Achieving transformative change

The critical role of cloud integration in business restructuring activities

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Mergers and acquisitions (M&A) activity has accelerated as economies worldwide recover from the COVID-19 pandemic. However, organizations are now looking beyond costs and synergies to create real transformative change through these deals. This position paper explores why a managed services approach to business integration has become critical for success in one of the most important M&A activities: business and supply chain integration.

Executive summary

The global economic recovery as the world emerges from the COVID-19 pandemic has put a sharp focus on mergers and acquisition (M&A) activity. The number of deals in 2021 easily surpassed pre-pandemic levels.[1] And, that upward trajectory is predicted to continue.[2]

While M&A bounces back, the shape of these deals is also evolving quickly. In the past, organizations looked at a the cost and synergy benefits of deals. Today, a key driver is to achieve transformative change to business and operating models. According to KPMG research, nearly two-thirds of organizations measure the effectiveness of their M&A activity on the success of their transformation.[3] However, there are many moving parts involved in any merger, acquisition or divestiture.

EY states: "Mergers and acquisitions are fast-paced, high-stakes, time-intensive events. M&A integrations can often be extremely complicated due to the level of interdependencies throughout the entire organization, and successful ones require a unique set of resources and skills that may not be built into the core operating model of an organization."[4]

Studies have estimated the failure rate for M&A to be high as 90 percent.[5] That's without layering a transformation program on top—especially as these programs often aim to address technology and digital weaknesses within the acquiring organization.

Discussing M&A trends in 2022, KPMG commented: "The key attributes firms are looking for are ways to improve their technology platforms and resources. The aim is to increase efficiencies and contribute to having more agile workforces."[6]

Following the restructure of a business, either by M&A or divestiture, a company could take many directions for managing its B2B integration requirements, including:

- Continuing to use its existing B2B integration platform.
- Creating a hybrid solution based on the B2B integration capabilities of both organizations.
- Implementing and managing a new B2B integration platform.
- Outsourcing management of the entire B2B integration platform to a trusted partner.

The position paper looks at the role of managed services in maintaining and building strong B2B integration capabilities during and after a merger or divestment, and why this is an increasingly attractive option for medium and large organizations.

1 KPMG, 2021 was a blowout year for M&A - 2022 could be even bigger. (2021)

2 Deloitte, The future of M&A: 2022 M&A Trends Survey. (2022)

3 ibid

4 EY, Nine steps to setting up an M&A integration program. (2021)

5 Harvard Business Review, The Big Idea: The New M&A Playbook. (2011)

6 KPMG, 2021 was a blowout year for M&A - 2022 could be even bigger. (2021)

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More, bigger, faster: Key trends in M&A transactions

Deal makers are looking to the M&A opportunities available in an environment of low interest rates, easy access to capital and a recovering economic outlook. For example, M&A activity in Asia Pacific (APAC) hit record highs in 2020 and has continued growing since.[7]

M&A teams are increasingly bullish—moving from deals designed to protect what they have to a more offensive footing, which places transformative change as the driver to business growth. In fact, in a Deloitte survey, just more than half of U.S. CFOs said they expected M&A to drive as much as half of their companies' growth over the next three years.[8]

Six key trends impacting the business restructuring space

Digital transformation

Companies are aiming for more transformational change and many are focused on achieving that transformation during the transaction. Digital transformation is the most common reason cited for business restructuring through M&A, which is closely followed by process simplification and automation.[9] Almost a third of organizations look to achieve this transformation during the deal.[10]

Commercial diversification

The pandemic has made corporate resilience a key feature of many business strategies. Not only does this involve re-assessing supply chain activities and the functioning of global business partner networks, but also creating a flexible and agile product and service portfolio to deal with uncertain demand and operating conditions in current and future markets. More than half of the executives surveyed by Deloitte are looking to acquire entire companies to help diversify their commercial portfolios, with almost 60 percent seeking access to new products, services and technologies.[11]

Divestitures

Divestitures are also on the rise, and more executives report they are open to alternative strategies. Many businesses are divesting non-core assets to access capital in order to acquire businesses aligned with their core strategies. Nearly 60 percent of Deloitte respondents had completed a divestiture in the previous 12 months and a further 32 percent stated they were considering at least one.[12]

Talent acquisition

The great attrition has seen millions of employees worldwide walk away from their jobs.[13] This alarming trend has accentuated the shortage of skilled labor—especially digital skills—that has begun to impact productivity and business strategy. KPMG suggests that some organizations are beginning to use M&A transactions as a near-term means to address this issue. In fact, one-third of executives surveyed by KPMG said they would use M&A to acquire more talent in 2022.[14]

7 SS&C Intralinks, Global Dealmaker Survey Reveals 2022 M&A Outlook for Asia Pacific. (2021)

8 Deloitte, The future of M&A: 2022 M&A Trends Survey. (2022)

9 ibid

10 ibid

11 ibid

12 ibid

13 McKinsey & Company, 'Great Attrition' or 'Great Attraction'? The choice is yours. (2021)

14 KPMG, 2021 was a blowout year for M&A - 2022 could be even bigger. (2021)

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International deals

In 2021, the top reason for M&A activity was a response to regulatory, tariff and trade changes. In a world of constantly changing regulations, this is set to continue. Deloitte found that 54 percent of those surveyed felt the tightening regulatory environment would spur more deal activity. This becomes more challenging as organizations look to international deals to develop agility and resilience in their business and supply chains. Almost 70 percent of organizations said they would be taking a greater interest in international deal-making going forward.[15]

Delivering value faster

Today, M&A teams are under greater pressure to deliver value from deals faster. However, the obstacles to a successful transaction are exacerbated in a situation where bringing the acquirer and acquired organizations together is no longer enough. Sustainable transformative change means an increased focus on the technology and digital elements of the deal to achieve the level of IT integration required—not just internally but across the organization's ecosystem of suppliers, partners and customers.

15 Deloitte, The future of M&A: 2022 M&A Trends Survey. (2022)

Chinese TV manufacturer builds new global B2B environment in six months

When a company was spun off from a large electronics manufacturer and formed a joint partnership with a Chinese television company, it had only six months to reinvent its entire B2B capabilities. The company needed to find a way to create a new B2B environment without impacting the business. Working with OpenText, it quickly established support for nearly 350 data maps. One-third were transitioned from the former company, another third were moved and modified and the final third were completely re-written. It also met its RosettaNet trading requirements with trading partners in 11 countries around the world.

The importance of B2B integration in M&A transactions

The role of information systems in mergers and acquisitions becomes increasingly important as the need for speed of reaction and information grows. McKinsey suggests that 50 to 60 percent of the initiatives intended to capture synergies are strongly related to IT.[16] These also include IT-enabled processes, such as B2B, HR, Finance and customer experience.

Because of the pervasiveness of IT across an organization's value chain, the ability to integrate the underlying IT systems and related management processes of the acquirer and target is important for continuing overall business operations without causing major delays or disruptions. The B2B platform can either act as a barrier to a successful transaction or the catalyst to release full value from the M&A deal.

The time available is very short, often as little as 12 months. Companies that have spent years integrating and consolidating their business processes and IT systems find themselves with 12 months to de-couple and transition them. This is hardly sufficient time to select and implement a new ERP or supply chain system, let alone complete integration across both organization's systems and processes.

Maintaining contact and continuity with trading partners in an increasingly extended digital ecosystem is vital. Organizations must find a way to transition these partners into its systems while beginning to impose its business processes and contract agreements in order to achieve efficiencies through economies of scale. The inability to maintain positive and productive relationships with customers and partners will damage short-term profitability and long-term growth to the point of putting the entire deal in jeopardy.

Whether M&A or divestiture, the organization quickly has to establish which B2B capabilities to transfer, which to retire and which will need a new solution to deliver.

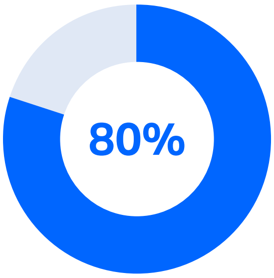
It's difficult to overlook the importance of effective IT integration, especially B2B requirements, as this element often represents more than half of the entire transitional budget for the deal.[17] Research shows that organizations with strong integration capabilities demonstrate higher performance from the merged organization in both the short and long term.[18] In fact, this can represent a 27 percent return on investment in the first year alone.[19]

16 McKinsey & Company, Understanding the strategic value of IT in M&A. (2011)

17 Deloitte, Dear CFO, why IT does matter within M&A transactions Insights & Recommendations. (2014)

18 Khazanch, Deepak and Arora, Vipin. (2016). Evaluating IT Integration Risk Prior to Mergers and Acquisitions. ISACA Journal.

19 BTD Consulting, Typical M&A Integration Costs: From 1% to 7% of deal value, regardless of deal size.



of an average IT department's resources and budget are spent on running the business and only 20% is spent on growing the business.
Source: Wild Oak Enterprises

M&A: Rethink the role of your B2B integration platform

Achieving transformational change from M&A activity often comes from the organization acquiring cutting-edge technology or innovation that can be integrated into their systems to accelerate business growth. Research suggests that a company's ability to leverage digital capabilities result in margin and profit growth up to three times faster than the average.[20]

Yet, IT is still often far from being regarded as the business enabler needed to drive digital transformation. In fact, almost half of CEOs and boards view IT as a cost center, not a revenue generator.[21] Research suggest that, today, the average IT department spends 80 percent of its resources and budget on running the business and only 20 percent on growing the business.[22]

The M&A transaction allows both organizations to examine the viability of transition from on-premises legacy systems to modern, cloud-based services. This is particularly true for the B2B platform. A cloud-based infrastructure can cost-effectively deliver a scalable, secure and high performance means to connect and collaborate with the ecosystem of partners wherever they are in the world.

This approach removes many issues involved in delivering new B2B capabilities as part of the M&A or divestiture. These include:

Business continuity

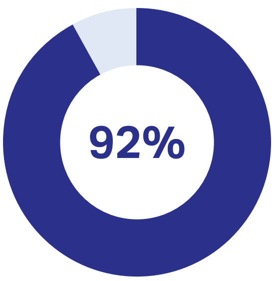
Selecting a cloud-based B2B platform allows for easy connectivity between any new capabilities that have to be created and the current B2B systems of the organizations involved. Essential systems and processes can remain in place during the transition and transferred or retired gradually as business requires or new capabilities come on-line.

Supply chain and B2B relationships

It's essential that business experiences as little disruption as possible. A cloud-based B2B platform speeds the transition of existing partners to the new capabilities while enabling the organization to continue with existing relationships and contract terms during the transition. For many organizations, the M&A will mean the need to embrace new trading partners or recruit new partners to support new products and business models. A cloud B2B resource can speed the process of identifying and onboarding new partners globally.

Data integration

When bringing organizations together, the M&A team can create new systems, integrate disparate, legacy systems or select the best systems and work out what integration is feasible and what's not. With organizations now working with more partners and internal and external systems than ever, B2B integration—especially with incompatible, legacy solutions—requires particular focus. According to Forrester research, 92 percent of organizations say operational and technical challenges with their integration strategies result in serious business repercussions.[23] Modern, cloud-based B2B platforms can include API integration to enable any-to-any integration to facilitate a smooth evolution of B2B capabilities.



of organizations say operational and technical challenges with their integration strategies result in serious business repercussions.
Source: Forrester

21 Wild Oak Enterprises, In the digital world, IT should be run as a profit center, not a cost center. (2020)

22 ibid

23 Forrester, Digital Businesses Demand Agile Integration. (2019)

While M&A activity gives an organization the opportunity to re-assess the B2B technology solution in place, it also provides space to look at how its B2B services are delivered. This increasingly means exploring B2B managed services as a means to reformulate business strategies and trading partner relationships and reorganize IT and business processes to adapt to specific M&A and supply chain opportunities.

The increasing popularity of B2B managed services

Outsourcing the management of B2B capabilities is an attractive option for M&A teams faced with limited time, skills and resources to achieve the transformational change expected. It enables an organization to shield itself from the complexities of the transaction. Managed services delivers a repeatable, proven, people-process-technology solution to extend the capabilities of internal business functions and optimize integration solution performance for business growth.

Recent research from IDG found that 94 percent of organizations felt that B2B integration was vital for business success, with more than two thirds already using a managed services provider for some or all of their B2B capabilities.[24]

While almost a quarter of respondents placed M&A activity as a key driver for B2B integration, Figure 1 shows that many of the goals of M&A activity are mirrored in what organizations want from their B2B capabilities. The chief driver is digital transformation, closely followed by workforce optimization, ERP integration and entry into new markets and geographies.

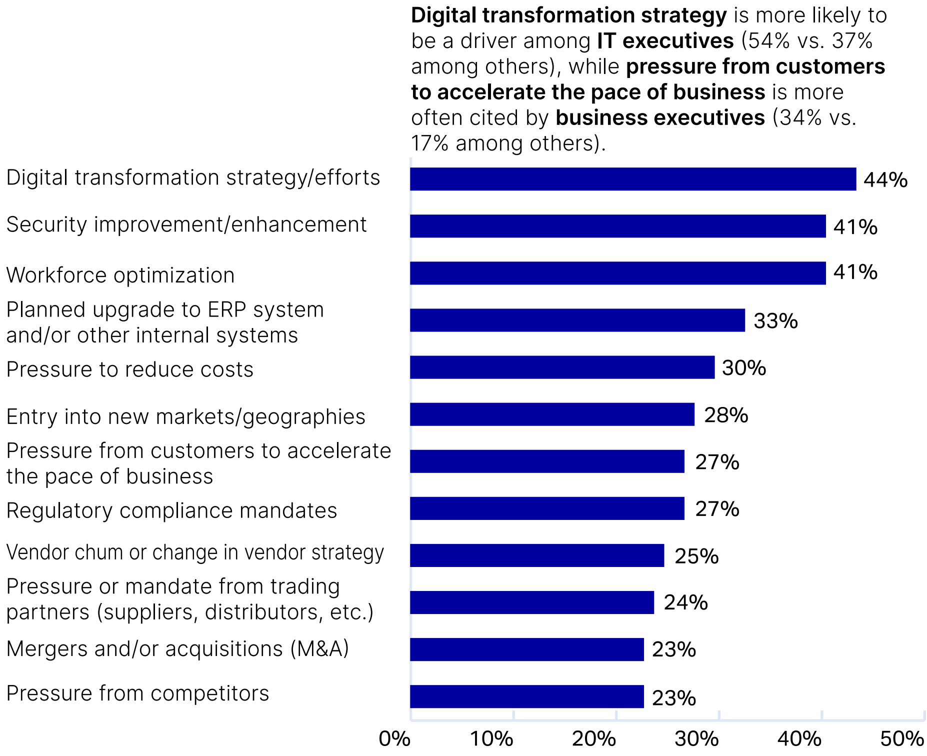


Figure 1: Top drivers for B2B integration (Source: IDG)

24 IDG Marketpulse, Taking a Managed Services Approach to Complex B2B Integration. (2021)

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In this context, managed services offers a cost-effective and customizable way to gain access to capabilities and resources that address many of today's B2B challenges involved in business restructuring following M&A or divestiture, including:

Document mapping & translation	Why managed services?
• Following restructure, companies can be faced with hundreds or thousands of individual document maps • Maps may need to be transferred, amended and transferred or replaced with new maps to short timescales • New partners are likely to require new maps in order to begin trading	• Providers offer a dedicated mapping resource, which can deliver any-to-any document mediation skills • Providers are up to date on the latest document mapping standards as defined by global industry bodies • Whether creating new maps, consolidating maps or updating old maps, providers help ensure that a restructured operation can transition smoothly to the new B2B environment
ERP integration	**Why managed services?**
• Consolidation of ERP instances will be a high priority project following an M&A process • Business restructuring can be seen as an opportunity to develop a fully integrated ERP/B2B platform for the first time • ERP platforms can be difficult and time-consuming to integrate to a B2B platform • During a divestiture, personnel with ERP-related skills may remain with the former parent company	• Providers can offer additional B2B resources to manage B2B/ ERP integration projects, leaving the company to focus on other restructuring activities • Whether consolidating SAP® ERP instances or upgrading to new Oracle® ERP modules, providers can help ensure that the B2B network can seamlessly connect with these enterprise resources • Providers offer a wide range of native and API-based connectivity to their B2B network to integrate with virtually any enterprise system
Trading partner management	**Why managed services?**
• Following restructuring, it is important to maintain continuity of operations with trading partners • Newly acquired business should be assessed quickly to understand how the new global trading partner community operates • B2B capabilities will need to be analyzed and temporary communication links may need to be established • As well as onboarding, trading partners will require training and ongoing support for new B2B processes	• The best providers deliver a wide range of community management resources and tools to manage trading partners while a business goes through a restructuring process • Companies can leverage cloud-based collaboration platforms from providers to communicate with trading partners • Providers can simplify and accelerate the process of onboarding new trading partners from a newly acquired business or manage an existing community, following M&A or divestiture

Technology/legacy upgrade	Why managed services?
• Restructuring business operations provides the ideal opportunity to reassess ICT & B2B technology requirements • Provides an opportunity to retire older servers running legacy B2B applications • Upgrading to cloud-based technologies allows the operation to develop a more flexible B2B platform that can grow as the company grows • Newer technologies such as cloud, IoT and analytics, can provide far greater transparency across supply chain operations	• Providers offer access to the latest cloud-based B2B infrastructure and services • The best providers also provide an opportunity to embrace new disruptive digital technologies such as IoT and analytics • Providers help shield users from the complexities of implementing new B2B standards or processes while delivering support for virtually any communications protocol or document and data standard

Global B2B support	Why managed services?
• Restructuring across global operations will require 24×7 multi-lingual support across multiple time zones • Providing global B2B support for all users across an extended enterprise can often be the most difficult area to manage following restructure • The restructured operation will need to manage both region and industry-specific document and connectivity standards from around the world	• Large providers can deliver a truly global 24/7 'follow the sun' support service for both existing and newly 'acquired' trading partners • Dedicated support services can resolve B2B issues far quicker and leverage best practice knowledge from other B2B projects • Support staff are trained in the restructured company's B2B processes and can simplify migration to the new B2B platform

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Global automaker gets more from its B2B platform

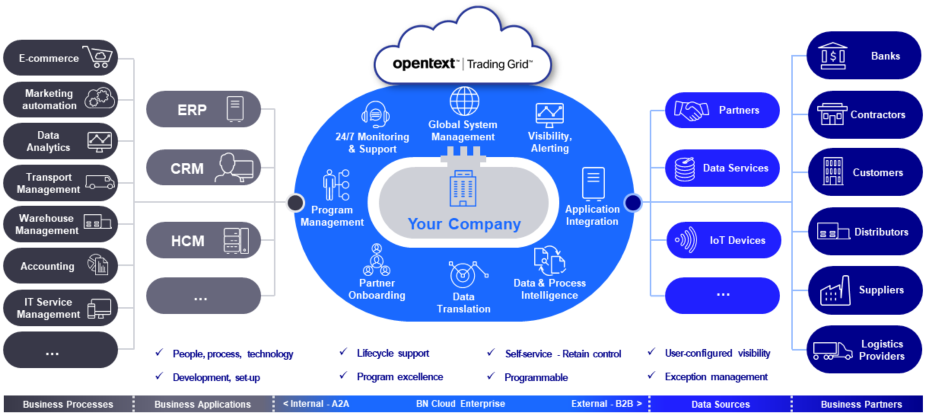
When this Tier 1 automotive supplier needed to reduce costs following a divestiture, it turned to OpenText. As well as providing B2B services to its suppliers and customers, the company wanted to fully integrate its B2B platform with a new e-payments solution and its global ERP resources. The company was able to go beyond its initial requirements to deliver a completely new order processing system based on the B2B platform allowing all global functions and partners to integrate seamlessly together.

Why select OpenText as your managed services partner?

As the world's leading provider of a full range of B2B managed services, OpenText is uniquely placed to help effectively capitalize on the opportunities in a merger, acquisition or divestiture. OpenText™ Business Network Cloud Enterprise offers tailored integration services to help companies quickly develop B2B integration capabilities and processes that ensure effective and productive relationships with evolving trading partner communities worldwide.

Over the last 25 years, OpenText has established a reputation for assisting organizations at every stage of the deal cycle with business consultancy, B2B strategic advice and implementation skills. Based around the world's largest, cloud-based B2B network, OpenText™ Trading Grid™, the company's services simplify the inherent complexities in trading partner ecosystems and provide a single connection that digitizes all information flows, whether with suppliers, customers, banks or other valued partners.

Figure 2: Business Network Cloud Enterprise from OpenText



More than 900 companies are leveraging OpenText™ Business Network Cloud Enterprise to deliver managed services capabilities to help:

- Establish new B2B integration processes to onboard and manage trading partner relationships.
- Access a pool of experience from other B2B integration implementations around the world.
- Implement the latest B2B integration technologies and services without having to implement or manage the B2B technology themselves.
- Provide seamless integration to enterprise applications, such as ERP.
- Eliminate the need to manage or maintain a new, global B2B integration infrastructure.
- Access the resources and skills needed to deliver effective B2B integration capabilities and trading partners support in to the local and regional territories required.
- Manage growing integration complexity and demands for speed, while embracing old and new forms of integration including APIs.

In today's climate, OpenText is well qualified to help organizations transform B2B integration technologies and processes to become real drivers for business restructuring success.

The power of OpenText B2B integration for business restructuring

OpenText B2B integration capabilities support organizations that may be undertaking extensive merger and acquisition activities to accelerate business growth or divesting financially distressed business units or divisions. OpenText can deliver a number of integration capabilities necessary for successful business restructuring, including:

Supporting digital transformation projects

Business restructuring provides the opportunity to explore new technologies and consolidate other internal systems, such as ERP. Migration from SAP ECC to SAP S/4HANA® is a good example of an ERP-led digital transformation initiative and cloud integration helps to protect the quality of data entering ERP.

Consolidating integration solutions

OpenText provides a single, high-performance and scalable integration platform that can meet the needs of any size of M&A or divestiture while reducing costs and simplifying business integration complexity.

Ensuring business continuity

OpenText delivers a complete service for the day-to-day management of global trading partner communities, including capabilities such as onboarding, communication and supplier performance management.

Improving regional trading partner support

This B2B integration solution helps ensure that regional teams can leverage local language and on the ground support to manage trading partner onboarding and resolve integration issues quickly. All local governmental, industry and trading standards and market requirements are constantly reviewed and automatically added to the service to ensure smooth execution of global business.

Delivered as a fully managed service, Business Network Cloud Enterprise is customizable to create the ideal combination of people-process-technology to meet the specific business needs of each organization. OpenText can plug the resource and expertise gaps as companies look to either consolidate IT infrastructures or separate as required.

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Summary

The heat is on. Organizations are looking towards M&A activity as an engine for growth. They want more than cost and synergy benefits. Today's deals must be designed to deliver real transformative change, often based around leveraging new digital and technology capabilities.

M&A and divestitures have always been complex and difficult to deliver. Now, a new layer of digital transformation has been added, while deals are getting bigger and the acceptable timescale for delivering value is shrinking.

In addition, organizations are leaning more heavily on their growing digital ecosystem of partners, suppliers and customers for the collaboration and innovation needed to be resilient and agile in uncertain, post-pandemic global markets.

Adopting a managed services approach to business integration is now perhaps the best option for medium and large organizations that need to ensure business continuity and close working relationships throughout extended value chains during the execution of the deal, the transition and beyond.

About OpenText

OpenText, The Information Company, enables organizations to gain insight through market leading information management solutions, on-premises or in the cloud. For more information about OpenText (NASDAQ: OTEX, TSX: OTEX) visit: opentext.com.

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