merger goals.

## SAP® SOLUTIONS: FACILITATING SUCCESSFUL M&A

SAP has extensive experience in global mergers and acquisitions – across 27 industries. No firm is better equipped to act as a strategic business partner in M&A situations. SAP can help CIOs navigate the M&A process with ease using resources ranging from M&A consulting services to the application building blocks that result in a flexible IT platform. It delivers an end-to-end solution that enables an IT team to contribute significant business value before, during, and after a merger or acquisition.

### Achieving a More Flexible IT Environment

To help an IT organization achieve the agility it needs to support M&As, SAP helps it evolve existing IT infrastructures into a more flexible business process platform. A business process platform is a unified environment – based on enterprise service-oriented architecture (enterprise SOA) – that companies implement to perform core business processes across the IT landscape.

In enterprise SOA, software is defined and written as building blocks of Web services that conform to a set of standards and principles that allow for their discovery, execution, and reuse. Based on open standards, enterprise services facilitate greater interoperability between software systems, seamless integration of applications, and rapid innovation of new business processes.

To deploy a business process platform, IT organizations start with preconfigured software from SAP to help manage current business processes more efficiently and cost-effectively. IT teams can build upon these SAP® solutions and extend their business process platforms by adding SAP and non-SAP functionality to meet specific needs. SAP provides the following building blocks to support a business process platform:

#### ■ Ready-to-execute software for business processes

SAP applications, such as those that comprise the SAP Business Suite family of business applications, have been service-enabled and provide out-of-the box functionality for running core business processes. This functionality can be adapted easily using enterprise services.

#### ■ Reusable enterprise services

SAP solutions support business activities that are modularized into process steps and exposed through enterprise services. These enterprise services share common business semantics to improve governance and communication between applications.

#### ■ Unified technology foundation

The SAP NetWeaver® technology platform unifies technology into a stable foundation that ensures the smooth operation of core applications across a heterogeneous environment. It also enables rapid innovation by delivering more than 1,000 enterprise services, which can be combined, extended, or created via easy-to-use composition tools.

With a business process platform enabled by SAP software and technology, IT organizations can respond rapidly to change, drive business process innovation, and reduce costs across the merged companies.

### Supporting the Merger Assessment Phase

Early IT involvement is critical to merger success, and the M&A alignment business consulting service from the SAP Consulting organization provides the insight and analysis the M&A team needs for informed decision making. At the same time, this in-depth assessment helps the IT team begin to formulate integration plans and requirements for the postmerger phase. SAP enables the IT team to be a trusted partner at the M&A table, offering expert insight into M&A success factors.

For instance, a manufacturer with expectations of reducing costs postmerger by 15% to 20% requires validation that this is indeed feasible. SAP can help with this validation by evaluating and assessing ways IT can enable the merged company to streamline the manufacturing process with more efficient supplier management, improved logistics with just-in-time delivery, and better inventory management.

### **M&A Case History #1: AarhusKarlshamn**

#### Responding Quickly to Customer Postmerger Needs

**Company:** The merger of two leading vegetable oil producers made AarhusKarlshamn AB, with €1.1 billion in revenues, one of the leading players in the highly competitive global oils and fats industry.

**Challenge:** The lack of integration between processes and data threatened the efficiency and speed with which the merged company could serve its customers.

**Solution:** The IT organization first implemented the SAP NetWeaver® Exchange Infrastructure component. Then, using the SAP NetWeaver Master Data Management component, it consolidated the data, removed duplicates, and merged customer records. Finally, it developed a sales cockpit using the SAP NetWeaver Portal component. The cockpit enables account managers to access all available information about a particular customer and perform complex pricing calculations quickly.

**Results:** With help from the SAP® Consulting organization and the SAP NetWeaver technology platform, AarhusKarlshamn streamlined processes to deliver superior customer service and maintain its competitive edge. Specific results:

- Phased implementation, completed within nine months
- Single view of customer data, speeding turnaround of quotations and improving customer satisfaction

### Enabling a Common Path for Postmerger Integration

In an SAP study completed in December 2006, 175 leading companies spoke about the business initiatives they undertook to ensure operational excellence or improve business agility – and how IT supported these initiatives. For companies pursuing mergers and acquisitions, IT organizations played a significant role in reducing the time required to synergize assets, processes, and systems between the merged companies. The study revealed a common path (see Figure 3) successful IT organizations employed to support M&A.

The customers in the survey relied upon SAP solutions and services to swiftly and precisely execute the steps in the common path for mergers and acquisitions.

#### Step 1: Develop a Single Version of Truth for Corporate Information

With SAP support, companies can consolidate and harmonize data to deliver trusted information, building a single view of a newly expanded product portfolio, best suppliers, and most-profitable customers. For example, SAP enables merging companies to do the following:

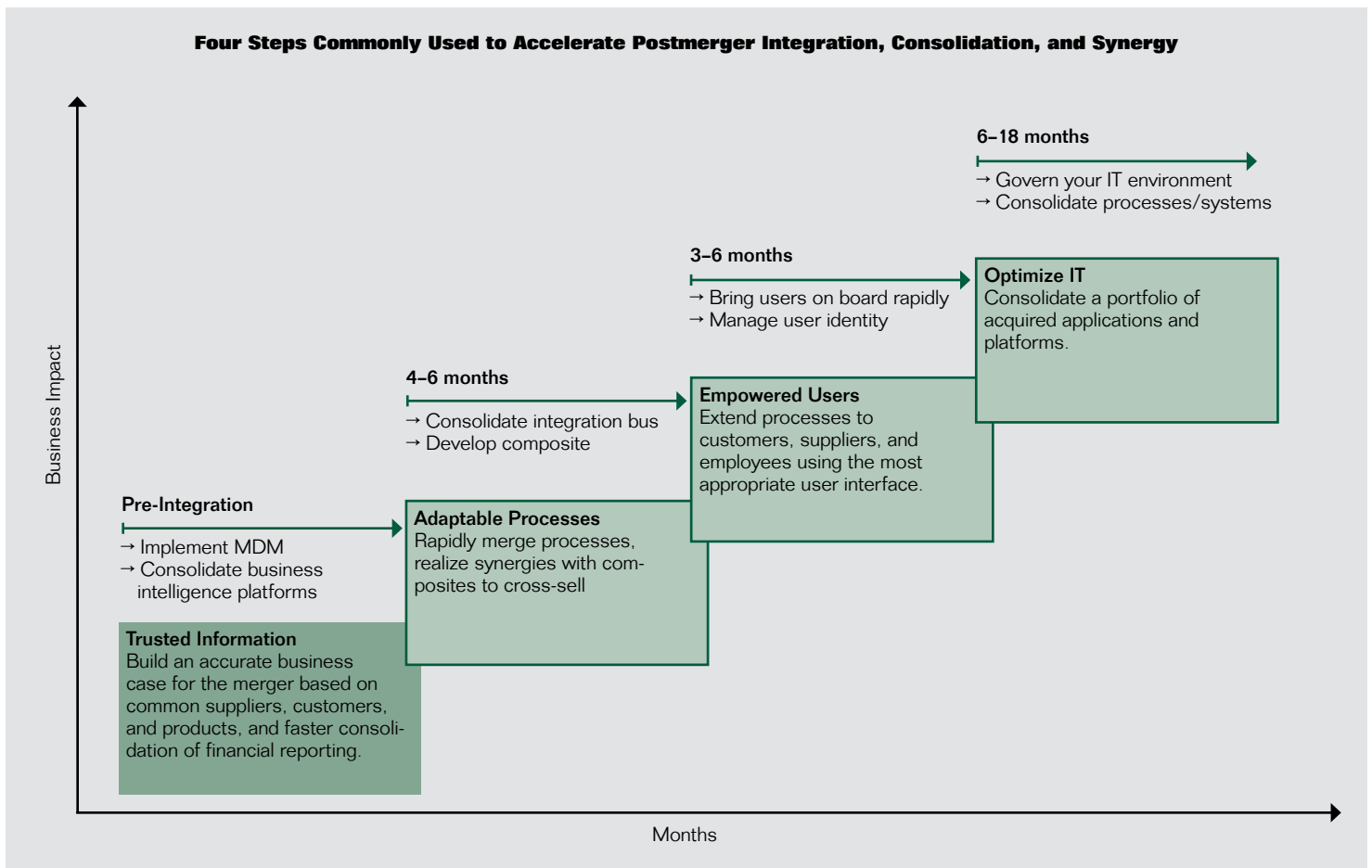


Figure 3: Common Path to Successful Mergers and Acquisitions

- **Consolidate master data**

Using the SAP NetWeaver Master Data Management component, companies can consolidate and harmonize employee, supplier, customer, finance, and product data to ensure data quality and create one system of record.

- **Leverage consolidated data for reporting**

Using the SAP NetWeaver Business Intelligence component and the SAP xApp™ Analytics composite application to generate reports and analyze data across systems and company boundaries, company executives gain the insight they need to manage the performance of the combined companies.

Customers can also take advantage of several services from SAP Consulting to assist them in data-system sizing and data quality analysis, governance, monitoring, and enhancements.

## **Step 2: Enable Flexible Business Processes Across Merged Organizations**

Companies using SAP technology and services can integrate core business processes and applications and begin composing new, shared applications to support innovative new business processes that benefit the merged companies. SAP enables the IT organization to integrate information and applications from almost any source by using enterprise services, industry-specific business packages, or flexible adapters. With SAP support, companies can:

- **Merge business processes**

SAP pre-integrates core technologies, applications, and industry best practices in a single, flexible environment for rapid integration and faster time to benefit in the postmerger integration phase.

- **Quickly integrate third-party applications**

The SAP NetWeaver Process Integration offering (the next version of the SAP NetWeaver Exchange Infrastructure component) enables companies to integrate third-party applications rapidly while reducing interface development costs.

- **Compose new processes**

The SAP NetWeaver Composition Environment offering enables companies to quickly create new processes to support the changing business needs of the merged companies.

As companies create new business processes, SAP Consulting provides the expertise and knowledge transfer that helps an IT team move quickly while gaining the skills it needs to model and compose processes.

## **Step 3: Empower Users to Take Advantage of Shared Assets**

Companies can deploy an enterprise portal to empower users, facilitate communication, and encourage collaboration among the merged organizations. And their IT departments can deliver relevant applications and information to users within the merged entity in the appropriate context (for example, a portal, desktop application, interactive form, or mobile device). In addition, SAP solutions:

- **Enable user productivity**

Via the SAP NetWeaver Portal component, companies can deploy an enterprise portal with single sign-on, enabling rapid access to applications and information for the combined user base and streamlining communications across merged companies. Companies can also support user preferences by deploying mobile applications to support offline workers. Or they can use Duet™ software to facilitate easier access to SAP applications via the familiar Microsoft Windows interface.

- **Ensure role-based access**

Using the SAP NetWeaver Identity Management component, companies can ensure role-based access to relevant applications and information and deliver a common framework for security across the merged entity without the need for two separate infrastructures.

#### Step 4: Optimize the IT Landscape

Companies can evolve their existing IT landscape into a more centralized, optimized IT environment by retiring nonstrategic IT systems and applications over time. With SAP support, organizations can consolidate the infrastructure of acquired and existing legacy landscapes around a business process platform and build an adaptive landscape to support business change. SAP enables IT to better align with business goals by enabling an IT team to:

- **Assess the current architecture**

With the SAP Enterprise Architecture Framework methodology from SAP Consulting, IT organizations can evaluate the current environment to align it with the increased requirements of the merged entity.

- **Evolve the IT landscape**

Over time, using SAP NetWeaver and the SAP Solution Manager application management solution, companies can evolve to a more centralized environment to reduce integration costs and streamline administration.

- **Manage the IT portfolio effectively**

Using the SAP xApp Resource and Portfolio Management composite application, the IT team can manage the complete IT project portfolio and ensure M&A activities are effectively supported across the enterprise. With ongoing progress management of milestones across the merged entities, plans can be fine-tuned to keep postmerger integration on track for success.

#### M&A Case History #2: Valero Energy Corporation

Enabling Rapid Growth Through Acquisitions

**Company:** Through a series of acquisitions, Valero Energy Corporation, the largest oil refinery company in North America, has grown from 1 refinery in 1997 to 18 today, and from US\$5 billion in revenue to more than \$90 billion.

**Challenge:** Integrate the many disparate IT systems that new acquisitions bring with them.

**Solution:** Valero uses the SAP NetWeaver® technology platform to integrate disparate operational systems and centrally monitor business processes. At the same time, Valero is using enterprise services to compose innovative applications faster.

**Results:** Valero improved business efficiency, on-time reliability, and performance tracking accuracy while cutting time to bill, time to close, and maintenance and support costs. Specific results:

- Integration of merged companies in 10 to 24 weeks
- Significant reduction in application development time
- Savings of \$480,000 in one month alone

### Benefits of an Integrated, Flexible SAP Solution

With SAP support, companies can evolve their current IT environment into a flexible, adaptable landscape that sets the stage for postmerger integration success. SAP solutions target the key factors in M&A that impact the performance and success of the merged company: retaining customers, partners, and employees; realizing potential synergies; speeding the rate of postmerger integration; and providing visibility into the performance of the merged company.

By addressing these common M&A hurdles, SAP enables companies undertaking M&As to enjoy these tangible benefits:

#### ■ Achieve revenue goals quickly

By accelerating the postmerger integration process, SAP solutions and services enable companies to achieve revenue synergies faster. The solutions help companies analyze integration priorities and quickly integrate applications and infrastructures to create a unified view of profitable customers. With this view, companies can take action to retain these accounts and secure the current revenue stream.

#### ■ Reduce operating costs

SAP solutions also help acquiring companies achieve cost synergies faster by enabling quicker, easier IT integration. IT can provide a single source of truth through consolidated, harmonized data, enabling companies to reduce material costs, decrease procurement process costs, lower sales costs, and reduce customer service costs.

#### ■ Free up working capital

SAP technology enables merging companies to consolidate and integrate faster, eliminating redundancies and freeing up working capital. Optimizing the business processes of the merged companies – to reduce inventory levels, for example – delivers further gains in working capital.

### M&A Case History #3: Vertellus Specialties Inc.

Consolidating Operations to Save Money, Improve Efficiencies

**Company:** In 2006, Reilly Industries and Rutherford Chemicals merged to form Vertellus Specialties Inc., a leading provider of specialty chemicals.

**Challenge:** Save millions of dollars annually by consolidating operations between the two companies. This required aligning the two firms' IT infrastructures – one was running a 10-year-old version of SAP® software that was no longer supported, and the other ran business software from another vendor that was also unsupported.

**Solution:** First, Vertellus implemented the latest version of the SAP ERP application, which runs on the SAP NetWeaver® technology platform. Next, Vertellus plans to implement the SAP NetWeaver Business Intelligence component to analyze plant operations and recoup maintenance spend.

**Results:** By upgrading to a flexible IT environment from SAP, Vertellus has gained the ability to optimize operational resources globally, realign corporate data to match business needs, and support dynamic changes in its business model to enable competitive change. Specific results:

- Within nine weeks of the merger, Vertellus was able to consolidate processes and systems on a single platform.
- The merger saves the company an estimated US\$4 million annually.

## **MERGERS AND ACQUISITIONS: BEATING THE ODDS**

More than ever before, mergers and acquisitions are an essential part of doing business – regardless of the industry involved. For the CIO, M&As can represent a one-of-a-kind leadership opportunity to spearhead a successful postmerger integration.

To beat the prevailing odds against M&A success, SAP helps IT organizations align with company business initiatives by enabling a flexible, adaptable IT environment; providing the tools and services to assist IT teams in premerger assessment of potential synergies; and accelerating postmerger integration with an end-to-end solution for the common path.

As the world's largest business software company, SAP has the rich history of innovation and extensive experience needed to help customers in any industry get the IT support they need to overcome common barriers to M&A success. For more information about how SAP can help your company enjoy a successful merger or acquisition, visit us at this Web site:

[www.sap.com/platform/index.epx](http://www.sap.com/platform/index.epx).

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