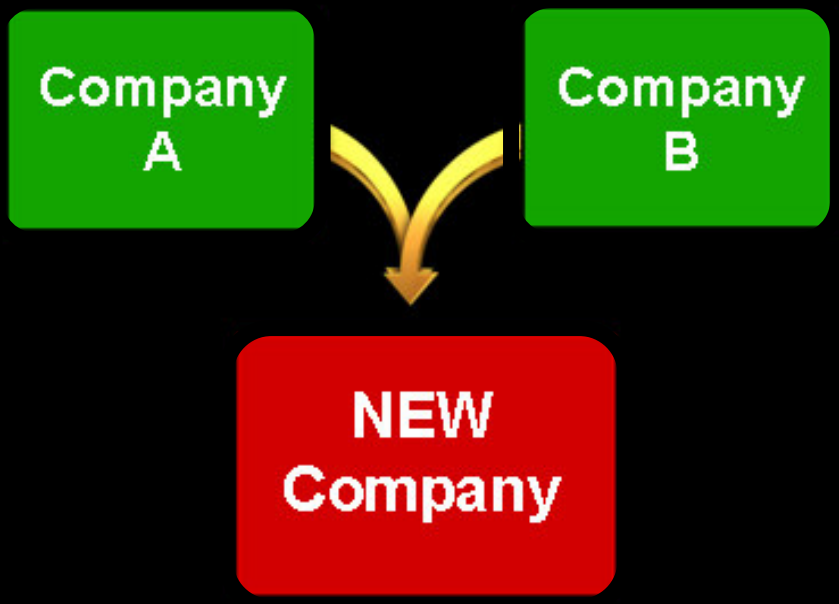
Mike Sisco's

***Practical* IT Manager GOLD Series**

IT Due Diligence

merger & acquisition discovery process



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Practical IT Manager *GOLD* Series

IT Due Diligence

merger & acquisition discovery process

2nd edition

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Introduction

Mike Sisco, ITBMC

Hello and welcome to the ***Practical*** **IT Manager GOLD Series**. I'm Mike Sisco, President of MDE Enterprises, Inc. and a career IT manager and CIO of more than 20 years.

Since 2000, I have devoted my life to, *"helping IT managers of the world achieve more success"*. My practical processes and tools are used by thousands of IT managers in every part of the world.

The challenge of managing technology resources has never been more demanding than it is now. Change occurs more rapidly and technology resources are in more demand than ever before.

People and companies respond to strong leadership. Effective leadership skills give a technology manager an edge in creating and maintaining a stable business environment. This leads to more success and an IT organization that's valued and appreciated by the business managers of your company.

The material contained in the entire ***Practical*** **IT Manager GOLD Series** of books has been developed from my experience in managing technical organizations of all sizes for more than 20 years. The examples are 'real life' experiences of things I know to work, or hard lessons learned from things that did not work. I developed every process and tool you will learn about to help me manage IT organizations during my career. They worked for me and will for you as well.

Two tools I use to enhance the material or to clarify a point are:
Sidebar: a comment or clarification to help make a point
Personal Note: a personal experience or "war story" to reinforce a point.

You will find a bit of humor to make the reading more enjoyable and to emphasize certain points. Because of my very "dry sense of humor", you may have to look for the humor, , , sorry about that. I also hope you like the images I pop in at times to make the reading more interesting.

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The ***Practical*** **IT Manager GOLD Series** includes the following titles:

IT Management-101: fundamentals to *achieve more*™
IT Assessment: the key to IT success
IT Strategy: align your IT vision for business value
IT Organization: right-size your organization for success
IT Project Management: a *practical* approach
IT Staff Motivation and Development: build a world class team
IT Asset Management: tracking technology assets
IT Budgeting: operational and capital budgeting made easy
IT Due Diligence: merger & acquisition discovery process
IT Assimilation: consolidating redundant technologies
What to Look For in a CIO: get more value from your IT investment
, , , plus more titles to come

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Managing IT organizations at a high level is serious business, but having fun along the way is also important. I hope you find the material helpful in your quest and welcome your feedback. You may contact me at mike@mde.net .

Best regards and success,

Mike Sisco, ITBMC
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IT Due Diligence
Table of Contents

I. Buying a New Company - Exciting Times 8
II. Due Diligence 13
A. Due Diligence Objective 16
B. Due Diligence Process 22
III. A Proven IT Due Diligence and Assimilation Process 34
Step 1 – Initiate 36
Step 2 – Prepare 37
Step 3 – Discover 39
Step 4 – Issues 42
Step 5 – Project Initiatives 47
Step 6 – IT Due Diligence Report 54
Step 7 – Transition Plan 55
IV. IT Due Diligence Focus 56
V. IT Due Diligence Request List 58
VI. What Are the Key Risks? 61
A. Technology stability 62
B. Technology ownership 63
C. Software license compliance 65
D. Staff support 67
E. Vendor support 74
F. Major expense needs 75
G. Security 76
VII. On-site IT Review 77
A. IT Business Assessment Outline 79
B. Sample Client Interview Questionnaires 82
VIII. IT Due Diligence Data Collection Templates 87
A. Business Applications 87
B. Infrastructure – Servers 88
C. Infrastructure – LANs 88
D. Infrastructure – WAN 89
E. IT Staff 89
F. IT Project Initiatives 90
G. Automation Capabilities 90
H. Software License Agreements & Contracts 91
I. Software License Agreements Granted to Other Companies 91
J. Maintenance and Support Agreements (Hardware & Software) 92
K. Other Contracts and Leases 92
L. Capital Budget Items 93
M. Outside Consulting / Contract Work (Next 12 Months) 93
N. IT Operating Budget (Next 12 Months) 94
O. Transition Costs (Next 12 Months) 94

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Table of Contents (Continued)

IX. IT Due Diligence Report 96
- A. Executive Overview 97
- B. IT Support Overview 97
- C. Risks 98
- D. IT Budget - Next 12 Months 99
- E. Capital Expenditure Needs - Next 12 Months 99
- F. Key IT Project Initiatives 100
- G. Leverage opportunities 100
- H. Transition Plan 100

X. Summary 101

APPENDIX:

A. IT Due Diligence Request List 102
B. Information Technology Business Assessment Outline 103
C. IT Assessment – Senior Management Questionnaire 105
D. IT Assessment – Department Head Questionnaire 106
E. IT Assessment – External Client Questionnaire 107
F. IT Due Diligence Data Collection Templates 108
- F-1 Business Applications 108
- F-2 Infrastructure - Servers 109
- F-3 Infrastructure - LAN's 110
- F-4 Infrastructure - WAN 111
- F-5 IT Staff 112
- F-6 IT Project Initiatives 113
- F-7 Automation Capabilities 114
- F-8 Software License Agreements & Contracts 115
- F-9 Software License Agreements Granted to Other Companies 116
- F-10 Maintenance and Support Agreements 117
- F-11 Other Contracts and Leases 118
- F-12 IT Capital Budget Needs 119
- F-13 Outside Consulting and Contract Work Needs 120
- F-14 IT Operating Budget 121

G. IT Transition Costs 122
H. Sample Due Diligence Report Template 122
I. IT Assessment Notes 129

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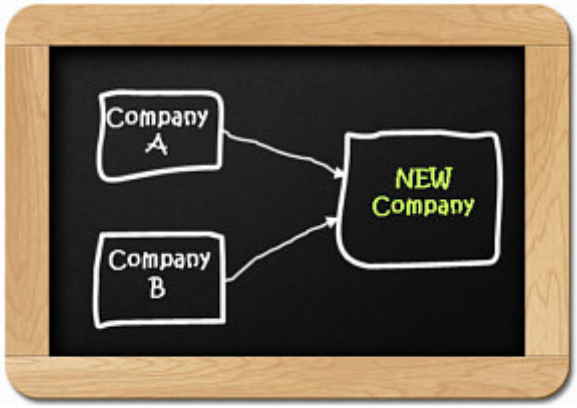
I. Buying a New Company - Exciting Times

Before we begin, let's discuss something so it won't be confusing in this book. An "IT assessment" and "IT due diligence" are the same thing. The process to size up your situation is the same whether you are joining a new company, inheriting another IT organization because you were promoted, , , or acquiring a new company.

I will use the terms "IT assessment" and "IT due diligence" interchangeably to mean the same thing.



If you are acquiring a new company, we call the IT assessment, "IT due diligence".

Differences exist in the scope of an IT assessment depending upon your level of responsibility. More about this is discussed in another book titled, **IT Assessment: the key to IT success**

In this book, **IT Due Diligence**, we will discuss an IT assessment process and tools to use in going about a company acquisition. An acquisition affects all parts of IT support.

So, let's get going, , ,

Your company is planning to buy another company, , , or maybe you are joining a company as a new CIO. Either way, you will need to conduct an IT assessment.

These are exciting times to be sure. Very few companies are able to position themselves to acquire other companies. There are considerably more companies acquired than there are those that buy. If you find yourself on the buyer's side, you have a great opportunity, but potentially "rough waters" ahead unless you are prepared.

Personal Note: I have been involved on the buying side of more than forty companies. Acquisitions are fun, challenging, hard work, and can become difficult transitions. Every situation is unique.

I've been associated with very smooth deals and I have seen a few that were not. You have the ability to minimize problems and risk to the company with a new acquisition if you approach it properly, , , due diligence is the key.

The material contained in this publication has been developed from my experiences in conducting due diligence and in developing a process and tools that have helped me do the work successfully, , , in both acquisitions as well as managing new IT organizations that were assigned to me.

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It's one thing to want to buy another company and another to actually buy it and then integrate the new entity into your company. Buying a company is the easy part.

Assimilating or merging the two companies after the acquisition can be difficult, even an outright pain in the neck if your company is not prepared. Without a plan, tough times are bound to follow. Due diligence is where you discover what you need to do in order to transition the new company into your parent company.

Note: An assimilation plan is the same thing as a transition plan a CIO develops after conducting an IT assessment upon joining a new company.

As mentioned, every situation is different. If you go into ten companies in the same industry to conduct an IT assessment, you will find many similarities. You will also find ten unique sets of circumstances. In all of my travels, I have never encountered two companies with exactly the same set of issues.

On paper, companies can look very similar but once you get into the details, you will find very different issues and needs.

Personal Note: Companies can actually destroy themselves by buying another company without fully understanding what they are getting and by not developing an assimilation plan.

I saw a situation where this occurred in a $2 billion dollar company. You might find this hard to believe but the company is now out of business because they "bit off more than they were prepared to chew". The company sank like the Titanic.

The problem? They bought a company without conducting a thorough due diligence and had no plan to absorb the new business which doubled their size. As a result, spending got out of control and the additional challenges that came with the newly acquired company overwhelmed a management team already pushed to the limit.

It was a sad story that could have been prevented with proper due diligence and planning on the front end.

I'm sure you recall the Titanic story, , , the ship that was "unsinkable". This is what the executives of this company thought, , , "We are too big to fail."

Not so, , , I was pulled in as a consultant as were others to try to prevent the company from sinking, but it was too late and ultimately the company went out of business. Prior to the acquisition they were one of the biggest companies in their industry.

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So, when your company decides to grow the business faster by acquiring another company, make the proper investment to look “under the hood of the automobile” so to speak to make sure you know what you are buying. What you find may have considerable challenges tied to it, even enough to walk away from the deal.

Two important questions to ask when you hear a company is being acquired are:

1. ***Why is your company buying the new company?***
   Knowing what your company wants to accomplish with the acquisition is very important. Many reasons may exist. Even if your company acquires new companies all the time, each new company potentially has a unique set of reasons that causes your senior management team to want to initiate a merger. Understanding the essence of the deal and your management’s expectations will be important.

   Typical reasons include:
   A. Financial
   B. Technology
   C. Market share
   D. Leverage asset opportunity
   E. Eliminate competition
   F. Synergy
   G. Differentiating the company

2. ***How does your management team want to run the new company?***
   Just because your company is about to buy a new company does not mean it’s a “slam dunk” that your existing management team will be in complete charge when the merger is completed. In fact, your senior management team may have many different thoughts as to how the new company should be operated after the merger.

   Ideally, you want to take the best from both companies to make an even stronger company with a merger.

Senior management is charged by owners of the company to take appropriate steps to increase the value of the company. To do this may mean infusion of stronger managers in certain parts of the company, taking advantage of new technology that comes along with a new company purchase, even moving the operations of company components to new locations, etc.

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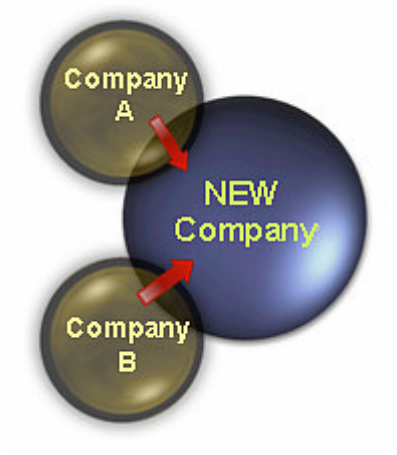
It's hard not to take some of these issues personally if it directly affects you and your responsibilities. Before you get too excited, put yourself in the shoes of your counterpart in the company being acquired and think about the impact it will probably have on that individual.

The bottom line is that if you and your company are looking at an acquisition the right way, you want a merger of the two companies to help you achieve greater results because an effective merger helps both companies.

Take a look at the image below.



Company Merger
("1 + 1 = 3")

The image is intended to illustrate the fact that the outcome of merging two companies may look very different than your company looks today. As your company grows through acquisitions the new company may require organizational changes, even massive restructuring to support combined companies and significant growth.

The ability of both companies to embrace each other and to take advantages of the strengths of each company in a merger are important ingredients toward "becoming the best you can be".

Incorporate the best

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The process a company will usually follow when acquiring another company is:

1. Senior management does their own high level financial assessment to determine what they would pay for the other company. This can take many discussions and months, even years to develop.
2. Acquiring company issues a Letter of Intent to Buy - this letter will generally state the intent to buy the other company and will include the offer price pending due diligence and validation of certain assumptions. What this means is that the company is giving itself the option of modifying the deal, even withdrawing the offer, if tangible issues are uncovered that would materially change the value of the company.
3. The company to be acquired agrees to the offer and commits to support the due diligence effort.
4. Acquiring company performs due diligence – every department of the new company should be reviewed to determine the ability of the company to continue operation and to meet the plans and objectives that have been committed. Part of the company's value includes the expectations they are setting for current and future financial performance and other business initiatives they are targeting.
5. Due diligence reports are prepared - the due diligence reports from each of the key areas of the company are prepared by the individual leaders of the due diligence efforts.
6. A "Go, , , No Go" meeting is held to discuss issues that might prevent the purchase or that materially affects the value of the acquired company.
7. Final negotiations are worked out by executives of the two companies.
8. The deal is made.
9. The fun begins.

Personal Note: In the company I was with that acquired over thirty-five companies in five years, each of the department heads was responsible for conducting due diligence of a new company for his/her department area. For example, the head of Payroll did the Payroll due diligence and I as the CIO performed the technology due diligence.

The main reason for this approach was because as the department head we had a vested interest in assuring we understood the issues, risks, and were intimately involved in the transition planning and leveraging expenses in our area after the purchase.

Since much of future success depended upon meeting the financial expectations, the department heads were also in the best position to budget the new company departments that would update our company's business plan for the next year.

Your due diligence efforts can set your company up for success or failure. It is a key process that needs to be taken seriously with a commitment to understand the other company as thoroughly as possible in a short amount of time. After all, they soon will be part of "the family".

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II. Due Diligence

Personal Note: When I joined a small company in 1990 I had never heard the term "due diligence". I had no idea what it was. Well, I was about to learn big time. Acquisitions helped us grow our division of the company from $30 million in revenues to $700 million in just over five years, , , tremendous growth. It was fun, hard work, challenging, and rewarding.

So, what is "due diligence"?

There are several interpretations of what the phrase means but most are close to this:

> Due Diligence identifies risks, exposures, continuing financial requirements, and leverage opportunities for an investor prior to an investment being made in a company or project. It allows the investor to make an informed investment decision; valuing the risk and worth of the company or project.
>
> The IT due diligence will evaluate the company's dependency on technology and quantify the risks, exposures, financial requirements for continuing the delivery of IT products and services. It will also identify assimilation leverage opportunities that are tied to IT initiatives.

What does all of this mean?

Simply put, , , we conduct IT due diligence to determine what the IT organization needs to work on to support our future business.

Granted, there is a bit more to it but the essence is that we need to understand two things in order to manage an IT organization effectively:

1. Client needs and issues in regards to technology support
2. IT organization's capabilities and capacity to provide support

"what the IT organization needs to work on"

Once we know what the needs for technical support services are (**the demand**) and what our IT organization can deliver (**the supply**), , , then we can develop a plan.

It is very difficult to develop a support plan if you don't know what's needed and what you can do, , , in fact, it's impossible to develop an effective plan in such a situation.

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This publication gets to the heart of what a due diligence project is all about. You will learn about the key components of an effective due diligence effort and will experience the entire process of conducting an IT due diligence.

We will show you specifically how to conduct an IT due diligence project, or IT assessment, , , and give you the tools that helped me conduct the IT due diligence for more than 40 company acquisitions.

You can use these same principles to conduct an IT assessment of a company as a consultant or if you become their new CIO or IT Manager. Get your evaluation right and you are half way to putting an effective IT support plan together that makes sense for the company.

Always remember that when you are conducting due diligence on a company there are no improper questions. You may need to be tactful in how you ask certain questions but due diligence is about learning as much about this new company as possible in a short amount of time.

In the pages that follow we focus on the information technology portion of a company due diligence. You will have to look elsewhere to find information on the full scope of a due diligence process of a company acquisition across all departments.

An important note before you begin your discovery. Your senior management team has a purpose for buying the new company and possibly an idea of how the resulting company should be organized and managed. Gain this insight before getting into your discovery detail. These early assumptions can have an impact on how you approach discovery and the questions you may need to ask.

I say “possibly an idea of how to manage the new company”. There may be some preliminary ideas in senior management’s mind or they may be simply waiting to see what comes out of the due diligence discovery to decide. The point is, , , you need to learn what they are thinking before starting your discovery. In our company’s case, we always held a Kickoff Meeting to communicate these things to all who were to be part of the due diligence team.

An overview of a company acquisition model and a picture of how due diligence fits into the overall scheme of the acquisition might help. If you’ve read other publications in the ***Practical* IT Manager GOLD Series**, you know that I’m big on images that help illustrate a point.

It may also have something to do with the fact that I’m also just a country boy from Tennessee who needs a way to visualize it myself.

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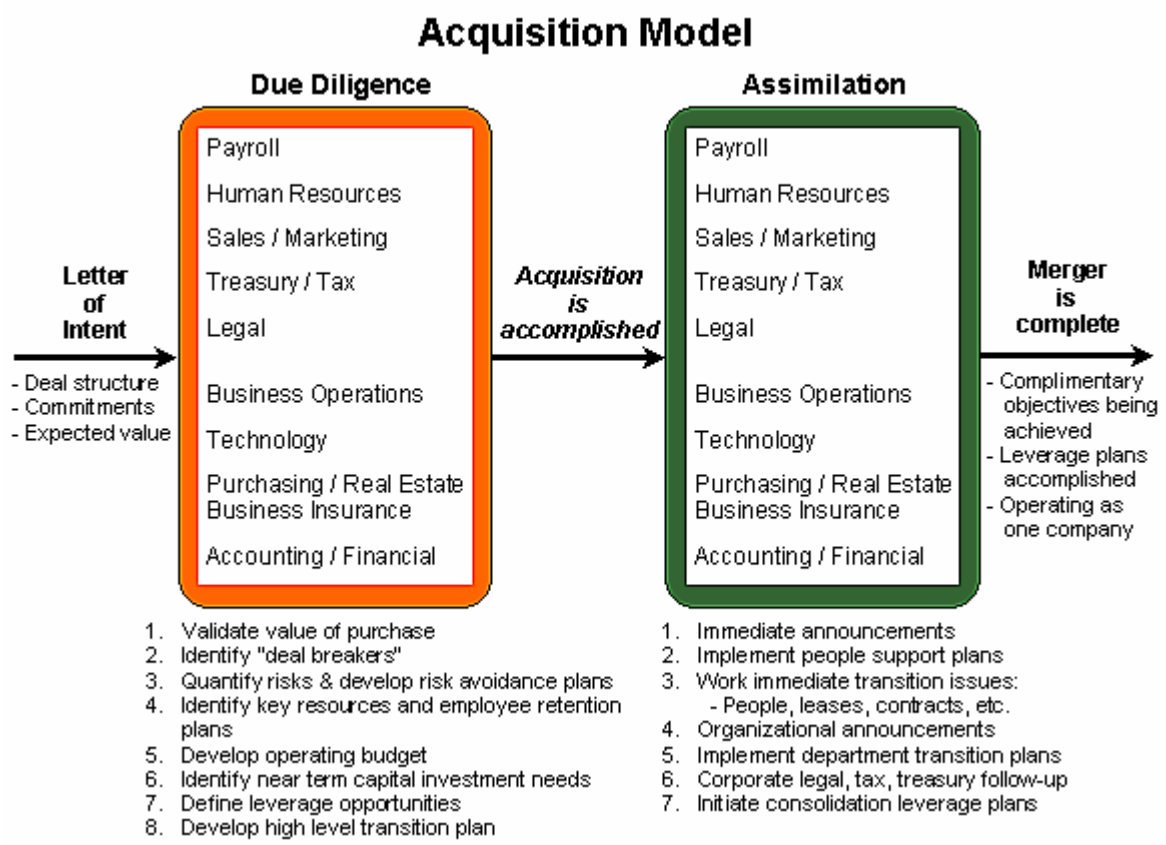
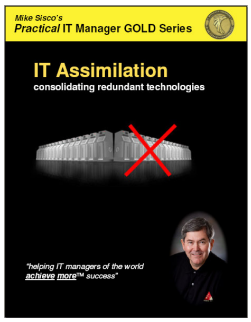
The image below shows the process of an “acquisition model”.



This **Acquisition Model** shows the process of an acquisition from the Letter of Intent to the completion of the merger. It does not do justice to the amount of work required to get from start to finish, but it shows the separate focuses of each company department in both the due diligence effort (orange box on the left) and the assimilation initiatives (green box to the right).



Another publication in the ***Practical* IT Manager GOLD Series** titled **IT Assimilation: consolidating redundant technologies** goes into depth about what to do after the purchase is completed. That’s when the fun begins (*translates to “hard work”*).

The graphic above is obviously a high level view to show the primary parts of an acquisition and the key components of each. This publication, **IT Due Diligence** will go into what you need to do to conduct an effective IT due diligence while **IT Assimilation** discusses how to transition and assimilate technology resources of a company.

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A. Due Diligence Objectives

The objectives of a technology due diligence are straightforward and important. The effectiveness of technology support of a company can often “make or break” the company. Don’t take this lightly.

The end result of IT due diligence and the resulting plan is to be able to quantify what our IT organization works on.

There are things our due diligence discovery must tell us in two key areas:

A. Client needs and issues
B. IT capabilities and capacity

First, let’s define “client”. Your client is made up of two or possibly three different groups.

A. Senior management of your company
B. Department managers and their employees
C. External clients

Please note: Most IT organizations do not support external clients so you probably do not have this group. An example would be if your company develops software to license to other companies, , , these external companies who license your software and depend upon IT software support services from you would be external IT clients.

So, this means most of us need to understand the **needs and issues** of senior managers and department managers we support in our company. We also need to understand the needs and issues of the IT organization. Your IT department also has issues and needs.

In order to support these business needs and issues, we need to determine what we can do. This is made up of technically what we can do plus how much of it we can do, , , or better said, the **capability and capacity** of the IT organization.

Need represents the demand and ***capability*** represents the supply. When we know the demand and supply components of our situation, we can develop an appropriate technology support plan.

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A key part of a due diligence effort is to determine whether there are any issues that would cause you to cancel the acquisition deal or to revalue what the purchase is worth. In order to determine this, you have to discover what's happening in a company that you know very little about and that you've probably never seen before, , , and do it in a reasonably short period of time.

One of your goals is to validate the assumptions that have been made by senior management that led to your company's valuation and subsequent offer for the new company. In doing so, you will find issues and problems that the other company prefers not to share.

Just as when you want to sell your home, you don't highlight and announce to a new home buyer all the creaks and blemishes in your home. Neither do owners of companies who are trying to sell their business.

Go into due diligence knowing there will be blemishes and problems discovered. Expect them to exist, , , we all have them. Most are not deal breakers.

Also know that the other party probably isn't going to tell you what's wrong unless you ask about it and do your discovery.

The real issue is to identify any issues that might be truly significant. Your purpose is to identify and then understand the reasons why a material issue exists. You are trying to validate that the assumptions made by senior management pertaining to revenue, earnings, and other items that affect the company's future performance are real.

If you discover something that doesn't check out, then you make an effort to determine whether it is materially significant or not. Your own company has "blemishes" and you know where they are. That doesn't mean that you can't achieve your business objectives. Keep the same open mind when you perform due diligence on another company. Problems are often opportunities, you know.

Begin the process with a plan and position yourself to handle the job effectively. Don't prepare and try to "wing it" and you had better get ready to "button down the hatches" because the storm is out there somewhere and it will hit you. Every company has its challenges, and some companies have bigger issues than others, , , this particular company's issues could be a tsunami of major proportion that will "topple your ship".

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In some companies, there can be significant risk to continue operating. You might need to invest hundreds of thousands or even millions of dollars to keep the business running, an issue that **due diligence must uncover**.

An example of this would be if the company is out of compliance with their software licenses and they are at risk of being temporarily shut down if they were audited. When a company is non-compliant, you need to plan and budget to make it compliant soon after the acquisition is completed.

Company acquisitions create stress on the acquired employees and inevitably there are some who will not be needed in the new organization. Their departure can have consequences.

Hard feelings can bring out the skeletons of a company pretty quick. You had better find them during due diligence so you can take the steps to avoid a problem that potentially surfaces after the deal is completed. Non-compliance is a big skeleton!

Personal Note: We acquired a company once that was notorious for stealing software. It was easily discovered in my due diligence efforts so I accounted for it in my Due Diligence Report and also in the IT budget. We were going to need to spend another $250,000 or so to address this non-compliance issue.

After we announced the merger to the public, one of the accounting people terminated in our transition plan got very upset, , , I believe she thought she should have received a much bigger separation check from her former managers than what they gave her.

At any rate, she somehow discovers the BSA, Business Software Alliance, , , and tells them our company is not compliant with software licenses. BSA is the organization that watches over software compliance and works with governments and vendors of the world to try to enforce a legal digital world.

I had no idea who the BSA was until the phone call we received from one of their representatives.

Because I had accounted for the problem and put an action plan in the transition section of our Due Diligence Report and also budgeted to address the problem, we avoided a company-wide audit for software compliance. What a headache this would have been!

The BSA doesn't bother you if your intent is to be compliant and we were able to show them, but if you are trying to steal, , , they can be one royal pain for you.

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There are seven key components of due diligence you want to end up with:

1. Current IT situation
2. Risks
3. Financial plan
4. Capital requirements
5. Leverage opportunities
6. Transition plan
7. The report

Let's discuss each briefly.

1. **Current IT situation** - This is similar to most IT assessments. Much is discussed in other publications of the ***Practical* IT Manager GOLD Series** about assessing the IT situation in a company. The difference here is that you aren't necessarily leading to a strategic plan as much as you want to determine the ability to support continued operation of the company you plan to acquire and the transition projects required of your IT staff.

Before you go to the IT organization and start asking questions, you need to start with the IT clients, , , and specifically the senior management team. You need to understand the business plans and objectives of the company first. You can't assess IT until you know what the targets are for the company.

Let's repeat. Learn from senior management of the new company what the plans are and from your own management team the assumptions that were made when the purchase offer was made.

The current IT situation should address all viable parts of IT including business applications, infrastructure, organization, key project initiatives, etc. We will discuss this part and the other components in more detail later.

2. **Risks** - A key part of due diligence is to discover where the "land mines" are buried. Every company has them. Some can wound while others can destroy. You better discover those that can create critical or "life threatening" injuries, , , these are material needs and issues.

When you write your Due Diligence Report, you will want to include a risk section. Senior management will read this part and be very interested in what you have discovered in this area and your plans to mitigate the risk. They will also be interested in the cost to execute your risk mitigation plan.

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3. **Financial plan** - A big part of due diligence is developing the next twelve month's budget for the acquired company. Some companies do eighteen or even twenty-four months. At a minimum you should do a twelve month budget for the new company. Upon completing the deal, this budget will be layered on top of your company's existing budget.

   In quarterly financial performance conference calls with investors, many companies will usually split out the acquisition results from the base business results. Investors are interested in both the internal growth and results from the base business as well as the performance of the acquired companies post acquisition.

   This second part tells investors how well the company conducts due diligence and can assimilate the new company into their base business. It's an important measurement to investors so you better believe it gets your CEO and CFO's attention.

   You may find some companies do most of their due diligence with only a financial and legal focus. Be careful if that's the case; there are many land mines in areas such as Payroll, IT, Operations, etc. that can blow the financial plan to pieces.

4. **Capital requirements** - Just as the operational budget is important, so too is the capital budget. Many company owners and executives will hold off making needed investments anticipating the sale of their company. Many of these investments may be past due and the company's future performance can suffer as a result.

   Discovering the capital needs of the company can have significant cash requirements in the near future that hasn't been anticipated. Large cash exposures are always important to know about ahead of time.

   Sidebar: An example of this would be if a company owner stops buying servers, desktops and other equipment because he knows he will be selling the company. This could be a 2-year freeze on capital equipment purchases he has implemented. If you buy such a company, you will have a pent up demand for newer equipment to replace old and outdated equipment, software release updates needed, and all kinds of things that require cash.

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5. **Leverage opportunities** - There are going to be leverage opportunities. Companies usually look at leverage as cost savings, avoiding expenses, increasing revenue, or improving employee productivity.

   In an IT due diligence discovery, the leverage you tend to discover is more often going to be the ability to reduce IT expenses by merging two IT operations, by implementing technical strategies to improve employee productivity, or to reduce expenses in a non-IT department.

   The person conducting the IT due diligence also needs to help identify other leverage opportunities. For example, there may be technical tools or capabilities that can be provided to the new company to reduce operational expense by improving their productivity. You will want to coordinate your assumptions with the appropriate department manager conducting due diligence who will also be looking for leverage in his/her operation.

6. **Transition plan** - What do you do after the deal is completed? The transition plan should include major transition activities required to support the business in their transition efforts. It should also include a 90-day action plan of things necessary to get your new IT department merged.

   

   Key risk items identified should have an action plan to eliminate or reduce the risk.

   Leverage opportunity initiatives may be included, especially if they are low effort and low cost to complete. Senior management will want to go after these.

7. **The report** - The IT Due Diligence Report puts it all together. All the components just discussed should be documented for the appropriate people to review. In many cases, a company's Board of Directors must review and approve the plan before the deal can be completed. As you write your report there are three things to remember:
   A) Consider your audience. It is normally senior managers and Board of Director level individuals who will be reading your report.
   B) Keep the issues to points that are material in nature. Always keep your comments to factual findings; you never know who might read it later.
   C) Follow the defined format for consistency.

More will be discussed on each of the components of a due diligence later. Before we go into more detail we should discuss the process of due diligence.

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B. Due Diligence process

A due diligence process essentially takes seven steps:

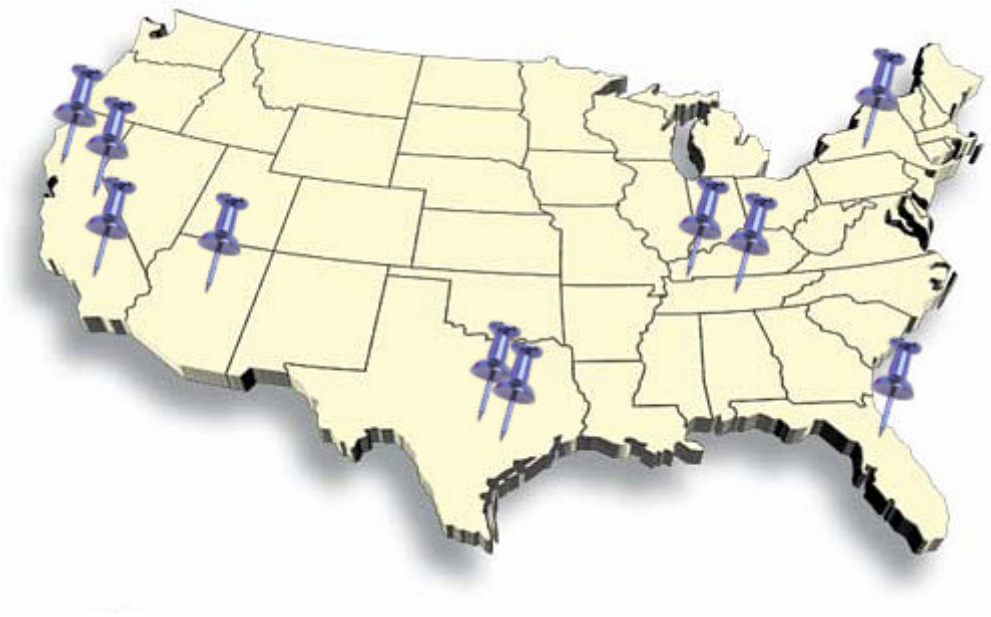
1. Company overview
2. IT Document Request List
3. IT document review
4. Non-IT business document reviews
5. Interviews and on-site discovery
6. Analysis
7. Report Development

Typically, due diligence will take anywhere from thirty to ninety days to conduct. The larger the deal and the more complex the company the longer you expect it to take.

Personal Note: In one company we purchased we had to perform due diligence on ten different operations. The company we were buying had acquired other companies but had only assimilated the accounting, payroll, and accounts payable operations. This meant there were ten separate technologies supporting their business operations in ten different cities.

We completed due diligence in 90 days. Unfortunately there was no office in Hawaii.

The processes and tools contained in this publication were the tools I used on this project. These tools were critical in helping me cover so much ground in the short amount of time we had on this and other acquisitions.



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Let's discuss the seven due diligence process steps. Before we start, I should tell you **we are still in overview mode**. This section has some specifics but is intended more to provide insights about the dynamics taking place in a due diligence effort.

Here we go, , ,

1. Company Overview - Before you jump into discovery detail, your company should conduct an overview meeting to discuss assumptions about the new acquisition with all those who will participate in due diligence. In this meeting, the lead manager of due diligence should identify the business assumptions and any key issues that need to be discovered in due diligence that may be in addition to normal due diligence discovery.

For example, early discussions may have indicated a need to be especially diligent in the discovery of software ownership and whether any third party has a claim to the software. If your company is expecting exclusive rights to the software, other claims could affect the purchase price of the deal or it may have business continuance or legal risk associated with it. Thorough due diligence prevents all of these hassles.

If your company does not initiate a "new company overview meeting" to discuss the key points of a new acquisition, you should seek out the appropriate individuals in your company to get an overall understanding before you start your IT due diligence work. Any information you obtain early on may have implications on your discovery efforts.

Personal note: In the company where we acquired so many other companies, the President of our company took a lead role in most acquisitions and kicked off a new acquisition project with a company overview meeting. We also had a Due Diligence Coordinator whose full time job was to coordinate and manage due diligence projects.

The overview meeting in the beginning of each due diligence effort was extremely valuable and helped put us all on the same page and prepare to work through our discovery processes.

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2. IT Document Request List - As soon as the Letter of Intent has been accepted, coordination of due diligence begins. One of the first things to happen is your company will submit a package of Due Diligence Request Lists to the new company requesting items for every department of the acquiring company to begin their discovery.

Your **IT Due Diligence Request List** is one of the documents in this package, along with a request list from operations, legal, purchasing, payroll, marketing and other departments of the company.

If your company expects to acquire another company, prepare your IT Due Diligence Request List ahead of time and have it ready.

A word of caution is important here. Many companies do not understand the importance of due diligence and they may conduct only a financial and legal review. All I can tell you is that this approach is dangerous and certainly creates exposure to your IT operation as well as the company. If you have any input on what is needed, push for a full IT discovery of a new company.

Another thing to be aware of as you begin your discovery efforts is that there are many reasons a new company does not want you "nosing around" their business, although they accept it as a part of what takes place in selling their company.

- Don't want employee productivity impaired.
- Don't want employees to know they are selling the company.
- Don't want you to see their blemishes.
- Don't want to go through the effort of producing all requested materials
- Don't want their clients to find out they are selling.
- Don't want you to gain a competitive advantage if the deal falls through.

All of these reasons are very valid issues for a business owner.

Valid reasons for concern

There are many documented cases of major discoveries identified after deals were made that resulted in major law suits and created significant ill will among all involved. This can be prevented with a thorough due diligence.

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It is fair for executives of the new company to be nervous about the word getting out to employees and clients prematurely that they are trying to sell the company. It can cause lots of disruption, , , and they still have to run a business.

Uncertainty creates unrest and has exposure of losing employees prematurely. Most employees have heard the "war stories" of an acquisition gone bad and poor treatment of acquired employees. Some may jump ship, then ask questions.

It is in the New Company and your company's best interest to keep "acquisition plans" as quiet as possible until you can present the plans to staff and clients in an appropriate way once the deal is certain to happen.

Simple things are key to avoid releasing the information prematurely. This short list of considerations will help you keep the due diligence and acquisition plans quiet until both companies are prepared to announce it:

- Don't mention "Due Diligence" in conversation or in any document. You might even eliminate the words "due diligence" in your request list.
- Avoid handing out business cards, especially if your company is a well known competitor.
- Approach the IT due diligence as an independent consultant conducting an IT assessment.
- Take company identification information, etc. off your bags and briefcases.
- Don't use anything with your company name or logo on it.
- Determine beforehand with managers of the New Company the responses you will give employees who might ask questions like, "Who are you?", "What are you doing?", and "Why do you need this information?". You must be in sync with New Company's management team.

"Who are you?"

This "deception" is a means of protecting the New Company and its employees and clients from the negative impact that can be caused by premature announcement of an intent to sell. The New Company does not want to announce anything until it is certain the deal will go through.

Make it a point to determine what the disguise will be with the other company's management team so everyone is in sync.

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3. IT Documents Review - When you receive the requested materials from the new company you should go through them thoroughly. You will probably receive several boxes labeled “IT”.

Begin by keeping a checklist of what was requested versus what you have received. Some of your requested materials may not be available from the New Company, or it may be easier for you to get at them when you visit the company.

The organization and the detail of the materials of what you receive will tell you quite a bit about how the IT operation is being managed, even before you actually meet people from the company. Be prepared for anything.

You may receive excellent documentation of what you’ve asked for and you may receive close to nothing. If you get nothing, your on-site efforts will be more challenging because it’s a fairly good indicator that the company doesn’t maintain organized records. While this initially seems to spell trouble, it may actually be an indicator of great opportunity.

Keep an open mind

As you review the materials you want to continue to remind yourself of the key objectives of your due diligence efforts:

- Assess what is there and the state of each IT support area
- Quantify material client needs and issues
- Determine IT capability and capacity
- Identify risks and leverage opportunities
- Develop an IT operating budget and quantify capital items needed
- Identify key IT support resources of the new company
- Develop a high level transition game plan

Start a notes list to identify and track items that are material in nature or that need follow-up, especially items that might indicate risk of ongoing operation or significant cost exposure that must be anticipated.

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Review the IT materials provided before you begin conducting interviews. By reviewing the materials and doing the research first, you have the opportunity to jot down specific interview questions for managers of the new company. It also gives you the opportunity to have a better understanding of how the business is being managed prior to going into the interviews.

A sample notes list is included below. You can see it has categories that allows you to organize your notes later. This can help you group things for preparing for an interview or writing your Due Diligence Report.

IT Assessment Notes		
Category	**Note**	**Comments**

IT Assessment Notes

The term “due diligence” is not used on the form for the reason we mentioned earlier, , , “due diligence” is usually connected to a company acquisition and we don’t want to make employees or clients nervous.

Categories I typically use when taking discovery notes includes the list below. Modify to suit your own needs.

- Risk
- Opportunity
- Capital
- Operating expense
- Infrastructure
- Help Desk
- Business Applications
- IT Organization
- Client service “pops”
- Productivity
- Process
- Management

Sometimes, I’ll add the department affected. By doing this, I can find all the notes that have billing implications when preparing to interview the Billing Manager.

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4. Non-IT Business Document Reviews - Additional materials have been requested by department managers of your company and some of these materials will have impact on your IT due diligence. You will want to look at anything that has a bearing on the technology support resources of the company.

That's right, , , you need to review all due diligence request materials!!!!!

OUCH !!!

That's probably dozens of boxes!

Before you get too excited, let me clarify this a bit. You don't need to review all the payroll records delivered to the Payroll Department. We don't care about salaries of all employees of the company. Lots of detail comes in that we don't need to go through.

However, you need to take a close look at what has been delivered to determine what you may need to review that has a potential impact on IT support, , , things like strategy plans, capital items needed, current and planned projects, organization charts, etc.

Yes, it will be dozens of boxes of material. Start by looking at each department's request list and start checking the items you want to look through. It will help you move through this review process faster.

You don't have to do this, but I can tell you from experience it will almost always uncover something that you need to plan for that will be missed if you don't.

Now you know why I say,

"IT managers have the toughest management role in a company."

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To do our job effectively, we can't just focus on IT, , , we also need to understand the business needs and issues and activities of all departments in the company. Much of what's going on in these other departments requires IT support.

More examples
If the new company has purchased other companies in the past, you will want to review the contracts to insure the software that comes with the new company acquisition is transferable, or there are no restrictions in the use of the software.

You want to insure your company can continue to operate the new company "as is" for as long as you need it to after the acquisition takes place. You certainly do not need a software vendor coming to you after the purchase asking for more money to continue using their software, , , or worse yet, require you to discontinue use of the software before you are ready to do so.

Contracts may have restrictions to who has access to the new company's software applications or even their hardware. If these situations exist, you will need to understand the termination or renewal terms so you can deal with each situation appropriately.

You may be acquiring a company with an IT organization located in several locations. Depending upon how you plan to budget for office space, you should review the new company's contracts to factor in with your existing space situation to determine what your best options will be.

Another example is that by looking through the company's planned capital expenditures list, you discover the Chicago manager is planning to buy new furniture. This means one of two things, , , they are either replacing existing furniture in an office, , , or they are opening a new office. If a new office is in the works, your IT staff must plan many things to help make it happen.

The point is that you need to discover anything that has a material effect in your ability to provide IT support for the new company going forward.

Your future success depends upon it.

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5. Interviews and on-site review - Time to go on-site!

Before you visit the new company, you should have already made contact with the appropriate senior IT manager or other company managers who have been made aware of the potential sale of the company.

Don't visit a company if you have not prepared your host for what to expect, , , your visit will not be as effective unless everyone is prepared. The more you can start your preliminary discussions with your key contact prior to your arrival the better. This person is usually their CIO.

Another caution

The new company's people who know about the due diligence efforts coming their way are going to have some concern about what is about to take place. You and the rest of the due diligence team parachuting in to take a close look at their business can be very uncomfortable. To them, it's very much like an "audit", and most of us hate the thought of an audit.

Think about it, , , do you like being audited?

Being acquired is even more uncomfortable.

Prepare your key contact for your visit and on-site interviews as much as you can. You will find that it can take the edge off the process by helping them have a much better idea of what to expect.

Stress is generally created when we don't know what to expect or are in the dark about something. Do yourself and those who you are about to interview a favor by giving them a "heads up" on what you want to learn during your visit.

One tool I've used many times is to provide the new company with an overview list of the areas I will be reviewing relative to their technology and business. This tool will be discussed in a later chapter.

Giving others time to prepare for your visit helps you obtain much more meaningful information about the new company. Plus, if you ask for something that they don't have a record for but can develop it, that's good for their company to have and for your due diligence effort.

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Schedule your interviews with the appropriate people in the new company in order to maximize your interview time and to minimize their downtime. You must remember that they still have a job to do.

Coordinate interviews to meet with senior managers first, then key department heads who are heavy users of IT support, and finally the IT department.

It's a top down interview approach and allows you to hear the client first. This is key, , , to listen objectively you need to interview the clients first and IT last.

Top down interview approach

Senior managers

↓

Department managers

↓

IT department

Before you go into an interview it helps to have your questions outlined that are appropriate for the interviewee and his/her position in the company. One of the worst things you can do is to go into an interview unprepared. It makes a bad impression on yourself and your company.

For example, when you interview the Accounting Manager, you want to take the list of questions that you identified as you worked through review of the due diligence request materials your company received. You may only have one or two specific questions, but now is the time to get them answered.

Take lots of notes and list anything that has material IT support implications or will be needed to write your due diligence report later.

What I've found to be helpful is to organize your notes by interviewee. The notes become very valuable when you begin writing the report; the more you retain the better the resulting report and transition planning will be.

Don't try to remember everything; you will lose a lot of important information unless you have a note about it.

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6. Analysis - Everything up to now has been what you would label “discovery”.

Reading through a lot of materials, contracts, etc. is not a lot of fun, but it is necessary in conducting a thorough due diligence. You may find issues exist that even the New Company you are about to acquire doesn’t realize, , , and they might be significant in being able to achieve your company’s objectives.

The challenge is that we don’t have time to understand everything at the level of detail most of us in IT think we should or might like to. We have to balance the time constraint with doing what is required to identify and understand material issues that exist. To do this, you must work at 5,000 to 10,000 feet, , , not 30,000 feet, , , and not sea level.

Key issues and needs of your new clients, , , and capability and capacity of the IT organization are the basics of what we need. Get a handle on this and you have what you need to write the Due Diligence Report.

The key here is to review enough so that you have a good appreciation for the technology components and the client needs and issues that exist in the New Company in their use of technology.

Bottom line is we have to make decisions on what the IT organization must be prepared to do to support this New Company, , , both in transition immediately after the deal is announced and ongoing afterward.

Sidebar: You want to find any “bleeding arteries”, but you don’t have to find every minor “cut” the company may have. Every company has its problems. You want to be sure to find those problems that are major financial exposures, have business continuity risk implications, or material IT support ramifications.

As you analyze your findings be certain to revisit all your questions you listed along the way. If you haven’t learned the answers, you still have time to get the information. By now, you should know who to go to for the answers.

Later on, I’ll give you a shorthand coding scheme to use when taking notes that will help you work through your analysis and write your report. Makes it easier and much faster. I’ll also give you a guide I use to determine priority of projects. Don’t you love shortcuts that simplify your effort?

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7. Report Development - Your company executives should have a due diligence report format they want you to follow, especially if it is going to be reviewed by a Board of Directors of the company.

At a minimum, the report should include the following sections:

A. IT Environment
   1) Organization
   2) Clients
   3) Infrastructure
   4) Business Applications
   5) IT Processes
   6) Level of Automation
B. Risks
C. Leverage Opportunities
D. Key IT Staff Members and Retention Plans
E. IT Operating Budget
F. IT Capital Expenditure Needs
G. IT Transition Plan

Writing the report is a pain

At least, I always found it to be. I hate administrative work, , , and writing a due diligence report is administrative.

Working through the discovery, analyzing your notes to determine what you have to do, , , even reading contracts is more enjoyable than writing a report. But, **the report is what people will see** so you need to make it a good one.

One of the things that makes this task easier is having a few tools and insights that help you make it happen. In this book, I will give you the tools and tips I use to make this part much easier.

Before starting, understand who the audience is who will read your report. If it is the CEO and Board of Directors, , , keep it brief and simple, , , ,more bullet points than long paragraphs. Include a 1-page Executive Summary that highlights the essence of what they will find if they read the full IT Due Diligence section.

Keep your message direct and to the point and it will be appreciated.

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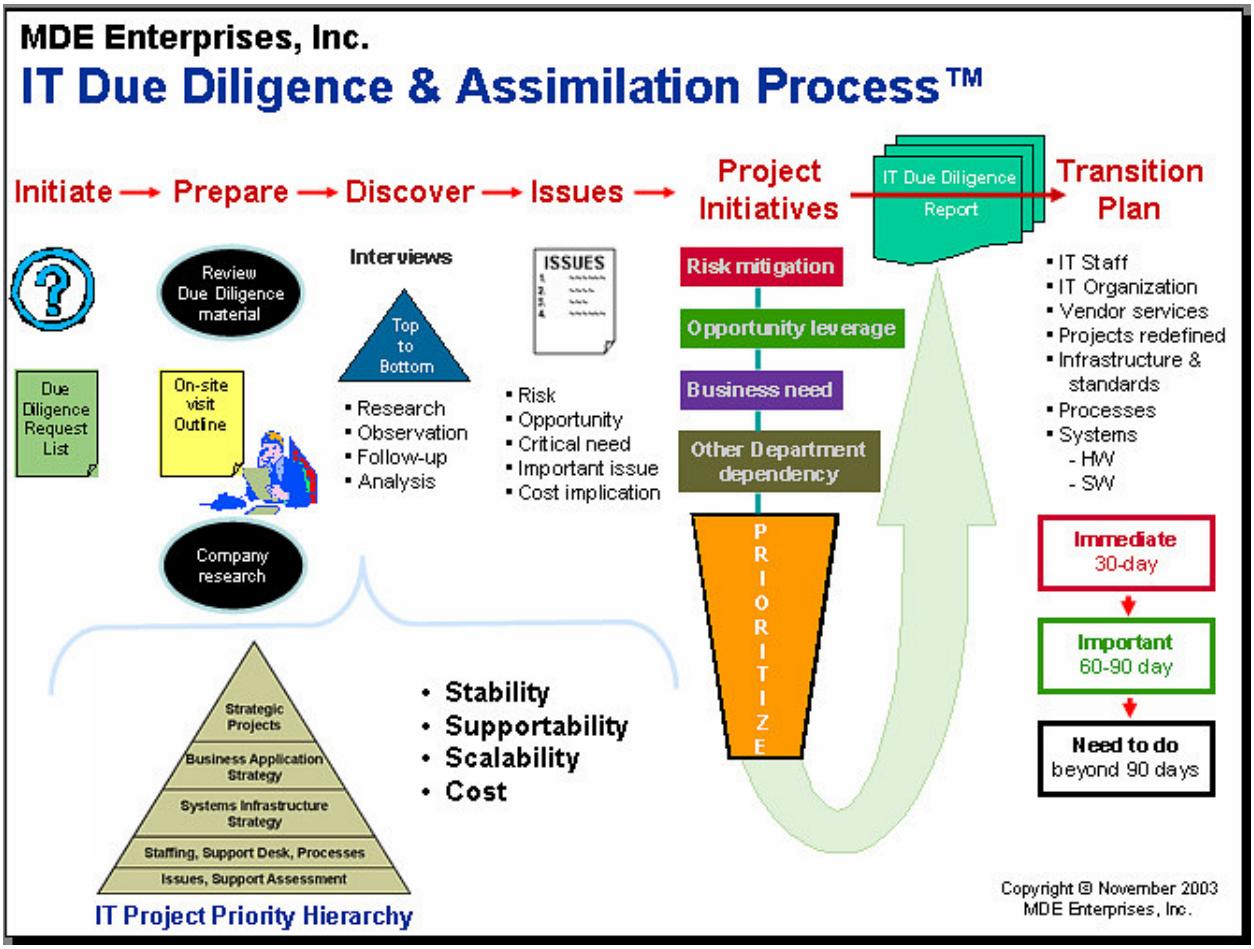
III. A Proven IT Due Diligence & Assimilation Process

You have heard me say I have led the IT due diligence and assimilation efforts in over 40 company acquisitions, , , 45 to be exact at the time of writing this book. In one company in the 1990's, we were literally an "acquisition machine" acquiring more than 35 companies in just over 5 years.

I developed the IT due diligence process you are about to read about and all the tools associated with it. Without this process and tools, the pace at which we were buying companies would have run right over me. The tools helped me do the work much more productively and consistently.

Enough fanfare, let's get to it, , ,

A high level view of my **IT Due Diligence & Assimilation Process**™ is shown below.



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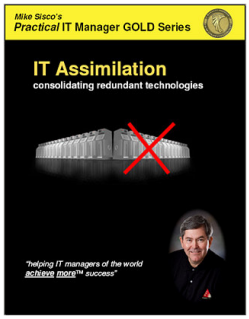
This image may look a bit intimidating at first, but after reading this publication it won't be. We will go through each part so you understand it completely.

There are two main parts to this process, each with several components.

The first part is the discovery part, , , or what we call due diligence. Due diligence makes up about 90% of the graphic you see, , , everything except for the very last column titled **Transition Plan**, , , this is the assimilation part.



This book focuses on due diligence. A more detailed discussion on the assimilation part is provided in the book, **IT Assimilation: consolidating redundant technologies**.

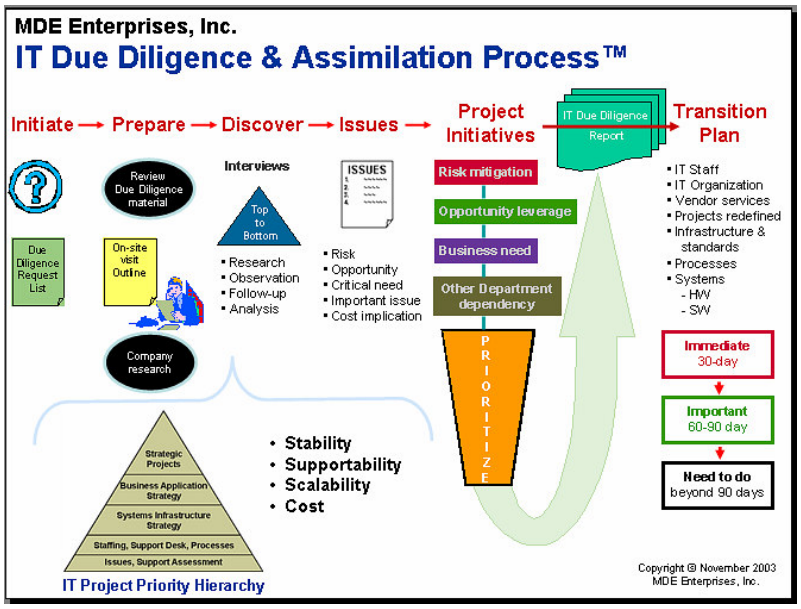
As you work through due diligence, there are essentially four general work activities you go through:

1. Research
2. Interview
3. Observe
4. Analyze

All four work activities are part of due diligence and summarize what takes place in getting to the Due Diligence Report, the ultimate product of due diligence. It will help you to tie these four activities to the columns (the process parts) of the graphic.

First, let's take a quick look at the major process parts in the due diligence part of this process. There are six parts represented by the six columns in the graphic:

1. Initiate
2. Prepare
3. Discover
4. Issues
5. Project Initiatives
6. IT Due Diligence Report



You work through a due diligence effort in the sequence listed, , , starting with **Initiate** and ending with the **IT Due Diligence Report**.

Column seven, **Transition Plan**, is the assimilation part that's discussed in another book.

These six due diligence process phases take place in the four work activities I mentioned and shown in the table below.

IT Due Diligence Processes	Work activity
1. Initiate	Research
2. Prepare	Research
3. Discover	Interview & Observe
4. Issues	Interview & Observe
5. Project Initiatives	Analyze
6. IT Due Diligence Report	Analyze

Relationship of the process to the work activity

The best way to understand is to walk through the entire process piece by piece.

Step 1 - Initiate

A couple of things happen here.

First, your company receives an acceptance of the Letter of Intent offered to the other company, , , we will refer to the targeted company as the ***New Company***.

As soon as we receive acceptance to move forward, senior management does two things. They send the *New Company* a package containing our company's Due Diligence Request Lists and gain agreement as to when we will have the materials.

At the appropriate time, senior management will schedule a Due Diligence Kickoff Meeting, , , or a Company Overview meeting like we discussed in the last chapter. In this meeting, they will discuss the objectives of this acquisition and any issues they know of to help prepare the Due Diligence Team for the work ahead. Certain details will be provided such as organization charts, contact names, etc. as needed to begin the due diligence discovery work.

They will also tell the team the status of the requested materials and where they are located.

Now the fun begins

Time to roll up your sleeves and get to work.

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Step 2 - Prepare

Preparation begins with reading and research. We are going to learn all we can about the company and what's going on in it before we visit and conduct our on-site interviews.

Research means reading all the materials we receive from the *New Company* as they fulfill our document request lists. Often this material comes in over time and not all at once, , , which actually helps spread out some of the work. In most cases, you probably still have an IT operation of your own to manage as I did so you don't have the luxury of being able to focus on due diligence 100% of your time.

In this step, we need to review all the materials provided for the IT request list and determine what to review in the non-IT materials boxes, , , and there will be many boxes.

Important point - As you review the materials and begin your discovery, you are looking for anything that has a material IT support implication in:

Stability
Supportability
Scalability
Cost

Stability - Anything that affects the stability of your technology resources.
Example: You hear about recurring downtime issues in a remote office.

Supportability - Anything that affects the supportability of your technology.
Example: You discover only 1 programmer in a mission critical area.

Scalability - Any technology support issue that affects your company's ability to grow.
Example: A software license is about to reach it's full access capacity

Cost - Anything having a material technology support cost in supporting the business.
Example: You need to hire two people, , , most IT initiatives have a cost.

Let's see, you have lots of materials to read – correct?

Well, there are other places to learn about the *New Company*. They have a web site, and our senior management team may have strategic plans or other items that help us learn about this company. Research the company just like you would if you were about to go for a job interview.

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Soon, you will be traveling to *New Company* for an on-site visit and to interview certain people in the company. One of the things you want to do is to prepare your key contact so you will maximize the results you achieve in your visit.

If you don't already have one, now is a good time to develop a quick Due Diligence Outline. Use this to share the key things you will be looking for and to assist in your first discussion with your key contact. Remember, he or she will be anxious about what's about to take place.

I'll discuss the details of this document later. What's important right now is that a document like this can help you in two ways:

1. Break the ice in a discussion with your key contact and convey what you will be looking for.
2. When you are on-site, referring to this document at the end of every day helps you stay on track and insures you are getting all that you need.

Your key contact has some BIG concerns

The key contact for IT is usually the *New Company's* CIO or senior IT manager. As soon as he hears his company is going to be sold, major concerns start developing.

Things like:

- I may lose my job!
- My benefits may change!
- My salary may be reduced!
- I may have a new manager!
- I may have to relocate!

Lots of stress with all of this so be careful in how you deal with your key contact.

In your first discussion with your key contact (probably a phone call), it helps if you can lay out a plan and help him understand more of what will take place. Information helps reduce anxiety some, , , not totally, but some.

During the phone call, you need to address these concerns. You may even ask him directly if he has any questions or concern. If not, you may want to pose the question about "losing your job" and explain that until we work through due diligence, you don't know what the plan will be. He may not ask, but it's likely in the back of his mind.

If possible, you need to try and reassure him that you won't be giving him a 2-week notice unexpectedly. Don't do this unless you have support from your management team, but if you can it will go a long way in reducing stress and getting full cooperation in your discovery efforts.

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Step 3 - Discover

We start discovery as soon as we attend the Company Overview Meeting to kickoff the due diligence. We continue with the **Preparation** phase as we begin reading the due diligence materials that have come in. Having fun yet?

In fact, discovery is going on the entire time we are engaged in due diligence.

If you read something, hear something, or see something in the areas of *stability, supportability, scalability, or cost* and it has a possible material implication with IT support, make a note of it and find out if it does. If it does, it is an issue.

It's time to become a detective so keep all your senses on high alert as you go forward.

Everything to this point has been preparing you for the on-site visit and interviews. This is a key part of discovery, and it will go much better if you have prepared for the visit.

One of the things you want to do is to schedule the interviews you need before you get there. I like to start with senior management, then go to key department managers who are heavy users of IT, and interview the key IT staff last.

Often, you may have a general due diligence team meeting at *New Company* with their CEO and CFO when you get there. It's better if you do it this way because it saves them a lot of time and gets the entire due diligence team on the same page.

Ask your key contact to schedule the interviews for you, , , one right after the other. I try to do 45-minute interviews that start on the hour. It gives me a 15-minute buffer to close the discussion and get to my next interview. If you need more time, you can always schedule another visit. If you can do the interview in 30 minutes, , , do it in 30 minutes.

When you go into an interview, take a list of specific questions you want to ask the person. You should have a list for the CEO and CFO, one for the Billing Manager, one for Operations Managers, etc. You will probably have general questions for all, but you also should have specific questions for each manager from doing your homework and research.

I'll provide you with general interview questions you can use in a later section of the book.

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Remember, start interviewing at the highest manager level and work your way down. Interview IT last. If you don't you can be prejudiced when you talk to the IT organization's client (senior managers and department managers).

You must remain objective so use a Top to Bottom approach in interviewing.

The reason is simple: What's most important is what the client thinks, , , and what their needs and issues are. The client's perspective is what you have to address, , , the IT perspective is almost always the same from company to company.

Senior management perspective
The CEO and CFO may not be that close to what's going on in the IT organization so their view about IT performance may be somewhat vague. But, many times you will hear things like:

- "We seem to spend a lot of money in IT and often unsure what it's for."
- "We don't always understand why we spend money in certain areas."
- "We don't know what IT is working on."
- "We aren't sure we are getting full value from our IT investment."

If you hear these things, there is an IT Business disconnect; and it doesn't really matter what the IT group says,, , your client's perspective is what you have to address

Department managers perspective
This group of client managers are your technology users and they are close to the action. They either love you or hate you, , , no middle of the road stuff here. If they love you, you hear all kinds of accolades and reinforcement of the good job you are doing.

On the other hand, they may not like their IT support much and you hear things like:

- "IT isn't focused on our priorities."
- "IT lacks follow-up and we never hear back from them about our issue."
- "When IT fixes something, they usually break something else."
- "IT is always forcing changes on us that we don't want or need."

IT perspective
You almost always hear IT managers say:

- "We are working hard and working on the right things."
- "Our clients do not understand or appreciate what we do."
- "Our clients don't learn how to use technology effectively. "
- "We don't have enough money to do our job."

I've done 45 company acquisitions plus dozens of IT assessments as an IT manager, CIO and consultant, , , and IT almost always has this view. Hear these comments first and it is very difficult to be objective and open when you interview the client groups.

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Another part of on-site discovery is ***observation***. As I mentioned earlier, your radar and all your senses need to be on **FULL ALERT** as you walk through the *New Company* building. You want to observe everything that's taking place, things like:

- How people interact with one another, , , especially IT people with clients
- Processes in place to help manage change and projects
- Every discussion you hear may have IT support implications, , , listen for them
- How organized and secure the Data Center is

If you see or hear something that's a potential IT support issue, make a note and check it out. Discovery is a process of identifying every material IT support issue you can so you can determine what the IT organization will need to work on after the acquisition deal is finalized. When that happens, there will be a lot of work to do quickly.

Let's take a couple of examples:

- You overhear the Payroll Manager say something to someone in the break room about getting new software to address an issue. First question is, , , *"Does IT know about this?"* If they do, , , great. If not, we have a support issue.
- You notice sprinkler heads in the ceiling of the Data Center. Better check to see what comes out of them if they crank up, , , too late afterward if it's water.
- Several department managers mentioned a significant downtime issue occurring three months ago, , , something to the effect that the back-up not working. It's a major issue if IT isn't getting good back-ups and they aren't validated to work.

Large companies don't have these issues, you say, , , you might be surprised.

Antennae up - FULL ALERT!!

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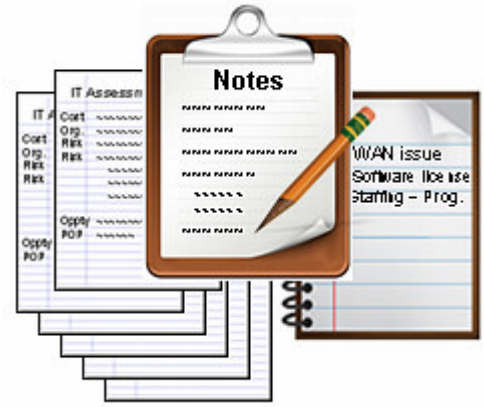
Step 4 - Issues

As you work through discovery, keep a notepad and pen handy. Every time you hear, see, or learn something that's an IT support issue, make a note.

Identifying material issues and needs in regards to IT support plus learning about the IT organization's capabilities and capacity are what this is all about.

At the end of discovery, you may have dozens of pages of notes, , , not uncommon at all if you are doing a thorough job. Even working at 10,000 feet and trying to stay at a material issue level versus "in the weeds", , , you will end up with lots of notes.

pages, , , and **pages, , ,** and **pages**



Every day you will accumulate several pages of new notes. There are a number of tricks that will help you later on when you start the analysis phase and begin writing your Due Diligence Report.

Note taking tips

- Number the pages or better yet, use a notebook designated for just this project.
- Identify at the top of the page who you are interviewing or the source of your notes. This will help you remember later on or know where to go for additional information if you need it.
- At the end of each day, go through the notes and categorize each note. This helps you quantify material issues and when you write your report it will help streamline your work. I'll show you how to categorize them when we talk about "shorthand scheme" in just a minute.
- Compare your notes to your IT Assessment Outline to determine if you are getting everything you need. You haven't seen this form yet, but you will later.

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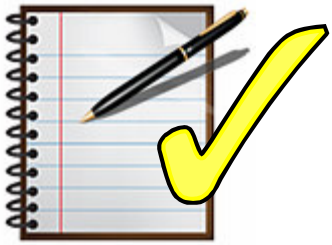
A few cautions with your interviews:

- Don't take interview notes with a laptop, , , use pen and paper.
- Don't include your key contact in client interviews.
- Don't record your interviews.
- Be aware that some managers may not know their company is selling.
- Be sensitive to the situation, , , being acquired is stressful for those who do know.

Taking notes by keying into your laptop is bothersome and unless you type fast, you won't be able to keep up. Also, it makes you look "techy", , , not "business manager". In this endeavor, you need to come across as an organized business manager. What makes you look organized is the crispness of your interview and the questions you ask.



Your key contact may want to sit in on the interviews, but you need to hear the client's perspective openly and objectively. The client may not be forthcoming if there are problems with IT support and their CIO is sitting in the room. You need to hear the good and the bad, , , can't do anything about it if you don't know about it.

People don't normally like to discuss problems when being "audited", , , especially with strangers; so you have to put each person you interview at ease the best you can. Help them understand that your IT review is to help the company improve IT support.

Uncovering problems allows you to put a support focus and budget in place to address key business issues and needs that exist.

Recording your interview sessions will make many uncomfortable and they won't be as open and forthcoming in their answers, , , eliminate any obstacle that prevents them from being totally open and honest about their situation. Take notes, not recordings.

You should always be sensitive to the situation. When you visit the company and ask for information, remember the people you are asking this of have a full time job to do. Don't ask for trivial information that doesn't really matter and keep your interviews crisp and to the point, , , don't waste their time or yours.

Keep your interviews moving and be on time when you have an interview scheduled with someone. Being late for an interview is totally disrespectful and can create bad feelings that you may pay for down the road, , , I.e. after the deal is done and you start the transition work. You may need to become partners with most of these managers so develop a good rapport now.

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Use a shorthand scheme to help categorize your notes
I mentioned using a shorthand scheme would make it easier to write the Due Diligence Report. I understated this a bit. **Categorizing your notes makes it MUCH easier.**

When you are interviewing, you are taking notes as fast as you can. During the interview, you don't always have time to categorize your notes, , , you are digesting what you just heard, writing a note, and formulating your next question, , , all at once.

A good idea is to go through the notes at the end of the day and categorize each note. I use the following shorthand scheme.

--- Category codes ---	
Category	**Description**
–	Just a note
ж	Important
→	Follow-up item
?	A question (List the question and who to ask)
/	Task to complete ("X" is completed)
$	Cost issue
R	Risk issue
O	Opportunity issue
POP	Client service "pop"
I	Support issue

The "shorthand scheme" I use

You don't have to use my scheme, , , make up your own. You will be glad you did when it comes to the analysis and report writing phase.

Here's why, , , when you need to write the **Risk** section of the report, simply review your notes and look for all the notes coded with an "**R**", , , then determine which ones are material enough to be included in your report. Quick, simple and saves you lots of time!

You may be asking, "What is a "**POP**"?" A Client service "POP" is a nagging problem or issue you hear from users that's a source of pain for them. Fix this problem and you create a big positive for IT and win over some allies.

Personal Note: In my last company, the nagging issue was that the company didn't have e-mail across the enterprise. Key people and managers were using AOL accounts. In my assessment interviews, every manager asked me, "When are we getting e-mail?" I made e-mail a high priority and it created some real positives for the IT organization.

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A note about IT support Issues

In the set of Category Codes I just showed, you will find four different categories of **Issues** I use to label my notes.

R	Risks
O	Opportunities
POP	Client Service "POPs"
I	Issues (Less significant than the other three)

First of all, understand that ***they are all issues***. By going through your list of issues and categorizing those that have Risk, Opportunity, or "POP" significance helps you prioritize your work later on when you try to develop your Transition Plan and write your IT Due Diligence Report.

Risk, Opportunity, and POP issues are usually more important, , , you will want to make them higher priorities when you start planning.

Upon completing the discovery phase, you will have hundreds of notes from the research, document reviews, interviews, and your observations. It's a lot of information you have collected in a relatively short period of time.

You have to translate all of this data into some type of meaningful information, , , something you can actually work with.

Remember the objective of IT due diligence?

We want to develop a plan that spells out what our IT organization needs to work on and an IT budget to support the New Company business after we acquire it.

Our discovery notes have identified everything we can about material business issues and needs of our new client that require IT support, , , plus the IT organization's capability and capacity to support this business.

If we have done a good job in identifying "**demand**" for IT support and "**supply**" of what we can do, we have what we need to develop an IT support plan.

Demand = Client needs and issues

Supply = IT capability and capacity

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Also remember, in discovery we tried to identify anything that has a material IT support issue dealing with **stability, supportability, scalability,** and **cost**.

What's buried in these pages of notes are the **issues that need to be addressed**!

Probably dozens of material IT support issues, , , possibly even hundreds.

Believe me when I say, "You will save a lot of time writing the Due Diligence Report if you take the time to categorize each of your notes at the end of each day."

Personal Note: In my last company my 1-week assessment identified over 150 issues that needed to be addressed. By labeling these issues into four categories, my analysis and report writing was so much faster and easier.

I often tell managers who attend my **IT Manager Institute** that the reason I developed all of these tools and processes is because I'm lazy. This isn't totally true, but I hate to do things in an hour when you should be able to do it in 30 minutes. Processes and tools can make things easier and more productive for you, , , and **that's more fun**!

Upon completing discovery, you want to list all your issues, , , maybe it is over 150 like in my last company. Label all **Risk, Opportunity** and **POP** issues so they stand out.

Sample Issues List

R	- Only 1 programmer knows the Billing Application customizations
	- Address Data Center security issue
O	- Postage expense is excessive, , , opportunity for billing automation
	- Upgrade UPS
	- Replace AS/400 server used for accounting systems
POP	- Implement e-mail
	- Implement change management process for Programming
	- Hire two desktop support resources
O	- Create a Company Intranet to replace Operations paper and distribution
	- Upgrade company web site
R	- Verify backup processes and validate backups
R	- WAN downtime issues in Raleigh and San Francisco offices
	- Need a standard PC desktop image
	- Relocation planned – 100 employees in the Billing organization

In this list, there are 14 **Issues**, , , 3 of them are **Risk** issues, 2 are **Opportunity** issues, and 1 is a Client Service **POP**. All are *Issues*, but 6 of them are more important from my perspective, , , the other 8 items are simply *Issues* that need to be dealt with.

Now, you are ready to begin the Analyze phase work.

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Step 5 - Project Initiatives

In this step, you analyze your notes in order to develop a **Transition Plan** and write your IT Due Diligence Report. This is easier said than done, but a tip or two will help you get it done.

Once you know the **Issues** that need to be worked on, it's time to organize them so you can determine how and when to address them. If you have over 150 Issues, that's too much detail to work with so you need to scale down the number of things to think about.

Go through your list of issues and put them into work groups like:

- Data Center
- Programming
- Infrastructure
- Help Desk
- Other

What you already know as a manager is that certain type of work has to be done by specific people in your IT organization. Data Center projects , for example, tend to be worked on by employees who work in the Data Center. Likewise, programming projects are usually handled by programmers, DBA's, and business analysts.

By organizing the issues into functional groups, you can create specific projects, , , and **this is what we want**. It's much easier to prioritize and discuss projects than it is to work at the issue level.

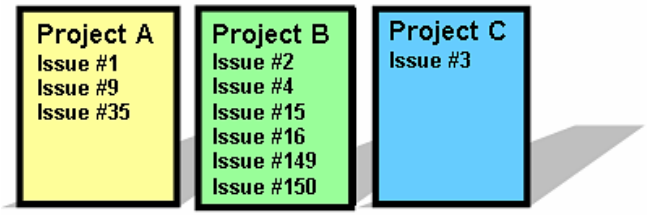
Projects ultimately define cost and resource requirements, , , especially people. This affects priority and timing a great deal. For example, a key employee required to work on several projects may only work on one project at a time if they are big and complex. This resource's availability will dictate the timing of the projects he works on.

When you start planning, one of the biggest challenges you are going to have is juggling resources to create a plan that will work.

Okay, now that you have all your Issues grouped into functional work groups, start defining the projects required to address the issues in each group.

One project might take care of 8 to 10 issues in a work group, , , even more. On the other hand, a single issue might be a project of its own. The point is that by defining the projects required to address all the issues, you will probably boil your 150 issues down to 50 or 60 projects, , , maybe less.

You can work with 50 projects in prioritizing and developing a Transition Plan, , , much more difficult to work with 150 issues.



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Now that you have created a list of projects, the next part of the **Project Initiatives** step is to prioritize the projects. This is where you develop your **Transition Plan**. When I refer to "Transition Plan" in this section, I refer to the Transition Plan component to be included in your IT Due Diligence Report, , , not the last column labeled Transition Plan on the IT Due Diligence and Assimilation Process™. The **Transition Plan** step (or far right column) refers to the actual assimilation work after the acquisition is completed.

If you recall, one of the steps with the Issues was to identify the **Risk**, **Opportunity**, and **POP** issues. The projects that include these issues should probably be higher priority.

Let's talk about this for a moment. Just because an issue is not labeled Risk, Opportunity, or POP does not mean it is not important. In fact, an Issue not labeled as one of these might need to be a very high priority in your Transition Plan.

Prioritizing IT work is a *subjective* process. Unfortunately, it is not totally objective.

Sidebar: Put twelve managers in a room, , , give them exactly the same information from an IT assessment, , , ask them to prioritize the 50 projects identified. You will get back twelve different sets of priorities.

Which manager will be correct?

They all will, , , we all look at things differently. What is important is that we work through a process to define the work we need to do and arrive at some level of timeline to get it accomplished that makes sense.

A simple way to work through this is to list your 50 or 60 projects and label each project **High**, **Medium**, and **Low** based upon the Issues in it. If you have a situation as I did in my last company where there were so many support issues, I added a group titled "911", , , there were fires already blazing that needed to be extinguished quickly.

Urgent issues that need *immediate* attention!!

Projects labeled "911" receive the highest priority followed by those with a "High" label, etc. But before you can put them on paper in a high level view for people to see, there are other variables that play into the timing of actually working on projects.

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Variables affect project timing

There are many variables that affect the timing of when you can actually work on certain projects. It's normal to discover that you can't simply attack the "911" projects, then go after those labeled "High", followed by the "Medium" projects and finally the "Low".

Many variables have to be taken into consideration, such as:

- Cost
- Availability of resources (especially people)
- Prerequisites
- Contract terms
- Non-IT department needs

You may have a project rated **High** that has a **stability** implication which would normally be one of your highest priorities, but because of lack of money, , , you just can't work on the project right away.

Another example is that maybe you want to eliminate a redundant business application and migrate the acquired company's users to your company's software platform. You would probably give this project a Medium priority rating but because you can complete the project before the annual renewal of the contract kicks in, you decide to make it a High priority to save the annual license fee.

You may have to do Project A and Project B before you can do Project C. Well, the third project (Project C) is considered a High priority because of **supportability**, but you can't work on it until you complete two less important projects. It means you have to push Projects A & B to the front of the line in order to get to Project C.

Likewise, because a key Systems Administrator is required to work on three very important projects that are all rated High, you have to determine which project is most important because your resource can't work on all three projects at the same time.

Here is where you have to juggle resources and organize the work in such a way that makes sense and adjusts to all of the variables that come into play. Your decisions are going to be somewhat subjective and probably won't be easy.

Just use your best sense of judgment and experience based upon the criteria I've given you to help you categorize issues and label projects and you should be fine.

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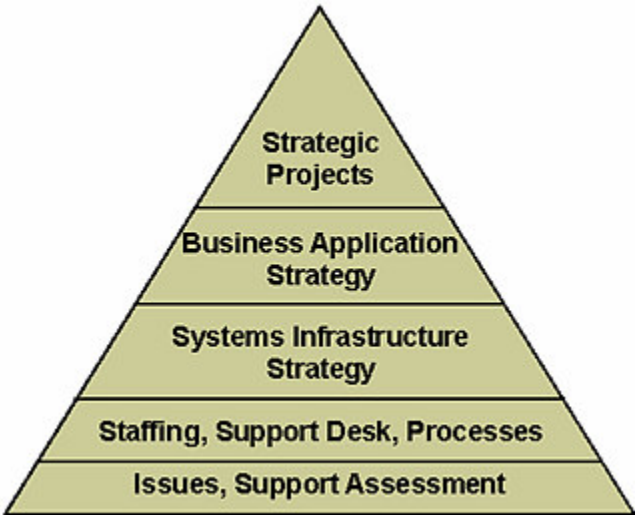
My priority formula
Many have asked me if I have a formula that I use to help me prioritize projects. The answer is "Yes". It's more of a guideline to use than an exact formula, , , remember, what I said earlier, "Prioritizing projects is a subjective process."

I tend to rank projects in the following order:

1. **High risk with stability implications at the very top**
   (One exception, , , the cost is too much for what we can afford right now)
2. **High risk, low cost**
3. **Client Service "POP's" with low cost and low effort**
4. **Big opportunity with low cost and low effort**
5. **Other risk issues**
6. **Other opportunity and Client Service "POP" issues**
7. **Issues that need to be addressed**

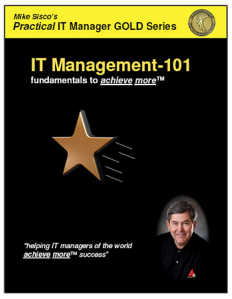
Another element to remember is the **IT Project Priority Hierarchy**. When you begin managing a new IT operation, there are certain things you need to get in place, , , in other words, you need to build some solid foundations before attacking lots of truly strategic projects.



IT Project Priority Hierarchy

The bottom three layers are critical to establish a stable technology environment. The bottom layer is what we are doing in an IT assessment, or due diligence, , , determining the needs and issues of our clients and understanding IT capabilities and capacity.

This model is discussed more in **IT Management-101: fundamentals to *achieve more***™



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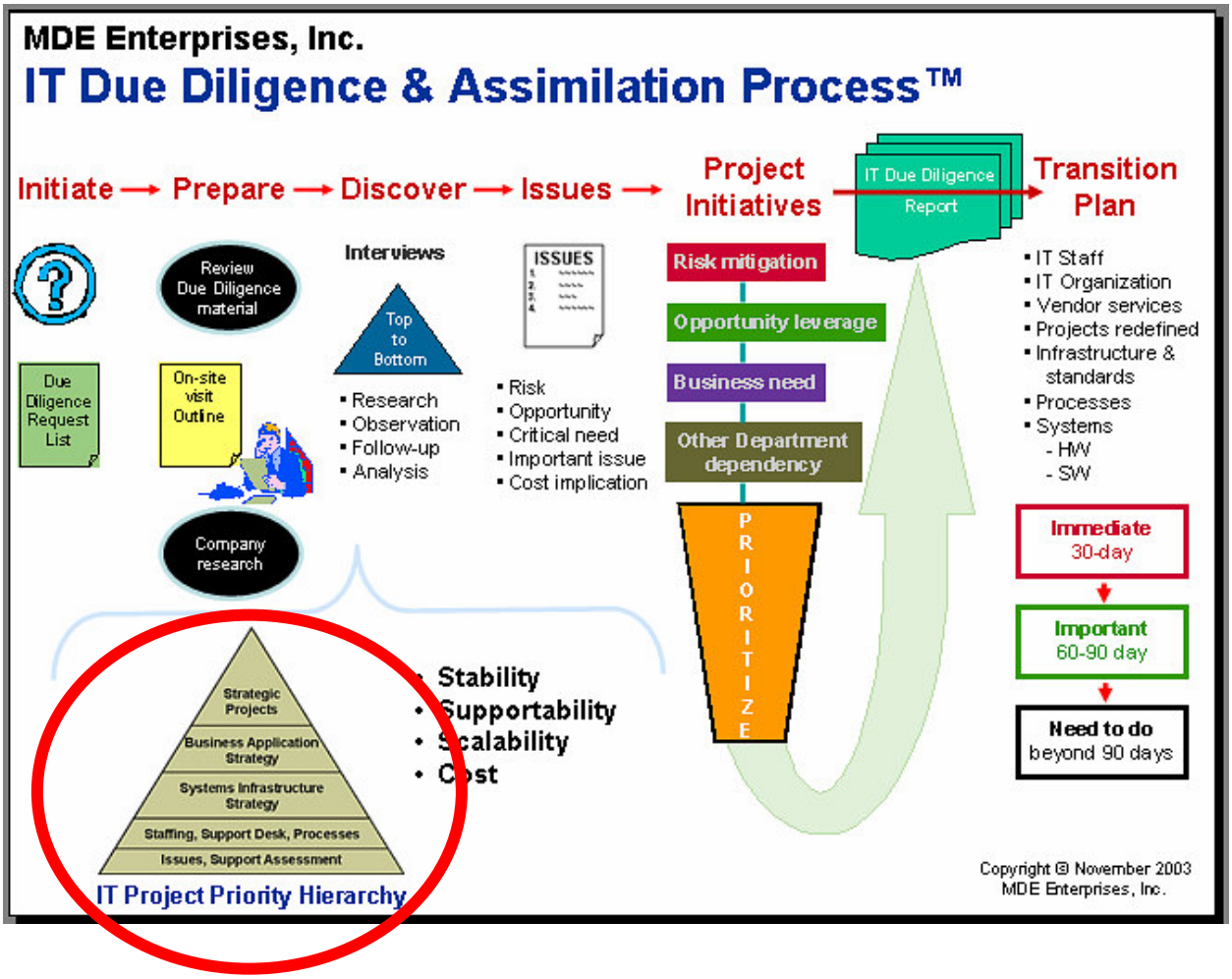
The **IT Project Priority Hierarchy** is also a tool to help you identify issues and prioritize projects because projects that fall into the bottom three layers tend to be higher priority. This is why I include this model on the **IT Due Diligence and Assimilation Process**™.



The next part of the **Analyze** phase and the next step in the IT Due Diligence and Assimilation Process™ is to write the **IT Due Diligence Report**. You can start certain parts of the report before you develop your **Transition Plan**, but it is normally better to have it in place before you start writing the report.

Your project priorities become key ingredients for the IT Due Diligence Report so I recommend you go ahead and define the transition projects and their priority now.

Let's say you have 50 projects like we have been discussing. You need to put them into a timeline, , , some kind of order so you can visualize and discuss what and when projects will take place. This becomes the Transition Plan when you have it completed.

OK, you say, , , how do we do it?

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Well, you have gone through several steps to label your projects High, Medium, and Low, , , so you have a good sense of what takes priority. What I do at this point is to take a blank sheet of paper or use a tool like PowerPoint, VISIO, or MindManager and begin mapping the projects out “on paper”.

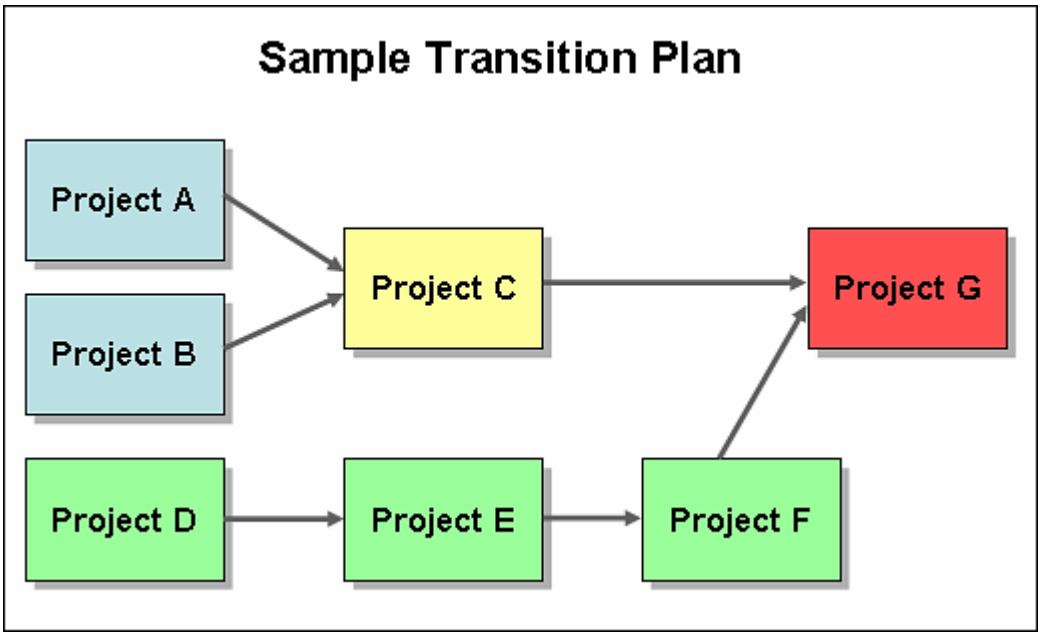
Remember the variables? One of them is cost, , , so you may need to estimate the cost of each project because cost can impact timing.

You may also want to list key people who have to work on each project. Remember me saying you will have to juggle resources? Knowing a key resource has to work on three projects helps you put timelines on them.

You may also have to do some rough estimating of how long each project will take and any projects that have to be completed before others are started, , , this will also affect timing of certain projects.

We are *not* in detail project planning mode here, , , this is strategic work so don’t spend lots of time estimating cost and length of time to do the projects. All you want at this point is to create a view that helps you and others understand your game plan.

Here is a portion of a Sample Transition Plan



Sample Transition Plan

If Project G is a High priority, what this image shows is that there are 6 other project dependencies that must be completed before we can go after Project G. These dependencies could be because of cost, resource availability, or simply certain work has to be completed before we can begin the work in Project G.

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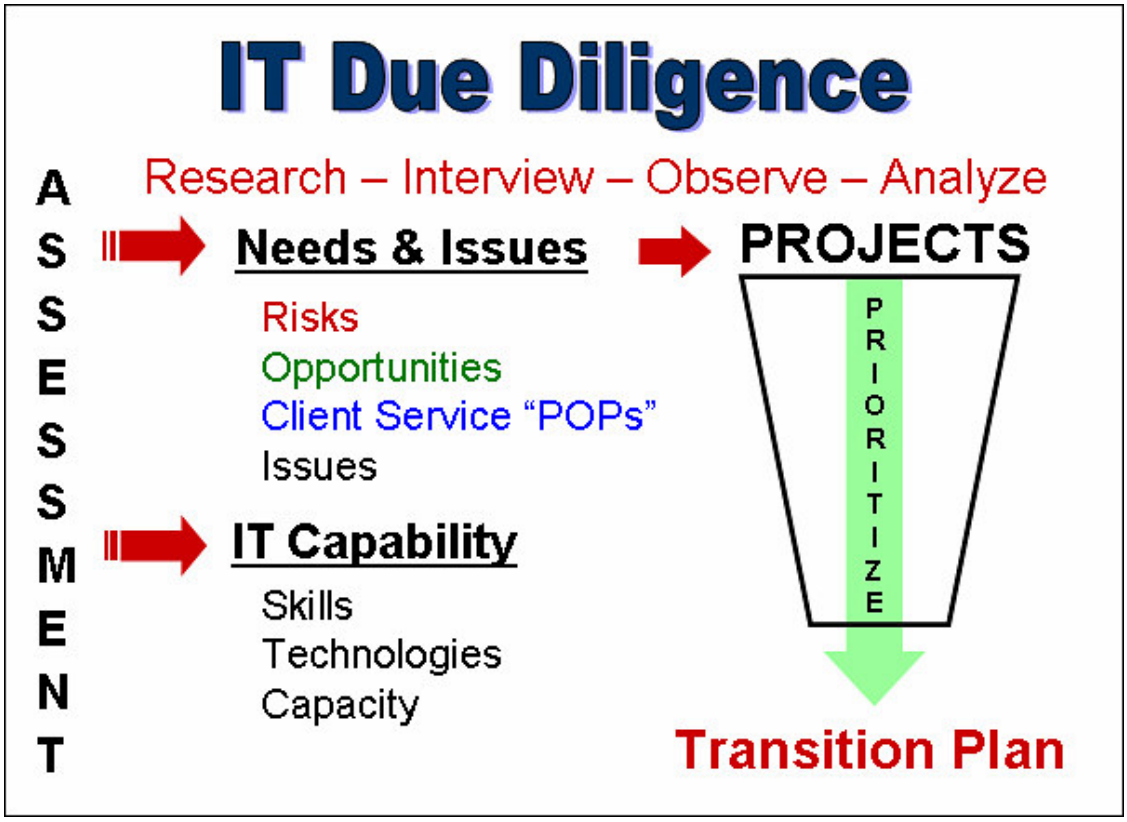
A quick review
I think it's worth a quick review right here.

An offer to acquire New Company is made and accepted. Due diligence is launched.

- Company Overview meeting is held to set the stage for the Due Diligence Team.
- Boxes of materials arrive from New Company to fulfill our due diligence requests.
- We review the materials (IT needs to review more than just the IT boxes.)
- We prepare our key contact in New Company for our on-site review.
- On-site visit takes place to interview and observe, , , tons of notes are collected.
- Analysis of the notes begin to quantify and prioritize the project work needed.

The graphic below is used in my 2-day **IT Due Diligence and Assimilation** class and will help summarize the process up to now as well.



IT Due Diligence Overview

Discovery is accomplished by doing **Research**, **Interview**, and **Observe** activities that identify hundreds of client **Needs and Issues** and **IT Capabilities**. Highlighting the issues that are **Risks**, **Opportunities**, and **Client Service POPs** helps us prioritize.

We **Analyze** the Issues and bundle them into similar work areas to quantify the projects we need to do and then they are prioritized, , , the result is a **Transition Plan**.

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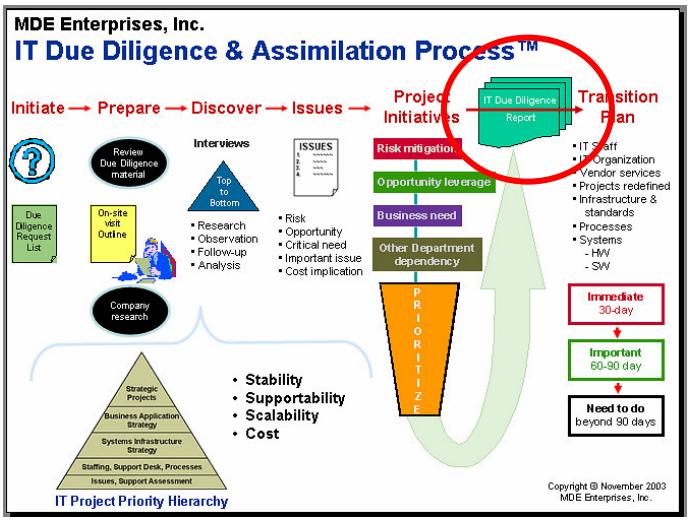
Step 6 - IT Due Diligence Report

The final step in the "discovery" part of the **IT Due Diligence and Assimilation Process**™ is writing the report. It is also the 2nd half of the **Analyze** work activity phase along with **Step 5 - Project Initiatives**.



If you have categorized your notes and completed your Transition Plan, writing the report is going to be much easier.

I'm not going to spend much time on the report here because I consider the report template a tool and there is a chapter later on just for this.

Invariably, when you sit down to write your report you will discover something new or have questions. Make a note of these issues in your notes list because they are still discovery issues and you may need to refer back to them later.

A couple of points worth considering:

- **Don't procrastinate!** Start writing the report as soon as you can, , , don't wait until the last minute to get started. ***Getting started is the key to finishing.***
- Keep the report as simple and straightforward as possible, , , remember who your audience is and write at a level appropriate for them.
- Organize your notes. If you have a Secretary, have her type your notes into Excel. I like Excel because you can use a column to show the Category (Risk, Opportunity, POP, or Issue) and sort them. When you write the Risk and opportunity sections of the report, it helps to have them grouped. Likewise, having all the notes with a "$" (Cost category) grouped helps when you budget.
- Keep the report at a high level, , , your tendency will be to discuss too much detail, , , only focus on material and tangible issues.
- Use a report template if you have one, , , will make the report much quicker and easier to write. (My report template is discussed later.)
- When completed writing the report, file your notes along with a copy of the report. You may need to refer to them later, , , it happens more than you think.

The biggest challenge I always faced in writing the report was **procrastination**. We all have a "procrastination factor" to some extent in our personalities, , , especially IT people. Your report may not be due for two weeks, , , **get after it NOW**. Finishing early allows you to do a better job overall than if you wait until the last minute, , ,

plus it will reduce stress!

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Step 7 – Transition Plan

After the Due Diligence Report is reviewed by senior management, final negotiations take place between your company and New Company. Once the terms of the purchase are agreed upon, the deal is finalized and money changes hands.

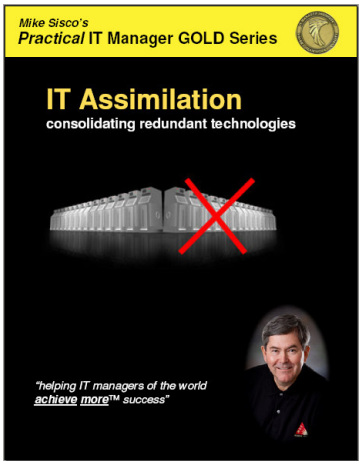
Now the real fun begins. It is time to begin transitioning New Company into your company, , , two companies become one.

Every situation is different. In some cases, your senior management team may want to run New Company "as is" and hold off on any major consolidation efforts. Even in these situations, there will be work for your IT organization to focus on.

At a minimum, most companies will want to do the following:

- Centralize Payroll, Accounts Payable and Accounting
- Create a standard e-mail environment
- Establish standard corporate support services – Purchasing, Human Resources, etc.
- Begin implementing standard operational processes

We won't spend time on this topic as it is covered fully in another book titled, **IT Assimilation: consolidating redundant technologies**.



This part is about implementing the Transition Plan you developed in the due diligence phase of the process we have been talking about.

The key here is that if you have done a good job in due diligence, your transition efforts will be much easier and have a better chance in being successful. If you have not done a good job, , , you are about to experience a significant challenge.

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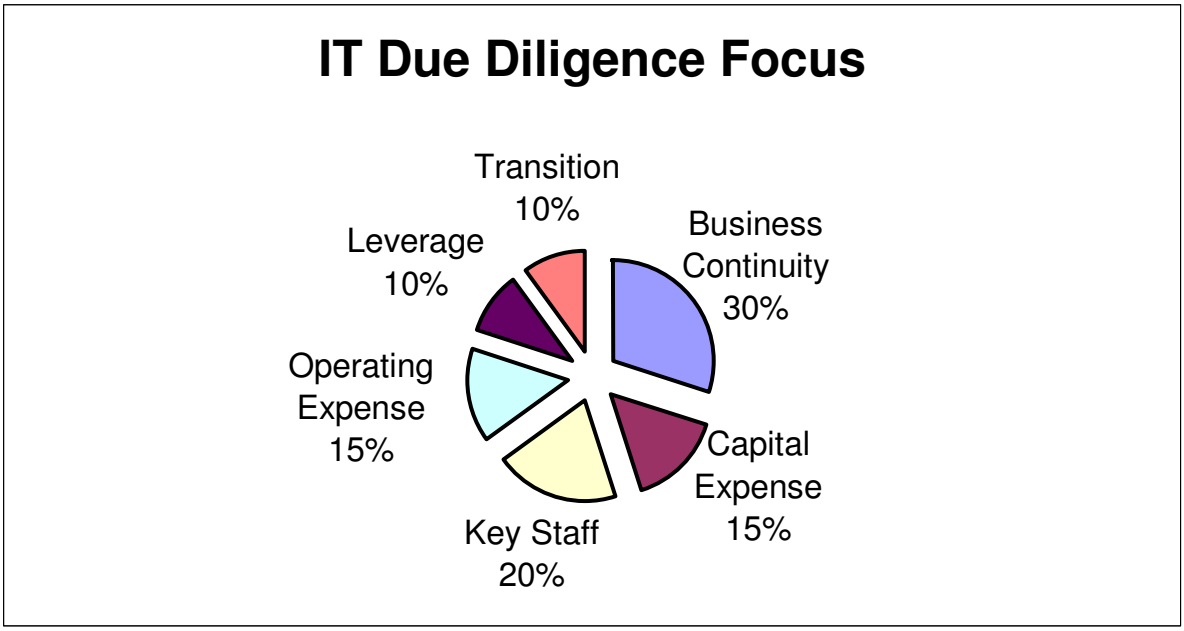
IV. IT Due Diligence Focus

The purpose of due diligence is first and foremost to insure there are no issues that will materially affect the price of the new company acquisition or that would interrupt ongoing business operation.

Every major department of your company has a vested interest in learning about the New Company to insure your company's interests are protected. Buying a New Company with lots of challenges can have dire consequences.

The fact that the company has a lot of challenges is quite all right, , , as long as you identify them and are prepared to deal with them after the acquisition is completed. In fact, challenges more often than not are leverage opportunities.

My perspective from conducting more than 40 IT due diligence efforts is that there are "weighting factors" for certain aspects of the discovery. The graph below is what I believe is important as far as focused effort in each area of discovery.



You can see the sum of ***Business Continuity***, and ***Key Staff*** is 50% of the focus in due diligence. The point is that after the deal is closed, you want to be able to continue operating the company without disruption and with minimal surprises as you work through transition projects.

Business continuity refers to **Risk** issues and ongoing support of the business. Key Staff is also a potential Risk issue and definitely affects ongoing support.

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Capital Expense and ***Operating Expense*** are given heavier weight on the immediate success of the merger than ***Transition*** planning and ***Leverage*** discovery components.

You can make mistakes in ***Transition*** planning and ***Leverage*** forecasts that can be corrected and overcome, but your company will feel real pain if you miss major issues in the other areas.

When you conduct your IT due diligence, become aware of issues that might affect other departments in your company and understand their plans. Your IT focus has to take into consideration the transition support plans of these business units as well as their ongoing support .

An acquisition due diligence team should be made up of every key department of your company. Your company will be most effective in merging with a New Company if it is.

Personal Note: One of the best due diligence processes I've been a part of was very successful because of the teamwork and commitment each of us had for one another as part of the due diligence team. Most of the members of the team were department heads and we all had vested interests in how the New Company would be transitioned into our organizations.

One of the things I remember that helped considerably was that we were always discussing issues and findings with one another. During the on-site discovery part, the Team Leader held a dinner meeting every night so we could all share findings with one another and have time for questions and answers.

We also held weekly status meetings to discuss key points and bring everyone on the due diligence team up to date. I always found these meetings to be helpful because anyone on the team might say something that triggered an issue that I needed to understand in my IT due diligence.

The team meetings were extremely valuable in keeping everyone focused to the task at hand, keeping our discovery at the right level, and moving the project forward.

Many companies approach a company acquisition by focusing only on the financial and legal areas. Merging a New Company into yours is a much more significant effort. Failure to develop a sound transition plan spells trouble for both your company and the New Company.

As you work through due diligence of any new company, stay alert and mindful of issues you discover that might be important to other department managers of your company. It will help them and you **need** them to do the same for you.

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V. IT Due Diligence Request List

All right, you're ready to dive into the new company's inner most secrets and find out all about everything that might have an impact on your IT organization. Before you get too excited, let's review a couple of key points.

First, due diligence is hard work and you could spend a lifetime in discovering issues of interest in their technology. You don't need to know everything about every piece of their technology to size up the situation and develop a meaningful transition plan.

Second, pulling information and copying it for your review is time consuming and costly for the New Company. Keep your list to important information that helps you assess business continuity support, risk, operating costs, investments needed, and key staff.

You want to balance what you ask for. On the one hand you certainly want all materials that point out issues that are material in nature for your assessment. On the other hand, you don't want to look at every piece of paper in the company.

Remember, much can be looked at and assessed when you visit the company and conduct your interviews, so try to keep your request list to just those items that help you prepare for the on-site visit and interviews.

A sample **IT Due Diligence Request List** follows on the next page. It is the exact request list I have used in dozens of due diligence projects, , , both for company acquisitions and for IT assessments in a manager role. Feel free to use "as is" or modify for specific needs.

Every company has unique needs and issues that must be identified and planned for. No two companies will be the same, even if they are in the same industry and the same size, , , every company situation will be different.

The list of items in the IT Due Diligence Request List are items to hopefully review prior to making the on-site visit and conducting interviews. This information will help you gain an understanding of the company and prepare for your interviews. If you are able to get information on most of the twenty items listed, you will be off to a good start.

A copy is also provided in Appendix A.

Note, , , the request list does not use the term "due diligence". The key manager at the New Company may need to share the list with someone who is not "in the loop" about the acquisition. Eliminating the term "due diligence" makes it easier.

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IT Assessment Request List

1. Overview of systems infrastructure including servers, LAN/WAN networks. Include physical location and general configurations of hardware, stability, and scalability.
2. Copy of hardware and software leases, purchase agreements, and maintenance agreements.
3. Copies of software license agreements including operating systems, business applications, utilities, and PC software.
4. Overview of company operations and external clients being supported by IT.
5. Mission critical business applications overview with number and location of users, stability, and growth capacity.
6. Client list and overview of client satisfaction, A/R status (if any), challenges, etc.
7. Copy of key client reports and level of software customization.
8. Copies of software licenses, sublicenses, representative, sales or agency agreements for software/hardware products sold or made available to others.
9. Identify any user, other than a company employee, who has access to any of the company's computer systems and who might reasonably expect to receive ongoing support. Describe the nature of support or systems access that exists.
10. Identify external data interfaces (automation) in place with the company's systems and databases. Define fees or costs associated with each and the entity associated with the interface.
11. Identify expected hardware upgrades anticipated in the next twelve months.
12. Describe any existing system development projects that have a material effect on maintaining or growing the business of the company during the next twelve months, with specific identification of any development efforts required to achieve current budgeted objectives of the company.
13. IT staff list including name, title, responsibility, salary, start date, date of last pay increase and amount. Include an IT organization chart including open positions that shows how the staff is managed and where the staff is physically located.
14. Copy of the current IT operating budget.
15. Copy of the company's current capital budget and anticipated capital purchases for the next 12 months.
16. Copy of the most recent IT Operating P&L (Profit & Loss Reports) and the operating trends for the past 12-18 months.
17. Identify by location the telecom costs experienced for the past twelve months.
18. Define the company's technology objectives and strategy for the next 12 months.
19. Copy of programming backlogs for all supported systems for company departments and external clients.
20. Copy of outside consulting contracts and anticipated plans for the next 12 months.

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You need to receive these items in time to review them prior to your visit to the New Company. In some cases, you may have to find much of the information on location.

The materials that come in from this request list will quickly begin to tell you how well organized the IT organization is and about their management personality. Both are important as you go about the business of assessing what is there and determining how you will best transition the New Company into your existing business.

It's too early to make any real conclusions but you are starting to gain a sense of what you will be dealing with in the new company as you start reviewing the materials.

This list is only the IT portion of the requested items your company has sent New Company. It's in your best interest to review the lists submitted by other departments in your company and identify the materials that you think you need to review from "their boxes" that come in. There will be information in the other department materials that has IT support implications, , , you need to know what they are to develop a solid transition and ongoing support plan.

Two ways to get this information:

1. Review the materials that come in for the other departments.
2. Interview each of the department managers on the Due Diligence Team toward the end of your discovery process to learn what their transition plans are.

I recommend you do both.

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VI. What Are the Key Risks?

Possibly the most important part of due diligence is to identify any business continuity risk that exists with the New Company. It would be terrible to close the deal and suddenly find out that you don't have something you need to support the business.

In discovery mode, it is not necessarily bad when you find an issue that has significant risk associated with it. If one exists and you discover it and plan to handle it, you and your management team will be in good shape.

A major risk issue may or may not impact the deal structure, but you will always be better off to find and disclose it now than later. Nothing good happens if it pops up after the deal is done and causes havoc to ongoing operations.

Your job in IT due diligence is to discover any of these major land mines. If they are high risk and will cost your company significantly more than was planned, your responsibility is to identify the issue for your senior managers, , , their job is to determine if it affects the deal structure or price.

There are several areas of technology that you should consider for risk:

A. Technology stability
B. Technology ownership
C. Software license compliance
D. Staff support
E. Vendor support
F. Major expense needs
G. Security

We will discuss each area and provide insight into what you need to look for.

Let me repeat something I've mentioned a couple of times already.

Finding a risk issue is not the problem

The problem is missing the discovery and having adverse ramifications later because you had not planned for the issue. There really is nothing you can't manage if you know about it going into the merger. It's the unexpected surprises that cause real damage.

Unexpected surprises cause the damage

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A. Technology stability

Companies that depend upon technology for their day to day operations must have stable systems environments. A major server supporting hundreds or thousands of employees that fails to operate has negative consequences in the tens of thousands of dollars for every hour it is not operational.

Have you ever seen a company close its office doors due to a blizzard or foul weather? It happens all the time and has major impact on the operation of many companies.

You can't do anything about bad weather or natural disaster, but you can do a lot to shore up your primary servers and network infrastructure so that when bad weather does hit, the company's entire operation is not necessarily affected.

The issue here is to determine the state of the New Company's technology environment and level of dependency it has on systems uptime. Air traffic controllers work blind without their systems, , , 100% uptime is required for this business.

In most companies, some amount of downtime may be acceptable; for others like air traffic control, it is not. Your assessment must determine what amount of downtime, if any, is acceptable and whether the company has the infrastructure and support environment to maintain the acceptable service level.

As you walk through discovery you must determine the New Company's ability to maintain acceptable levels of systems uptime in all areas of the infrastructure and mission critical systems in the company. A good way to do this is while you are learning about the business needs and issues in New Company.

Indicators that might point to systems stability issues come out of assessing:

- Hardware
- Network
- LAN/WAN
- Computer operations
- Help Desk logs
- IT projects
- Change management processes
- Client satisfaction
- Staffing review
- Consulting expenses
- Downtime logs
- Other

You might discover a stability issue in almost anything you learn or observe about the company. If you see or hear anything that could be a stability issue, make a note of it and find out if it's a real issue. If it is, you will need to do something about it.

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B. Technology ownership

Don't take the word of anyone in the New Company when they tell you they own the software running on their systems and supporting their business. Ask for proof.

Personal Note: While conducting the due diligence for a company acquisition, it was apparent that their billing systems looked a great deal like our primary business application that I was very familiar with. The owners were emphatic that the software had been developed by their company and that any resemblance was coincidental.

Further discovery pointed out that not only was the code obviously programmed by some of the "old-timers" on my staff, their user documentation even used patient names that were those same employees working for me. It doesn't get that coincidental.

When presented the facts, the owners of the New Company expressed disbelief but that it may be possible that their applications were derivatives of our original system. This particular niche of healthcare was a rather unique community in that most of the people that were in it were at one time involved with our original company many years before.

Believe it or not, in the 35 or so company acquisitions we bought, we bought our own business applications software at least four different times that I know of.

The point here is not that we had a concern they were using pirated software from our company. The real issue that led me to the issue was the result of trying to validate true ownership of the software. You simply cannot afford to acquire another company if you don't have proper ownership or licensure to continue using the company's systems as they have been using them.

If a third party has a legitimate claim to ownership of the software, , , or anything else in a New Company for that matter, once the acquisition is announced they are going to want something. They want their fair share, , , something called, , ,

MONEY

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As you work through discovery of the New Company be sure to validate that you have ownership or the rights by contract to continue using these system assets.

One area to be particularly diligent is in reviewing software and hardware contract clauses that are part of prior company mergers, alliances, etc.

Personal Note: I have seen clauses in contracts that default the ownership of a software application back to the original developers in the case of a change in ownership of the New Company. This is unusual, but there are all kinds of contract situations that you will run into, , , some with very bizarre features.

People can be very creative when they develop contracts .

Another strange situation I discovered in a due diligence project was a contract that had a clause to start paying the original software developers the equivalent of $20,000 per month if the company we were trying to acquire changed ownership. By discovering this clause, we were able to use the New Company owner's relationship with the software developers to negotiate a much more reasonable solution.

One last comment. The first sentence in this section stated, ***"Don't take the word of anyone in the New Company when they tell you they own the software running on their systems and supporting their business."***

I made a mistake and trusted the word of the owner of a small company who told me his company owned their business applications software, but he had no contract to validate this fact. Within two weeks of announcing the acquisition, the "part owners" of the software called to negotiate their requirements for our continued use of their software.

Needless to say, I've never made the same mistake again, and this issue placed a new sense of urgency on converting the acquired business to our systems.

This is a significant risk area. Treat it that way.

If you can't confirm ownership or licensed rights for ongoing use of major technology assets with a contract, you may want to add a clause in the purchase contract to hold the existing owners financially liable in the event an ownership dispute arises for some period of time after the merger. If an issue exists, this usually brings it to the surface.

You want to protect both companies. Miss an issue like this and it's a big problem.

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C. Software license compliance

Companies that use unlicensed copies of software cost the technology industry billions of dollars every year. Many companies are very lackadaisical about maintaining software compliance, , , especially for PC's. It's a big deal that can threaten ongoing operation of the business.

Let me emphasize this point.

software non-compliance is a business continuity RISK

Business continuity means you can't operate. There are organizations who can shut you down while they audit your PC's and servers to determine if you are software compliant. They remove your equipment and audit at their location and in their timeframe.

The only way to continue operation during such an audit is to purchase new equipment and software, , , very expensive and what a pain!!!!!

If the New Company cannot provide you with documented records showing they know three things, plan for corrective action that may cost thousands of dollars to get the company compliant. The three things you want to get a firm understanding of are:

1. Complete list of systems and software applications – what exists
2. License agreements or proof of ownership of all software products
3. Third Party Software Usage Policy for the company

The penalties for noncompliance are much more severe than simply purchasing the software your company is using illegally. The costs with penalties can run three to four times what the software costs, , , plus someone can spend time in jail.

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Who can go to jail? Potentially, your CEO, CFO, CIO and the employees who are doing the illegal copying of software.

This is not something to mess around with. If you are buying a company that is significantly non-compliant, make it one of the early transition items to remedy the situation after the purchase is completed.

If you can't get a good handle on the extent of exposure, budget and plan for the worst case to achieve full compliance.

"Let's be reasonable", you say. Yes, I agree. There may not be a company on the planet that is 100% compliant with the proliferation of PC's and the ease by which employees can load unlicensed software products on their systems at work, , , although we have the ability to lock down our systems better all the time.

The key theme here is **intent to be compliant**. You need to put your best foot forward toward achieving and maintaining a software compliant environment in your company.

By documenting the software products your company is licensed to use and maintaining records of users and what you have loaded onto your systems, you should be all right as long as actual use matches up with what's licensed for use.

You also need a company policy in place and communicated concerning the proper use of third party software products. You can be held liable for unauthorized software use by an employee who does this without your knowledge. A Third Party Software Usage Policy protects you, , , but only if it is communicated and enforced.

Earlier in this book, I shared a ***Personal Note*** that described an acquisition experience where we received a call from the **Business Software Alliance** (BSA) wanting to audit our company for reported software compliance violations. It was true, , , the company we had just acquired truly was in the habit of stealing software. What saved us was being able to send them my Due Diligence Report where I identified the problem, budgeted and planned to fix the problem in our transition efforts.

BSA.org

If your intent is to be compliant, BSA and the governments and vendors they represent aren't going to bother you. If your intent is to steal, , , good luck.

It doesn't take long to determine whether a company is compliant or not. Run a report that documents all the devices on your network and lists all software components on each device. Sort and summarize it by software product and compare the totals of what exists with your contracts and license agreements.

Only takes an hour or two and is well worth your time

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D. Staff support

It goes without saying that every company has key employees who are critical to the ongoing operation of the company. In due diligence you must identify the IT employees who are critical in your IT support business and develop strategies to retain them as needed to insure a smooth transition and ongoing support.

There are up to four categories of employees in any New Company acquisition. This is true for any department, not just IT.

1. Employees who are key and needed beyond transition.
2. Employees who are critical through transition.
3. Employees who are needed through transition but are not critical.
4. Employees who are not needed.

Your due diligence effort should determine the value of each employee in the IT department relative to IT support and the need you have for them in the future company. This can be a tough position to be in if you have not gone through an acquisition before. The key is don't make it personal or too emotional.

This is not to say you should not have empathy for those who will lose their jobs.

I know no other way of discussing this point. An acquisition based on leveraging resources and capabilities of two companies does not need all the employees of both companies. Leverage, by definition, means getting more out of existing employees and systems and eliminating redundancy. Approach this issue objectively and humanely and you will be fine.

You also need to look at your own company employees. There are going to be employees who aren't getting the job done and their poor performance hampers your team's ability to support the business. These people should be getting management input that encourages an improvement in their performance or motivates them to find different work, , , somewhere they can succeed.

The fact that there are going to be employees who will probably lose their job is not necessarily a negative or the worst thing that could happen. Handled the right way, their transition out of the company will be perceived as professional and handled with care and consideration even though they may not like the business decision you make.

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It may give you comfort to look at the situation this way. The sale of the company may be essential to survive and by merging with your company it has a much higher likelihood of succeeding for the long term which saves many jobs.

Insight on how to handle the transition of employees that are part of a company acquisition is discussed in **IT Assimilation: consolidating redundant technologies**.

One way to look at each employee is to place them into a category group. Use a simple tool like the one below:

Employee Retention Plan

Name	Position	Comments
I. Key Ongoing		
II. Key thru Transition		
III. Retain thru Transition		
IV. Not Needed		

Employee Retention Plan

Obviously, something like this needs to be kept confidential until due diligence is completed and the merger is announced.

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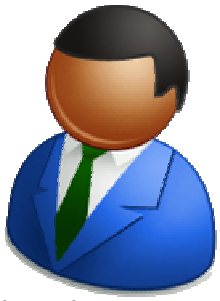


Developing retention plans has an expense implication that must be determined during due diligence. More on this is discussed at the end of this section.

Suffice it to say that my opinion is that every employee should be given a reasonable separation package. In all the organization transitions I have managed in my career, I can't remember a situation where people did not have a job unless they chose not to seek new employment after their separation.

I was fortunate to work with a senior management team that looked at acquisitions this way, "If we do what's right by clients and employees, , , good things will happen."

It costs real money to approach it this way and many companies don't. I attribute much of our success in this company because of the professional manner in which we tried to conduct business.

Personal Note: In one company acquisition that was made up of ten previously acquired companies but were never assimilated (consolidated), one of the companies was a service bureau business that did not fit our business model. In fact, their clients were our competitors. Our decision was to close this business.

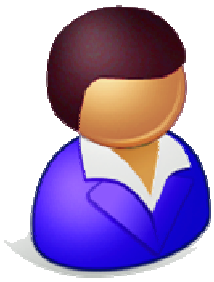
The company was made up of approximately 20 technical employees, many who had worked for the company 8-10 years.

It was the right decision for us but meant that all employees in this company would lose their jobs. The company was in a relatively small city with limited technical job opportunities which made it more difficult.

Because the entire operation was technical in nature, it was my responsibility as the CIO to close the business. I was able to accomplish this objective without placing undue risk to the employees, their clients, or our company. In fact, the manager of the company helped me develop and execute the transition plan and has become one of my closest friends.

What's the secret?

There is no real secret, but it helps to have insight into how to go about handling such traumatic change that employees face when an acquisition occurs. The fact that I had already managed many IT organization transitions in my career definitely helped.



My recommendation is to approach the transition or elimination of employees with a few key thoughts. There will be many readers of this publication who might disagree with some of these points; all I can tell you is that I've used them many times and have had consistent success in handling IT employee transitions of many forms and variations.

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Put yourself in the other person's shoes and consider how you would want to be treated if the decisions were being made by the other company.

Go about the task professionally and with appropriate consideration for others and that's how it will be perceived. Handle it flippantly, with no sensitivity and you will most assuredly create problems that have to be dealt with later.

A few key thoughts from my experiences in these situations might be helpful to you:

1. ***Be clear in discussing your plans*** with logical reasoning to support it.

2. ***Develop a detailed plan to handle each transitional situation***. For example, in a New Company acquisition, you may have up to four different groups of employees identified that have different purposes during and after the transition. Each group should have a plan that supports both your company and the employee's transition needs.

3. As much as possible, ***treat employees consistently*** who will not remain with the company. This is not always totally possible in that you may have some employees who will be terminated immediately after the deal is completed. You may have another group that is given retention packages to help get you through the transition or to complete specific projects that are essential for the business. Another group is probably needed for the "long haul". Make your retention packages consistent among people in a group.

4. ***Retention packages have to provide real incentive for an employee*** who knows he or she is going to be in a temporary position. Real incentive usually spells tangible dollars and provides the employee some amount of upside. Don't be foolish enough to believe that an employee will put himself at risk by taking a package that basically equals his/her current compensation. Any smart employee will probably agree to the plan but will immediately start looking for a new job to protect his financial interests. We probably all would. ***No upside and you lose the employee prematurely.*** I typically gave incentives to employees needed for any length of transitional time a 20-25% bonus of annual salary to lock in their participation for an interim period. The key here is that this is only appropriate if you truly need the employee to help with the transition or to complete an important project.

5. ***Determine the full term of employment needed up front***. You only get one shot at retaining an employee for a transitional period. As soon as they know the target date of the termination, they are fixated on that date like a laser beam. Don't plan to be able to get extensions; you probably won't be able to unless you're willing to create a significant incentive.

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6. ***The retention package should contain more than dollars***. For example, feel free to include other incentives such as outplacement support, resume preparation, time off to interview, additional training, etc. The key is to provide enough incentive to retain the employee to accomplish your needs and to structure it so it eliminates as much of the unemployment risk as possible for the employee. When you do, it's a **win-win**.

7. ***Never give 2-week severance packages.*** Many may disagree with this, but I have always tried to provide a minimum of a 30-day severance pay with benefits with some type of outplacement support for the individuals who are not needed after the merger is announced. I have always considered this a minimum effort and part of the cost of the deal. The additional time will help the employee and also helps protect your company's interests. Outplacement support can contain anything from resume preparation and interview coaching to a full program worked out with an outplacement agency.

8. ***Anticipate resignations.*** No matter how well you plan and execute, you simply cannot predict the actions of every employee. People have different tolerance levels for what they perceive as risk versus security and they deal with change differently. I recommend you anticipate a 20% reduction in the IT staff of the New Company in resignations. It's better to anticipate a little higher turnover as you plan your strategies than to find yourself short staffed.

9. ***Always reinforce "we".*** Use the word "merger" versus "acquisition" and reinforce the concept of the "new team" that will be built to support the business. The better you are able to portray the vision of a stronger company after the transition versus, *"We are buying your company."*, the better your ability to motivate new employees toward a new set of goals and objectives. Remember, to a large extent, this action is turning their world upside down.

Personal Note: I mentioned earlier that the company I was with in the early 90's acquired over 35 companies in the same healthcare industry niche. In one individual employee's case, he ended up in three different companies in Richmond, Virginia only to discover me showing up a few months later to acquire his new company.

This guy was a solid programmer who I wanted to keep in our company. The problem was that he could never get comfortable with us and had a personal need for security. As a result, I was never able to convince him that he had a future with our company.

The last time I bumped into him during due diligence of his third company, he was gone even before we finished due diligence. Before he left, I sat down with him to try and reassure him for a third time, and I mentioned that if he decided to leave, he should seek out a different industry. ***Maybe, he didn't like the ties I wore back then.***

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Sidebar: Some people are like rabbits. In the presence of perceived danger, they tend to run and ask questions later.

One of the things you want to assess quickly is the IT staff of New Company. You need to determine how to retain the key employees in two of the four groups:

1. Those needed for the long term.
2. Key employees needed during the transition effort.

Dealing with the employees in an acquisition is probably the most important part of achieving a successful transition. Your discovery of where the strength and knowledge is and ability to retain and focus those individuals on the transition will have a major bearing in your success.

Many IT managers probably look at an acquisition in that they can accomplish anything ***with or without the key people*** in the New Company. To some extent, that's true. Ultimately, however, trying to accomplish the transition without key employees has several downfalls that you should avoid if possible.

- Key employees have "insider" knowledge about systems and issues that cannot be replaced quickly, especially with business application software.
- Filling gaps caused by key employees leaving prematurely is more expensive and has higher risk due to the learning curve.
- Filling gaps with your own staff takes resources out of important initiatives already underway or needing to be addressed. *"Robbing Peter to pay Paul."* is a reactive approach that is costly for the company as a whole.

The bottom line is that it's almost always harder and more risky to try to work through a New Company transition without their key employees.

When you look at a 20% to 30% retention bonus for key people needed in the transition, it is a lot of money. However, the risk inherent without their help plus the price tag that comes with negative feelings among clients and other employees can be significantly more and do irreparable damage to your company.

Take emotion out of the equation and do what it takes to insure you can manage a smooth transition of the New Company.

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Employee retention packages

There are several pieces that make up a successful employee retention package:

1. **Transition bonus** for completing specific tasks or staying with the company through a set date to provide support during transition.

   I have used 20 to 30% of annual salary successfully when asking employees to stay with us for up to 6 months. Several guidelines are stipulated and tied to the bonus, including:

   A) If the employee leaves prior to the agreed upon requirements, there is no payment.
   B) If the company decides the employee is not needed before the completion of the terms, the bonus is paid in full.
   C) Normal employee guidelines apply for employee performance.

   The first two items are there to try to take the element of risk out of the employee's decision thought process. Achieve this and you will retain the employee. Decide what you will offer and calculate the price, , , then add it to your discovery notes as a component of the transition costs expected. After you have the total costs calculated, you will want to put it in your transition budget and add to the Transition Plan section of your Due Diligence Report.

2. **Outplacement support.** Determine specifically what you want to offer and establish a cost per employee to provide it.

3. **Time off to interview** within 60 days of the termination date. No cost here.

4. **Additional training** offer for the employee during the retention period. This can be very effective if it helps your company, helps the employee's marketability, and is cost effective. Calculate this cost and add to your employee retention cost calculation.

5. **Payment of all unused vacation time** on the termination date. Calculate the expected cost per individual and add to your retention list. Listing this as part of the separation package adds value and helps the employee see his true financial picture at termination.

Make it a formal agreement so you and the employee can sign. It will give both of you reassurance and protects the employee.

Much more is discussed in the book, **IT Assimilation: consolidating redundant technologies**. Later in this publication, you will receive tools and worksheets to help you organize your thoughts.

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E. Vendor support

Vendors and contracted consultants who play a significant role in the technology support of the New Company must be identified and locked in to help you support the business after the merger is announced.

It is always better to identify every situation prior to the deal being completed so you can prepare and do what is necessary to insure continued support will exist.

It also puts you in a much better position if you need to negotiate.

To begin with, you should read every vendor contract that provides some level of technology support to the New Company. This isn't fun, but is necessary. As mentioned earlier, contracts can be very creative at times.

vendor support

Support agreements to consider include work for:

- Software maintenance and new version release support
- Hardware maintenance
- Contracted employees (temporary and full time)
- Recruiting agency contracts, especially for temporary employees
- Network and infrastructure support services
- Consulting services for project work
- Air-condition, UPS, phone systems, and other facility maintenance

Once again, the key is to try to insure that you have a copy of every technology related contract that is in effect for the company and that you read through the terms carefully.

Two of the objectives of due diligence are to develop a set of leverage opportunities and to develop a high level transition plan. In your transition plan, you will want to identify contracts that can be eliminated over time, especially leverage opportunities where the services that can be supplied by your company in a more cost effective way. You can't list them if you aren't familiar with the contract cancellation terms.

You do not want to discuss issues with a vendor prior to a formal announcement is made about the merger. Nothing is worse than for an employee to hear about the sale of his company from someone other than his own management team. If one of the companies is a public company, it's also against the law to disclose "insider knowledge" of an impending acquisition, , , so be very sensitive about how you deal with this information with vendors.

You may need to work with the New Company management team to strategize an approach with a vendor to protect your ongoing support concerns. Every owner wants the sale to happen and to support a smooth transition after the sale.

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RISK

F. Major expense needs

In your interviews you will ask questions about current IT projects, anticipated projects, planned capital expenditures, and key needs to meet current or future company business plans. As you discover these issues, be sure to list them in your notes so you will have them available when you develop your Due Diligence Report.

Major expense items to look for include, but are not limited to the following:

- New offices or plans to relocate and/or merge offices
- New employees (salary, recruiting, and staff related expenses)
- Department moves or expansions
- Systems upgrades or new equipment purchases
- Application software upgrades or new purchases
- Major initiatives requiring technology support
- Consolidation efforts
- Infrastructure stabilization needs
- Client needs for transition support and ongoing support

The key is to discover anything that looks like it has major technology expense tied to it. Better to anticipate an expense and not need it than to miss it. Your CEO and CFO need you to achieve your financial forecasts.

A caution. Often, company owners who plan to sell their company will put off making needed technology investments in their company. This can go on for a long time and create a “pent up demand” for needed improvements and updates for equipment, software, staff, etc. This can be a costly issue that needs to be addressed soon after the purchase is made. Owners may even try to hide this fact, , , so be aware.

Your job in discovery is to determine what the situation is and to quantify exactly what you are going to need to spend after the merger. Major expenditures must be planned and included in the Due Diligence Report. Put these costs in a budget category titled “transition costs” because they are associated with the purchase and can be capitalized if the company so chooses.

I call these lack of investments “past sins”. This issue occurs quite a bit in small companies that are privately held. It’s a business owner’s perogative where he spends money in his company. The key is to identify any material issue objectively and to assign a cost to fix the problem. Your senior management can determine whether the additional costs warrant an adjustment to the purchase price.

This a good tip to remember. You don’t need to worry about whether the purchase is a good deal or not. Your job is to conduct an objective assessment of what the situation is and identify what needs to be addressed to have a smooth operating business. Senior management will determine whether your findings affect the structure of the deal.

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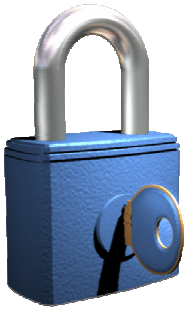
RISK

G. Security

Security is a key issue in today's world, , , much more so than in years past. Security deals with several levels that you may need to evaluate in your IT due diligence work:

- Physical security
- Systems access security
- Sabotage during transition



Physical security refers to building access and access to physical areas of the company such as the Data Center, controlled access areas, etc.

Systems access security refers to user access to systems and data. You need a plan to address this issue quickly to support your Transition Plan.

Personal Note: In my IBM days, I was working on a project for a hospital to install a new payroll application. While there, they fired their CIO.

In those days, there was no remote access to systems, , , you had to be in the building to logon to one of the hospital servers.

After walking the former CIO out the door, they changed all the locks and access points to keep him from gaining access to their systems. The next day, they were surprised to find that he had logged into a couple of systems between midnight and 1:00am.

It meant he was in the building during that time.

They forgot to do two things:

- Delete his User-ID and password access
- Tell the Night Operator who innocently let him in

In this case, the CIO didn't do anything malicious, , , he was just completing a couple of things he thought were important for the hospital.

Sabotage is another story. Most security breaches tend to come from your existing employees, , , especially sabotage. Because you are about to introduce dramatic and challenging change to the employees of New Company, you need to think through possible sabotage scenarios with New Company's senior management team.

No one wants to think "their people" are capable or would do anything malicious to their company, but people can become unpredictable under heavy stress, , , and an acquisition creates real stress for people.

Be sure your **Transition Plan** detail includes a security component.

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VII. On-site IT Review

We are now ready to discuss more about the process of conducting the on-site review.

Before you visit the New Company, you should always initiate a call to your key technology contact who will help you in your due diligence effort. Normally, it's the Chief Information Officer (CIO). Before you call, be certain this individual has been made aware of the potential merger and is "on board", , , and expects your call.

In this initial conversation, you should try to get to know the person a little but don't overdo it. There will be plenty of time during the on-site review to learn about him or her.

The primary purpose of the call is to allow the other person to get to know you a bit and to prepare him/her for your visit. Doing this will take some of the anxiety out of their day and the upcoming visit.

One way to help someone understand the purpose and objectives of your visit is to provide an outline. I generally provide two outlines, a general description of what the visit is all about in the initial phone conversation and a document that outlines the discovery focus of my due diligence process.

The first is a general outline that is discussed over the phone and goes like this:

> "The purpose of my on-site visit is to learn about the technology support business of your company. I have several objectives in my review that include:
>
> - Understanding of the technology environment as a CIO would need to understand (what's there, operating cost, needs from your perspective, risks, opportunities, etc.)
> - Understanding the IT organization structure and make-up of the staff
> - Understanding client dependencies on IT, their issues and needs, etc.
> - Sizing up IT operational expense trends and plans of the company
> - Identifying current and planned IT initiatives
> - Identifying current and planned company initiatives requiring IT support
> - Identifying planned capital expenditures for the next 12 months
> - Evaluating the stability of the company's technology and IT support
> - Reviewing all outside contracts that IT support depends upon
> - Identifying key IT staff and their responsibilities
> - Identifying risks to the business related to technology issues
>
> The discovery will take place through a series of interviews. Let's discuss the type of interviews I need and you can help me determine who the right person will be to meet with. I will need you to schedule these interviews for me."

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At this point, we determine the on-site visit dates and reinforce the follow-up task requested of your key contact which is scheduling the appropriate resources for interviews.

Companies operate differently. The key will be to interview the people who have knowledge about specific things to obtain the following information:

- Senior management perspectives
- IT financials (operating expenses and revenues, if any)
- Capital expenditures
- Infrastructure
- Business applications
- IT support contracts (maintenance, leases, consulting, etc.)
- IT organization and staff responsibilities
- IT initiatives (underway and planned)
- Department or company initiatives depending upon IT
- Clients and departments who are heavy users of technology resources
- Tour of the facility and systems

When you interview someone, one question has a tendency to lead to two or three more questions. It's the nature of discovery, , , interviews tend to expand on their own.

There may be times when a person who you really want to get to has not been made aware of the potential sale and is therefore not accessible, , , or if so, must be handled delicately so you do not "spill the beans" about the acquisition. In such cases, you will have to determine whether the issue is significant enough to push to get to such a person and how you handle the interview.

Most senior management teams will provide a "Made Aware List" of the employees who know about the intent to sell the company. In some cases, this is a very short list.

The second outline is an **IT Business Assessment Outline** document you can e-mail or fax to your key contact at the New Company. It provides a high level outline of the components of your IT due diligence that you need to understand.

I normally discuss this list briefly with my key contact before visiting the company. The more you can prepare your key contact, the better he can help you in your discovery efforts, , , and the more comfortable he will be in working with you.

Two tools are provided in the following pages to assist you in your on-site interviews:

A. IT Business Assessment Outline
B. Sample client interview questionnaires

Please note: These items are not meant to be exhaustive amounts of detail, , , rather, they help get you started and assist in staying on track. As you work through one or more acquisitions, you will probably modify these to suit your own personal needs.

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A. IT Business Assessment Outline

This is simply a high level overview of the things you want to learn about in discovery.

ORGANIZATION

- IT Organization chart & Client structure (quantity, type, location)
- Employee list – name, responsibility, salary, start date
- Help Desk approach & Change Management processes
- Key support issues & challenges

HARDWARE

- CPU's & location
- Database
- Networks by location (LAN/WAN)
- Telecommunications/connectivity approach
- Stability? Life expectancy? Replacement/upgrade strategy?

SYSTEMS SOFTWARE

- Operating systems
- Application systems development software
- Database Management systems
- Security
- Current technology? Life expectancy? Replacement/upgrade strategy?

APPLICATIONS SOFTWARE

- Application systems (Quantify all in use)
- Electronic interfaces
- Special processes
- Standard across the network?
- Approach to release management
- Report Writing capabilities
- Support approach & known issues
- Stability? Life expectancy? Replacement/upgrade strategy?

EXISTING & PLANNED PROJECTS

- Large scale projects – i.e., reengineering, new systems, SW development
- Mid-range enhancements
- Software support backlog
- New business development needs
- Productivity enhancements
- Client requirements
- New technology R&D
- Consulting and/or contractor needs anticipated (next 12 months)

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OPERATING BUDGET & P&L TRENDS

- Personnel
- Software maintenance
- Hardware maintenance
- Equipment leases & rental
- Supplies
- Data Communications
- Voice communications
- Outside contractors
- Rent related to IT equipment and staff
- Consulting/contractors
- Material technology related expenses due to the company's industry

CAPITAL BUDGET

- Immediate needs (next 6 months)
- Anticipated need for normal growth (next 12-18 months)

CONTRACTS

- Server application software licenses
- PC software licenses
- Software support & maintenance
- Hardware leases
- Hardware maintenance
- Software and/or hardware purchase agreements (ownership)
- Contract programmers or other consulting agreements

COMPUTER OPERATIONS

- Service level – response time, system availability, report distribution, etc.
- Network management – circuit uptime, new installations, changes planned
- Batch processes

This **IT Business Assessment Outline** will provide your key contact a good overall perspective of the areas you plan to review during your discovery. It allows your contact to put some things together that may help streamline your discovery process.

In addition, during your on-site visit this outline will ***help you stay on track*** by checking off the items as you obtain them. My approach is to review my notes at the end of every day and check off each item of this list that I've received that day.

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Another tip to help streamline the collection of information is to provide your key contact a copy of the **Data Collection Templates** that will be provided later. This tool is a set of 14 templates designed to help you organize data you need to have. If the New Company's IT organization does not already have a report or list containing this information, your key contact can use these templates to capture the data. It should make it easier.

Give your New Company contact a week or so before you fly into town, if possible. This will give him time to pull some of the additional information together for you. If you are receiving materials from your IT due diligence request list, you should have plenty of material to review as you prepare for the trip.

I recommend you conduct the interviews in a top-down approach. This is how you should approach any IT assessment of a company:

1. Senior management
2. Department managers who depend upon IT support
3. External client sampling (only if the IT organization supports external clients)
4. IT department

External client reviews are important if significant revenues are generated by the IT department. Most (probably 90% of all IT organizations) do not have this responsibility. If IT generates a significant portion of the company's revenue by supporting external clients, then you will need to evaluate client satisfaction closely and identify whether the clients are current in paying their bills. If they are not current, they aren't happy.

Interviewing key clients before the IT department interviews is always preferable, but it may be unrealistic in some cases.

Interviewing IT managers last helps you be more objective in your interviews. Remember, you are an IT person and if you hear someone in IT say something negative about a client, you won't be as objective when interviewing that client.

The following pages are questionnaires that you can use as a starting point for preparing for your client interviews. When reviewing the due diligence request materials from New Company you will add specific questions to these lists of questions. The combination of the two will prepare you very well for your on-site interviews. Additional copies are included in the Appendix.

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B. Sample client interview questionnaires

1. IT Assessment: Senior Management Questionnaire

IT Assessment: Senior Management Questionnaire

Name: _____

Position: _____

Dept.: _____

Date: _____

1. What is the company mission or purpose?
2. Quantify your company's current objectives.
3. Is the mission statement written and conveyed to all employees?
4. What is the company's 3- to 5-year plan?
5. What are the company growth plans/requirements for the next 12-18 months?
6. How does the company plan to achieve its growth?
   - A. Internal growth (additional sales of current products and services)
   - B. New products and/or services
   - C. Acquisition
7. How does technology fit into the company plans?
8. What are the most important things that IT needs to focus on to support the company business plans (both current and future)?
9. What dependencies does the company have on technology?
10. What are the company's greatest challenges?
11. How well are the technology resources supporting your business needs?
12. What are the IT organization's greatest challenges from your perspective?

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2. IT Assessment: Company Department Questionnaire

IT Assessment: Departmental Questionnaire

Name: _____

Dept.: _____

Position: _____

Date: _____

1. What is your department's primary mission/objective?
2. To what extent do you depend upon IT support?
3. What are your department's greatest challenges?
4. What are the IT department's greatest challenges from your perspective?
5. How well does IT meet its commitments?
6. Describe the responsiveness of the IT organization to your business needs.
7. Do you have upcoming plans that depend upon technology for success?
8. Describe your department's relationship with the IT organization.

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3. IT Assessment: External Client Questionnaire

External Client Questionnaire

Name: _____

Dept.: _____

Position: _____

Date: _____

1. How long have you been a client of _____?
2. Why did you buy their products or services?
3. Would you buy them again? Explain.
4. Tell me about your business.
5. How are priorities established with _____?
6. How responsive is _____ to your business needs?
7. What are your greatest challenges as they relate to _____?
8. Do you have future plans that _____ should be anticipating?
9. Does _____ understand your challenges, priorities, needs, etc.?
10. What are your recommendations to improve your relationship with_____?

These questionnaires are included in the Appendix in a format that can be copied and modified to help you plan for your interview sessions.

The **IT Business Assessment Outline** provided earlier in this chapter can be helpful in developing IT department interview questions. You may want to expand on each topic with specific questions based upon your research so far or that you have insight into.

Okay, you have the interviews coordinated, your primary contact is getting prepared, and you have questions to conduct your on-site interviews. Looks like everything is ready for the visit.

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Before you go on-site, let's review one more time the key objectives and goals of due diligence just as a reminder. Your discovery needs to identify everything that you will need to write a detailed Due Diligence Report that quantifies the following:

- Overview of the technology environment
    - Stability
    - Business needs and issues
    - Capacity for growth
    - Level of automation
- IT organization
    - Capabilities and expertise
    - Capacity
    - Key resources
    - Challenges
- IT operating expense trends
- Technology capital expenditures planned and needed
- Risks
- Leverage opportunities
- Key projects that have IT dependency
- Transition plans

When you go on-site and work through discovery you can't simply focus on one of these areas at a time. You must be looking for implications to all areas throughout your interviews, review of documents, facility tours, and observations. As soon as you hear or see something that has relevance, make a note so you don't forget about it.

Think of it this way, , , you hear something that sounds like it might have a material IT support implication. You aren't sure but it looks like "smoke". If there is "smoke", there is fire and there is an issue. "Fog" looks like smoke and isn't an issue, , , write it down as a note and determine in your discovery if the issue is "smoke" or "fog".

A key point should be made about your initial visit. Have a game plan in place with clear purpose and specific interview sessions coordinated. Your ability to start the discovery work in an organized and professional manner will make a **big difference**.

Look and act sloppy and it carries beyond the close of the deal. Having your act together sets the stage for working with people in the New Company in the future in a positive manner.

At the end of every day, review your plans for the next day and what you have been able to achieve today. Compare your notes with your **IT Business Assessment Outline** to insure you are getting what you need.

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Another tip on interviewing, , , it generally takes an hour or so to conduct an interview. I try to allow an hour and complete them in 45 minutes. If you need more time, allocate 90 minutes for each interview, , , but an hour should be plenty of time for most.

Some interviews lead to a lot more information than you might think. If you finish in less than an hour, you have time to document and clarify items in your notes that will be worth remembering, add questions for other interviews based on what you've learned, or review company documents that you need to go through.

If you can, review the day with other members of the due diligence team. You can learn a lot from one another this way. It is also good to review your plans for the next day to be certain you are ready for your interviews and planned activities.

Let's review a sample assessment topic that hopefully provides you a guide for your reviews of the company's technology. As mentioned several times, you need to keep your review to a level of material importance necessary to assess risk and ongoing cost, not at such a detail level to understand everything about the technology.

It's really a business perspective you want and what it takes for IT to support the business, , , not so much about understanding the technical aspects of the technology.

business evaluation
not technical understanding

Let's take the wide area network (WAN) infrastructure of a company for example. You want to review this technical area enough to understand the following:

- number of locations on the WAN
- costs per month and any expected changes
- average cost to add a new location
- planned new locations
- stability of the WAN in the past six months
- amount of downtime and reasons in the past six months
- growth capacity and expected cost requirements for growth
- company plans that might affect the WAN
- support approach and satisfaction with support
- standards that are in place (router models, configurations, bandwidth, etc.)
- telecommunications carrier and satisfaction with their service

You don't need to know how the routers are configured, only whether there is a standard approach. A non-standard approach might offer upside in lowering support costs. None of the points listed above are really technical, , , they are business points concerning the ongoing viability of the WAN technology.

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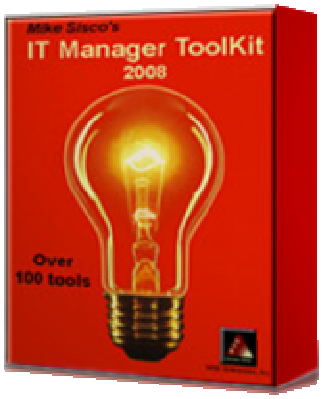
VIII. IT Due Diligence Data Collection Templates

Organizing your discovery data will help you develop your Due Diligence Report as well as manage the operation later on. When going through a detailed discovery process, you have the opportunity to get an excellent handle on the IT operation, the technology in place, contracts, etc. Why not capture this meaningful information into something that can benefit you not only in your discovery project but also help others manage the business more effectively later on.



The following fourteen templates were created to help me gather meaningful information that we have discussed in this publication. Blank templates are provided in the Appendix.

These templates and all my tools are available in Microsoft Word and Excel formats in the **IT Manager ToolKit** so you can modify them for your specific needs.

A. <u>Business Applications</u>

List all key business applications used by the company with your insight on stability, growth capacity, etc.

Add columns such as "replacement cost", "licensed capacity", and "date of installation" if you wish to understand additional information.

Business Applications								
Application	Vendor	Rel.	Loc.	Stable ?	Annual Cost	# Users	Growth ?	Cancel Terms

Application - Business application name
Vendor - Vendor supporting the application
Rel. - Software release level
Loc. - Physical location of the server the application sits on
Stable? - "Y" or "N" on whether the application is stable (your opinion)
Annual Cost - Annual support and license cost
Users - Number of users accessing the application
Growth? - "Y" or "N" on whether you believe there is growth capacity
Cancel Terms - Cancellation terms Month/Year and lead time of notice required

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B. Infrastructure - Servers

List all primary application servers of the company, , , normally Data Center servers.

Infrastructure - Servers								
Server	O/S	Loc.	# Users	Stable ?	Growth ?	Support	Annual Maint.	Upgrade Plans

Server - Server description or name
O/S - Operating system and release level
Loc. - Physical location of the server
Users - Estimated number of users that access the server
Stable? - Is the server stable? "Y" or "N" (your evaluation)
Growth? - Growth capacity? "Y" or "N" (your evaluation)
Support - Vendor or method used to support the server
Annual Maint. - Annual hardware and O/S maintenance
Upgrade Plans - Date and estimated costs for the next upgrade (HW and O/S)

C. Infrastructure - LAN

List all Local Area Network (LAN) servers throughout the enterprise IT must support.

Infrastructure - LAN								
Server	O/S	Loc.	# Users	Stable ?	Growth ?	Support	Annual Maint.	Upgrade Plans

Server - Server description or name
O/S - Operating system and release level
Loc. - Physical location of the server
Users - Number of users that access the server
Stable? - Is the server stable? "Y" or "N"
Growth? - Growth capacity in # of users
Support - Vendor or method used for support of the server
Annual Maint. - Annual hardware and O/S maintenance
Upgrade Plans - Date and estimated costs for the next upgrade (HW and O/S)

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D. Infrastructure - WAN (Wide Area Network)

List all Wide Area Network circuits in use by the company. You should also include anticipated new circuits for the next 12 months.

Infrastructure - WAN								
Loc.	Circuit ID	Stable ?	Support	B/W	Monthly Cost	Telco	Router	Install Date

Loc. - Location of the WAN circuit (usually the office name or city)
Circuit ID - Circuit ID from the telecom company
Stable? - Stable "Y" or "N" in the last six months (your evaluation)
Support - Who supports the circuit?
B/W - Bandwidth
Monthly Cost - Total monthly cost including bandwidth, monitoring services, etc.
Telco - Local Telephone company that supports the local connection
Router - Router model
Install Date - Initial installation activation date

E. IT Staff

List all employees and group by organization or functional work group.

IT Staff								
Name	Org.	Loc.	Resp.	Start Date	Salary	Bonus	Last Increase	Rating

Name - Employee Name
Org. - IT Organization
Loc. - Physical location the employee works from
Resp. - Responsibility or Title
Start Date - Start date of employment or # of years with the company
Salary - Current salary
Bonus? - Bonus terms, if any
Last Increase - Date of last increase
Rating - Current performance rating (1-5 with 5 being the strongest)

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F. IT Project Initiatives

List all active projects and any planned for the next 12 months

IT Project Initiatives								
Project	Org.	Est. Cost	Start Date	Months	ROI	Key Benefit	Initiated by	

Project - Project name
Org. - IT organization responsible for implementing the project
Est. Cost - Estimated cost to develop and implement the project
Start date - Estimated start date
Months - Estimated number of months to complete
ROI - Estimated return on investment (ROI) in months
Key Benefit - Key benefits that are the drivers for doing the project
Initiated by - Project sponsor

G. Automation Capabilities

List the automated capabilities that the company has in place to increase productivity. New automation features may provide additional leverage to the parent company after the merger. It also suggests programming work is required to eliminate business applications

Automation Capabilities					
Automation Item	Est. Savings	Interface Entity	% Auto.	Stable ?	Comments

Automation Item - Name or description of the automation capability
Est. Savings - Estimated annual savings
Interface Entity - If an automated interface, identify the interface source
% Auto. - Per cent of the business that is automated by this feature
Stable? - Is the automation feature stable? "Y" or "N"
Comments - Additional comments

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H. Software License Agreements & Contracts

List all software license agreements and contracts of the company. This list will indicate the level of valid software license compliance that exists in the company.

Software License Agreements & Contracts								
SW	Vendor	Server	Loc.	Rel.	# Users	Terms	Annual Costs	Transf. ?

SW - Software title
Vendor - Vendor name
Server - Server the software is installed on
Loc. - Physical location of the server
Rel. - Release version
Users - Number of users the software is licensed to support
Act. Users - Current actual users using the software
Terms - Renewal date (MM/YY) and lead time required to cancel
Annual Costs - Annual expense to license or maintain the software
Transf.? - Is the license transferable with change of ownership? (Y or N)

I. Software License Agreements Granted to Other Companies

List entities who are granted a license to use proprietary software developed and supported by the company. **This won't exist unless New Company sells software.**

SW License Agreements Granted to Other Companies						
SW	Client	Terms	Annual Revenue	Contact	Support Requirements	Comments

SW - Software title licensed
Client - Client name granted the use or access to software
Terms - Renewal date (MM/YY) and cancellation lead time
Annual Revenue - Annual revenue generated from the license
Contact - Primary client contact and phone number
Support Requirements - Description of the support provided by contract
Comments - Comments

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J. Maintenance and Support Agreements (Hardware and Software)

List all hardware and software maintenance contracts

Maintenance & Support Agreements (HW & SW)								
Item	HW/SW	Annual Cost	Terms	Cancel	Vendor	Contact	Transf. ?	

Item - Hardware or Software maintenance contract
HW/SW - Designates whether it is for hardware or software
Annual Cost - Annual cost and payment (M-Monthly, Q-Quarterly, Y-Yearly)
Terms - Support provisions such as 3-hour, next day, etc.
Cancel - Cancellation provisions (MMYY and lead time required)
Vendor - Vendor name who supports the contract
Contact - Primary vendor contact name and phone number
Transf.? - Is the contract transferable if change of ownership? (Y or N)

K. Other Contracts and Leases

Miscellaneous contracts and lease agreements not covered in the other templates.

Other Contracts & Leases								
Name	Type	Vendor	Annual Cost	Terms	Cancel	Contact	Transf. ?	

Name - Contract name or description
Type - Designates what it is for
Vendor - Vendor name
Annual Cost - Annual cost and payment (M-Monthly, Q-Quarterly, Y-Yearly)
Terms - Contract terms
Cancel - Cancellation provisions (MMYY and lead time required)
Contact - Primary contact and phone number
Transf.? - Is the contract transferable if change of ownership? (Y or N)

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L. IT Capital Budget (Next 12 months)

List all capital items that require IT support. You may need to coordinate with someone else on the due diligence team to insure you have all capital expenditures covered for the financial model and that you are not duplicating efforts.

Note: List capital expenditures planned by New Company as well as those that are needed based upon your due diligence evaluation.

IT Capital Budget - Next 12 months				
Item	Est. Cost	Est. Timeframe	Request By	Comments

Item - The capital item
Est. Cost - Estimated cost
Est. timeframe - Estimated timeframe the purchase is expected
Request By - The item is being requested by
Comments - Comments

M. Outside Consulting / Contract Work (Next 12 months)

List all outside consulting, temporary labor, or other resource contracts planned or that you determine is needed to help you in the next year. You may also want to list recruiting dollars here if you expect any.

Outside Consulting / Contract Work - Next 12 months					
Item	Vendor	Costs	Start Date	Duration	Comments

Item - Contract description
Vendor - Vendor
Costs - Expected costs
Start Date - Planned start date
Duration - Planned duration in months
Comments - Comments

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N. IT Operating Budget (Next 12 Months)

Most companies require you to develop a 12 to 24-month operating budget when you conduct due diligence.

IT Operating Budget (Next 12 Months)														
IT Department: _____														
	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1														
2														
3														
4														
5														

Item - Operating Budget account (Example: Payroll, Rent, Training, etc.)
Jan – Dec - Expected monthly budget dollars
Total - Total budget dollars for the 12-month period

Another item you want is the IT organization's Profit and Loss Reports for the past 12 to 18 months so you can look at actual spending. This is listed in the IT Due Diligence Request List, , , if you haven't received it you will want to obtain copies during your onsite discovery.

These 14 data collection templates will help you quantify and organize much of the technology that exists in the New Company. Share them with your key contact to use and use them yourself to capture the data if they will help you.

Only use these templates if a similar report is not available, , , no need to waste someone's time in capturing data in your format if they already have it.

All you really care about is in getting the information.

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Another tool you will want to use is the **IT Transition Costs** template provided below. This one is not used to collect data as much as to use to quantify the transition projects and their costs that will be required upon acquiring the New Company.

It is formatted the same as the IT Operating Budget template we just covered.

When you identify the transition projects required to merge the two company technologies and also to support non-IT department transition initiatives, , , you must budget their cost.

A company has an option to capitalize all transition costs after an acquisition as part of the purchase cost, , , both capital items as well as operating expense items. Use the template below to quantify all transition projects and show their cost.

O. <u>IT Transition Costs (Next 12 Months)</u>

List all transition projects requiring IT involvement and plot the expenses expected

IT Transition Costs (Next 12 Months)														
	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1														
2														
3														
4														
5														

Item - Transition project
Jan – Dec - Expected monthly budget dollars to be spent on each project
Total - Total transition dollars for each project

When you write the IT Due Diligence Report, you won't need to include as much detail as we have included in these "data gathering" worksheets. However, going ahead and getting the information while you are in discovery will save you time later on and will be of assistance during transition initiatives.

In some cases, you may find the company unable to provide you with the detail information. In those situations, make a call as to whether the data is critical to have prior to the merger. If it isn't, create a "to do" in your transition list to have the New Company develop the information after the merger is announced.

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IX. IT Due Diligence Report

In most cases, you will need to write an **IT Due Diligence Report**. The example provided here is the format I've used many times.

Every company is going to have a slightly different set of needs and issues. I believe the parts of this report template to be the necessary parts of an IT due diligence and will help define the technology support situation of a company, their issues, risks and opportunity, ongoing costs, capital investments needed, and an initial transition plan.

The report template I use is broken into eight sections. Please note that what you include in your report is ultimately up to you so feel free to modify what you are about to see for your own needs. Better yet, sit down with your senior management team to define what will work best for your company.

A sample IT Due Diligence Report template is provided in the Appendix. Expand or modify the report sections as needed to meet your needs. It includes the following

A. Executive Overview
B. IT Support Overview
    1. Business Applications
    2. Infrastructure
    3. IT Organization
    4. Technology Major Expense Run Rates
    5. IT Support Processes
    6. Automated Processes
C. IT Budget Summary - Next 12 Months
D. Capital Expenditure Needs Summary - Next 12 Months
E. Key IT Project Initiatives
F. Risks
G. Leverage opportunities
H. IT Transition Plan

A due diligence report is typically targeted for senior management and possibly your company's Board of Directors. The purpose of the report is to hit the high points and issues that have material relevance in purchasing a New Company, not to show the reader how much you know about technology.

Keep the report "net" (short and to the point). Include key issues and information that make a difference and you will accomplish the goal.

Be aware that your report might be shared with the New Company executives after the merger is completed. Comments should be objective and factual.

Let's take a look at the key report sections.

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A. Executive Overview

Even though you plan to keep your report short and to the point, there will be individuals who still want to get to the bottom line. This section is meant only to highlight the most important issues and outline your recommendation for a “go” or “no go”.

Keep this section to one page at most.

It’s important to learn the personality of your audience so you can write in a style and content that meets their needs.

B. IT Support Overview

You may want to use this section as much for yourself as anything. Over the years I have found that I refer to the IT Due Diligence Report frequently after a merger. This section often helps because it basically lays out the technology support environment of the New Company when you arrived on the scene, , , a great snapshot of what existed.

There are six major pieces to this section. You may also find this part of the report to be useful as you coordinate projects with your management team when you begin the transition efforts.

1. **Business Applications** - Quantify the mission critical business applications in use and the level of dependency the company has on each.

   Often, future financial objectives are dependent upon enhancing a business application to improve the productivity of an operation of the company. Your discovery must identify such issues and make a determination as to the feasibility of achieving the enhancement and at what cost.

   It is important to know what applications are in use and how they are supported. These issues have cost and stability ramifications, , , not just supportability. Include growth capacity, anticipated upgrades and other relevant activities that have cost implications.

2. **Infrastructure** - Develop a picture of the infrastructure in place including key hardware and operating systems throughout the company. After the merger takes place, you are going to have to support these technical environments so you need to have a relatively good understanding of what’s there.

   Identify how each technology is supported, growth capacity, incremental growth costs, stability, and plans that may impact the infrastructure.

   Most of your audience may not read this section, but it will be helpful in starting the transition efforts.

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3. **IT Organization** - A brief overview of the IT organization with organization charts are effective. You don't need to list each employee, , , just the organization structure and responsibilities of each organization will suffice. You should also point out business issues that exist due to capacity or expertise deficiencies in the staff, especially any that are warranted to support forecasted business plans.

4. **Technology Major Expense Run Rates** - Eight to ten expense categories make up most of the IT budget and where you spend money. Focus in on these and provide a forecast as to what the spending trend has been and what you forecast it to be. Include reasoning as to why you expect significant increases or decreases in spending.

5. **IT Support Processes** - A quick evaluation of the IT support processes that exist or don't exist will help you determine potential upside or risk associated with the new IT organization. The lack of effective change management processes suggests poor productivity that can lead to unnecessary expense.

   Excellent processes suggest an organized approach that may be able to help you in transitioning the acquired company.

6. **Level of Automation** - A company that has invested in considerable automation will have less leverage opportunity than one that has very little in automated processes. Either way, this part of the report summarizes what exists and the opportunity for additional leverage opportunity by creating more automated processes.

C. Risks

This section highlights all material risks you have discovered in the New Company to meet its business objectives due to technology dependency. I like to group the identified risks into categories of business applications, infrastructure, and organization to give the reader a perspective of the IT support area involved.

With each risk, you should try to quantify the relevant size of the risk in either dollars, client exposure or some meaningful business term that can be understood by a non-technical executive.

As with any managerial approach, you should include a recommendation to mitigate or eliminate the risk along with cost and effort required. Do not simply list the risk and leave it there.

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D. IT Budget - Next 12 Months
You should develop an operating budget for the IT support operation for at least the next twelve months. In our companies, we developed a 2-year operating budget.

My recommended approach is to focus primarily on the major expense line items such as staff, telecommunications, maintenance, and the other 8-10 expenses that make up 80-90% of the IT budget. For all the rest of the expense line items, simply use the past six month run-rate unless your discovery tells you otherwise.

Other considerations that need to be included in your budget are:

- Expenses associated with addressing risk issues in the RISK section
- Transition items that have costs including:
    - Employee severance payments
    - Employee retention expenses
    - Extra travel
    - Infrastructure improvements
    - Business application improvements
    - Software license compliance
- Planned growth activities
- Consolidation costs

Your company's CFO and CEO will determine which of these items will be expensed versus capitalized. The rules are the same for all of us but company philosophies differ. Your job is to identify the cost, , , don't worry about how they want to handle it.

Another recommendation is that you should separate normal operating expenses from transitional expenses Your company may want to capitalize all of the transition items along with the purchase price in buying the New Company.

You should make notes and have available the budget background detail and assumptions used to justify your numbers, , , you may have to explain.

E. Capital Expenditure Needs - Next 12 Months
List the planned technology capital expenses required for the next twelve months. Be sure you list all items planned by the New Company you deem to be appropriate and additional items you believe are warranted based upon your discovery.

Don't forget to include major capital expenditures needed to support the transition activities identified in your Due Diligence Report.

Include the capital item, estimated cost, and projected timeframe of the purchase.

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F. Key IT Project Initiatives
Include in this section both the IT project initiatives defined to improve or transition the technology as well as non-IT department initiatives dependent upon IT support.

Each project should include a brief description, projected benefits (ROI if you have it), projected timeframe the project will occur, and estimated cost of the project.

G. Leverage Opportunities
List the material items that offer leverage opportunity by either increasing revenue, decreasing expense, or improving productivity as a result of merging the two companies.

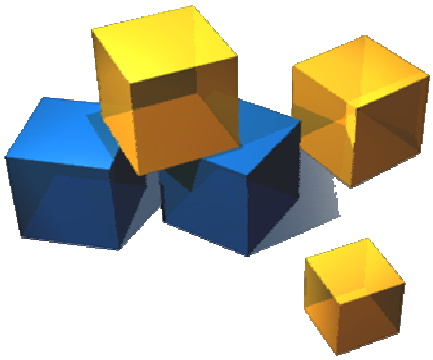
Items listed should include a brief description, anticipated cost, expected leverage opportunity, and other key ingredients necessary to get the benefits.

Some of these items might be included in the Transition Plan in the next section.

H. Transition Plan
This section is intended to provide a very high level of the immediate actions that need to take place over the next 90 days or so after the acquisition is completed. You are not expected to have detailed plans at this point but you should have a good idea of what will need to be done after the companies merge.

There is nothing magic about “90 days”, , , your transition period might be 180 days or longer. Use whatever length of time that makes sense for your specific transition efforts.

Each transition initiative should include a brief description, cost estimate, benefit, and estimated target date.



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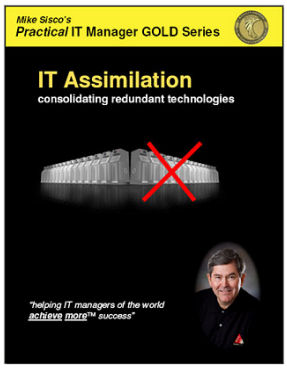
X. Summary

Well, that concludes my discussion on IT Due Diligence. In the material you have just read you have learned about the process and tools that I developed and used in over 40 company acquisitions.

Yes, they are simple and very basic to be sure, , , but that's exactly what you need when you go into an IT assessment, , , something that helps you get the job completed productively and effectively.

I hope the material provides you the practical information and tools that will help you in your next IT assessment, whether it is for a company acquisition or simply an assessment of an IT organization you are working with.

Additional resources from MDE Enterprises, Inc. include:



- **IT Assimilation: consolidating redundant technologies**
  Another book in the *Practical* IT Manager GOLD Series that focuses on "what to do after the merger", , , a natural compliment to the IT Due Diligence book.
- **IT Due Diligence and Assimilation 2-day training class**
  Contact our office for information.
- **IT Due Diligence and Assimilation Bundle for IT Managers**
  The most comprehensive set of books, tools and online training sessions focused on the topic of IT due diligence and assimilation.
- **IT Manager Institute**
  Best operational management training program for IT managers of all levels. Available in classroom and online self study formats and includes ITBMC certification.

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APPENDIX - A
IT Due Diligence Request List

1. Overview of systems infrastructure including servers, LAN/WAN networks. Include physical location and general configurations of hardware, stability, and scalability.
2. Copy of hardware and software leases, purchase agreements, and maintenance agreements.
3. Copies of software license agreements including operating systems, business applications, utilities, and PC software.
4. Overview of company operations and external clients being supported by IT.
5. Mission critical business applications overview with number and location of users, stability, and growth capacity.
6. Client list and overview of client satisfaction, A/R status (if any), challenges, etc.
7. Copy of key client reports and level of software customization.
8. Copies of software licenses, sublicenses, representative, sales or agency agreements for software/hardware products sold or made available to others.
9. Identify any user, other than a company employee, who has access to any of the company's computer systems and who might reasonably expect to receive ongoing support. Describe the nature of support or systems access that exists.
10. Identify external data interfaces (automation) in place with the company's systems and databases. Define fees or costs associated with each and the entity associated with the interface.
11. Identify expected hardware upgrades anticipated in the next twelve months.
12. Describe any existing system development projects that have a material effect on maintaining or growing the business of the company during the next twelve months, with specific identification of any development efforts required to achieve current budgeted objectives of the company.
13. IT staff list including name, title, responsibility, salary, start date, date of last pay increase and amount. Include an IT organization chart including open positions that shows how the staff is managed and where the staff is physically located.
14. Copy of the current IT operating budget.
15. Copy of the company's current capital budget and anticipated capital purchases for the next 12 months.
16. Copy of the most recent IT Operating P&L (Profit & Loss Reports) and the operating trends for the past 12-18 months.
17. Identify by location the telecom costs experienced for the past twelve months.
18. Define the company's technology objectives and strategy for the next 12 months.
19. Copy of programming backlogs for all supported systems for company departments and external clients.
20. Copy of outside consulting contracts and anticipated plans for the next 12 months.

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APPENDIX - B
IT Business Assessment Outline

ORGANIZATION

- IT Organization chart & Client structure (quantity, type, location)
- Employee list – name, responsibility, salary, start date
- Help Desk approach & Change Management processes
- Key support issues & challenges

HARDWARE

- CPU's & location
- Database
- Networks by location (LAN/WAN)
- Telecommunications/connectivity approach
- Stability? Life expectancy? Replacement/upgrade strategy?

SYSTEMS SOFTWARE

- Operating systems
- Application systems development software
- Database Management systems
- Security
- Current technology? Life expectancy? Replacement/upgrade strategy?

APPLICATIONS SOFTWARE

- Application systems (Quantify all in use)
- Electronic interfaces
- Special processes
- Standard across the network?
- Approach to release management
- Report Writing capabilities
- Support approach & known issues
- Stability? Life expectancy? Replacement/upgrade strategy?

EXISTING & PLANNED PROJECTS

- Large scale projects – i.e., reengineering, new systems, SW development
- Mid-range enhancements
- Software support backlog
- New business development needs
- Productivity enhancements
- Client requirements
- New technology R&D
- Consulting and/or contractor needs anticipated (next 12 months)

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IT Business Assessment Outline – page 2

OPERATING BUDGET & P&L TRENDS

- Personnel
- Software maintenance
- Hardware maintenance
- Equipment leases & rental
- Supplies
- Data Communications
- Voice communications
- Outside contractors
- Rent related to IT equipment and staff
- Consulting/contractors
- Material technology related expenses due to the company's industry

CAPITAL BUDGET

- Immediate needs (next 6 months)
- Anticipated need for normal growth (next 12-18 months)

CONTRACTS

- Server application software licenses
- PC software licenses
- Software support & maintenance
- Hardware leases
- Hardware maintenance
- Software and/or hardware purchase agreements (ownership)
- Contract programmers or other consulting agreements

COMPUTER OPERATIONS

- Service level – response time, system availability, report distribution, etc.
- Network management – circuit uptime, new installations, changes planned
- Batch processes

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APPENDIX – C
IT Assessment – Senior Management Questionnaire

Name: _____ Position: _____ Dept: _____

1. What is the company (or department) mission or purpose?
2. Is the mission statement written and conveyed to all employees?
3. What is the company (or department) 3 to 5-year plan?
4. What are the company (or department) growth plans/requirements for the next 12-18 months?
5. How does the company (department) plan to achieve it's growth?
6. How does technology fit into the company (or department) plans?
7. What are the most important things that IT needs to focus on to support the company (department) business plans (both current and future)?
8. What dependencies does the company (or department) have on technology?
9. What are the company's (or department's) greatest challenges.
10. How well are the technology resources supporting your business needs?
11. What are the IT organization's greatest challenges from your perspective?

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APPENDIX – D
IT Assessment – Department Head Questionnaire

Name: _____ Dept.: _____ Position: _____

1. What is your department's primary mission/objective?
2. To what extent do you depend upon IT support?
3. What are your department's greatest challenges?
4. What are the IT department's greatest challenges from your perspective?
5. How well does IT meet it's commitments?
6. Describe the responsiveness of the IT organization to your business needs.
7. Do you have upcoming plans that depend upon technology for success?
8. Describe your department's relationship with the IT organization.

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APPENDIX – E
IT Assessment – External Client Questionnaire

Name: _____ Client: _____

1. How long have you been a client of _____?
2. Why did you buy their products or services?
3. Would you buy their product or service again? Explain.
4. Tell me about your business.
5. How are priorities established with _____?
6. How responsive is _____ to your business needs?
7. What are your greatest challenges as it relates to _____?
8. Do you have future plans that _____ should be anticipating?
9. Does _____ understand your challenges, priorities, etc.
10. What are your recommendations to improve your relationship with _____ .

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APPENDIX – F
IT Due Diligence Data Collection Templates

F-1 Business Applications

Business Applications								
Application	Vendor	Rel.	Loc.	Stable ?	Annual Cost	# Users	Growth ?	Cancel Terms

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F-2 Infrastructure - Servers

Infrastructure - Servers								
Server	O/S	Loc.	# Users	Stable ?	Growth ?	Support	Annual Maint.	Upgrade Plans

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F-3 Infrastructure - LANs

Infrastructure - LAN								
Server	O/S	Loc.	# Users	Stable ?	Growth ?	Support	Annual Maint.	Upgrade Plans

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F-4 Infrastructure - WAN

Infrastructure - WAN								
Loc.	Circuit ID	Stable ?	Support	B/W	Monthly Cost	Telco	Router	Install Date

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F-5 IT Staff

IT Staff								
Name	Org.	Loc.	Resp.	Start Date	Salary	Bonus	Last Increase	Rating

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F-6 IT Project Initiatives

IT Project Initiatives								
Project	Org.	Est. Cost	Start Date	Months	ROI	Key Benefit	Initiated by	

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F-7 Automation Capabilities

Automation Capabilities					
Automation Item	Est. Savings	Interface Entity	% Auto.	Stable ?	Comments

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F-8 Software License Agreements & Contracts

Software License Agreements & Contracts								
SW	Vendor	Server	Loc.	Rel.	# Users	Terms	Annual Costs	Transf. ?

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F-9 Software License Agreements Granted to Other Companies

SW License Agreements Granted to Other Companies						
SW	Client	Terms	Annual Revenue	Contact	Support Requirements	Comments

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F-10 Maintenance and Support Agreements

Maintenance & Support Agreements (HW & SW)								
Item	HW/SW	Annual Cost	Terms	Cancel	Vendor	Contact	Transf. ?	

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F-11 Other Contracts and Leases

Other Contracts & Leases								
Name	Type	Vendor	Annual Cost	Terms	Cancel	Contact	Transf. ?	

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F-12 IT Capital Budget Needs

IT Capital Budget - Next 12 months				
Item	Est. Cost	Est. Timeframe	Request By	Comments

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F-13 Outside Consulting & Contract Work Needs

Outside Consulting / Contract Work - Next 12 months					
Item	Vendor	Costs	Start Date	Duration	Comments

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F-14 IT Operating Budget

IT Operating Budget (Next 12 Months)														
IT Department: _____														
	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1														
2														
3														
4														
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APPENDIX – G
IT Transition Costs

IT Transition Costs (Next 12 Months)														
IT Department: _____														
	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1														
2														
3														
4														
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APPENDIX – H
Sample IT Due Diligence Report Template

Due Diligence Review of _____

Technology Review

Objectives:
The objectives of the technology due diligence review were to:

1. Understand the current technology status including organization, hardware and systems software, applications software, and level of automation of the business
2. Identify any issues related to the Company's ability to maintain its current technology and to meet its business plan
3. Assess financial implications of the Company's technology plans
4. Identify opportunities for leveraging technologies of the Company's operations
5. Identify immediate transition initiatives necessary to accomplish a successful merger of the Company's technologies

A. Executive Overview

Summarize the highlights of your due diligence findings and recommendations.
KEEP IT "NET"

Due Diligence Activities and Key Findings:

B. Current IT Environment

B-1. Business Applications

	Business Applications						
	Application	HW	O/S	Stability	Growth	Vendor	# Users
1							
2							
3							
4							
5							

Comments:
_____

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B-2. Infrastructure (Servers, LAN/WAN)

	Infrastructure						
	Server/LAN/WAN	Location	O/S	Primary Applications	Stability	Growth	# Users
1							
2							
3							
4							
5							

Comments:
_____

{Place a high level systems overview chart here}

B-3. IT Organization

The technology staff consists of:

1. Managers - { # }
2. Programmers - { # }
3. Business Analysts - { # }
4. Help Desk - { # }
5. Infrastructure Specialists - { # }
6. Operations - { # }
7. Other - { # }

Total employees { }

Monthly staff expense trend is { $_____ } and { ___% } of revenue.
The staff expense trend is expected to {*increase/decrease*}
The programming projects are prioritized by { }.
Programming backlog for business applications is:

Application A - { _____ hours or _____ months }
Application B - { _____ hours or _____ months }
Application C - { _____ hours or _____ months }

The staff is {*adequate/inadequate*} to support the current technology of the company
Comments:
_____

{ Place a simple IT Organization chart here }

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B-4. Technology Major Expense Run Rates

Review of the major technology expenses included:

Technology Major Expense Run Rates					
	Item	Monthly Expense	% of Revenue	Expected Trend	Leverage Opportunity
1	Technical staff				
2	HW & SW Maintenance				
3	Data/Voice Telecom				
4					
5					

Comments:

_____

B-5. Automated Processes

The company has automated their business in the following areas:

	Automated Processes				
	Item / Category	% Automated	Additional Opportunity ($$)	Estimated Costs	Monthly Savings
1					
2					
3					
4					
5					

Comments:

_____

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C. Budget Summary

Budget Summary														
	Item	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Operating Budget														
1														
2														
3														
4														
5														
Transition Costs														
1														
2														
3														
4														
5														

Comments:

_____

D. Capital Needs Summary

In the next 12 months, the company will need to make a capital investment of {$ }.
The breakdown is summarized as follows:

	Capital Needs			
	Item / Category	Estimated Costs	Timeframe	Reason / Justification
1				
2				
3				
4				
5				

Comments:

_____

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E. Key IT Related Projects
Planned projects for the next 12 months include:

	Key Projects				
	Project	Estimated Cost	Timeframe	Estimated ROI	Key Benefits
1					
2					
3					
4					
5					

Comments:
_____

F. Risks
Business continuity, financial, or other risks discovered include the following.

	Business Risks				
	Item	Issue	Potential Risk Value	Remedy	Remedy Cost
1					
2					
3					
4					
5					

Comments:
_____

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G. Leverage Opportunities

Opportunity to leverage the business from the merger of the two companies include:

	Leverage Opportunities			
	Item	Value	Estimated Cost	Timeframe
1				
2				
3				
4				
5				

Comments:

_____

H. Transition Projects

Transition items that need to occur include the following:

	Transition Projects				
	Project / To Do	Timeframe	Responsibility	Estimated Cost	Comments
1					
2					
3					
4					
5					

Comments:

_____

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Appendix H
IT Assessment Notes

IT Assessment Notes		
Category	Note	Comments

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Notes

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Notes

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