The Merger Goals

As Sallie Mae entered the new millennium, its executive team was concerned that the company could not maintain its double-digit growth into 2004 and beyond if it did not expand its loan servicing role. At the same time, USA Group’s executive team was seeking a buyer to gain the capital to grow the company’s private loans and for-profit collections businesses.

USA Group was an attractive acquisition target for Sallie Mae for three primary reasons:

1) USA Group’s complementary student loan services would allow Sallie Mae to have a role in the entire life cycle of student loans, from origination to default collection.

2) Economies of scale from combining operations would allow Sallie Mae to continue being profitable, even with margins narrowing. Sallie Mae was acquiring USA Group’s $16 billion portfolio in student loans to add to its own $50 billion portfolio.

3) Sallie Mae’s leaders could leverage some of USA Group’s software products and IT expertise, as well as its marketing prowess, to grow revenues.

The public goals for the merger were to reduce costs by 40 percent and reduce headcount by 25 percent, while attaining double-digit growth. Nine customer service centers would be reduced to six, and four data centers would be consolidated into one. Of the 1,700 job cuts, 1,400 would come from customer servicing and information technology (IT). The remaining 300 would come from administration and headquarters. Between the two companies, about 500 hardware,
software, and networking technologies would need to be rationalized, transitioned, or retired.

The busy season for the education financing industry is the summer. Some 60 percent of loan processing occurs then, in preparation for the fall semester. June is the peak month. Sallie Mae’s management team did not want to lose its current customers to a competitor during its peak summer 2001 processing season due to publicity about post-merger integration problems. In July 1999, there had been a number of publicized bottlenecks and processing errors due to a major software change for the government’s Direct Lending program. To avoid that kind of business integration risk, all Sallie Mae’s customer-facing operations had to be integrated before the 2001 summer servicing season, with no perceived loss of service. The company, therefore, had only about one calendar year (from the June 2000 merger announcement) to combine both companies’ loans onto one system and operate out of only one data center under a new management team.

**Company Backgrounds**

The student loan business has three basic steps:

1) A student application for a higher-education loan is originated either by a lending institution, a financial aid office at a college or university, or by an online application through a student loan originator, such as Sallie Mae.

2) A loan guarantor processes the loan. Approved loans come with a federal government guarantee that the lender will be paid back. The loan guarantors are either state agencies or not-for-profit entities that provide loan insurance to lenders or holders of Federal Family Education Loan Program (FFELP) loans.

3) The loan is then serviced throughout its life. Most students begin repayment after graduation. Default prevention and collection servicing groups work together to ensure that the highest possible percentage of loans are repaid. At Sallie Mae, the average student loan has a ten-year life.

Sallie Mae was founded in 1972 as a government-sponsored enterprise to provide a secondary market for banks and other lenders. Based in Reston, VA, the company’s primary role originally was to purchase student loans from lenders so that they could lend money to other borrowers.

Albert Lord, Sallie Mae’s current CEO, was a major catalyst in transforming the company from a government-sponsored enterprise to a publicly held business. In the early 1990s, he helped streamline company operations. But he left in 1993 when the board opposed his plan to restructure Sallie Mae. Two years later, he led a dissident slate of eight that was elected to the 21-member board. From that position, he was able to successfully launch a plan to reposition the company from a buyer of loans to a competitive lender to students.²

As CEO and vice chairman since 1997, Lord began phasing out the company’s government-sponsored status despite some internal opposition.³ He also switched Sallie Mae’s marketing focus to get closer to customers. Rather than work solely with banks and financial institutions, Sallie Mae began marketing to students through their schools.

At the time of the merger announcement in June 2000, Sallie Mae had a $50 billion student loan portfolio and was the largest funding source and servicer for student loans in the United States. The company had 3,500 employees and a market value of $14 billion.

USA Group was originally founded in 1960 as USA Funds, a not-for-profit company based in Indianapolis. In 1999, the company had excess revenues over expenses of $150 million and 3,000 employees in 20 states, the District of Columbia, and Canada. At the time of the merger, USA Group was the largest guarantor of student loans in the U.S. It had $16 billion in student loans and had aggressively been growing its fee-based businesses of loan origination and default collection.

Salle Mae acquired USA Group for $770 million on July 31, 2000, merging the largest loan originator, loan servicer, and guarantor servicer under the same entity. The new Sallie Mae became a single source of service for all steps in the education financing business—from the point of loan application to successful repayment.

Stock options were issued to all USA Group employees when the merger was finalized. Since USA Group had been founded as a not-for-profit, this was a new financial opportunity for many of its managers. Another major change for USA Group employees was adjusting to a results-driven, for-profit culture in

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3 The privatization process is scheduled to be completed in 2006.
which risk-taking was viewed as positive—as long as the risks were well managed.

The IT Organizations

Sallie Mae’s IT organization had undergone much change in the years prior to the merger. During the 1990s, CIO turnover was high, mainly due to alignment difficulties between key business leaders and IT leaders. Development of several strategic applications had been contracted out, and the integration of IT operations for two recent acquisitions (Nellie Mae of Braintree, Mass., and Student Loan Funding Resources of Cincinnati) had not yet been completed by the time of the merger. By mid-2000, the IT workforce numbered only 500 employees.

In contrast, USA Group had fairly stable IT leadership throughout the 1990s. CIO Greg Clancy had a 20-year tenure with USA Group. His IT management team was “well-oiled” and had a proven track record of developing complex systems and keeping operational costs low. By mid-2000, his IT organization had grown to 600 personnel—approximately 400 developers and 200 operations staff.

Sallie Mae’s due diligence team was impressed with USA Group’s focus on strategic IT initiatives. Since the mid-1990s, USA Group had invested more than $100 million in two internally developed servicing applications: 1) the Eagle II guarantee agency system, which tracked all federal loan origination and guarantee activities administered on behalf of guarantors, and 2) the Unity loan servicing system.

PeopleSoft modules for financials and human resources had also been implemented by project teams led by IT groups in the business units. A new call center routing application was also implemented. It routes incoming customer calls based on loan record characteristics and the skill base of available call center representatives. This application won a Smithsonian innovation award in 1999 and led to USA Group being recognized as one of the Top 100 in 2000 by CIO Magazine for outstanding customer service.4

Critical IT Decisions

Soon after the merger was announced, all critical systems were assigned to teams of two IT managers: one from Sallie Mae and one from USA Group. Together, these “technology champions” conducted full disclosure and comparative analyses of the relevant systems.

USA Group’s IT management knew that Sallie Mae executives would need high confidence in the USA Group team as the systems decisions were being made. So USA Group’s managers encouraged their people to take every opportunity to demonstrate their abilities to develop innovative applications and to handle operations that would be triple the size of the systems they had managed in the past.

USA Group teams also changed their decision processes so they could act more quickly. For example, they replaced detailed written justifications with key bullet points on PowerPoint slides. They made decisions in a single meeting rather than multiple meetings. And they replaced five-year NPV analyses with three-year NPVs.

According to other researchers, effective integration projects are “anchored in rationality,” through credible leadership, common direction, and compelling deadlines.5 When two merged companies must quickly integrate their business operations, a critical first step is putting the IT leadership team in place. However, the announcement of Sallie Mae’s new CIO could not be made until after the merger was finalized. Furthermore, the selection of the entire IT leadership team depended on the technology decisions that needed to be made over the coming months.

However, early internal and external announcements about the integration planning efforts made it apparent to Sallie Mae’s IT group in Reston, VA, that IT leadership would come primarily from USA Group in Indianapolis, IN. On August 1, the day after the merger was finalized, Sallie Mae announced that Greg Clancy, CIO at USA Group, would be the new CIO of Sallie Mae. The entire IT leadership team was then announced at a meeting of the company’s officers in October, 2000, after the IT headquarters decision had been finalized.


Lesson Learned

Establish the IT leadership team as soon as possible so that the difficult decisions driving integration of business operations can move forward quickly.

The IT Headquarters Decision

Sallie Mae established measurable cost-cutting goals with its merger consultants, McKinsey & Company. Both Reston and Indianapolis were charged with developing a formal cost/benefit analysis for locating IT headquarters in their city. The cost advantages became clear: consolidating the data center in Indianapolis would be much less expensive than in Reston, mainly for three reasons:

1) IT personnel costs in Indianapolis were about 30 percent less than Reston, which had become akin to a mid-Atlantic Silicon Valley.

2) Expanding the existing Indianapolis facility would save significant costs because occupancy costs were lower in Indianapolis than Reston. Cost savings were estimated at more than $2 million a year.

3) The Reston data center could be leased out at a higher price than the Indianapolis facility.

Application Decisions

The fate of current applications was determined by each one’s functionality, scalability, performance, features customized for business partners, skill sets needed to maintain it, and dependencies with other systems (see list of gap analysis criteria in Exhibit 1). When there was no clear winner, the decision was escalated to the executive level.

One of the most critical decisions involved choosing between two homegrown loan servicing applications. Interestingly, Larry Morgan, head of application development for USA Group at the time of the merger, had managed development of both systems because he had worked on the Class system for Sallie Mae in the mid-1980s and the Unity system for USA Group in the 1990s.

The choice was contentious because it had major ramifications for the hardware, software, and IT workforce to be retained. Class was written in COBOL and CICS, and had been converted from an IMS database to IBM’s DB2 database management system. Unity had more advanced functionality, but its IDMS database from Computer Associates might not scale up to handle the Sallie Mae workload.

Each side worked hard to justify keeping its system, but the gap analysis did not produce a clear winner. The decision was escalated to senior management, which, in turn, depended heavily on the merger consultants, McKinsey.

The consultants’ analyses weighed in heavily on the integration risks. One major risk was the need to manually review data during the conversion process to ensure that data was correctly coded. For example, updates involving retroactive changes (such as student status changes) might require accessing record histories. Or, loan processing for other lenders on Unity sometimes used unique decision rules for student payment amounts (as incentives for timely student payments). Another major risk depended on behaviors of the college students: because they have little financial management experience, visible system changes typically trigger a significant increase in students telephoning the call center.

In the end, the consultants could not find enough compelling differences between these two customer-facing systems to break their standard decision rule: adopt the system of the dominant company to reduce the

Exhibit 1: Gap Analysis Criteria

- Scalability
- Cost
- Performance (response time, concurrent users)
- Reliability
- Partnership (including customization for external partners)
- Marketplace Differentiation
- Quality (robustness, customer satisfaction)
- Technology/Architecture
- Customer Service Security
- Flexibility
- Compliance
- Functionality Differences
- Vendor Relationships
- Resource Skill Set (including market availability)
- Recoverability
- Inter-Dependencies
the integration risks. Since Sallie Mae had more than three times as many student loan records as USA Group, selecting Class would (1) decrease the time to manually review the converted records and (2) lessen the potential increase on call volumes at the service centers. The tradeoffs were that Class would not have Web functionality and its data would not be linked to USA Group’s advanced call center application until almost a year after initial conversion.

Lesson Learned

For customer-facing applications, recognize that business executives will lean toward adopting the solution with the lowest business integration risks, even when this choice means temporarily sacrificing application functionality.

In contrast, the implementation timetable for integrating the back-office systems was seen as less critical. USA Group had implemented PeopleSoft modules for finance and human resources during the late 1990s. Sallie Mae used a less functional finance package (Walker Interactive). Sallie Mae’s executive team accepted the technical team’s recommendation to adopt the PeopleSoft suite for finance and human resources.

The key tradeoff was choosing between quickly capturing cost savings by converting to the Walker Interactive package versus taking the time to better position Sallie Mae for the future with the robust PeopleSoft suite. By delaying implementation of PeopleSoft until fall 2001, Sallie Mae became one of the first large corporations to implement PeopleSoft’s Web-based version (version 8.0).

Lesson Learned

Keep customer-facing applications a priority over back-office applications, but set compelling deadlines for both because people usually accept change more easily when the sand is still shifting beneath their feet.

IT Staffing Decisions

A recent Watson Wyatt survey of top executives around the world who had been through mergers found that the most critical activity in their integration plans was retention of key talent. According to a McKinsey report, key employees usually start receiving job inquiries within five days of a merger announcement.

At Sallie Mae, the CIO selection, the geographic relocation of the data center, and the application system choices created lots of “losers” for Reston. Furthermore, IT jobs in the Mid-Atlantic area were plentiful at the time, and just across the street from Sallie Mae’s Reston data center was Oracle’s East Coast headquarters. Thus, a key success factor would be keeping Reston staff as long as needed, for not only the hardware and software moves to Indianapolis but also the transfer of their knowledge to others.

When Sallie Mae announced that most IT operations would move to Indianapolis, the human resources department was ready with a detailed severance package program for Reston IT staff who opted not to move to Indianapolis. One third (the most critical IT employees in Reston) were also offered generous retention bonuses on top of the severance pay to encourage them to stay until the merger was completed.

Performance measures, including successful knowledge transfer, were built into the retention bonus contracts for the Reston staff. Identifying the knowledge that needed to be transferred was a key part of data center relocation planning. The goal was to have the Reston experts tell and show others how to operate the data center, and stay long enough to observe it being successfully run by those others.

Lesson Learned

Offer generous retention packages for top talent right away: generosity yields loyalty to the company, and tying bonuses to specific deliverables helps ensure that knowledge transfer takes place before they leave.

In contrast, the new Sallie Mae had a much easier time retaining IT employees in Indianapolis. Although the decision to retain Sallie Mae’s older loan servicing application (Class) was a bitter pill for some Unity staff, USA Group was already viewed as a great place for IT people to work. Skill costs were also much lower in Indianapolis than Reston, which is in the Washington, D.C., area (approximately $65 versus $75 or more an hour for application developers).

Lesson Learned

For customer-facing applications, recognize that business executives will lean toward adopting the solution with the lowest business integration risks, even when this choice means temporarily sacrificing application functionality.

Lesson Learned

Keep customer-facing applications a priority over back-office applications, but set compelling deadlines for both because people usually accept change more easily when the sand is still shifting beneath their feet.

Lesson Learned

Offer generous retention packages for top talent right away: generosity yields loyalty to the company, and tying bonuses to specific deliverables helps ensure that knowledge transfer takes place before they leave.

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Nevertheless, a common trap in mergers that depend on operational consolidations is to allow losers to “burn the bridges” to the victor’s side, making the integration plan more difficult to implement. Sallie Mae’s IT leaders, therefore, established the expectation of gracious acceptance of all final technology decisions by the Indianapolis staff, and also let it be known that other IT jobs would be available in Indianapolis due to only a small number of Reston staff choosing to relocate. In the end, only a small number of retention packages were required to retain critical Unity staff.

Managing the Integration: The First 12 Months

An integration vice president oversaw all the merger integration activities. He and his three global project managers monitored the integration project from a business perspective and kept the key players (the board, CEO, McKinsey, institutional clients, and auditors) up-to-date on the company’s progress. Six Focused Project Management Offices (FPMOs) based in Indianapolis were responsible for different parts of the IT integration initiative. They reported progress to the Reston-based global project managers.

Betting on Internal Project Management

The McKinsey consultants strongly recommended that IT consultants with industry expertise in risk management assist with the data center consolidation. The candidate firms were quickly narrowed down to five very large players, and Sallie Mae chose an IT vendor it had worked with previously, with strong endorsement from Reston’s IT leaders.

This consultant team hosted an IT integration kickoff meeting in late November 2000, providing instructions on how to effectively move equipment and applications across the country. But the meeting did not go well: the consultants did not appear to be flexible in their integration tactics and they did not support an accelerated timetable. Following this kickoff meeting, the lead IT consultant advised Sallie Mae management that the Indianapolis group’s “fast track” approach was high risk. The Indianapolis IT leaders wanted the move to take seven months; the consultants recommended 12 to 18 months, under their leadership.

This disagreement actually was a catalyst for the Indianapolis and Reston IT leaders to join forces and lead the data center relocation themselves. Their proposal was to complete relocation by May 2001 (see timeline in Exhibit 2), including converting the $15

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Exhibit 2: IT Integration Timeline

- Merger announced: June 15, 2000
- Merger finalized; CIO announced following day: July 31, 2000
- Data center location and Unity/Class decisions announced: October 2000
- IT consultants hired for Data Center Relocation (DCR) project: November 2000
- Decision to lead DCR project internally: December 2000
- Move elements identified and major milestones established: January 2001
- Reston DC moves began: February 2001
- Initial enhancements to customer-facing applications completed: April 2001
- Reston mainframe move completed: May 13, 2001
- Peak loan processing season began: June 1, 2001
- PeopleSoft Financials implemented: November 2001
- Enhancements to call center routing application completed: April 2002

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Lesson Learned

Take steps to keep morale high and to avoid animosity so that both “winners” and “losers” can work together on the integration plan once the technology battles are over.
billion of loans from Unity to Class, minimizing use of consultants, and saving $3.5 million in consulting fees. Sallie Mae’s management backed the IT leaders.

A similar go-it-alone decision was made for the migration to PeopleSoft Financials. The recommendation to bring in eight to ten consultants from a Big 5 firm to lead this project was abandoned in favor of having an internally led team manage the project. This approach had the advantage of better positioning the IT group over the long term because of the first-hand knowledge they would gain about the application and the business.

**Lesson Learned**

Be prepared to increase the company’s normal level of project risk to achieve aggressive business integration goals.

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**The Data Center Relocation Team Structure**

The DCR team structure is shown in Exhibit 3.

**Steering Committee.** The DCR team’s steering committee included six CIO direct reports, chosen for the criticality of their areas of responsibility within the two IT organizations. They were responsible for setting strategic direction and mitigating project risks, while still actively managing their own IT function. DCR team members had the autonomy to manage issues related to their areas. They only involved the steering committee when the DCR team could not agree on the action to take or when a decision involved high risks.

A primary objective of the steering committee was to keep obstacles out of the way so that the project team members could get their jobs done. As stated by one of the IT leaders: “A jockey that pulls too hard on the reins will never have a winning horse.”

**Focused Project Management Office (FPMO).** One of the assets USA Group brought to the IT integration project was a pre-existing FPMO structure that had
been used to develop the $80 million guarantee system (Eagle II) a few years earlier. Before deciding to manage the IT integration internally, McKinsey consultants spent two weeks in Indianapolis reviewing the Eagle II development process with the FPMO. Based on their assessment of how well risk management, change management, and stewardship were handled during the Eagle II project, McKinsey approved an internal leadership approach with minimal outside consultant support for the DCR project.

In late December 2000, a Data Center Relocation team was established as part of the FPMO structure based in Indianapolis. This team coordinated all project plans, policies, timelines, progress reports, and other relevant documents. These documents were e-mailed to key managers and posted on Sallie Mae Central, the company’s intranet.

An IT manager who had worked at USA Group for 15 years became project manager. He had overall accountability for planning, management, and communications. One IT consultant was kept full-time on the project to help infuse best industry practices and to serve as a coach; a second IT consultant was available on an ad-hoc basis, primarily to provide advice on the mainframe move.

Aggressive deadlines require decision making close to the trenches. So the IT leaders advised their managers to make a decision if it did not have high risks, but involve someone else if it did. When a decision was escalated to the steering committee, the committee responded quickly. Based on guidelines from both the steering committee and the project manager, the other managers on the DCR team were responsible for specific deliverables in each phase.

### Sending and Target Technology Owners

Most Sending Technology Owners were in Reston; most Target (Receiving) Technology Owners were in Indianapolis. The sending owners needed to assure that the pre-move technology areas were viable and functional. The target owners needed to assure they could take over the assigned technology.

### Work Plan Managers

Work Plan Managers were accountable for managing all the pre-move tasks, such as shutting down an application and executing the move. Their job thus required them to understand, in detail, the business and infrastructure requirements of each move element. Move element leaders helped create the detailed plans with their Work Plan Managers, and were held technically accountable for relocating assigned move elements within the scheduled timeframe, with no unplanned application outage and minimal customer impact.

### The Data Center Relocation Plan

As shown in Exhibit 4, move elements were defined in an early planning phase. One major difference between Sallie Mae and its IT consultants was that the IT consultants recommended taking a technology perspective to identify the move elements and managing the relocation. Sallie Mae, on the other hand, took a business application perspective, which helped ensure that business operational risks remained at the forefront.

Specifically, a move element was first defined from the applications point of view, and then from an infrastructure point of view. Move elements were therefore managed as a set of hardware and/or software components that should move together because of their integration points. Hence, the systems development staff became the team leads because they understood the dependencies and were able to align them for the relevant moves.

### Lesson Learned

**Leverage pre-existing project teams:** established working relationships are “secret weapons” when quick execution is required.

The entire relocation plan took form over about two months’ time, and detailed plans were written from the application owner perspective. Move element freeze policies required that no applications be...
changed for two weeks before the move and one week after the move. Infrastructure changes were not allowed for four weeks before the move and one week after.

Exhibit 5 lists the success criteria that were used to monitor the data center relocation project.

**Equipment Move Strategies**

By recognizing that different applications had different system-availability needs, equipment cost-savings potential, and integration risks, the DCR team devised three different strategies to achieve the data center relocation goals. The choice of a strategy for each move element was based on: allowable downtime for the application(s), vendor price for replacement equipment and trade-ins, and physical move costs. The overall objective was to decrease risks by minimizing the number of hardware assets to be physically moved from Reston to Indianapolis.

1) **Asset Swap** was used for Reston equipment ready to be retired. New replacement equipment for Indianapolis was purchased from the hardware vendor. Once the applications were up and running on this new equipment, the old Reston equipment was traded in to the vendor.

2) **Push/Pull** was used for Reston equipment that was difficult to replace. This equipment was de-installed, moved, and re-installed in Indianapolis.

3) **Swing** was used for equipment that existed in multiples. For the earliest moves, new equipment was purchased for Indianapolis. Once the initial applications were up and running on this equipment, the relevant Reston equipment was de-installed and shipped to Indianapolis for the next move iteration, and so on.

Sallie Mae used Asset Swap for the mainframe that ran the Class loan servicing system because Push/Pull would require too much downtime. However, for the expensive Sun E10K server that housed the Reston data warehouse, a week of downtime outside of the peak processing season would not have significant business impact. Using Asset Swap for this equipment would have been very costly, though, so Push/Pull was used instead. The vendor tore down the machine in Reston, trucked it to the Midwest, and rebuilt it in Indianapolis.

To minimize the business impact of the “go live” dates of critical applications, redundancies were built in wherever possible. Beginning in March 2001, the company spent almost $1 million to lease three T1
lines from AT&T for two months to provide fast electronic backup for the major moves.

**Lesson Learned**
Utilize multiple strategies to minimize relocation costs and the number of technology assets physically moved, while maximizing the achievable performance goals.

Excellent vendor relationships were key to rationalizing equipment, making infrastructure improvements, and carrying out the project on time and within budget. The former USA Group managers found their negotiating power had increased with some of their old vendors due to their increased purchasing power as a Sallie Mae IT shop. New backup equipment and more secure firewalls were just two of the infrastructure improvements built into the migration plan. In some situations, Sallie Mae selected a new vendor to get newer technology. For example, a new vendor was selected for DASD storage to better handle the increased storage needs and to reduce the maintenance risks of the older DASD technologies.

**Lesson Learned**
Leverage the increased purchasing power of the combined company to develop asset swaps that build in enhancements as part of a new vendor contract.

**Exhibit 5: Success Criteria for Data Center Relocation**

1. No unplanned interruptions
2. Meet scheduled dates
3. Meet budget
4. Ensure continuity of staffing
5. Transfer knowledge
6. Maintain data integrity
7. Ensure resulting service levels will be consistent with contractual agreements
8. Successfully integrate application and infrastructure teams

To transfer knowledge, all the Reston and Indianapolis IT staff, from director level down, were paired by function—including computer operators, help desk people, database administrators, and other technical support people. Every weekend, an Indianapolis command center monitored the move activities. There was an open budget on food, and informal luncheons were held about once a week to celebrate successful moves.

Videoconferencing between Reston and Indianapolis helped both staffs manage the human side of the merger. Everyone seeing everyone else helped create a team feeling between the two sites, and created an open, no-secrets climate. Seeing others also helped the IT managers read the “body language” of Reston people who were losing their jobs, and more quickly recognize potential problems.

**Lesson Learned**
Use rich communications media to read emotions and recognize successes at every opportunity because a merger is an emotional event: you cannot communicate too much.

Sallie Mae spent the most time studying how to move the Reston mainframe that ran Class. The team timed load and unload times. When the mainframe conversion actually took place over a weekend in mid-May, Sallie Mae required some one dozen hardware and software vendor representatives to be on site. In case a glitch occurred, T-1 lines were in place to revert the loan servicing system back to Reston operations if it could not be run from its new location. The last viable no-go decision point was 2 a.m. on Sunday. The mainframe move went off without a hitch.

**Executing the Data Center Relocation Plan**
The DCR Team moved applications almost every weekend from February 2001 to the end of May. All the moves met the DCR success criteria (see Exhibit 5).
For the Indianapolis team, an extra motivation to succeed had been a rumor that a consulting partner had bet a Sallie Mae executive that the Indianapolis team could not pull off the fast track integration plan. This bet made so many team members angry that it created a reason to break the boundaries of 60-hour weeks.

By mid-2001, Sallie Mae’s leaders were able to tell the marketplace that the major integration tasks had been completed and that the company was well on its way to realizing its targeted cost reductions.

**The Next 10 Months**

Although the Data Center Relocation project was the centerpiece of the IT integration plan, the move was not the end: there were another ten months of aggressive timelines. One major initiative was to develop data feeds from the Class system to the USA Group’s call center application, which had advanced routing capabilities. Other initiatives involved implementing various back-office systems for the combined company.

**Implementing the Advanced Call Center Routing System**

USA Group’s innovative call center routing system had been implemented two years before the merger as a freestanding system with bi-directional feeds to several production systems. The system had an interactive voice response front end, algorithms to determine the likely content of the caller’s question based on their loan record, the capability to route calls based on the skills of available call center representatives, and a way to balance call loads across service centers in different time zones.

Some pieces of the system were available summer 2001 – the first peak season for the new Sallie Mae.

But, at the time, three service centers were being eliminated, work was being moved among the remaining six centers, and some 200 new employees were being trained to handle the expected call volumes. The full functionality of the system came online in spring 2002. It handled new caller situations and the consolidated service center operations.

To date, the system has exceeded its cost-cutting objectives. According to a consultant’s report, best-in-class IVR systems typically satisfy callers 18 percent of the time without linking the caller to a service representative. Within just a few months, however, the Sallie Mae system was handling more than double that percentage of all incoming calls.

**Migrating to PeopleSoft Financials**

Several factors complicated the PeopleSoft financials implementation in Reston:

1) A common chart of accounts needed to be designed for the combined company.

2) The company experts for the finance software modules resided in two different Indianapolis groups: the USA Group finance function (both a local IT group and business managers) and a few individuals in the former USA Group centralized IT organization.

3) Implementation required a new DBMS and a new Web-based version of PeopleSoft (8.0).

Sallie Mae’s chief financial officer initially advocated that their Big 5 consultants lead the project. The consultants quoted a completion date of November 2001, based on providing a project lead and eight to ten other consultants. The Indianapolis IT leaders argued for internal leadership and promised the same November 1 date, with only a targeted use of consultants. Using an internal project team would significantly lower costs and would better position the IT organization to support the application in the future because of the knowledge the team would learn about the package and the finance function.

The internal option was chosen and the project was successfully completed by November 1. One key to this success was the project leader—an IT manager from the Reston IT organization who already had the trust of, and direct access to, the corporate finance leaders.
Results for Sallie Mae

Sallie Mae never lost sight of its end goals: expand its business by providing excellent customer service, take advantage of new synergies, and cut costs to make the business more profitable. The public cost-cutting goals were met, and the company stayed focused on its revenue growth targets. Sallie Mae took market share from its top competitor as its share of the loan origination market increased from 15 percent before the merger to 24 percent by year end 2001.

This IT integration story illustrates how an IT group successfully responded to the needs of the business by carrying out a speedy post-merger IT integration plan. The data center relocation goals were met, and the new combined company served its customers without service interruptions –despite a record season. Sallie Mae moved into its peak processing season smoothly with no negative impact on its customers and close to zero customer defections.

During the first 12 months, the IT integration plan improved the infrastructure as part of the data center relocation. The next ten months of aggressive deadlines incorporated new functions in customer-facing systems and migrated the company to a newly configured ERP system module for finance.

Two consultant groups considered Sallie Mae’s integration plans too aggressive to succeed. Yet the company placed its bets on its own IT team and was rewarded not only with on-time achievement of cost savings but also a coherent IT architecture that included customer-facing systems with advanced application capabilities.

This Sallie Mae story offers many useful best practices that other organizations can use to develop their own successful integration strategies. An external testament to the innovativeness of Sallie Mae’s approach is that the consultants familiar with this integration initiative have begun to adapt the Sallie Mae lessons in their own methodologies.

Lesson Learned

Don’t underestimate the value of prior IT-business relationships for project success.

About the Authors

Dr. Carol V. Brown is currently an associate professor of information systems at Indiana University's Kelley School of Business, where she has been a member of the faculty since 1990. Her current teaching and research interests focus on issues related to repositioning the IS organization (including mergers and acquisitions) and implementing enterprise systems (including e-business applications). In addition to publishing in academic journals, she has co-authored a textbook with teaching cases on IT management topics (published by Prentice Hall) and co-edited an IS management handbook (published by Auerbach). She has recently served on the executive board of the Society for Information Management, is past president of the SIM-Indianapolis Chapter, and has been an invited speaker for practitioner conferences and workshops (cbrown@indiana.edu).

Greg Clancy recently joined Indiana Farm Bureau Insurance as the Chief Information Officer. Prior to that, he was the CIO at Sallie Mae and was responsible for integrating the technology and systems of several companies that Sallie Mae acquired in the 1999-2000 time frame. Greg is a graduate of Purdue University's Krannert School of Management (greg.clancy@infarmbureau.com).

Rebecca J. Scholer holds a bachelor’s degree in journalism from Ball State University and will receive her MBA from the Kelley School of Business at Indiana University in May 2003. She currently works as a public relations consultant, specializing in business-to-business communications and media relations for technical product lines (rscholer@indy.rr.com).

APPENDIX

The academic authors of this paper conducted interviews with co-author CIO Greg Clancy as well as 11 members of his IT management team. All interviews with the CIO’s staff based in Indianapolis were conducted in person; a small number of additional interviews was conducted by telephone. The interview guide was a list of questions grouped by major issues, and was based on a review of related academic and practitioner literature. Company background data and archival documents supplemented the interview data as needed. The authors are grateful to all of the Sallie Mae managers who shared their insights and experiences.
An earlier version of this paper was the first-place winner of the 2002 Annual Paper Awards Competition of the Society for Information Management. A teaching case that covers the first 12 months of the IT integration project is also available from the first author (cbrown@indiana.edu).