BEST PRACTICES

to Significantly Reduce Data Risk, Costs, and Time for

Mergers & Acquisitions

part 1

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INTRODUCTION

Why Data Risk is Such a Costly Problem During Mergers & Acquisitions

One of the biggest hurdles in the M&A process is due diligence. Acquirers must know precisely what they are buying because while a deal may look attractive on the surface, any underlying risk can negatively impact the value. A significant contributor to that risk is unstructured data, and it's involved in nearly every stage of the transaction.

In the past decade, thanks to productivity solutions, we've experienced explosive growth in unstructured data. Unstructured data is a term used to describe unique business content like emails, PDFs, documents, images, and other file types. Simultaneously, expanding global data protection regulations have compounded the risk of M&A transactions, from pre-sale due diligence to post-sale integration. Since it is nearly impossible to analyze the entirety of an organization's unstructured data during the due diligence phase, the risk of breach and regulatory non-compliance can increase during these transactions.

During the M&A process, the threat of breach increases exponentially because the acquired company could expose the acquiring organization to data privacy or security weaknesses. Additionally, potential differences in managing data compliance can add frustration for already unhappy employees, which increases the risk of them creating workarounds that unknowingly expose sensitive data. It is therefore no surprise that research published by Forbes shows that 40% of acquiring companies discovered a cyber security problem during the post-acquisition integration.

Companies can no longer afford to merge and then figure out data protection and compliance down the road. Most mergers and acquisitions are public knowledge, which means hackers are alerted to potential vulnerabilities during this disruptive project – the longer it takes to safeguard data during the transition, the higher the risk. According to Deloitte, 70% of organizations said that the protection of data assets in a company they are acquiring was more of a concern now than it was the year prior – and this was in 2020. The problem has only grown since then.

From pre-sale due diligence to post-sale consolidation, unstructured data analysis and integration provide many opportunities to streamline mergers, acquisitions, and divestitures. This three-part paper will cover six ways that organizations can lower data risks and costs during the M&A process.

In 2021, the United States saw $2.6 trillion in M&A deals. The financial sector saw the most significant growth, increasing by more than 120% over 2020.

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70% of organizations say that the protection of data assets in a company they are acquiring is more of a concern now than it was a year ago.

#1

Reduce Time for Due Diligence

One of the most time-consuming and complex areas of M&A is due diligence. This area is also fraught with risk. Due to the volume of data involved in most M&A activities, there is no practical way to review ALL of it – at least not thoroughly. As a result, many firms “sample” the documents to cover as much as possible. Unfortunately, this **sampling leaves the acquiring firm open to missing vital information** that could affect the purchase price, identify potential conflicts of interest, or even halt the deal altogether.

Using sensitive data discovery tools that can automatically discover and classify unstructured data removes this challenge. These solutions work through every document across a range of search parameters. However, unlike simple data discovery tools that look purely for company names or similar terms, artificial intelligence-driven data analysis solutions can “think” much more like humans, but at unmatched speed and scale. They look for areas of documents that are of interest to the M&A process and flag the most important content for expert review while leaving the rest to artificial intelligence (AI) and automation.

Data Risk Comes from Data Management Differences Between Companies

- Data may be captured, managed, and maintained differently
- Data standards may be different
- Data processes, procedures, and methods may be different
- Data quality may be different
- Data strategies may be different
- Data technologies may be different
- Data classification and tagging may be different
- Data permissions may be different
- Data protection may be different
- Data culture may be different

#2

Find All Sensitive Data Across Environments

The digital complexity of most organizations today includes cloud-based productivity solutions, on-premises and cloud storage platforms, and many SaaS applications. With increases in data protection regulations such as the CCPA (California Consumer Privacy Act) and GDPR (General Data Protection Regulation), **it is critical to find sensitive data within all storage environments** – but given the sheer volume of data within these siloed platforms, it's impossible to do so manually. Automation and AI can be used to manage this burden during M&A.

Sensitive data can be discovered using a solution with AI that is pre-trained to recognize various forms of sensitive information within unstructured data — like invoices and resumes. An automated solution will investigate file properties, metadata, keywords, and patterns within the file content. When sensitive data is discovered, it can automatically sequester that sensitive, liable, or risky data and address immediate vulnerabilities that may be absorbed during M&A.

Missing Sensitive Starwood Data Caused Massive Marriott Breach

Marriott suffered a damaging data breach in 2018 because it failed to discover 5 million unencrypted passwords and 8 million credit card details during the 2016 Starwood Hotels acquisition due diligence process—leaving them exposed to a malicious attacker that had been inside Marriott systems since 2014.

Want more best practices?

Using intelligent automation to orchestrate the discovery, classification, management, and migration of unstructured data during M&A reduces data risk and the time to complete the acquisition. Together, both significantly reduce the overall cost of resources and expenses to execute the M&A process.

See more recommended best practices to reduce unstructured data costs and risks during mergers and acquisition by reading part 2.

[Part 2]

Identify, organize, and safeguard your enterprise content

Define your own rules and witness the power of DryvIQ's Enterprise Data Management platform for yourself. Gain and maintain a full understanding of your enterprise content, including where it's stored and who has access to it, as well as how to extract value from your data.

Learn how our highly scalable, accurate, and performant solutions can empower, enable and safeguard your business today.

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