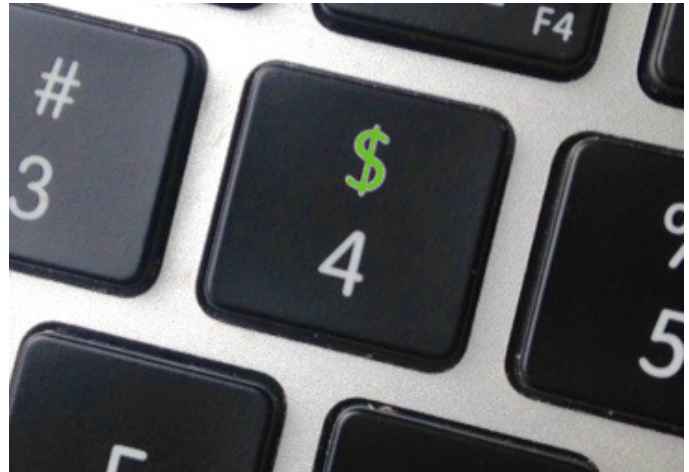




Ashton
TECHNOLOGY SOLUTIONS

DATA *in context*



IT Due Diligence is crucial in mergers and acquisitions, and understanding the human component is just as important as testing the technology. By Jim Millican.

In an acquisition or merger, an inventory of the company's IT assets is roughly the same as its balance sheet — a good place to start your investigation. Even in a small to medium-sized business, there is a wide range of factors to consider. To name a few:

Hardware and infrastructure: Are the servers suited to the workload and properly maintained? Are they under warranty? Is the cabling properly strung and clearly labeled? Are systems mainstream or "homegrown"?

Software: Are operating systems and software updated and patched regularly? Are software licenses up to date and filed?

Security: Is the WiFi network secure? If employees are accessing the network with their own devices, are there protocols in place to prevent malware transfer and other breaches?

Disaster recovery: How, and how frequently, are systems backed up? In the event of a catastrophe, how much data could be lost? How long would it take to resume operations, on site or remotely?

And those are just the basics. To truly understand what you're getting into, and to avoid costly, post-close surprises, you need more than a thorough examination of the technology. You need details about personnel, practices, history, and even corporate culture.

As with sales, customer service or any other aspect of a company's operations, there is a strong human component to IT. The state of a network reflects decisions made by people — and the most consequential decisions might be “above the pay grade” of those charged with maintaining the network. We have found that in-depth interviews with the IT staff and managers complement and frame what we learn from our extensive cataloging and testing. Conversations put the data in the proper context.

This isn't always easy. In due diligence cases, we often encounter one of two situations:

- A technology department that has become insular, rigid, and inflexible; that puts up barriers to change, often hampering the ability of the business to adapt and grow.
- A technology department that lacks accountability, controls, benchmarks and best practices, resulting in misallocation of resources and failure to anticipate and prevent problems, negatively impacting business operations.

With that information alone, a new owner might opt to replace the IT staff or outsource the work right away. Sometimes that's the right call. Many times, however, when we talk to the staff, we learn surprising things that would never show up in an analytics report, but any potential buyer would want to know. In this article we'll provide two real examples. Only names have been changed, for obvious reasons; all other information is exactly as we presented it to our clients.

Case 1: VanDelay Industries

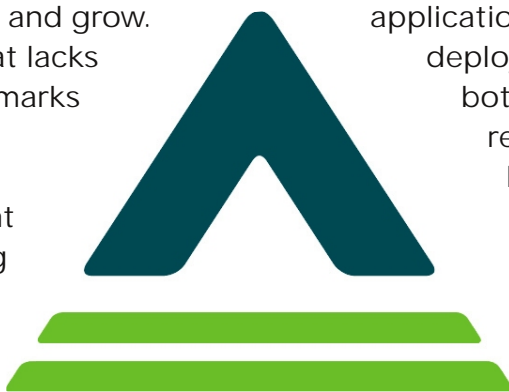
We found a range of alarming issues at VanDelay, a manufacturer of highly specialized tools for heavy industry. Servers were past warranty. Backup procedures

were inadequate, inconsistent and untested. There were vulnerabilities everywhere: software patching was left to the PC users, laptops were not encrypted, and there were no safeguards to protect the network from threats unwittingly brought in by employees' devices. Worst of all, there was no formal disaster recovery/business continuity plan.

At first glance, these deficiencies would seem to reflect badly on VanDelay's lone IT professional, Dave. But we found Dave to be knowledgeable, organized and candid. As we noted in our report to the private equity firm interested in Acme,

“it is clear that he is stretched too thin and his attention is divided between help desk, general systems maintenance, planning, application maintenance, and systems deployment. We believe that due to both time and budgetary resource limitations, Dave has been unable to complete several long-standing projects such as server and [software] upgrades ... Dave readily points out the systems or procedures that need to be improved, but always footnotes the conversations by indicating that time and resources are at a premium. Simply put, by allocating the necessary resources and budget, most all of the recommended improvements in this document can be completed quickly and affordably by Dave.”

Dave's knowledge of the technology deployed at VanDelay and its impact on the organization are exceptional, and should be considered assets by VanDelay management. Giving him the resources and time to correct some of the issues contained herein will serve the organization very well for the near term and will allow Dave to continue to plan for the future.



Dave was well aware of the company's IT shortcomings, he just wasn't in a position to address most of them. In fact, he'd kept day-to-day operations humming surprisingly well, which demonstrated his dedication to the company. In our view, VanDelay's management was inadvertently sabotaging Dave — and, frankly, putting the company at risk — by delaying investments in hardware and in automated systems for some of his most time-consuming duties.

To be clear, Dave didn't complain to us about any of this — and we wouldn't have taken him at his word if he did. Everything he said was consistent with what we found on our own. But by taking the time to see VanDelay's operations from his point of view, we were able to report to our client that while VanDelay needed major IT upgrades, it already employed a professional capable of overseeing them. We left it to the client to determine whether other VanDelay operations had been similarly mismanaged.

Case 2: Kramerica

Kramerica, an environmental services company, lay at the other end of the spectrum. Kramerica had a strong corporate culture with a lot of employee buy-in, including the IT department.

"The axiom 'culture beats strategy' applies here, as the technology team appears to go above and beyond to support and improve business operations. ... Mike leads a team of IT professionals who have been trained to focus everything they do on improving the efficiency of the business through risk reduction, standardization, simplicity and visibility into the data that the IT department is responsible for. ...Mike has the mindset of an integrator who understands

all facets of the business and what each department needs in order to be as effective and efficient as possible."

Mike and his team saw it as their duty not just to maintain the company's systems and put out the occasional fire, but to proactively generate "daily Operational Reports including inventory, WIP, backlog, vehicle tracking, customer reports, regulation compliance and basic sales analytics." Mike told us that these reports "are used by the management team during the morning meetings." But when we followed up on that, the managers in those meetings didn't seem to know what we were talking about.

We were unable to determine where the breakdown or miscommunication was occurring, but we reported the situation to the potential investors.

You wouldn't ask your attorney to evaluate a target company's earnings potential, or your accountant to review its contracts and liabilities. An IT assessment calls for the same level of expertise. At most companies, the network is as crucial as the nervous system is to the body. You need trained professionals who can report back on the technology, the people running it, and what to expect once the deal is closed.

Jim Millican is founder and CEO of Ashton Technology Solutions, based in Cleveland, Ohio. Ashton helps clients leverage technology for lasting business results. IT Due Diligence is just one service the company provides. Find out more at ashtonsolutions.com.

