

January 2017

Aligning technology for post-close value creation: 4 phases of an IT strategy road map

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Achieving the full value of investment during ownership and at sale requires a component that often is underserved – namely, technology.

Even in cases where an acquisition isn't a technology sector play, the portfolio company's ability to sustain lasting value or the acquirer's ability to rapidly increase value requires a clear understanding of how technology relates to the investment and aligns with business goals.

In many cases, private equity leadership will perform pre-close IT due diligence to identify compliance problems and areas of cost or risk. At times, this pre-work diligence is extended to broader planning, especially if the target company is to be integrated with a sister company or if there are carve-out considerations as part of the deal. Unfortunately, a continuation of IT strategy planning and execution often is neglected post acquisition, as other priorities demand the attention of management.

Regardless, whether the deal has been recently consummated or the portfolio company is approaching a realization event, value still can be extended by reviewing how information technology is supporting the business. This is where an IT strategy road map can provide valuable guidance to support private equity's investment thesis.

Transforming IT

Info-Tech, a leading technology research group, recently released a study reporting that "47% of business leaders feel that business goals are unsupported by IT," while "a staggering 92% of IT departments surveyed claimed their IT strategies were less than adequate."¹

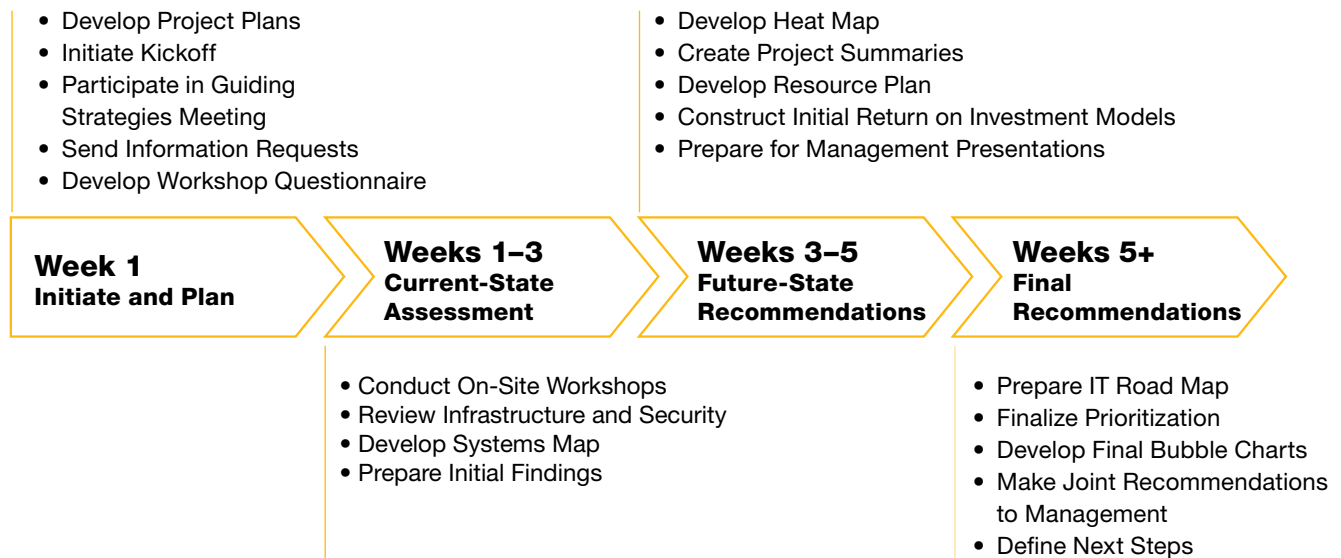
In too many situations, IT is viewed as a cost center and not as a strategic branch of the overall value creation tree. A shift is required: IT strategy must align with business need and advance the organization's strategy. Unfortunately, this transformation is not simple. Executive leadership must be willing to give technology considerations appropriate priority in the organization. In cases where an organization does not have a chief information officer (CIO), the CFO must help management to think strategically. One method employed by CIOs and independent consultants to jump-start this process is to develop an IT strategy road map.

Phases of a road map project

The function of an IT strategy road map is to articulate company goals and align them to a discrete set of IT project initiatives that will be executed over a span of two to three years. Execution of these initiatives includes identifying the need, cost, benefit, timing, resources, and leading third-party vendors for each of the recommended projects. While identifying this information, IT works with company leadership to build management consensus for the proposed road map initiatives.

A typical road map project will take anywhere from five to nine weeks depending on the size and complexity of the organization. The four phases of the project are depicted in Exhibit 1 and include: 1) initiate and plan, 2) current-state assessment, 3) future-state recommendations, and 4) final recommendations.

Exhibit 1: IT strategy road map project phases



Source: Crowe analysis

Phase 1: Initiate and plan

The initiate and plan phase will include a review of existing documentation and in-progress projects, after which the project manager will organize a meeting with relevant IT staff and project sponsors to define the “guiding strategies” that will set the tone for the project. Private equity leadership may be involved at this point to explain the business objectives or investment thesis.

Will the company be quickly sold? Will the company be integrated with sister portfolio companies? Will a portion of the company be carved out? Without an understanding of these timing and direction questions, it will be difficult to prioritize projects or make budgeting decisions. For example, if a division is to be carved out and sold in the short term, it would not make sense to install a new enterprise resource planning (ERP) system to support this division. Capital expenditure tolerances also will be considered at this point. Executive management may be satisfied with a million-dollar project as long as it can be capitalized and does not affect earnings before interest, taxes, depreciation, and amortization (EBITDA), whereas a million-dollar annual operating expense may be detrimental to value optimization.

This initial phase concludes with the identification of workshop team members (subject-matter experts and functional division managers), alignment to top management strategy, and scheduling of workshop sessions.

Phase 2: Current-state assessment

Workshop sessions involving IT specialists and system users eventually drive an understanding of the current-state assessment. Unintentionally, organizations tend to develop a hodgepodge of applications, customized add-ons, and loose integrations over the course of time. It is not unusual to see a company using multiple ERP systems with a third party providing a reporting layer spanning the disparate applications. Based on interviews with participants, a graphical depiction of the applications and integrations can be represented by a current-state application map, as shown in the sample map in Exhibit 2. This type of visual serves as a useful tool during later conversations.

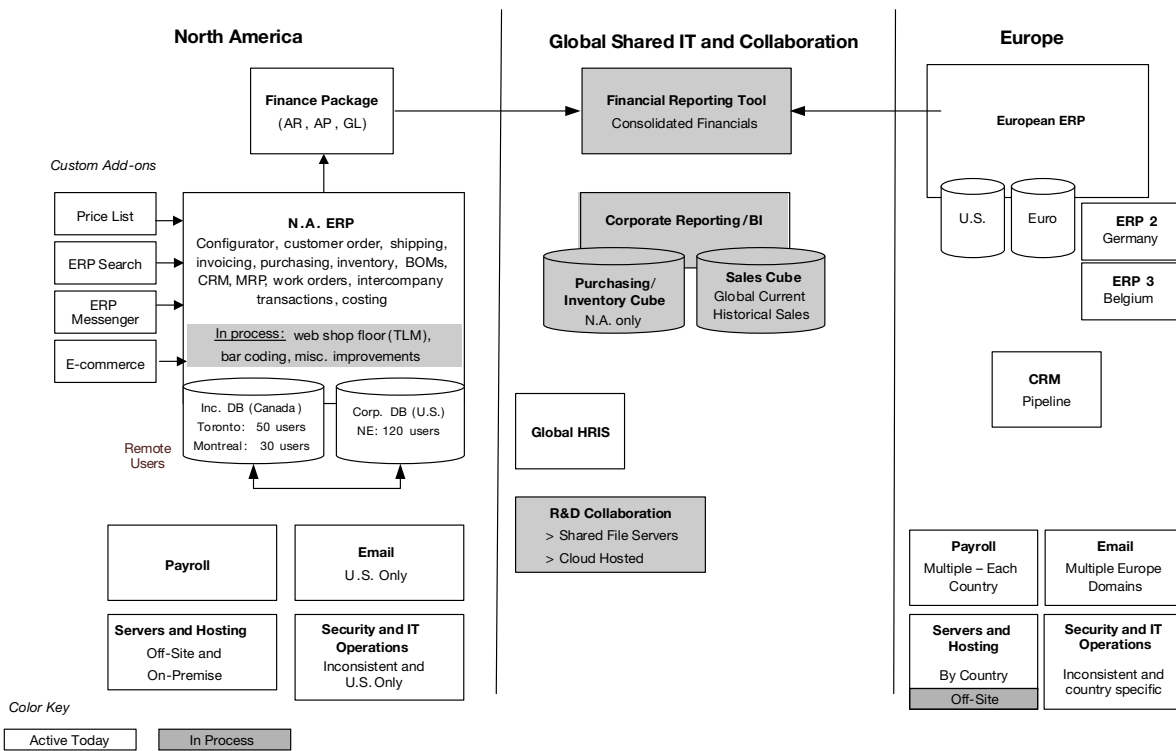
In addition to application maps, infrastructure diagrams and organizational charts are collected or generated to round out the company’s understanding of the people, processes, and environment that constitute the current state of IT for the company.

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As the company solicits information during the workshops, pain points and process inefficiencies emerge. Meeting facilitators should prompt users to reflect on application deficiencies and relate examples of common problems experienced within the department. For example, a warehouse manager may describe a process in which inventory is pulled from inbound containers and then manually logged in to a system, but that same manager

may understand that technology in the form of bar code scanning could save money and result in shorter lead times to customers. These types of problems typically become the drivers behind the projects that later are evaluated during the road map process. The sidebar, "Five Areas Where IT Delivers Real Business Value," lists typical IT projects that appear on the project plans of many businesses.

Exhibit 2: Sample current-state application map



Source: Crowe analysis

Phase 3: Future-state recommendations

After documenting the current state of IT and compiling a list of initial findings, the road map team turns its attention toward future-state recommendations. Several tools are available to the team to define, prioritize, plan for, and sequence projects. These include:

- **Heat map.** Evaluators use a heat map to apply quantitative weightings to business impacts such as financial considerations, efficiency drivers, and risk-mitigation initiatives. Visual tools can be used to illustrate potential project impact on objectives critical to management such as financial, efficiency, and risk results.
- **Resource plan.** How will projects be staffed? Using internal resources? Outside consultants? The team needs to decide on the most efficient resource mix to take advantage of qualified candidates within the organization without overextending important technical or functional team members. Bottlenecks quickly will become evident, and budgets for third-party involvement also will be developed as a part of this exercise
- **Budget/ROI models.** Budgeting is a primary component of determining return on investment (ROI) for the company. Project decisions cannot be made without at least a basic understanding of costs. This is not the time to get detailed bids from vendors, but directional numbers need to be established so that comparative prioritization decisions can be made.
- **Project one-pagers.** Each project should be summarized on a single sheet of paper such that the existing situation, proposed solution, primary benefits, timing, and costs can be explained readily.

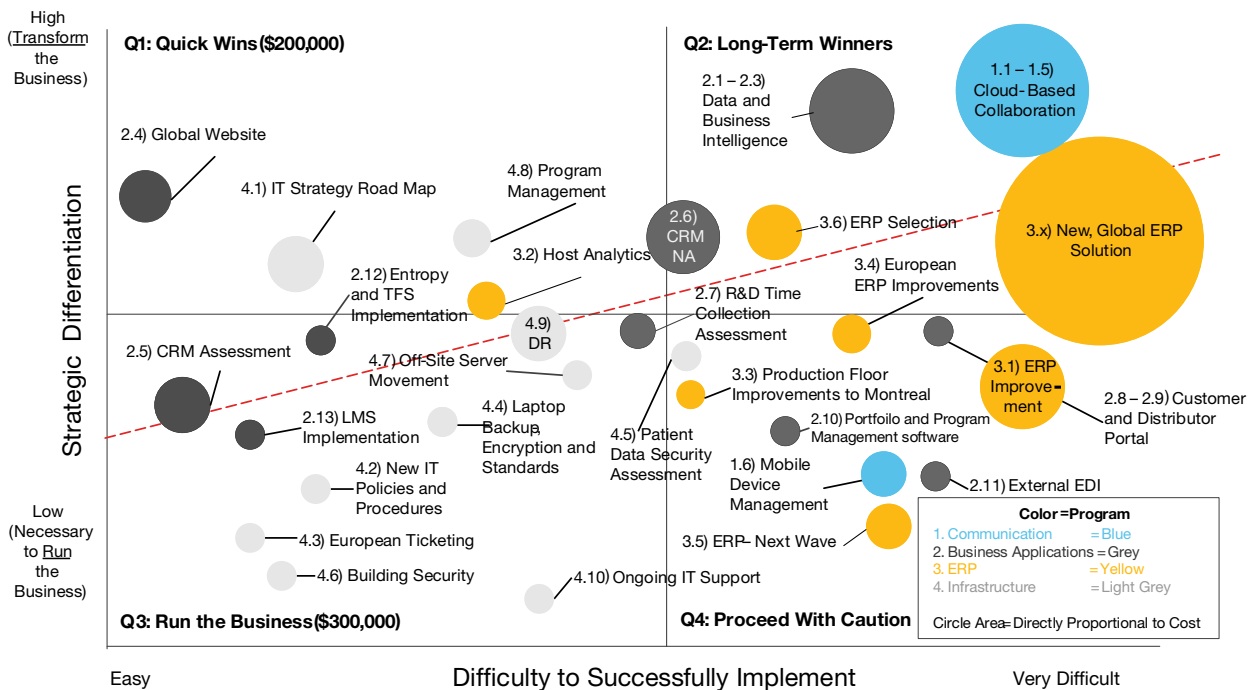
Once the initial project impact, resourcing, budgeting, and return metrics have been applied, the team has the ability to lay out the projects in a logical manner for input from stakeholders.

Phase 4: Final recommendations

Final recommendations take the form of an executive summary deck that lays out the portfolio of projects in a logical, prioritized fashion. There are many ways to present these projects, one of the more interesting being a strategy perspective bubble chart.

The bubble chart, as depicted in Exhibit 3, allows management the ability to visually compare the budgetary size of the projects (bubble diameter), the difficulty to implement (horizontal axis), and the impact to the organization (vertical axis).

Exhibit 3: Sample spending strategy perspective bubble chart



Source: Crowe analysis

A common language – Collaboration tools for IT and management

An IT strategy road map delivers value only if the plan ultimately is implemented successfully to drive results. The visual tools are best supplemented by a variety of foundational program control tools addressing areas of execution such as:

- Budget planning
- Resource planning
- Activity planning
- Risk management
- Organization management

When packaged together, these deliverables form a powerful set of tools that give the technical community within the company the ability to communicate with executive management about return on investment, impact, and budget. The IT strategy road map becomes a dynamic document that can be revisited on an annual or semiannual basis for ongoing collaboration.

Five areas where IT delivers real business value

1. Head count

- Employee productivity
 - Communications – instant messaging, voice over internet protocol
 - Programming – system integrations, mobile workforce microtask apps, call center or diagnostic question trees
 - Infrastructure – wireless networking, remote access, bar coding and radio frequency identification, network speed improvements, common desktop provisioning
 - Process – employee self-service, e-notary, document workflow, corporate intranet, help desk management
 - Efficiency tools – call center call routing, second monitor, data standardization
- Head count reduction
 - Shared services (often ERP)
 - System integrations to eliminate manual work
- Employee turnover
 - Human resource information systems
 - IT organization structure, IT leadership assessment
 - Incentive systems

2. Risk reduction

- Business continuity
 - Online backups, cloud hosting, redundant data line connections
 - Replacement system selections, document imaging
- Data security (credit card, protected health information)
 - Security audit and remediation, password management
 - Laptop encryption, mobile device access controls

- Regulatory
 - Health Insurance Portability and Accountability Act controls audit, e-discovery solutions for email
 - Conflict minerals, sales tax solutions
- Error and fraud
 - Automated monitoring, Foreign Corrupt Practices Act monitoring
 - Double payments, discount monitoring

3. Cost savings

- Manufacturing and research and development cost avoidance – forecasting, sales and operations planning, 3-D printing
- Factory uptime
 - Overall equipment effectiveness systems
 - Programmable logic control
- Scrap reduction – statistical process control, raw material optimization, material requirements planning functionality, quality management and lab management systems, maintenance management systems
- Procurement
 - Procurement database analytics, telecomm audits, purchasing cards
 - E-sourcing (e.g., reverse auctions)
- IT capital reduction – virtualization, cloud hosting, consolidations
 - IT licensing
 - Consolidation of duplicate software, hardware retirement
- Distributor contracts, software license audit and renegotiation

4. Revenue increase

- Sales to existing markets
 - Customer relationship management, business intelligence
 - Sales force tools (tablet-based sales tools, quoting and pricing software applications)
 - Customer web portal (product configuration, order tracking, product availability)
 - Demand forecasting
- Sales to new markets
 - External website redesign, social media engagement
 - Marketing automation, channel disruption (e.g., social media)
- Time to market
 - Web-based program management, collaboration tools
 - Worldwide scientific systems, big data analytics
- Customer preference
 - Electronic data interchange, system integrations
 - Reporting

5. Working capital

- Inventory management
 - Demand forecasting, enterprise resource planning
 - Statistical inventory balance setting
- Days sales outstanding
 - Aging/dunning push, revenue cycle analytics
 - Credit income recovery, sales tax software
- Accounts payable
 - Purchasing cards, e-procurement
 - Discounts and rebates management
- Capitalization – capital expenditure and operating expense of IT labor, software, and hardware



Learn more

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¹ "Define an IT Strategy and Roadmap – Executive Brief," Info-Tech Research Group, Nov. 18, 2015, <https://www.infotech.com/research/ss/define-an-it-strategy-and-roadmap/define-an-it-strategy-and-roadmap-executive-brief>

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Adapted from "Cyber Resilience – Going Beyond Security to a New Level of Readiness," previously published in July 2016 by Crowe.

Text created in and current as of January 2017; Cover and artwork updated in May 2018.

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PEG-17000-025A