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# STRUCTURES

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# TECH TALK:

THE INDUSTRY  
RESPONDS TO  
INNOVATION

# How to Ensure a Smooth Transition When Consolidating Business and Technological Environments

BY DAN MacKINNON

**M**ergers and acquisitions between two large financial institutions provide opportunities for business and technical consolidation that will allow the combined corporation to achieve greater efficiency and economies of scale. Yet this consolidation cannot occur in a vacuum. Merging technical and operating environments is a daunting task fraught with logistical and political perils. Without careful evaluation of the underlying business rules and policies of the two merging entities, the combined firm will be burdened with a less than optimal operating environment that can seriously undermine the value of the merger.

Fortunately, there are methodologies that have successfully enabled businesses to integrate their technical infrastructures and processes – resulting in a stronger post-merger market position.

**Processes:** Business transactions today involve numerous multifaceted processes and in all too many cases, these processes are not well documented and mapped out. Following a mature consulting methodology, practitioners work with the merging businesses to inventory current processes, gaining a keen understanding of their needs. Some businesses choose to scrap the exist-

ing processes of both parties in favor of newly defined “best of breed” methods, however the realities of accomplishing this are not always practical. Often, a better approach is to determine which of the two companies offers the most effective process and adopt this one. This minimizes holistic changes and reduces risk.

**Functionality:** Businesses need to evaluate what functionality will enable and supports its business processes given that these tightly-coupled issues are the primary drivers in cost management of any project. The goal is to define functional requirements with enough detail to ensure that all processes are identified and documented. This critical step drives project scoping, visualization, and further requirements gathering. This phase also has direct impact on the overall data within your project and needs to be taken into consideration during planning.

**Data:** This step involves identifying the characteristics of the data architecture of the two business entities and their ability to extract, display and report on this data. There is a huge level of complexity involved with merging data. This process is rarely accomplished cleanly, as each company likely has countless iterations of data formats and storage methods. This may seem like a trite concern, but it can have a tremendous impact on customers. For example, if data structures between the two businesses cannot be reconciled into one system, customers may be stuck with two different billing statements, or might not be eligible for a discount because their transactions through one company aren’t recognized by the acquiring business, or vice versa.

**Infrastructure:** Companies should eval-

uate their hardware and software assets, and how they can optimize resources without impeding business functionality and processes. For example, a leading financial firm recognized considerable technology redundancies in the wake of a major business acquisition. The reasons for consolidation were clear: The technology infrastructure was costly, often redundant and introduced operational risk. In addition, customer-facing processes and reporting capabilities were cumbersome and non-coordinated. Consolidation would create a single face to the end-customer and streamline broker/dealer interactions.

However, several earlier attempts at consolidation failed due to political issues, lack of focus, and the sheer scale of the project. Consolidation was expected to take three-to-five years to complete and cost more than \$50 million.



To overcome these challenges and to attempt to achieve success, the firm worked with an outside consultancy to align the business and technology leadership teams

in an effort to understand the implications of consolidating the back-office platforms. This involved conducting numerous facilitated workshops involving 40 participants from 18 lines of business and their respective IT departments. The goal of the workshops was to identify and understand executive objectives, explore high-level consolidation options for system reference data, and identify and solve technical challenges. In preparation for these workshops,

more than 100 stakeholders were interviewed to understand the project’s background and major challenges.

Through this evaluation, the firm uncovered eight key challenges they would need to overcome for the consolidation to be a success. Further, they identified the metrics they would use later to measure success. One critical success factor was determining how to move to the desired future state. Although switching all transactions from one system to another all at once might have been the cleanest approach, it would also have introduced a tremendous amount of risk that could impact the firm’s customer base and compromise the business. Ultimately the firm chose to migrate their systems in stages, by product line (e.g., fixed-income products first, then equities, and finally the more exotic products). The company recognized that this piecemeal approach could impact customers, but ultimately it reduced the overall risk. By applying logic through a proven methodology, the firm gained buy-in and funding from company executives for the necessary consolidation.

## ‘A Different Approach’

Another client organization, a leading insurance company, took a very different approach to a similar business problem. This firm started with the evaluation of the technology infrastructure itself. In bringing together multiple businesses, the firm decided to decommission old hardware. However, they faced significant project management

hurdles. With each of the involved four business units essentially operating as individual “silos”, it was nearly impossible to get buy-in for consolidation to a single infrastructure organization without outside help.

The firm worked with their consultants and participated in a series of facilitated workshops to build consensus and ensure stakeholders’ objectives were reflected in the consolidation plan. Involving the heads of each business unit in the larger planning process and evaluation of functionality, data, and processes, helped engage them in the process and ultimately resulted in buy-in from key stakeholders. This brought about proactive performance capacity planning and better resource sharing. To date, mission-critical databases have been successfully migrated to new platforms with the incorporation of analytical databases underway.

When evaluating platform consolidation, it is important to view this situation holistically. Successful consolidation entails first understanding the underlying business processes that need to be supported, evaluating the realities and implications of merging disparate data sources and considering the critical functions that must be maintained. This empowers businesses to mitigate risks and set appropriate expectations. Though the above analysis probes the scope of the integration process, other elements such as compliance, licensing, branding and legal aspects must all be addressed before a successful and comprehensive consolidation of systems can be realized. ■

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