

Earning money in takeovers with ICT Due Diligence

Can you really afford to skip an ICT Due Diligence?

For most entrepreneurs, doing a takeover or participating in other enterprises is not their daily business. It happens once or twice in their entrepreneurial career – if ever. And even for those of you who do this regularly on a professional basis, there are always risks and costs that would be far better to know up front or at least prior to the price negotiation phase.

Take for instance the costs and risks of a company's ICT. The average total cost in SMEs for ICT is 2% – 4% of the yearly turnover. For a company in which the ICT is "merged" with production or operation, this percentage can easily rise to 8% and be several times higher again in the case of ICT (-like) companies.

The three main reasons for these costs are:

- 'ICT-Business entanglement' and the need for an appropriate ICT environment for operations.
- The need for technically skilled professionals.
- Expensive *lifecycles* of application systems.

This makes ICT and ICT projects a significant figure on the P&L and the value estimation in a takeover.

Entrepreneurs are often put off by the costs involved in the entire Due Diligence phase. As a result they routinely treat ICT, with all its risks and entanglement, as a reserve or assumption in their offer. This can – and regularly does – lead to nasty surprises after the deal is done.

In other words, time for an ICT Due Diligence *à la KRATOS* with a guarantee.

Pitfalls

Three of the larger pitfalls you will encounter.

Value estimation of ICT investments or effective costs – Which value do you assign to (future) needed ICT projects? You want an overview of the project cost estimations and, if possible, the annual cost predictions. At best, business cases are already put together for these ICT investments.

Even more difficult to determine is the influences that these ICT business projects can and will have on other related processes en systems.

For instance, a required update of the ERP or POS system is perhaps estimated at 250K with a ROI of two years. However, if that means your helpdesk/service organization will need to put in six months of overtime or your sales organization will need to draw data from multiple systems for their monthly reporting, the effective costs will turn out to be much higher than the estimates.

Hidden (application) costs – How about those so called *hidden* application costs?



- Costs that come from maturity of the *lifecycle* of the system with all of its interfaces. Don't forget those nice-to-have customer specific developments or even worse: own in-house developments!
- What are the maintenance third-party costs of reporting?
- Which modules and systems support which processes? And where are these links documented?
- Last but not least, where is the yearly ICT budget for maintenance of calamity plans and documentation?

In other words, more than enough reasons to have the ICT environment well assessed in terms of the relationships between Systems, Processes and People.

Human Capital – The most difficult and important aspect to assess and to manage during and after a takeover. What *human* risks are known for this enterprise?

ICT administrators and developers are part of the backbone of every SME. What people issues were/are there that will need to be dealt with? What is the culture, particularly around collaboration? Who might leave (and who should)? Who must be retained at all costs because of their knowledge and their ability to enable change? In short, an operational ICT Due Diligence that does not provide a view on future HR needs and the corporate culture is a waste of money!

Operational ICT Due Diligence à la KRATOS - with guarantee

How can KRATOS support you?

The KRATOS Due Diligence process is pragmatic and analytic across all four management axes: *People, Processes, Systems and Cultures*. Besides the usual risk overview – covering the above mentioned pitfalls – KRATOS' advice will let you have better informed price negotiations.

Our confidence in this method – honed over 15 years – is so high, that we dare to guarantee a 10x payback. In other words, you'll earn back at least 10 times the cost of your operational ICT Due Diligence, if your takeover or participation succeeds. That is right! A factor of at least 10 times - not a margin of 10%.

All that combined with enthusiasm and crystal clear communication on all levels, means KRATOS support is the best recipe for a successful takeover.

Want to know more about what our approach can mean for you?
Contact us to arrange a personal meeting.

Kind regards,
Aristides Grigoriou

Managing Partner
A.Grigoriou@kratos-mm.nl
+31 (0)6 440 780 38
www.kratos-mm.nl



Merger Management is changing by combining People, Cultures, Processes and Systems™